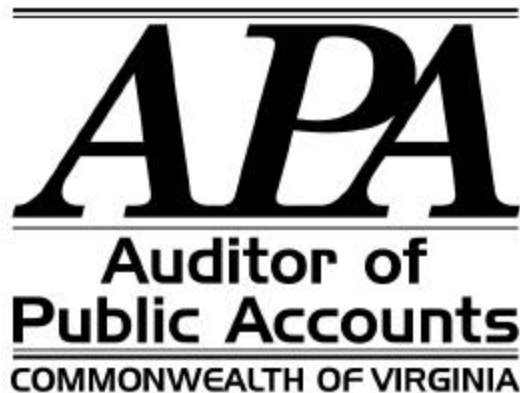


**AGENCIES OF THE SECRETARY OF FINANCE  
RICHMOND, VIRGINIA**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2001**



## **AUDIT SUMMARY**

This report includes all agencies reporting to the Secretary of Finance as well as the Secretary's office. The agencies are the Department of Accounts, Planning and Budget, State Internal Auditor, Taxation, and Treasury and the Treasury Board. The finance agencies handle the financial transactions of the Commonwealth including collecting taxes, paying bills, and distributing aid to localities. Responsibilities include forecasting and collecting revenues; managing the Commonwealth's cash, investments, and debt; and preparing and executing the Commonwealth's budget.

Our audits of these agencies for the year ended June 30, 2001, found:

- internal control matters that we consider reportable conditions;
- no instances of noncompliance with laws and regulations tested required to be reported under Government Auditing Standards;
- proper recording of transactions, in all material respects, in the Commonwealth Accounting and Reporting Systems; and
- adequate implementation of corrective action on prior audit findings, except as noted in this report.

Each audit finding is explained in detail throughout the report.

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## **OVERVIEW OF FINANCE SECRETARIAL AREA**

The Departments of Accounts, Planning and Budget, State Internal Auditor, Taxation, and Treasury and the Treasury Board report to the Secretary of Finance. These agencies handle the financial transactions of the Commonwealth, from collecting taxes to paying bills and distributing aid to localities. Responsibilities include: forecasting and collecting revenues; managing the Commonwealth's cash, investments, and debt; selling bonds; and preparing and executing the Commonwealth's budget. The "Summary Financial Information" section contains a secretarial-wide summary of operating appropriation and expense activity and summary of expenses by category. In addition to operating activity, the Department of Accounts distributes certain state revenues to localities; the Department of the Treasury receives and distributes unclaimed property, and the Treasury Board makes payments on the Commonwealth's debt. Selected financial data for each agency can be found in the schedule on pages 14 and 15.

### ***STATEWIDE FINANCIAL REPORTING***

The Department of Accounts (Accounts) coordinates the Commonwealth's statewide reporting efforts and produces the Comprehensive Annual Financial Report (CAFR). For fiscal year 2001, the Commonwealth implemented GASB 33 and continued to prepare for the implementation of GASB 34 in fiscal year 2002. This report discusses these standards and Accounts' role in greater detail in the section of this report entitled "Department of Accounts."

Successful implementation of these standards requires all agencies in the Commonwealth to become knowledgeable of the standards, and to analyze their operations and ascertain the impact and related reporting requirements. Failure to properly implement the GASB standards could result in a qualified opinion in the CAFR.

The Secretary of Finance must ensure that all state agencies, especially those whose operations are material to the CAFR, understand their role in the reporting process and implementation of these standards. Further, the Secretary should clarify for all state agencies the role of the Department of Accounts in the implementation process, including the amount of assistance and guidance that Accounts will provide.

### ***STATEWIDE SYSTEMS***

The Department of Accounts operates several systems. The Commonwealth Accounting and Reporting System (CARS) records the state's financial transactions and is the official accounting record of the Commonwealth. Any agency-based accounting system must interface electronically or through magnetic media with CARS. The Commonwealth Integrated Personnel Payroll System (CIPPS) processes payrolls for classified and hourly employees. The Fixed Asset Accounting and Control System (FAACS) tracks fixed assets owned or controlled by the Commonwealth. Agencies record detailed or summary fixed asset accounting information in this system. The Electronic Data Interchanged (EDI) electronically transmits payments to localities, non-state agencies, vendors, and state employees. EDI processes approximately 44 percent of state disbursements.

Planning and Budget maintains two statewide systems: the Program Budget System (PROBUD) and the Form 27 Automated Transaction System (FATS). PROBUD receives, collects, balances, and reports budget-related data for the development of the Governor's proposed budget and subsequent development and monitoring of agency operating plans. FATS allows agencies and Planning and Budget to review, approve, and track operating plan adjustments from initial creation through the update of the Commonwealth's centralized accounting system. Planning and Budget is studying and developing recommendations associated

with the eventual replacement of PROBUD. Planning and Budget received a special revenue appropriation for \$1,000,000 to fund this project, but as of June 30, 2001, had not spent these funds.

### ***REVENUE STABILIZATION FUND***

The Revenue Stabilization Fund (rainy day fund) seeks to offset anticipated revenue shortfalls. The constitutional mandatory deposit calculation uses the certified tax revenues as compared to the anticipated revenues in the most recent tax year. The following shows the required deposit calculations and the maximum fund allowed.

<b>Fiscal Year for Deposit Calculation</b>	<b>Mandatory Deposit Requirement</b>
1993	\$ 79,896,927
1995	66,624,672
1996	58,314,172
1997	123,833,649
1998	194,135,805
1999	103,345,741
Interest Earnings at June 30, 2001	<u>89,472,324</u>
Total on Deposit at June 30, 2001	<u>\$715,623,290</u>
Maximum Fund Allowed (MFA)	<u>\$934,457,405</u>
Actual as % of MFA	76%
Total Deposits Pending: 2000 (due June 2002)	\$187,091,474

The Commonwealth has made deposits for fiscal years with required deposits through 1999. The mandatory deposit for fiscal year 2000 must occur by June 30, 2002. As of June 30, 2001, the fund balance was 76 percent of the maximum size allowed. One additional deposit will be made on or before June 30, 2002 for revenues earned in fiscal year 2000 and no deposit is required for fiscal year 2001.

### ***DEPARTMENT OF ACCOUNTS***

#### Systems

Accounts, under the direction of the State Comptroller, maintains the Commonwealth's centralized automated accounting, payroll, and fixed asset systems. To maintain appropriation controls and provide statutory budget reports, the State Comptroller requires the reporting of all revenue and expense transactions involving state funds in the accounting system. Accounts is responsible for ensuring that controls over the centralized systems are adequate.

## Reporting

Accounts prepares the Commonwealth's Comprehensive Annual Financial Report and the Popular Report to inform the general public, Governor, and other state officials of the state's financial condition. Accounts also issues policies and procedures to provide agencies with guidance for maintaining internal controls over state funds. The State Comptroller produces a quarterly Report on Statewide Financial Management and Compliance that reports the degree of agency compliance with Commonwealth accounting and financial management policies, procedures, regulations, and practices.

The Commonwealth follows the Governmental Accounting Standards Board (GASB) pronouncements when preparing financial reports. In December 1998, GASB published Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. This standard sets guideline for recognizing revenues resulting from nonexchange transactions, such as taxes and grants and was implemented by the Commonwealth for the fiscal year ended June 30, 2001. On June 30, 1999, GASB published Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The new standard establishes new financial reporting requirements for state and local governments throughout the United States. In addition, GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public College and Universities*, extends the requirements of GASB Statement No. 34 to include Institutions of Higher Education. When implemented, these statements will require new information and will restructure much of the financial information governments have previously presented.

One of the most significant changes is the requirement to provide information about infrastructure assets. Infrastructure assets are long-lived capital assets that are stationary in nature and normal preservation can extend their use for a significantly greater number of years beyond most capital assets. Examples of infrastructure include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems. GASB Statement No. 34 requires reporting of infrastructure prospectively beginning with fiscal year 2002 and retroactive reporting of all infrastructure by fiscal year 2006.

The effective date of GASB Statements No. 34 and No. 35 is for fiscal years beginning after June 15, 2001. Accounts will implement the GASB statements for the fiscal year ending June 30, 2002. In an effort to be prepared for the significant reporting changes required by the GASB statements, Accounts' implementation plans include:

- Gaining a complete understanding of GASB Statement No. 34 reporting requirements;
- Converting the 1999, 2000, and 2001 Comprehensive Annual Financial Reports to Statement No. 34 format;
- Analyzing the reformatted reports to determine the additional information needed and revising the financial directives to obtain the additional information;
- Conducting GASB Statement No. 34 training for state agency personnel;
- Working closely with the auditors and the Virginia Department of Transportation to ensure appropriate aggregation and reporting of infrastructure;
- Working closely with the college and universities to aid them in conversion to Statements No. 34 and No. 35 format; and
- Obtaining GASB Statement No. 34 training and reviewing the Comprehensive Annual Financial Reports of states and municipalities that implement GASB Statement No. 34 early.

## Revenue Distribution

Another responsibility of Accounts is to make distributions to the Commonwealth's counties, cities, and towns. For fiscal year 2001, the following revenues were distributed:

Sales and use tax for education	\$ 766,145,950
Recordation taxes	19,726,015
ABC profits	16,689,661
Wine taxes	9,708,671
Rolling stock taxes	6,317,281
Public facilities rebate tax	358,011
Other	<u>118,367</u>
Total	<u>\$ 819,063,956</u>

Accounts also made recordation tax transfers to the Department of Transportation for the Northern Virginia Transportation District Fund and the Transportation and Improvement Set-Aside Fund in the amounts of \$19,289,722 and \$984,260, respectively.

## ***DEPARTMENT OF PLANNING AND BUDGET***

The Department of Planning and Budget is the central budgeting agency for state government and has broad responsibilities for executive budgeting and analytical support. Planning and Budget develops the budgeting process for state government, formulates the executive budget, and monitors agencies activities to determine that they follow the funding limitations of the Appropriation Act. Planning and Budget also conducts policy analyses and evaluations of state programs and services and oversees the Commonwealth's strategic planning and performance measurement efforts. Their mission includes advising the Governor in the prudent allocation of public resources and promoting the development and implementation of fiscal, programmatic, and regulatory policies that benefit Virginians.

## ***DEPARTMENT OF THE STATE INTERNAL AUDITOR***

The Department of the State Internal Auditor primarily coordinates with agency and institution internal auditors for the investigation of anonymous complaints of fraud, waste, and abuse reported through the State Employee Hotline. In addition, the Department sponsors and coordinates training courses for internal auditors, and completes special projects and reviews requested by cabinet secretaries or agency heads. The Department's responsibilities also include assisting state agencies and institutions in developing and maintaining internal audit programs.

## ***DEPARTMENT OF TAXATION***

### Revenue Collections

The Department of Taxation is the largest collector of Commonwealth revenue and during fiscal year 2001, Taxation collected \$11.9 billion in revenue, depositing \$9.6 billion (81 percent) into the Commonwealth's General Fund. Taxation distributed the remaining revenues as refunds to taxpayers or as transfers to other state agencies and localities for miscellaneous taxes. Taxation receives general fund appropriations to fund its operations; therefore, they do not use any of their tax collections to fund operations.

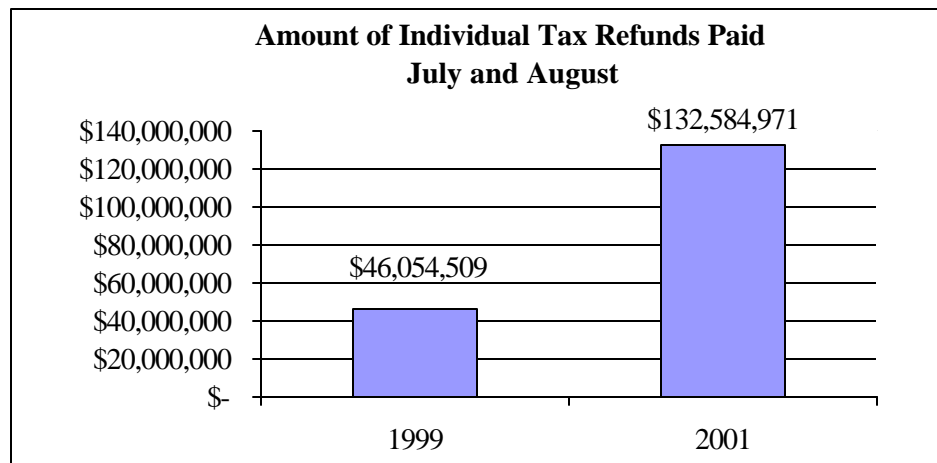
The largest sources of general fund revenues are individual and fiduciary income taxes, and state sales and use taxes. Individual and fiduciary income taxes represent taxes collected from employer withholdings, estimated taxes paid, and individual income tax returns.

### Tax Return Process

Taxation introduced several changes in the processing of tax returns for Tax Year 2000 that they believed would improve efficiency and expedite processing. These changes included a redesigned tax form and several new ways for taxpayers to file their returns. Taxation hoped these changes and the variety of filing options would be less confusing to taxpayers. While Taxation expected these changes would improve and expedite tax return processing, Taxation also understood that these changes could cause an increase in tax return errors. However, the number and types of errors exceeded Taxation's expectation and management's steps to respond to the errors.

Although the tax-filing season ended May 1, 2001, many tax returns on the error file did not receive prompt resolution, causing taxpayers to receive their refunds after June 30, 2001. As noted below, tax refund payments for July-August 2001 were over \$132 million, an increase of \$86 million (153 percent increase) from July-August 1999, which represents a normal tax year.

The report "Tax Return Error Resolution Analysis," issued in December 2001 by the Auditor of Public Accounts, provides additional information on the 2000 tax return process.



### Public-Private Partnership Project

In 1998, Taxation contracted with American Management Systems (AMS) to develop and implement an Integrated Revenue Management System. Taxation also contracted with TRW Systems & Information Technology Group (TRW) to conduct periodic project performance monitoring and evaluation services. The project had an original completion date of 2003; however, in the most recent change order, the completion date is June 30, 2004.

#### *Improve Reporting*

Section 58.1-202.2(b) of the Code of Virginia requires the Tax Commissioner to prepare an annual report to the Governor and General Assembly on the Partnership, describing each technology



program, its progress, and its revenue impact. Although the Partnership project began generating revenues in December 1998, Taxation did not submit its first formal report to the Governor until October 2001.

The above report described major activities of the Partnership for each of the years ended June 30, 1999 to 2001, as well as, future initiatives through 2004. The Auditor of Public Accounts will issue a separate report on the Partnership's system development efforts in March 2002.

### Partnership Funding

Project funding comes from increased tax revenues generated from technological solutions and improved business processes that the Partnership developed and implemented. The additional revenues are deposited into a 90 percent fund (Partnership Fund) and the 10 percent Fund. The Partnership Fund pays AMS its contractual obligations, including interest payments, while the 10 percent Fund pays all other expenses attributable to the project, including paying TRW. During fiscal year 2001, the Partnership Fund received over \$33 million in revenue while the 10 percent Fund revenue received over \$3 million. Through November 2001, cumulative partnership revenues totaled over \$69 million.

### ***Partnership Revenues***

Fiscal Year	Partnership Fund	10% Fund	Total
1999	\$ 5,695,458	\$ 632,799	\$ 6,328,257
2000	10,487,760	1,165,337	11,653,097
2001	33,140,337	3,682,260	36,822,597
2002 ( <i>as of Nov. 2001</i> )	12,872,310	1,430,256	14,302,566
Total	<u>\$ 62,195,865</u>	<u>\$ 6,910,652</u>	<u>\$ 69,106,517</u>

### Project Cost

In 1998, Taxation agreed to a contract with AMS for \$123 million. In addition, Taxation agreed to pay AMS interest on any interim billing if the Partnership Fund did not have the resources to pay AMS's bill. Taxation estimated that interest payments would total \$17 million over the life of the contract. Taxation adopted this approach to financing, rather than having the interest included within the fixed price of the AMS contract. This approach to interest payments would benefit Taxation if the initiatives generated revenues in excess of the benchmarks or over shorter periods.

Due to various change orders, the contract price has risen to \$153 million as of November 2001, but Taxation is now projecting interest cost at \$9 million rather than the \$17 million. The decreased interest payments estimate results from the initiatives generating revenues in a shorter than expected period.

Taxation is incurring other project costs in addition to Partnership costs. These additional cost include overhead and miscellaneous expenses such as TRW's payments, which come from the 10 percent Fund, and Taxation staff members time spent directly on the projects, which come from the Department's operating general fund budget.

As of November 2001, the chart on the following page shows the total anticipated project costs including interest payment and Taxation payroll projections that now exceed \$200 million. The chart also summarizes the cost incurred during fiscal 2001 and the cumulative balance as of June 30, 2001.

	<b>Anticipated Costs (as of Nov. 2001)</b>	<b>2001 Activity</b>	<b>Cumulative Activity (as of 6/30/01)</b>
Partnership – contract cost ( <i>Partnership Fund</i> )	\$153 million	\$ 29,883,212	\$ 43,936,194
Partnership – interest payments ( <i>Partnership Fund</i> )	9 million	673,019	1,075,343
TRW ( <i>10% Fund</i> )	5 million	696,515	1,642,018
Overhead/miscellaneous ( <i>10% Fund</i> )	13 million	1,237,864	1,690,338
Taxation payroll ( <i>Taxation General Fund</i> ) <i>Anticipated amount includes actual balance at November 2001 (\$15 million) and projected annual costs of \$3.2 million through June 2004 (\$8 million)</i>	23 million	5,760,908	11,845,125
<b>Total Projected Project Costs</b>	<b>\$203 million</b>	<b>\$ 38,251,518</b>	<b>\$ 60,189,018</b>

#### Other Audit Findings

##### *Improve Performance Measurement Management*

Taxation did not meet three out of the six performance measurements reported to the Department of Planning and Budget for fiscal year 2001. Taxation was unable to provide detailed support for two of these measures subsequent to reporting the measures, *Percentage of Sales Tax Cases Less Than 120 Days Old* and *Percentage of Business, Professional, and Occupational License (BPOL) Cases Less Than 120 Days Old* because of a system shortcoming. Finally, Taxation's system begins tracking accelerated tax return refunds the day someone enters them into the system rather than the day Taxation receives the tax return, making tracking of this measure unreliable.

##### *Strengthen Controls Over Access Security*

Our review of ACF2 access found four employees with unused access for over six months, similar findings noted by Taxation's Internal Audit Department. Further, we noted management still did not monitor unused access for longer than six months. Untimely suspension and deletion of access could result in unauthorized or abusive use of system privileges. Depending on the type of access, someone could use this access to alter or delete financial records.

Management should review its automated security procedures to determine why the system did not suspend the inactive user accounts. Further, management should improve procedures and controls over the addition, maintenance, and deletion of access to ensure the integrity of accounting transactions.

##### *Update Information System Security and Risk Assessment Plan*

Our review found Taxation without an updated risk assessment and system security plan. Since 1996, Taxation has introduced several innovations containing critical applications and sensitive

information. As a result, Taxation has new and different risk factors and security concerns. Outdated information system security and risk assessment plans can weaken the safeguards for new risk and leave Taxation's system more vulnerable. Since management is continuing to enhance and improve systems, it should incorporate a review and update of its system security and risk assessment plans as part of the on-going changes.

## ***DEPARTMENT OF THE TREASURY***

### Overview

The Department of the Treasury, under the direction of the State Treasurer, serves as the custodian of state funds. The Department of Treasury is divided into the following divisions, which provide services to the Commonwealth:

- Cash Management and Investments Division
- Debt Management Division
- Division of Risk Management
- Unclaimed Property Division
- Operations Division
  - Trust Accounting Services
  - Bank Reconciliation Services
  - Check Processing Service

In addition, Treasury staff also provide administrative support for the following entities:

- Treasury Board
- Virginia Public School Authority
- Virginia Public Building Authority
- Virginia College Building Authority
- Debt Capacity Advisory Committee

### Cash Management and Investments Division

The general account of the Commonwealth, a pool of investments representing assets of various funds including the general, higher education operating, highway maintenance, and transportation trust funds, is the largest portfolio managed by the Division. The general account portfolio has two pools: the primary liquidity pool and the total return pool. The Cash Management and Investments Division manages the primary liquidity pool, which provides the major source of assets for the disbursement requirements and operational needs of the Commonwealth. The externally managed total return pool seeks to generate higher total returns over time as compared to the liquidity pool. Treasury's target allocation for the overall general account asset mix is 75 percent for the primary liquidity pool and 25 percent for the total return pool. Treasury's monthly average invested balance for fiscal year 2001 was \$3.69 billion. The yield for fiscal year 2001 was 7.17 percent.

The Cash Management and Investments Division also manages the Local Government Investment Pool (LGIP). LGIP is an investment program offered to counties, towns, cities, state agencies, departments and authorities of the Commonwealth of Virginia. It is an open-ended money market type fund that offers public funds investors daily liquidity, diversification, professional management, and compliance with

Virginia's "Investment of Public Funds" statutes and Governmental Accounting Standards Board requirements. Further, Treasury manages the Commonwealth's statewide banking network and monitors its own and other agencies' specialized banking services.

#### Debt Management Division

Virginia is one of only nine states with a "AAA" bond rating for general obligation debt from three rating services: Moody's Investors Service, Standard & Poors Corporation, and Fitch, Inc. The Debt Management Division is responsible for the issuance and management of debt for the Commonwealth and several of its boards and authorities. The Division also monitors outstanding Commonwealth debt issued by certain boards and authorities for reporting purposes, advises on the financing of state capital projects, and provides staff support to the Virginia Public School Authority, Virginia College Building Authority, Virginia Public Building Authority, and the Treasury Board. Debt Management executed 30 equipment leases totaling \$24,264,454, issued \$733,510,000 in bonded debt, and provided oversight on \$66,330,000 of capital lease supported debt for various entities of the Commonwealth during fiscal 2001.

#### Division of Risk Management

On July 1, 2000 the Department of General Services transferred the Division of Risk Management (Risk Management) to the Department of Treasury and the Workers' Compensation Fund to the Department of Human Resource Management. Risk Management is responsible for administering insurance programs on behalf of the Commonwealth. Insurance programs are either self-insured or commercially insured. Risk Management administers the following programs under the Department of Treasury:

- State Agency Programs
  - Liability Insurance
  - Property Insurance
  - Fidelity Bonds
- Constitutional Officer Programs
  - Liability Insurance
  - Fidelity Bonds
- Local Government Programs
  - Liability Insurance
  - Property Insurance

#### Unclaimed Property Division

The Unclaimed Property Division is responsible for the administration of two major types of abandoned property programs:

- Personal property
- Real property

The Unclaimed Property Act establishes the Commonwealth as custodian of certain personal properties (both intangible and tangible) until the owners can be located. Funds remitted pursuant to the Unclaimed Property Act are held in perpetuity until the owner is identified.

The Escheats Statute, generally, benefits localities through the sale of abandoned real estate, by placing the property back on the tax rolls and paying delinquent taxes from the sales proceeds. The proceeds of the sale are claimable for five years after the date of the sale. Funds held in excess of five years are deposited into the Literary Fund.

The Division identifies abandoned personal property through annual reporting requirements, and audits and compliance reviews; administers the funds under the Commonwealth's control; and uses its best efforts to return the property to its owner. Virginia is one of twenty-six states participating in a national website for unclaimed property affiliated with the National Association of Unclaimed Property Administrators. The website lists unclaimed property held by the participating states using a multi-state unclaimed property database. The database is available at no cost to the users or the state.

The primary non-general fund source of Treasury's budget for the Unclaimed Property Division comes from the receipt of unclaimed property. In 2001, Treasury collected over \$51 million in unclaimed property. Treasury had the following activity in the Unclaimed Property Fund:

Collections	\$ 51,010,468
Property returned to owners	(11,697,747)
Transfers to the Literary Fund	(40,300,000)
Operating Expenses	<u>(3,126,779)</u>
Net Change	(4,114,058)
Balance at July 1, 2000	<u>14,460,958</u>
Balance at July 1, 2001	<u><u>\$ 10,346,900</u></u>

#### Operations Division

##### Check Processing

On June 23, 2000, Treasury assumed full responsibility for the printing and distribution of the Commonwealth's checks. The check writing function is now one continuous operation from file transmission, to printer, to the output of the check document.

##### *Improve Controls Over Check Processing:*

Treasury management did not establish adequate policies and procedures for the check processing function and as a result, Check Processing issued duplicate checks on several occasions. Due to management override of established procedures and the lack of an updated policies and procedures manual, Treasury experienced a break down in internal controls in various areas of check processing. Specifically, areas of concern include the shredding of waste checks, mixing unreconciled and reconciled check jobs, placing Treasury employees from other sections in the position of temporary manager and misplacing check job paperwork.

Management provided a policies and procedures manual to the check processing staff in August of 2001. This manual detailed new controls designed to prevent duplicate check incidents in

the future. Treasury requires the check processing staff to certify in writing that they have read and understand the policies and procedures. Check Processing management and staff should ensure their work is in compliance with the policies and procedures manual and reference the procedures when in doubt as to the proper course of action. Also, Check Processing should have a permanent Assistant Check Processing Manager to allow the division to function smoothly during the manager's absence and avoid breakdowns in internal controls.

### Trust Accounting

Trust Accounting performs a variety of functions for the Department of Treasury, which include but are not limited to:

- Acting as trustee for college bond issues;
- Ensuring all debt service payments are made timely;
- Preparing financial statements for the Virginia Public School Authority, Virginia College Building Authority and the Virginia Public Building Authority;
- Servicing literary fund loans for the Virginia Public School Authority;
- Monitoring Public Depositories under the Security for Public Deposits Act;
- Monitoring the administration of the State Non-Arbitrage Program;
- Accounting and monitoring securities lending transactions; and
- General Accounting and Financial reporting for the Department of Treasury.

### Bank Reconciliation

Treasury reconciles all state deposits, between the State Comptroller's ledger and the bank, for the following accounts:

- Concentration Bank Accounts
- Regional Bank Accounts
- Trust Special and Trust Bank Accounts

The Commonwealth's two disbursement banks are responsible for full reconciliation of check disbursement activity. Treasury employs a completely automated system to reconcile bank accounts. The Recon Plus system interfaces with other bank systems, allowing Treasury to reconcile accounts within 45 days of month end.

## ***TREASURY BOARD***

The Code of Virginia sets forth the appointments to the Treasury Board, which includes the State Treasurer, the State Comptroller, the State Tax Commissioner, and four members, appointed by the Governor. The Board has the responsibility to:

- Exercise general supervision over the investment of state funds;
- Administer the Virginia Security for Public Deposits Act;
- Control and manage sinking and other funds the Commonwealth holds as fiduciary;
- Contract with an outside manager for the administration of the State Non-Arbitrage Program (SNAP);
- Provide advice and supervision in the financing of state buildings;
- Approve the terms and structure of proposed state educational institution bond issues;

- Approve the terms and structure of proposed bond issues secured by state appropriations;
- Administer the regional jail financing reimbursement program;
- Issue all general obligation debt of the Commonwealth; and
- Manage its bond issues in compliance with federal taxation and arbitrage laws.

The Treasury Board also makes payments to the Virginia College Building Authority and the Virginia Public Building Authority for lease payments and/or bond principal and interest on authority appropriation supported debt. The Board also pays debt service on Article X, Section 9(b) general obligation bonds and processes debt service payments to trustees and/or paying agents on behalf of the Commonwealth Transportation Board bonds to trustees and agents for the bondholders.

Bond and loan payments made by the Treasury Board in the fiscal year ended June 30, 2001 were as follows:

General Fund	\$233,516,008
Special Revenue Fund	4,274,606
State Share of Jail Construction	3,631,096
Community and Business Assistance	1,525,695
Higher Education Fund	<u>2,422,604</u>
Agency Total	<u>\$245,370,009</u>

The Treasury Board operates a tax-exempt commercial paper program to provide start-up funding for several of the Commonwealth's capital borrowing programs. As of June 30, 2001 there was no tax-exempt commercial paper for general obligation bond projects outstanding.

## **SUMMARY FINANCIAL INFORMATION**



AGENCIES OF THE SECRETARY OF FINANCE  
SELECTED SUMMARY FINANCIAL INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2001

OPERATING RESOURCES AND USES	Office of the Secretary	Accounts		Planning and Budget	
	General Fund	General Fund	Nongeneral Funds	General Fund	Nongeneral Funds
Original operating appropriations	\$ 501,031	\$ 9,562,064	\$ 2,210,218	\$ 5,663,235	\$ 1,000,000
Adjustments:					
Reappropriations	39,543	-	-	324,492	-
Additional revenue	-	-	-	-	-
Transfer between years	-	-	-	-	-
Federal cash management interest	-	-	-	-	-
Collection agency fees	-	-	-	-	-
Other	16,792	(364,446)	-	(223,110)	-
Adjusted operating appropriations	\$ 557,366	\$ 9,197,618	\$ 2,210,218	\$ 5,764,617	\$ 1,000,000
Resources:					
General fund appropriations	557,366	9,197,618	-	5,764,617	-
Unclaimed property collections	-	-	-	-	-
Public service company taxes	-	-	-	-	-
Treasury loan activity*	-	-	(1,520,000)	-	1,000,000
Transfer in **	-	-	1,512,726	-	-
Risk management charged for services	-	-	-	-	-
Delinquent tax collection fees	-	-	-	-	-
Court debt collection fees	-	-	-	-	-
Technology fund (90%)	-	-	-	-	-
Technology fund (10%)	-	-	-	-	-
Other	-	-	270,566	-	-
Total resources	557,366	9,197,618	263,292	5,764,617	1,000,000
Expenses:					
Salaries and benefits	479,945	7,553,052	158,166	4,727,000	-
EDP operations, supplies, and equipment	268	1,056,739	-	257,165	-
Postage and printing	599	78,513	-	9,071	-
Investment management services	-	-	-	-	-
Draw down loan interest	-	-	-	-	-
Building rentals	14,200	24,470	-	-	-
Payments to unclaimed property claimants	-	-	-	-	-
Technology funds	-	-	-	-	-
Risk management expenditures	-	-	-	-	-
Other	26,670	484,800	157,047	260,483	-
Transfer to the Literary Fund	-	-	-	-	-
Transfer out	-	-	-	-	-
Total uses	521,683	9,197,574	315,213	5,253,719	-
Net activity in fiscal year 2001	\$ 35,684	\$ 44	(51,921)	\$ 510,898	\$ 1,000,000
Nongeneral cash available at beginning of year			2,135,254		
Nongeneral cash available at end of year			\$ 2,083,333		

The financial information presented above came directly from the Commonwealth Accounting and Reporting System which is recorded on a cash basis of accounting.

\*This amount represents a Treasury loan for the Program Budgeting (PROBUD) computer system.

\*\* This amount includes \$76,526,806, which represents the transfer of Risk Management from the Department of General Services to Treasury.

State Internal						
Auditor	Taxation		Treasury		Secretarial Totals	
General Fund	General Fund	Nongeneral Funds	General Fund	Nongeneral Funds	General Fund	Nongeneral Funds
\$ 759,141	\$ 57,960,132	\$ 36,259,192	\$ 7,881,128	\$ 7,504,562	\$ 82,326,731	\$ 46,973,972
20,419	300,000	5,775,000	-	440,000	684,454	6,215,000
-	-	-	-	143,785	-	143,785
-	-	-	-	-	-	-
-	-	-	772,937	-	772,937	-
-	-	-	-	-	-	-
(26,801)	1,439,586	-	(20,578)	1,631,864	821,443	1,631,864
\$ 752,759	\$ 59,699,718	\$ 42,034,192	\$ 8,633,487	\$ 9,720,211	\$ 84,605,565	\$ 54,964,621
752,759	59,699,718	-	8,633,487	-	84,605,565	-
-	-	-	-	51,010,468	-	51,010,468
-	-	224,848	-	-	-	224,848
-	-	-	-	-	-	(520,000)
-	-	-	-	96,261,766	-	97,774,492
-	-	-	-	17,686,954	-	17,686,954
-	-	3,974,039	-	-	-	3,974,039
-	-	3,051,622	-	-	-	3,051,622
-	-	33,140,337	-	-	-	33,140,337
-	-	3,682,259	-	-	-	3,682,259
-	-	74,299	-	13,252,861	-	13,597,726
752,759	59,699,718	44,147,404	8,633,487	178,212,049	84,605,565	223,622,745
536,114	43,067,388	960,612	2,800,251	3,246,802	59,163,750	4,365,580
20,289	2,659,912	361,802	358,915	654,752	4,353,288	1,016,554
78	3,664,278	289,953	1,036,656	130,332	4,789,195	420,285
-	-	-	2,140,960	-	2,140,960	-
-	-	-	772,937	-	772,937	-
2,441	3,135,126	49,128	202,309	176,076	3,378,546	225,204
-	-	-	-	11,437,275	-	11,437,275
-	-	32,463,228	-	-	-	32,463,228
-	-	-	-	23,084,985	-	23,084,985
96,774	5,913,013	4,993,925	1,321,310	1,384,683	8,103,050	6,535,655
-	-	-	-	40,300,000	-	40,300,000
-	-	212,368	-	38,515,146	-	38,727,514
655,696	58,439,717	39,331,016	8,633,338	118,930,051	82,701,727	158,576,280
\$ 97,063	\$ 1,260,001	4,816,388	\$ 149	59,281,998	\$ 1,903,839	65,046,465
		6,772,297		8,611,036		17,518,587
		\$ 11,588,685		\$ 67,893,034		\$ 81,565,052

DEPARTMENT OF TREASURY  
SELECTED FINANCIAL INFORMATION - RISK MANAGEMENT FUNDS  
FOR THE PERIOD ENDED JUNE 30, 2001

	INTERNAL SERVICE FUNDS				
	Administration	Property	Water Craft & Aviation	Bond	General Liability
Operating revenue:					
Charges for services	\$ -	\$ 4,112,016	\$ 676,794	\$ 182,581	\$ 8,158,584
Restitution revenue	-	-	-	-	-
Total operating revenues	-	4,112,016	676,794	182,581	8,158,584
Operating expenses:					
Insurance claims	-	1,572,354	-	12,000	6,770,100
Rent, insurance, or related charges	-	3,057,743	698,463	25,680	6,426,588
Personal services/benefits	1,106,190	-	-	-	-
Contractual services	248,203	-	-	-	-
Supplies and materials	11,947	-	-	-	-
Continuous charges	50,715	-	-	-	-
Expendable equipment	208,677	-	-	-	-
Operating transfers out among funds	1,563,922	719,037	269,968	245,965	17,615,751
Operating transfers in among funds	(3,125,214)	(262,027)	(783,909)	(220,729)	(16,725,335)
Total operating expenses	64,440	5,087,107	184,522	62,916	14,087,104
Operating income (loss)	(64,440)	(975,091)	492,272	119,665	(5,928,520)
Other financing sources (uses):					
Interest, dividends, and rent	-	491,128	25,140	35,873	1,018,816
Sale of surplus property	-	10,467	-	-	-
Increase in the fair market value of investments	-	-	-	-	-
Income from securities lending	-	35,595	1,713	2,481	66,336
Expenses from securities lending	-	(34,269)	(1,636)	(2,381)	(63,765)
Total other financing sources (uses)	-	502,921	25,217	35,973	1,021,387
Net income (loss)	(64,440)	(472,170)	517,489	155,638	(4,907,133)
Retained earnings:					
July 1, 2000	(133,865)	2,402,870	296,711	300,598	(6,969,899)
June 30, 2001	\$ (198,305)	\$ 1,930,700	\$ 814,200	\$ 456,236	\$(11,877,032)

The financial information presented above came from the Commonwealth Accounting and Reporting System and was adjusted for revenues earned but not received and expenses incurred but not paid.

Complete financial information for all risk management funds presented using accounting principles generally accepted in the United States is available in the Commonwealth's Comprehensive Annual Financial Report.

ENTERPRISE FUNDS				
Local Entities	Constitutional	Local		
Bond Insurance	Officers Insurance	Government Plan Insurance	Commuter Rail Insurance	
\$ 55,650	\$ 2,833,999	\$ 1,667,080	\$ -	
250	-	-	-	
55,900	2,833,999	1,667,080	-	
-	1,663,680	1,916,052	32,604	
6,020	1,515,926	2,001,929	951,265	
-	-	-	-	
-	-	-	-	
-	-	-	-	
-	-	-	-	
58,870	839,994	464,928	39,419	
(29,296)	(418,025)	(294,267)	(19,616)	
35,594	3,601,575	4,088,642	1,003,672	
20,306	(767,576)	(2,421,562)	(1,003,672)	
46,589	343,384	656,444	1,160,283	
-	-	-	-	
-	-	-	452,930	
3,194	23,644	45,397	36,597	
(3,065)	(22,706)	(43,590)	(35,115)	
46,718	344,322	658,251	1,614,695	
67,024	(423,254)	(1,763,311)	611,023	
713,664	(656,499)	5,681,002	19,642,785	
780,688	(1,079,753)	3,917,691	20,253,808	

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February 11, 2002

The Honorable Mark R. Warner  
Governor of Virginia  
State Capitol  
Richmond, Virginia

The Honorable Vincent F. Callahan, Jr.  
Chairman, Joint Legislative Audit  
and Review Commission  
General Assembly Building  
Richmond, Virginia

#### INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Office of the Secretary of Finance, the Departments of Accounts, Planning and Budget, State Internal Auditor, Taxation, and the Treasury, and the Treasury Board** for the year ended June 30, 2001. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

#### Audit Objective, Scope, and Methodology

Our audits' primary objectives were to review the internal control over the Commonwealth's financial reporting process, central accounting and reporting systems, centralized services provided to agencies and institutions, and processing of tax returns; review the agencies' internal control over payroll and other expenses; test their compliance with applicable laws and regulations; and evaluate the accuracy of financial transactions recorded on the Commonwealth Accounting and Reporting System. We also determined the status of audit findings from prior year reports.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the following operations:

- Financial Reporting
- Commonwealth Accounting and Reporting System
- Commonwealth Integrated Payroll and Personnel System
- Fixed Asset Accounting and Control System
- Cash Management and Investment
- Debt Financing
- General Fund Appropriation Transaction Processing
- Tax Revenue Collection
- Unclaimed Property
- State Indirect Cost Allocation Plan

We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations, over the significant cycles, classes of transactions, and account balances.

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the agencies' policies and procedures were adequate, had been placed in operation, and were being followed. Our audits also included tests of compliance with provisions of applicable laws and regulations.

Management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audits were more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

#### Audit Conclusions

We noted certain matters involving internal control and its operation that we considered to be reportable conditions for the Departments of Taxation and Treasury. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the agencies' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. These reportable conditions are discussed in the Department of Taxation and Department of the Treasury sections of the report. We believe none of the reportable conditions are material weaknesses. Further, the results of our tests of compliance disclosed no instances of noncompliance that are required to be reported herein under Government Auditing Standards.

We found that the agencies properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The agencies record their financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in the accompanying schedules came directly from the Commonwealth Accounting and Reporting System.

Except for Taxation, the agencies have taken adequate corrective action with respect to audit findings reported in the prior year. Taxation has not taken adequate corrective action with respect to the previously reported finding "Strengthen Controls Over CARS Access and ACF 2 Access." Accordingly, we included the finding "Strengthen Controls Over Access Security" in this report in the section entitled "Other Audit Findings."

This report is intended for the information of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

### EXIT CONFERENCES

We discussed this report with management at each agency.

AUDITOR OF PUBLIC ACCOUNTS

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AGENCIES OF THE SECRETARY OF FINANCE  
Richmond, Virginia

as of June 30, 2001

John W. Forbes  
Secretary of Finance

William E. Landside  
Comptroller

Richard D. Brown  
Acting Director of the Department of Planning and Budget

Merritt L. Cogswell  
State Internal Auditor

Danny M. Payne  
Tax Commissioner

Mary G. Morris  
Treasurer