

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

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 1999**

***AUDITOR OF
PUBLIC
ACCOUNTS***



COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

This report includes all agencies reporting to the **Secretary of Finance** as well as the Secretary's office. The agencies are the **Departments 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, 1999, 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 and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System; and
- adequate implementation of corrective action on prior audit findings, except as listed on page 20.

Each audit finding is explained in detail throughout the report. Our findings include:

- Taxation should use the program change management process so that management will understand the effect of the change on controls and whether the change works as designed, and
- Taxation should develop a formal testing program to improve its testing process over the IRMS system.

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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 a 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 16-17.

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 and 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 Interchange** (EDI) electronically transmits payments to localities, non-state agencies, vendors, and state employees. EDI processes approximately 43 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 now in the process of studying improvements associated with the eventual replacement of PROBUD.

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.

Fiscal Year	Mandatory Deposit Requirement
1992	\$ -
1993	79,896,927
1994	-
1995	66,624,672
1996	58,314,172
1997	123,833,649
1998	194,135,805
1999	<u>103,345,741</u>
Interest Earnings at June 30, 1999	<u>32,802,692</u>
Total	<u>\$ 658,953,658</u>
Maximum Fund Allowed (MFA)	\$ 777,885,558
% of MFA	85%

The Commonwealth has made deposits for fiscal years 1993, 1995, 1996 and 1997. The mandatory deposits for fiscal years 1998 and 1999 must occur by June 30, 2000 and 2001, respectively. As of June 30, 1999, the fund has earned \$32,802,692 in interest for a balance of \$361,472,112. After making the required deposits listed above, the fund will have reached 85 percent of its maximum balance.

DEPARTMENT OF ACCOUNTS

The Department of 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 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.

Accounts makes distributions to the Commonwealth's counties, cities, and towns for the following revenues:

Sales and use tax for education	\$ 677,083,636
Recordation taxes	21,323,605
ABC profits	17,861,620
Wine taxes	8,743,086
Rolling stock taxes	5,933,783
Public facilities rebate tax	316,554
Other	<u>619,848</u>
Total	<u>\$ 731,882,132</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 \$17,602,843 and \$1,073,551 respectively.

Performance Measures

Accounts reports on four performance measures to the Department of Planning and Budget during the fiscal year. The table below shows a description of these measurements, their target, and Accounts' actual performance. During the fiscal year, Accounts' met or exceeded targets set for performance measures listed below.

DESCRIPTION	TARGET	Statistics for Fiscal Year 1999
<i>Number of years out of the previous 10 that Virginia receives the "Certificate of Achievement for Excellence in Financial Reporting."</i>	10 out of 10 years	Through June 30, 1998, Accounts has received this certificate for the past ten years. <i>Note: FY 1999 results not yet available.</i>
<i>Number of checks avoided though Electronic Data Interchange and the Small Purchase Charge Card program.</i>	325,000 Checks	Accounts avoided 522,000 checks, 197,000 checks above their annual target, and 103,000 checks above the previous fiscal year.
<i>Number of years out of the previous 10 that Virginia receives an unqualified audit opinion.</i>	10 out of 10 years	Through June 30, 1999, Accounts has received an unqualified opinion for the past ten years.
<i>Percentage of agencies with noncompliance (exception) rates for vouchers of less than 4%.</i>	60%	Accounts had 61% of agencies with noncompliance rates of four percent or less, which exceeded their annual target of 60%.

DEPARTMENT OF PLANNING AND BUDGET

The Department of Planning and Budget is the state's central budgeting agency and has responsibility for executive budgeting and analytical support. Planning and Budget develops the budgeting process, 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.

Performance Measures

Planning and Budget develops, reports, and monitors its own performance measures. As the oversight agency for statewide performance measures, Planning and Budget reports internally to their assigned budget analyst. The assigned analyst then reports analyzed data to the statewide performance measures coordinator. Planning and Budget reported three performance measurements during the fiscal year. The table below provides a description of each of these measurements, their targets, and Planning and Budget's actual performance.

DESCRIPTION	TARGET	Statistics for Fiscal Year 1999
<i>Percentage difference between forecast and actual results for three budget drivers:</i> <ul style="list-style-type: none">• <i>Medicaid expenditures</i>• <i>State-responsible inmate population</i>• <i>Temporary Assistance to Needy Families (TANF) caseload (18 months out)</i> Measures the average weighted percentage deviation based on agency expenditure reports, Governor's budget, and DPB forecasts.	1% 2% 2%	Planning and Budget met their target on two of the three budget drivers established for this performance measure. Actual performance for Medicaid expenditures and TANF caseload were .8% and .21%, respectively. However, their actual performance for the state-responsible inmate population was 2.16%, just above their target rate.
<i>Percentage of agency measures for which Planning and Budget enters data into the database within thirty days of submission.</i>	90%	Planning and Budget entered data within thirty days 88% of the time.
<i>Average number of days between proposal of regulations and final disposition.</i>	30 days	Planning and Budget reviewed 72 regulations and achieved an average number of days between the proposal and final disposition of 29 days.

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.

Performance Measures

The Department reports on five performance measures to the Department of Planning and Budget during the fiscal year. The table below shows a description of these measurements, their target, and the Department's reported performance.

DESCRIPTION	TARGET	Statistics for Fiscal Year 1999
<i>Percentage of cases that merit investigation.</i>	80%	The Department reported 84 percent of their cases merited investigation, 4 percent above their target and the previous fiscal year.
<i>Number of management improvements (such as internal controls, policy or process improvements) identified through the efforts of the Fraud, Waste, and Abuse Hotline.</i>	120	The Department reported 134 management improvements were identified, 14 above their target and 34 below the previous fiscal year.
<i>Amount of dollar savings/waste identified through the Fraud, Waste, and Abuse Hotline.</i>	\$262,000	The Department reported \$382,000 of savings/waste, \$120,000 above their target and \$14,000 below the previous fiscal year.
<i>Percentage of cases recorded and assigned to an investigator within 48 hours of receiving call.</i>	80%	The Department reported recording and assigning 95 percent of calls within 48 hours of receipt, 15 percent above their target and 2 percent below the previous fiscal year.
<i>Number of investigations completed (related to Fraud, Waste, and Abuse Hotline).</i>	720	The Department reported 511 investigations were completed, 209 below their target and 87 below the previous fiscal year.

DEPARTMENT OF TAXATION

Systems

Taxation uses two systems to process taxpayer data and collect on delinquent accounts. The **State Tax Accounting and Reporting System** (STARS) is an integrated tax system that supports different tax collections and enables Taxation to consolidate all of a taxpayer's demographic and financial data across different taxes on one system. The **Enhanced Collection System** (ECS) is an integrated computerized collection and telephone system to collect delinquent taxpayer accounts. This system uses a centralized taxpayer database linked with an automated telephone call distributor to support the collection process.

Use the Program Change Management Process

Taxation did not follow its program change control procedures, resulting in the payment of three erroneous refunds totaling more than \$3 million. Program change is the process by which an entity changes its computer program controls so that management understands the effect of the change on controls and that the change works as designed.

Two different groups requested and received approval in 1996 and 1997 to make changes in the program controls; however, the effect of these changes made together did not undergo a complete review at the time of the changes. These changes removed certain controls in the processing of electronically filed tax returns allowing the erroneous refunds.

As noted in the 1997 and 1998 audit reports, Taxation did not properly follow its *Program Change Management Process*. This process, adopted in 1995, sought to improve clarity for both users and system personnel. The new procedures established steps to prioritize

and evaluate requests, analyze requirements, properly document modifications, and test and implement program changes.

Once Taxation was advised of these three refunds, management immediately reestablished the controls over electronic refunds. Taxation has recovered approximately \$2.6 million to date of the erroneous refunds and continues its efforts to recover the balance. In addition, management revised the Program Change Management Process and has appropriately communicated the new process to staff.

Section 58.1-202.2 of the Code of Virginia authorized the Tax Commissioner to enter a public-private partnership (partnership) to finance agency business and technology needs. The legislation allows Taxation to pay for a new tax system from increased revenue generated both by the new system and procedural changes that improve the efficiency and effectiveness of Taxation's operations. In July 1998, Taxation signed a public-private partnership contract with American Management Systems, Incorporated (AMS) to replace the current systems, STARS and ECS. The partnership does not expect the new **Integrated Revenue Management System** (IRMS) to be fully operational until July 2003.

AMS will develop and implement the new tax system at a total cost of \$122,857,084, plus interest. Payments to AMS will come from the increased revenue generated by the system and procedural changes. To date, the partnership has identified and implemented nine revenue initiatives that will potentially increase tax revenues.

Taxation deposits the increased tax revenues into two funds. The ninety-percent technology fund will pay AMS according to the terms of the contract. Taxation will use funds from the ten-percent fund to support expenses for the partnership project.

As of December 1999, Taxation recognized \$12,330,697 of excess revenue due to the partnership's efforts. Taxation has paid AMS \$11,097,627, including \$174,252 in accrued interest. The remaining balance went into the ten-percent fund, with \$461,446 used to support the partnership project of which eighty percent went to the oversight vendor, TRW.

In March 1999, Taxation signed a contract with TRW to conduct periodic project performance monitoring and evaluation services over the public-private partnership contract. As part of this contract, TRW has responsibility for monitoring and reporting on the compliance of the deposit of revenue into the technology funds and for the proper payment of contract deliverables.

Develop a Formal Testing Program

TRW issued, on December 13, 1999, an assessment report recommending that Taxation significantly improve its testing process over the IRMS system. The assessment report cited eighteen issues that require attention, including the need for a dedicated test manager. Upon receipt of the report, Taxation began responding to the issues and recommendations. For example, Taxation authorized the hiring of a test manager and is working with TRW to define the position requirements. Taxation expects to hire an individual shortly and address the remaining issues after employing the individual.

Operations

Taxation administers 29 income, sales and use, and miscellaneous taxes. During fiscal year 1999, Taxation collected \$10.3 billion in revenue. Taxation deposits 82 percent of the revenue into the Commonwealth's general fund and distributes 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 collect and disburse taxes; therefore, they do not use any of their tax collections to fund operations.

Improve Controls over Cash Cut-off Procedures

Central Processing did not properly sort the incoming mail into correct fiscal year revenue categories on July 2, 1999. The Appropriation Act, Chapter 935, section 4-2.02 (b), requires all payments postmarked on or before June 30, 1999, be June revenue. The Department of Accounts' guidelines also stipulate that Taxation make every effort to deposit June revenue postmarked on or before June 30, 1999, by 5:00 p.m., on July 3, 1999.

On July 2, 1999, we reviewed the cash cut-off procedures for fiscal year 1999 to ensure Taxation was depositing revenues into the correct fiscal year. During our review, we examined three containers of sorted mail and found approximately 200 pieces of mail improperly sorted. After the auditors brought the errors to their attention, Central Processing properly processed the revenue into the correct fiscal year. Taxation processed and deposited approximately \$12 million in revenue on July 2.

Central Processing should strengthen controls over the sorting process by thoroughly briefing employees on the sorting process; by clearly labeling the sorting containers; and by having a supervisor periodically inspect the mail in the labeled containers for sorting errors.

Strengthen Controls over Estimated Payment Processing

Remittance Unit staff failed to review error reports, resulting in taxpayers not receiving credit for approximately \$2.5 million of estimated payments. On two occasions, once in October 1998 and again in October 1997, personnel failed to detect the unsuccessful transfer of individual local estimated payment vouchers to STARS. System reports identified the errors when they occurred; however, personnel did not investigate this problem until 1999 when taxpayers began complaining about not receiving credit for payments on their accounts.

Management should evaluate the Remittance Unit's training and procedures to review and correct errors to ensure their timely, accurate, and complete correction. Additionally, Taxation should continue identifying and correcting taxpayer accounts affected by these errors.

Performance Measures

Taxation report three significant performance measurements to the Department of Planning and Budget during the fiscal year. The table s shows a description of each of these measurements, their targets, and Taxation's actual performance.

DESCRIPTION	TARGET	Statistics for Fiscal Year 1999
<i>Compliance revenue target collected (\$ in millions).</i> This measurement represents the cash collected from compliance programs during fiscal year 1999.	\$294.7	Taxation's year to date collections were \$11,438,538 above their annual target.
<i>Percentage margin of error in revenue forecast.</i> This measurement represents the percentage difference between the total actual revenue collected, as reported by Accounts in the fiscal year revenue report, and the forecasted revenue.	2%	Revenue collected for the period ending 6/30/99 and for the fiscal year was 1.6% above the forecasted amount.
<i>Average turnaround time for direct filed individual income tax refunds.</i> This measurement reflects the average processing time required from the receipt of a return, to the distribution of the refund to the taxpayer.	12 days	Through the month of June 1999, Taxation issued 89% of the direct-filed current year refunds within 12 days.

Court Debt Collection Unit

Taxation has a Court Debt Collection Unit to assist courts in collecting past due fines and costs. The Unit operates independently of Taxation's collection function and is fully self-supporting. State law allows the Unit to recover from participating courts the on-going operations costs for the program. The Unit has set the goal to perform collection activity at the lowest possible cost. Over the past five years, this cost has been 15 percent of total collections.

Since its inception, the Unit has increased annual collections for court costs and fines by over \$16.3 million. At June 30, 1999, the Unit had a cash balance of \$2,895,159. The Unit estimates that cost of collections for fiscal year 2000 will decrease to 14 percent.

<u>Fiscal Year</u>	<u>Number of Courts Participating</u>	<u>Total Collections in Court Fines and Costs</u>	<u>Total Fees Collected For the Unit</u>
1995	142	\$ 2,760,619	\$ 414,093
1996	191	\$ 7,820,997	\$1,136,768
1997	219	\$12,966,262	\$1,923,190
1998	244	\$17,990,393	\$2,706,929
1999	248	\$19,082,843	\$2,862,427

Federal Retiree Settlement Program

In September 1995, the Virginia Supreme Court ordered the Commonwealth to make complete refunds, plus interest, to the litigants of Harper vs. Virginia Department of Taxation. Approximately 154,000 federal retirees participated in the Federal Retiree Settlement Programs. These programs provided refunds for

individual state income taxes paid on federal retirement income between 1985 and 1988. Program participants received annual installments beginning in fiscal year 1995. Taxation made the final payment, plus interest, in March 1999. Over the four-year installment payment plan, program participants received \$325 million.

DEPARTMENT OF THE TREASURY

The Department of the Treasury, under the direction of the State Treasurer, serves as custodian of state funds. Treasury provides centralized cash management, investment, debt financing, and accounting services to agencies and institutions. Treasury also administers the Unclaimed Property Program and provides staff support for the Treasury Board and several authorities including the Virginia Public School Authority, the Virginia Public Building Authority, and the Virginia College Building Authority.

Operations Division

During fiscal year 2000, Treasury will assume responsibility over the Commonwealth's check printing function. Previously, Accounts printed the checks and Treasury signed, sealed, and distributed them. Treasury is implementing a new check printing and distributing system that will automatically print, fold, and seal the checks eliminating the manual folding and inserting into the envelopes. The new system will provide both Accounts and Treasury a more efficient method of processing the Commonwealth's general warrant, payroll, unemployment, retirement, social service, and state income tax refund checks as well as print direct deposit earnings information.

Reconcile All Accounts Timely

Treasury should reconcile bank accounts within 45 days of month end to comply with their own policy and facilitate expedient resolution of reconciling items. When Treasury is late preparing reconciliations, the risk increases for untimely detection and correction of errors or irregularities. In the population of twenty bank reconciliations tested, Treasury reconciled eighteen accounts more than 45 days after month end. Four of the eighteen late reconciliations were more than four months past month end.

During the fiscal year, Treasury was implementing and parallel testing a new system to automate the reconciliation process that would increase efficiency in the process and was necessary to address Year 2000 issues. The new system, Recon Plus, will eliminate the manual processes and will allow the completion of reconciliations in accordance with policy. This project contributed to the delinquency of the reconciliations and extensions of normal deadlines granted by management. However, the delay in completing account reconciliations in a timely manner could have a compounding affect when errors go for an extended period of time without resolution.

The Operations Division also monitors the administration of a special purpose investment pool. The State Non-Arbitrage Program (SNAP) is a program providing comprehensive investment management, accounting, and arbitrage rebate calculations for proceeds of tax-exempt financing of Virginia State and local bond issuers. Although the Treasury Board is responsible to contract for the program, the State Treasurer, as trustee for the Commonwealth and certain authority financings, oversees the investment of proceeds according to the individual bond indentures and oversees the contracts for these funds.

Cash Management and Investments Division

The general account of the Commonwealth is a pool of investments representing assets of various funds including the general, higher education operating, highway maintenance, and transportation trust funds. The general account portfolio has two pools; the primary liquidity pool and the total return pool. Treasury staff 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 allocation for the overall general account asset mix is approximately 80 percent for the primary liquidity pool and 20 percent for the total return pool. The average daily-invested balance for the fiscal year ended June 30, 1999, was \$3.4 billion. The net earnings for fiscal year 1999 were \$191.4 million.

The Cash Management and Investments Division also manages an investment pool offered to counties, cities, towns, state agencies, departments and authorities of the Commonwealth. The Local Government Investment Pool (LGIP) is an open-ended money market fund that enables governmental entities to receive the benefits of economies of large-scale investing. 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 "triple A" bond rating for general obligation debt from the three rating agencies: Moody's Investors Service, Standard & Poors Corporation, and Fitch IBCA, 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 all outstanding Commonwealth debt for reporting and analysis purposes, advises on the financing of state and local capital projects, and provides staff support to boards and authorities.

Unclaimed Property Division

The Unclaimed Property Division is responsible for the administration of two major types of abandoned property programs: personal property and 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. The Escheats Generally Statute (Sections 55-168 through 55-200.1 of the Code of Virginia) 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. In each case, the recovered funds are deposited into the Literary Fund. Funds remitted pursuant to the Act are held in perpetuity until the owner is identified. The Division is responsible for identifying abandoned personal property through audits and compliance reviews, administering the funds under the Commonwealth's control, and using its best efforts to return the property to its owner.

The Division implemented a new Unclaimed Property system during fiscal year 1998 that has assisted the agency in realizing efficiency in the record keeping of unclaimed property. The system is a client server relational database system that resides in-house on Treasury's Local Area Network. The Division has sold the system to Massachusetts and West Virginia. The Division has no real marketing plan other than making other states aware that their system is available for sale at \$100,000. Treasury uses the proceeds from system sales to fund customer service system enhancements.

Virginia is one of eighteen 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 public or the state. In fiscal year 1999, Virginia has realized an increase in unclaimed property claims paid of 78 percent over prior year, which Treasury attributes to the state's participation in the website.

The primary nongeneral fund source of Treasury's budget comes from the receipt of unclaimed property. In 1999, Treasury spent about \$2.9 million to collect over \$45 million in unclaimed property. Treasury had the following activity in the Unclaimed Property Fund:

Collections	\$ 45,267,045
Property returned to owners	(14,563,124)
Transfers to the Literary Fund	(30,700,000)
Operating expenses	<u>(2,922,956)</u>
Net change	2,919,035
Balance at July 1, 1998	<u>10,073,090</u>
Balance at June 30, 1999	<u>\$ 12,992,125</u>

Performance Measures

Treasury reports four significant performance measurements to Planning and Budget during the fiscal year. The table below shows a description of each of these measurements, their targets, and Treasury's actual performance. During fiscal year 1999, Treasury met or exceeded targets set for all of the performance measurements listed below.

DESCRIPTION	TARGET	Statistics for Fiscal Year 1999
<i>Percentage of checks distributed timely</i> This measurement represents the promptness of check distribution from the date received from the State Comptroller and VEC.	95%	Treasury's Operations Division performed at an average 99.4% during the fiscal year.
<i>Investment results measure in the number of basis points above the one-year treasury bill rate.</i> This measurement represents investment results for the general account of internally and externally managed portfolios at a five-year rolling period.	11 basis points	Treasury's Cash Management and Investments Division performed at a quarterly average of 96.5 basis points and ended the fiscal year at 23 basis points above the one-year treasury bill rate.
<i>Percentage of debt obligations paid on time</i> This measurement represents actual payment dates compared to debt service due dates.	100%	Treasury's Operations Division performed at 100% during the entire fiscal year.
<i>Percentage of valid unclaimed property claims paid within 90 calendar days</i> The measurement compares the receipt of valid unclaimed property claims to the date	98%	Treasury's Unclaimed Property Division performed at 100% during the entire fiscal year.

payment is approved and processed.		
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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 responsibility to:

- 1) exercise general supervision over the investment of state funds;
- 2) administer the Virginia Security for Public Deposits Act;
- 3) control and manage sinking and other funds the Commonwealth holds as fiduciary;
- 4) contract with an outside manager for administration of the State Non-Arbitrage Program (SNAP);
- 5) provide advice and supervision in the financing of state buildings;
- 6) approve the terms and structure of proposed state educational institution, agency, and authority bond issues;
- 7) approve the terms and structure of proposed state authority bond issues which receive General Fund appropriations for debt services;
- 8) administer the regional jail financing reimbursement program; and
- 9) manage its bond issues in compliance with federal taxation and arbitrage laws.

The Treasury Board also makes payments to the Virginia Public Building Authority for lease payments on state buildings and pays debt service on Article X, Section 9(b) general obligation bonds and Commonwealth Transportation Board bonds to trustees and agents for the bondholders.

Bond and loan payments made by the Treasury Board are as follows:

General fund	\$ 167,413,256
Special fund	4,867,536
State share of jail construction	<u>6,411,005</u>
Total	<u>\$ 178,691,797</u>

The Treasury Board operates a tax-exempt commercial paper program to provide start-up or interim funding for several of the Commonwealth's capital borrowing programs. During fiscal year 1999, the Treasury Board issued \$33 million in tax-exempt commercial paper for general obligation bond projects. In addition, proceeds from the Commonwealth's Series 1998 bonds were used to retire \$64 million in tax-exempt commercial paper for general obligation bonds that were outstanding at the previous year-end of June 30, 1998. As of June 30, 1999, there was no tax-exempt commercial paper for general obligation bond projects outstanding.

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SUMMARY FINANCIAL INFORMATION

AGENCIES OF THE SECRETARY OF FINANCE
SELECTED SUMMARY FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 1999

OPERATING RESOURCES AND USES	Office of the Secretary	Accounts		Planning & Budget	State Internal Auditor	Taxation		Treasury		Secretarial Totals	
	General Fund	General Fund	Nongeneral Funds	General Fund	General Fund	General Fund	Nongeneral Funds	General Fund	Nongeneral Funds	General Fund	Nongeneral Funds
Original operating appropriations	\$ 718,726	\$9,130,601	\$ 3,210,218	\$ 4,724,854	\$ 634,348	\$115,529,496	\$10,655,521	\$ 6,073,544	\$ 3,192,324	\$136,811,569	\$ 17,058,063
Adjustments:											
Reappropriations	8,198	-	163,523	161,904	(846)	-	15,000	-	1,223,500	169,256	1,402,023
Additional revenue	-	-	-	-	-	-	-	-	563,872	-	563,872
Transfer between years	-	-	451,120	-	-	507,583	920,800	-	-	507,583	1,371,920
Federal cash management interest	-	-	-	-	-	-	-	869,706	-	869,706	-
Retiree settlement	-	-	-	-	-	(62,467,466)	-	-	-	(62,467,466)	-
Collection agency fees	-	-	-	-	-	-	2,942,844	-	-	-	2,942,844
Other	56,209	477,790	1,800,000	(15,786)	8,789	(947)	-	1,768,782	26,522	2,294,837	1,826,522
Adjusted operating appropriations	\$ 783,133	\$9,608,391	\$ 5,624,861	\$ 4,870,972	\$ 642,291	\$ 53,568,666	\$14,534,165	\$ 8,712,032	\$ 5,006,218	\$ 78,185,485	\$ 25,165,244
Resources:											
General fund appropriations	783,133	9,608,391	-	4,870,972	642,291	53,568,666	-	8,712,032	-	78,185,485	-
Unclaimed property collections	-	-	-	-	-	-	-	-	45,267,045	-	45,267,045
Public service company taxes	-	-	-	-	-	-	185,873	-	-	-	185,873
Treasury loan activity *	-	-	1,131,120	-	-	-	-	-	(290,000)	-	841,120
Transfer in	-	-	1,820,000	-	-	-	-	-	154,373	-	1,974,373
Delinquent tax collection fees	-	-	-	-	-	-	3,109,259	-	-	-	3,109,259
Court debt collection fees	-	-	-	-	-	-	2,871,278	-	-	-	2,871,278
Technology fund (90%)	-	-	-	-	-	-	5,695,458	-	-	-	5,695,458
Technology fund (10%)	-	-	-	-	-	-	632,799	-	-	-	632,799
Other	-	-	165,440	-	-	-	96,701	-	527,512	-	789,653
Total resources	783,133	9,608,391	3,116,560	4,870,972	642,291	53,568,666	12,591,368	8,712,032	45,658,930	78,185,485	61,366,858
Expenses:											
Salaries and benefits	354,564	6,558,459	165,440	3,778,048	427,680	36,368,784	1,000,699	2,663,788	1,682,410	50,151,323	2,848,549
EDP operations, supplies, and equipment	3,906	1,783,660	2,745,685	341,500	22,387	5,790,019	437,271	273,515	115,395	8,214,987	3,298,351
Postage and printing	740	62,411	-	31,864	1,387	4,076,721	188,583	1,834,258	158,104	6,007,381	346,687
Investment management services	-	-	-	-	-	-	-	1,645,210	33,240	1,645,210	33,240
Federal cash management interest	-	-	-	-	-	-	-	869,706	-	869,706	-
Draw down loan interest	-	-	-	-	-	7,856	-	-	-	7,856	-
Building rentals	-	575,802	-	282,989	25,289	-	-	184,437	124,517	1,068,517	124,517
Payments to unclaimed property claimants	-	-	-	-	-	-	-	-	14,444,074	-	14,444,074
Other	82,682	627,963	207,267	421,482	68,283	6,900,179	8,205,838	731,690	1,476,216	8,832,279	9,889,321
Transfer out	-	-	1,665	-	-	-	593,733	-	30,812,136	-	31,407,534
Total uses	441,892	9,608,295	3,120,057	4,855,883	545,026	53,143,559	10,426,124	8,202,604	48,846,092	76,797,259	62,392,273
Net activity in fiscal year 1999	\$ 341,241	\$ 96	(3,497)	\$ 15,089	\$ 97,265	\$ 425,107	2,165,244	\$ 509,428	(3,187,162)	\$ 1,388,226	(1,025,415)
Nongeneral cash available at beginning of year			708,302				2,680,369		10,305,772		13,694,443
Nongeneral cash available at end of year			704,805				4,845,613		7,118,610		12,669,028

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

* For Accounts, this amount represents additional Treasury loan drawdowns during fiscal year 1999, net of repayments, for Year 2000 and the Department of Personnel and Training's Integrated Human Resources and Information System (IHRIS). The Treasury loan balance at June 30, 1999 was \$6,000,000 for the IHRIS.
For Treasury, this amount represents repayment of a loan for Year 2000.

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February 8, 2000

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Richard J. Holland
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, 1999. 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
- Administration of the Federal Retiree Settlement Programs
- 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 throughout 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 generally accepted accounting principles. The financial information presented in the accompanying schedules came directly from the Commonwealth Accounting and Reporting System.

The Department of Taxation has not taken adequate corrective action with respect to the previously reported finding, "Use the Program Change Management Process (formerly Disseminate and Adhere to Program Change Procedures)." Accordingly, we included this finding within our report. In addition, the Department of Accounts is working with the federal government to resolve a prior year comment "Refund Federal Share of Over-Recoveries in the Internal Service Funds." This point has not been repeated in this report. The agencies have taken adequate corrective action with respect to other audit findings reported in the prior year that are not repeated in this report.

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, 1999

Ronald L. Tillett
Secretary of Finance

William E. Landside
Comptroller

Scott D. Pattison
Director of the Department of Planning and Budget

Merritt L. Cogswell
State Internal Auditor

Danny M. Payne
Tax Commissioner

Mary G. Morris
Treasurer