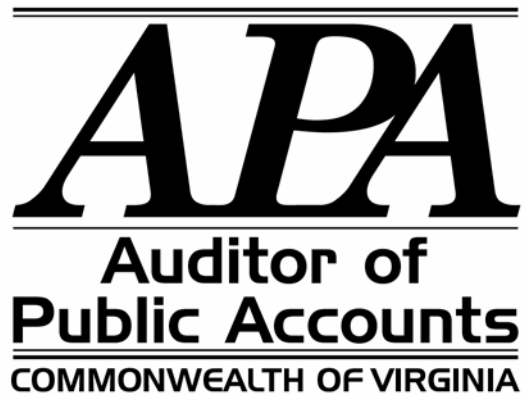


COMPENSATION BOARD

REPORT ON AUDIT

FOR THE PERIOD

JANUARY 1, 2002 THROUGH JUNE 30, 2004



AUDIT SUMMARY

Our audit of the Compensation Board for the period January 1, 2002 through June 30, 2004, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no matters involving internal control and its operation that we consider material weaknesses; and
- no instances of noncompliance or other matters that required reporting.

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AGENCY BACKGROUND AND FINANCIAL HIGHLIGHTS

The Compensation Board consists of the Auditor of Public Accounts and the State Tax Commissioner as ex-officio members, and one member appointed as Chairman by the Governor. The Compensation Board has responsibility for:

- Determining the state's share of Constitutional Officers' (county and city Sheriffs, Treasurers, Commissioners of Revenue, Commonwealth's Attorneys, and Clerks of the Circuit Court) budgets and reimbursing localities for the state share of the Constitutional Officers' salaries and expenses.
- Reimbursing local governments and regional jails for a per diem for holding state responsible inmates and reporting weekly on jail population.
- Administering the Technology Trust Fund to reimburse Clerks of the Circuit Court for automation of land records.
- Providing an annual report of the Courts and Commonwealth's Attorneys collection of court fines and fees.
- Issuing an annual report of jail revenues and expenditures for all local and regional jails and jail farms that receive Compensation Board funding.

General Fund Operations

The following tables summarize the Board's General Fund financial activity for fiscal years 2002 through 2004.

Table 1			
<u>Fiscal Year 2004</u>			
	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>
Sheriffs	\$315,081,026	\$320,993,313	\$316,886,804
Jails	55,018,693	56,339,512	56,202,460
Commonwealth's Attorneys	42,919,968	43,597,381	42,771,841
Clerks of the Circuit Court	33,728,348	34,185,581	33,642,195
Treasurers	21,292,317	21,625,214	21,358,027
Commissioners of the Revenue	15,689,889	15,935,315	15,708,034
Payments on behalf of localities	5,178,480	5,463,480	4,851,923
Administrative and support	<u>1,835,236</u>	<u>1,920,505</u>	<u>1,768,441</u>
Total	<u>\$490,743,957</u>	<u>\$500,060,301</u>	<u>\$493,189,725</u>

Table 2

Fiscal Year 2003

	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>
Sheriffs	\$339,357,250	\$318,821,709	\$312,190,133
Jails	62,731,286	59,044,639	58,635,119
Commonwealth's Attorneys	48,223,644	43,248,433	42,812,120
Clerks of the Circuit Court	34,511,862	30,150,576	30,122,200
Treasurers	25,195,399	21,921,434	21,849,085
Commissioners of the Revenue	18,433,573	16,151,400	16,110,769
Payments on behalf of localities	4,834,784	6,061,491	5,742,005
Administrative and support	1,952,203	1,737,641	1,648,955
Executive savings	<u>(26,296,773)</u>	<u>-</u>	<u>-</u>
Total	<u>\$508,943,228</u>	<u>\$497,137,323</u>	<u>\$489,110,386</u>

Table 3

Fiscal Year 2002

	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>
Sheriffs	\$310,340,184	\$290,750,340	\$290,657,731
Jails	66,205,061	68,736,609	68,602,907
Commonwealth's Attorneys	43,556,530	41,836,118	41,777,815
Clerks of the Circuit Court	35,458,848	35,777,613	35,724,119
Treasurers	22,726,585	22,251,072	22,205,012
Commissioners of the Revenue	16,605,335	16,317,223	16,267,706
Payments on behalf of localities	5,238,059	1,948,184	1,856,195
Administrative and support	1,663,593	1,593,572	1,539,118
Executive savings	<u>(1,566,791)</u>	<u>-</u>	<u>-</u>
Total	<u>\$500,227,404</u>	<u>\$479,210,731</u>	<u>\$478,630,603</u>

General Fund Appropriations is the primary funding source for the Board and accounts for 99 percent of total funding in fiscal year 2004. In fiscal years 2002 and 2003, budget reductions resulted in a decrease between the General Fund original and adjusted budgets. In fiscal year 2002, the budget reductions affected the carry over of prior year end balances and accumulated vacancy savings in sheriffs' offices. In fiscal year 2003, the General Assembly directed budget reductions of \$26.3 million for distribution to all constitutional officers. These reductions occurred through disallowing use of accumulated vacancy savings, and decreasing equipment and office expenses. Further reductions occurred when the 2003 General Assembly increased the budget reduction percentages, and reduced jail reimbursements 50 percent during the fourth quarter of fiscal year 2003. In fiscal year 2004, mandatory reappropriations and an anticipated increase in sheriff and jail reimbursement expenses resulted in an increase between the General Fund original and adjusted budgets.

The Board's expenses remained steady over fiscal years 2003 and 2004. Employee turnover at the locality level resulted in less than expected transfer payments creating a variance between adjusted budgets and actual expenses.

Technology Trust Fund

At June 30, 2004, the Technology Trust Fund had a cash balance of \$8.6 million. Table 4 summarizes the financial activity in the Technology Trust Fund. In fiscal years 2002 and 2003, the Board carried over appropriations from the previous fiscal years resulting in an increased adjusted budget.

Table 4

Technology Trust Fund

<u>Fiscal Year</u>	<u>Actual Revenues</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>
2004	\$8,512,088	\$3,745,022	\$7,295,657	\$5,028,388
2003	7,921,176	9,207,809	19,123,163	9,320,022
2002	6,586,857	4,206,191	13,706,191	5,210,785

The 2002 General Assembly directed the Board to use Technology Trust Funds towards Circuit Clerks Offices' operating expenses. In fiscal years 2003 and 2004, the Board used Technology Trust Funds of \$4.4 million and \$1.5 million towards this effort. Previously General Fund appropriations paid these expenses.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

January 21, 2005

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

The Honorable Lacey E. Putney
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 **Compensation Board** for the period January 1, 2002 through June 30, 2004. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

The Auditor of Public Accounts is an ex-officio member of the Compensation Board. He has knowledge of the relevant reporting requirements and generally accepted government auditing standards. This audit has been conducted in accordance therewith, and, in the opinion of management, his independence has not been compromised, as he neither directly nor indirectly participated in the audit, nor did he instruct the auditors in any manner as to the conduct of the audit.

Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Board's internal control, and test compliance with applicable laws and regulations.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Board's operations. 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. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Expenditures
Revenues
Information Systems

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 Board's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

The Board's 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 audit was more limited than would be necessary to provide an opinion on internal control or 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 found that the Board properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Board records its 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 this report came directly from the Commonwealth Accounting and Reporting System.

We noted no matters involving internal control and its operation that we consider to be material weaknesses. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to financial operations may occur and not be detected promptly by employees in the normal course of performing their duties.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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

EXIT CONFERENCE

We discussed this report with management on February 25, 2005.

AUDITOR OF PUBLIC ACCOUNTS

JP/kva

kva:

COMPENSATION BOARD

Fran Drew
Chairman

Walter J. Kucharski
Ex Officio

Ken Thorson
Ex Officio

Bruce W. Haynes
Executive Secretary