

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

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2000**



## **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, 2000, 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.

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

- The Controller should develop year-end procedures to identify transactions for the next fiscal year and determine when payment for these transactions should be processed. (Page 3)
- The Department of Accounts should update its System Modification Request procedures to ensure adequate controls are in place to properly and consistently request, approve, and develop systems modification requests. (Page 3)
- The Department of Accounts should document its Risk Analysis and Business Impact Analysis to ensure they have identified all of the agency's critical business functions and any risks to them. Further, Accounts should finalize its Contingency Management Plan to ensure its ability to recover from disruptions in operations in a timely manner and to safeguard against the loss of both assets and critical data. (Page 3)
- The Department of Taxation should review its automated security procedures to determine why the system did not suspend the inactive user accounts. Further, management should monitor its user accounts and any request for deletions to ensure timely deletion or suspension of user accounts. (Page 8)

## - TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
OVERVIEW OF FINANCE SECRETARIAL AREA	
Statewide Systems	1
Revenue Stabilization Fund	1-2
Department of Accounts	2-5
Department of Planning and Budget	5-6
Department of the State Internal Auditor	6
Department of Taxation	7-12
Department of the Treasury	12-15
Treasury Board	16
SUMMARY FINANCIAL INFORMATION	18-19
INDEPENDENT AUDITOR'S REPORT	21-23
AGENCIES OFFICIALS	25

## **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 18 - 19.

### ***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 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 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 for Deposit Calculation	Mandatory Deposit Requirement
1993	\$ 79,896,927
1995	66,624,672
1996	58,314,172
1997	123,833,649
1998	194,135,805
Interest Earnings at June 30, 2000	<u>51,827,449</u>
Total on Deposit at June 30, 2000	<u>\$ 574,632,674</u>
Maximum Fund Allowed (MFA)	<u>\$ 864,881,642</u>
Actual as % of MFA	66%
Total Deposits Pending:	
1999 (due June 30, 2001)	\$ 103,345,741
2000 (due June 30, 2002)	<u>187,091,474</u>
	<u>\$ 290,437,215</u>

The Commonwealth has made deposits for fiscal years with required deposits through 1998. The mandatory deposits for fiscal years 1999 and 2000 must occur by June 30, 2001 and 2002, respectively. As of June 30, 2000, the fund balance was 66 percent of the maximum size allowed. Future deposits will continue to occur until at least June 30, 2002, and if revenues continue to grow, the maximum size of the Revenue Stabilization Fund will increase to reflect this growth.

As explained in the section “*Changes in Revenue Collection Processes*” under Department of Taxation, Taxation management changed several processes that had an impact on both revenue collections and tax refunds. These changes had the effect of increasing fiscal 2000 revenue and, therefore, increasing the amount of the mandatory deposit to the Revenue Stabilization Fund.

## ***DEPARTMENT OF ACCOUNTS***

### Systems

The Department of Accounts (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.

#### *Develop Year-end Processing Procedures*

Accounts disbursed cash for transactions related to fiscal year 2001 prior to July 1, 2000. This occurred because the accounting system does not identify transactions of this nature. The Controller should develop year-end procedures to identify transactions for the next fiscal year and determine when payment for these transactions should be processed. The Comptroller is in the process of implementing a system edit to identify these transactions.

#### *Update Procedures for Systems Modification Requests*

Accounts did not follow documented procedures for the request, approval, and development of Systems Modification Requests (SMRs). All 17 completed SMRs tested were missing one or more required approvals and 13 were missing or had incomplete documentation. The SMR procedures have not been updated since September 1994. Procedures currently being followed relate to the flow of documentation and approval are different than those documented. Accounts should update the SMR procedures to ensure adequate controls are in place to properly and consistently request, approve, and develop systems modification requests.

#### *Comply with CIM Standard 95-1*

Accounts did not maintain an updated Risk Analysis, Business Impact Analysis, and Contingency Management Plan. Standard 95-1 issued by the Council on Information Management states that a complete Business Impact Analysis, Risk Analysis, and Contingency Management Plan should be in place to identify an organization's critical business functions and risks to them. The plan should also provide for the continuation of critical functions in the event of disruptions.

In January 2001, Accounts provided a draft copy of the updated Contingency Management Plan to the auditors for review. However, an updated Risk Analysis and Business Impact Analysis still must be documented.

Accounts should document its Risk Analysis and Business Impact Analysis to ensure they have identified all of the agency's critical business functions and any risks to them. Accounts should also finalize its Contingency Management Plan to ensure its ability to recover from disruptions in operations in a timely manner and to safeguard against the loss of both assets and critical data.

### 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. 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 colleges 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.

#### Distributions to Localities

Another responsibility of Accounts is to make distributions to the Commonwealth’s counties, cities, and towns. For fiscal year 2000, the following revenues were distributed:

Sales and use tax for education	\$ 730,739,332
Recordation taxes	21,085,116
ABC profits	19,064,213
Wine taxes	9,364,601
Rolling stock taxes	6,263,281
Public facilities rebate tax	334,027
Other	<u>328,180</u>
Total	<u>\$ 787,178,750</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 \$17,871,724 and \$1,043,154 respectively.

#### Performance Measures

Accounts reports on four performance measures to the Department of Planning and Budget. 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 2000
<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, 1999, Accounts has received this certificate for the past ten years.  <i>Note: FY 2000 results not yet available.</i>
<i>Number of checks avoided through Electronic Data Interchange and the Small Purchase Charge Card program.</i>	325,000 Checks	Accounts avoided 566,000 checks, 241,000 checks above their annual target, and 44,000 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, 2000, 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 percent.</i>	60%	Accounts had 76.2 percent of agencies with noncompliance rates of four percent or less, which exceeded their annual target of 60 percent.

### **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.

#### Performance Measures

Planning and Budget must develop, report, and monitor its performance measures. As the oversight agency for statewide performance measures, Planning and Budget reports internally to its assigned budget analyst. The assigned analyst then reports analyzed data to the statewide performance measures coordinator. Planning and Budget reported two performance measurements during the fiscal year. The table below provides a description of each of these measurements, its targets, and Planning and Budget's actual performance. Planning and Budget met or exceeded targets set for each performance measure listed below.



DESCRIPTION	TARGET	Statistics for Fiscal Year 2000
<i>Average number of days between submission of proposal regulations and final disposition.</i>	30 days	30.5 days
<i>Percentage difference between the official Medicaid forecast and actual expenditures</i>	1%	0.1 percent

### **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 2000
<i>Percentage of cases that merit investigation.</i>	80%	The Department reported 84 percent of its cases merited investigation, 4 percent above its target and consistent with 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 119 management improvements were identified, 1 below its target and 14 below the previous fiscal year.
<i>Amount of dollar savings/waste identified through the Fraud, Waste, and Abuse Hotline.</i>	\$261,500	The Department reported \$209,898 of savings/waste, \$51,602 below its target and a decrease of \$172,102 from the previous fiscal year.
<i>Percentage of cases recorded and assigned to an investigator within two business days of receiving call.</i>	80%	The Department reported recording and assigning 94 percent of calls within two business days of receipt, 14 percent above its target and 1 percent below the previous fiscal year.
<i>Number of investigations completed (related to Fraud, Waste, and Abuse Hotline).</i>	720	The Department reported 497 investigations were completed, 223 below its target and 14 below the previous fiscal year.

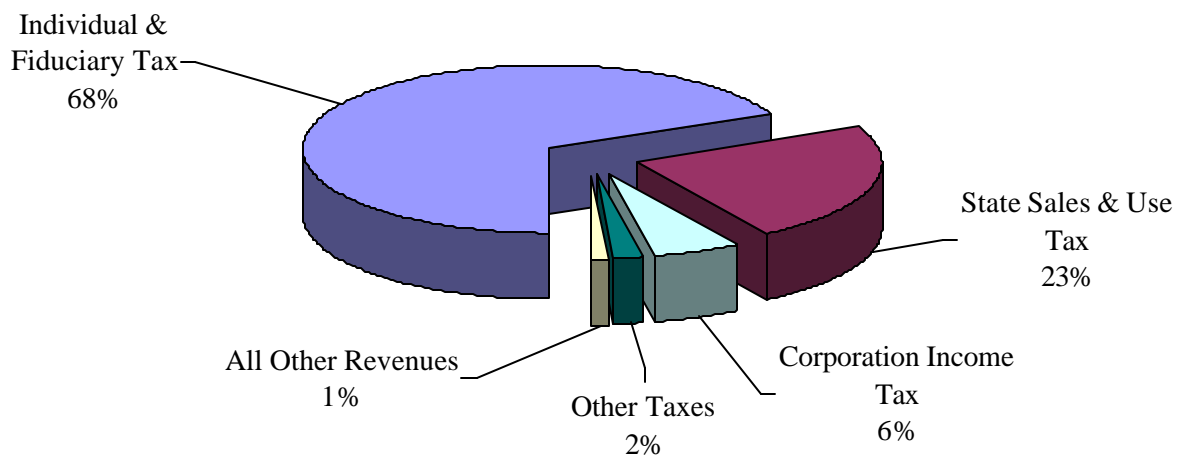
## ***DEPARTMENT OF TAXATION***

### **Revenue Collections**

The Department of Taxation is the collector of revenue to finance the Commonwealth's services. During fiscal year 2000, Taxation collected \$11.4 billion in revenue. Taxation deposits \$9.4 billion (82 percent) of the revenue, into the Commonwealth's general fund. Taxation 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.

The largest sources of General Fund revenues are Individual and Fiduciary Income Taxes, and State Sales and Use Tax. Individual and Fiduciary Income Taxes represent taxes collected from employer withholdings, estimated taxes paid, and individual income tax returns. State Sales and Use Taxes represent taxes collected from vending machine sales, food sales and use, ABC sales and use, and general sales and use. These revenue sources account for approximately \$8.6 billion (91 percent) of total revenues deposited to the General fund.

**FY '00 Distribution of Net General Fund Revenue**



### **Changes in Revenue Collection Processes**

Annually, Taxation makes changes in how it processes income tax returns. Some of these changes reflect changing priorities set both by the Governor and General Assembly with the adoption of the Appropriation Act and other legislation. Other changes reflect management's objectives to improve efficiency and effectiveness of processing or method and procedures to enhance collections. The scope and timing of these changes can significantly affect the Commonwealth's collection of revenue.

During Fiscal 2000, Taxation management changed several processes that had an impact on both revenue collections and tax refunds. Changes in processes included increased manual controls to review large refunds, and the acceleration of the processing of liens, resolving appeals, and office audits. Taxation

management also temporarily reassigned some of its staff from processing individual income tax refunds to gather Virginia economic data from other returns.

Overall, Taxation's change in processing revenue collections had an impact on the timing of revenue and increased the amount of the mandatory deposit to the Revenue Stabilization Fund. As Taxation implements major changes beyond those included in the Appropriation Act or other legislation, they should report these changes to appropriate Legislative committees during their regular presentations to them. The presentations will provide the committees information to consider the impact of these changes on the financial operations of the state.

## Systems

### STARS and ECS

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.

#### Improve Access Security

Our review of ACF2 access found eleven user accounts with no activity for over six months. Taxation's Internal Audit department has found similar findings in the department's automated system procedures relative to suspending access for user accounts not used for over six months. Further, we noted that management did not monitor a deletion request of CARS access. The time lapse between Taxation's request and the access deletion exceeded one year. Untimely deletion or suspension of access could result in unauthorized or abusive use of system privileges. Depending on the type of access, someone could use one of the inactive accounts 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 monitor its user accounts and any request for deletions to ensure timely deletion or suspension of user accounts.

## Partnership Project

### *Background and Project Budget*

A 1993 Joint Legislative Audit and Review Commission study recommended that Taxation replace its State Tax Accounting and Reporting System (STARS), which is the Commonwealth's primary revenue system. STARS was more than ten years old at the time of the study, and was nearing obsolescence. In July 1998, Taxation signed a five-year contract with American Management Systems (AMS) to replace STARS, and completely reengineer operations at Taxation.

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. The Partnership expects the new Integrated Revenue Management System (IRMS) to be fully operational by July 2003.

The scope of this project is substantial and will affect every operational area at Taxation. The changes will fundamentally affect the way in which citizens deal with Taxation. In addition to the replacement of the core state revenue system and the reengineering of the department, the Partnership will provide a series of enhancements to customer service, compliance, and collections operations. A summary of initiatives follows.

#### Customer Service:

Customer service initiatives include providing alternatives to traditional paper filing of returns, as well as improving Taxation's ability to respond to customer inquiries and correspondence.

##### ***Filing Options***

- Paper forms – Taxation has redesigned the Individual Income Tax Return and Instructions, installed a new imaging and scanning system to improve return processing and replaced the data entry system to allow for enhancing data entry operations.
- Telefile – Allows electronic filing over any touch-tone telephone for simple Virginia Income Tax Returns.
- Internet filing - VA TAX Online allows Businesses to use iFile for sales and withholding filing and iReg for business registration, which Taxation will integrate with the Virginia Employment Commission to permit the filing of employment taxes. iFile will allow individuals to file income taxes online.

##### ***Customer Relationship Management***

- Customer Service Representatives will have a series of tools to allow for comprehensive service from the desktop and access to an on-line Policy Library to tax policy information.

##### ***Collections***

- Enhanced Collections System (ECS) will provide collections management functionality.

#### Organizational Development/Change Management:

To accomplish the changes included as part of the overall project, management has incorporated strategies for employee training and education, job redesign, and staff development. As part of this effort, Taxation has implemented a new Learning Center to develop staff for the near and longer term.

#### Compliance:

Two of the new tools and processes described below will enhance collections to pay for the project and ultimately generate funds for the General Fund.

- STRATA – is a decision management tool that allows management to define and maintain behavior scoring models; evaluate accounts based on risk; define, execute and evaluate the various collection strategies; and, use the vendor's "challenger" strategies to compare them to existing collection strategies to determine which one

is most effective. Management can also use the tool to control costs, manage risks, and improve collections using a risk-based decision approach. STRATA interfaces with the department's accounting and collections systems to provide information.

- STAUDN – is a technological upgrade of Taxation's Sales Tax Audit and Nexus Program and includes new laptop computers for all auditors. In addition, this tool provides enhanced audit programs for Withholding and Corporate taxes. The tool seeks to improve audit capabilities and functionality by providing the ability to download taxpayer information and will use a technology platform that Taxation should find easier to maintain.

Taxation, at the direction of the Department of Technology Planning, contracted with an oversight firm, TRW, to monitor and evaluate the progress of the public-private partnership contract. Further, TRW reviews the propriety of revenue deposits into the IRMS technology funds from increased revenue generated by IRMS and procedural changes.

The initial cost of IRMS was \$156 million, which included the contract with AMS for \$122.9 million, projected interest payments to AMS for \$17.5 million, and \$15.6 million for general expenses and contractual payments to TRW. Further, three currently proposed revenue initiatives would increase project costs by approximately \$19.5 million, including approximately \$1.9 million for the ten-percent technology fund.

- \$4.4 million increase for various Internet projects to provide taxpayers with greater access through the Internet. Taxation is developing several Internet channels for businesses and individuals to file and pay taxes and research tax issues.
- \$7.1 million increase for the replacement of the current ECS system in use for tax collections and court debt collections. Funding for this initiative will come from both the revenue stream and a cash payment of \$3.7 million from the Court Debt Unit, which is not subject to benefits funding. The vendor supplying ECS notified Taxation that it would not renew its maintenance contract on the system past December 31, 2001. This termination caused Taxation to exercise its option with AMS to furnish a new collections system.
- \$6.1 million increase to move IRMS from a mainframe to an enterprise platform. Financial projections indicate that the mainframe solution originally planned would increase Taxation's annual operating expenses for mainframe usage costs by two-and-a-half times. Purchasing the enterprise servers will avoid this long-term increase.

Since the inception of the AMS contract, revisions to the project have reduced the projected initial cost by \$1.4 million to \$121.5 million, and reduced anticipated overall interest payments to approximately \$10 million, due to Partnership revenue and payments exceeding initial projections. With the above changes and Taxation's internally funded personnel costs of \$6 million as of June 30, 2000, the total AMS project cost of IRMS will be approximately \$171.7 million.

### *Funding*

To fund the partnership project, Taxation deposits funds from increased tax revenues generated by IRMS and procedural changes 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, including payments to TRW.

To date, the Partnership has identified and implemented nine revenue initiatives that will potentially increase tax revenues. For Fiscal 2000, Taxation recognized \$11.6 million of excess revenue due to the Partnership's efforts, and since the project's inception, the Commonwealth has recognized excess revenue of \$17.9 million. Total project costs are \$21.9 million, which includes internally funded payroll costs of \$6 million. As of June 30, 2000, the balance due on the cost of IRMS is \$149.8 million. The chart below shows the breakdown of costs per year.

<b>Actual Costs</b>	<b>1999</b>	<b>2000</b>	<b>TOTAL</b>
10% Technology Fund (0238)			
• Payments to TRW	***\$ 159,190	\$ 786,313	\$ 945,503
• Payments for general support	-	452,474	452,474
90% Technology Fund (0236)			
• Principal Payments to AMS	4,576,780	9,476,202	14,052,982
• Interest Payments to AMS	112,874	289,451	402,325
Payroll Related Costs	2,185,291	3,898,854	6,084,145
<b>Total</b>	<b>\$7,034,135</b>	<b>\$14,903,294</b>	<b>\$21,937,429</b>

\*\*\*The \$159,190 was paid out of General Fund appropriations. Per Appropriations Act, Chapter 1072, the 10% Technology Fund will reimburse the General Fund.

#### Optional Filing Methods

Taxation is developing new electronic methodologies to interact with taxpayers to increase efficiency and eliminate paper, such as tele-filing and electronic filing. As shown below, more taxpayers are beginning to file electronically.

<b><i>TREND IN ELECTRONIC RETURNS VERSUS PAPER RETURNS FILED</i></b>		
	<u><i>FY 00</i></u>	<u><i>FY 99</i></u>
Paper returns	2,685,455	2,869,733
E-File	433,308	308,412
Tele-file	58,866	-

### Court Debt Collection Unit

The Court Debt Collection Unit uses Taxation's technology to assist courts in collecting past due fines and costs. State law allows the Unit to recover from participating courts the operations costs for the program, which is currently 14 percent of collections. The Unit's total fiscal year 2000 revenues and expenditures were \$2,885,630 and \$1,833,020, respectively. As of June 30, 2000, the Unit's accumulated revenues had exceeded costs by \$3,916,028. Taxation currently plans to use these accumulated revenues to replace the Unit's collection system through the Partnership Project.

<i>Fiscal Year</i>	<i>Number of Courts Participating</i>	<i>Total Collections in Court Fines and Costs</i>	<i>Total Fees Collected For the Unit</i>
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
2000	258	21,011,349	2,885,630

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

The Department of the Treasury (Treasury), under the direction of the State Treasurer, serves as custodian of state funds. The following divisions at Treasury provide services to the Commonwealth:

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

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

- Commonwealth of Virginia 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 is a pool of cash investment securities representing assets of various funds including among others 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 75 percent for the primary liquidity pool and 25 percent for the total return pool. Treasury's average invested balance for fiscal year 2000 was \$3.7 million. The yield for fiscal year 2000 was 5.53 percent.

The Cash Management and Investments Division also manages the Local Government Investment Pool (LGIP), an investment pool offered to counties, towns, cities, state agencies, departments and authorities of the Commonwealth of Virginia. The LGIP is an open-ended money market fund that enables governmental entities to receive the benefits of economies of large-scale investing and professional asset management. 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 the three major 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 all outstanding Commonwealth debt for reporting purposes, advises on the financing of state and local capital projects, and provides staff support to five boards and authorities. The Division is also responsible for the commercial paper program and the master equipment leasing program.

#### Operations Division

##### Bank Reconciliation

Treasury reconciles all state deposits between the bank balances and the Treasurer's ledger for the following accounts:

- Concentration Bank Accounts
- Regional Bank Accounts
- Trust Cash Accounts

The Commonwealth's disbursement banks are responsible for the full reconciliation of check disbursement activity. Treasury uses an automated system to reconcile bank accounts. The system interfaces with other bank systems, allowing Treasury to reconcile accounts within 45 days of month end.

##### Check Processing

On September 1, 1999, the Treasury and Accounts began converting to a new Check Processing System. On June 23, 2000, the conversion process was completed and Treasury assumed full responsibility for the Commonwealth's printing and distribution processes. The check writing function is now one continuous operation from file transmission, to printer, to the output of the check document. Full implementation of the new system has made the check printing function quicker and more efficient.



### Trust Accounting

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

- Acting as trustee for certain college bond issues;
- Ensuring all debt service payments for which the Treasurer or Treasury Board serve as trustee are made timely;
- Accounting for financial activity and preparing financial statements for the Virginia Public School Authority (VPSA), Virginia College Building Authority (VCBA), Virginia Public Building Authority (VPBA), and the Local Government Investment Pool;
- Servicing literary fund loans for the VPSA;
- Monitoring Public Depositories under the Securities for Public Deposits Act;
- Monitoring the administration of the State Non-Arbitrage Program;
- Accounting for investments managed by Treasury and monitoring securities lending transactions; and
- Financial reporting for Treasury.

### Unclaimed Property Division

The Unclaimed Property Division administers two major types of abandoned property programs: personal property and real property. The Unclaimed Property Act (Sections 55-210.1 – 30 of the Code of Virginia) establishes the Commonwealth, as custodian of certain personal properties (both intangible and tangible) until the Division can locate the owners. 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. Funds remitted pursuant to the Act are held in perpetuity until the owner is identified. The Escheats Generally Statute (Sections 55-200.1 et seq 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. The Division deposits the recovered funds into the Literary Fund.

Virginia is one of twenty-five 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.

The primary non-general fund source of Treasury's budget comes from the receipt of unclaimed property. In 2000, Treasury collected over \$44 million in unclaimed property. Treasury had the following activity in the Unclaimed Property Fund:

Collections	\$ 44,821,776
Property returned to owners	(14,070,772)
Transfers to the Literary Fund	(26,000,000)
Operating Expenses	<u>(3,282,171)</u>
Net Change	1,468,833
Balance at July 1, 1999	<u>12,992,125</u>
Balance at June 30, 2000	<u>\$ 14,460,958</u>

### Division of Risk Management

Effective July 1, 2000, Treasury assumed administration of the Division of Risk Management, except for the worker's compensation program, which was transferred to the Department of Human Resource Management. Risk Management now 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

### Performance Measures

Treasury reports four performance measurements to Planning and Budget. The table below shows a description of each of these measurements, their targets, and Treasury's actual performance. During fiscal year 2000, Treasury met or exceeded targets set for all of the performance measurements listed below.

DESCRIPTION	TARGET	Statistics for Fiscal Year 2000
<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 of 97 percent 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 posted the current five-year rolling average, as of June 30, 2000, at 51 basis points.
<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 percent 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 payment is approved and processed.	98%	Treasury's Unclaimed Property Division performed at 100 percent during the entire fiscal year.

## ***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:

- 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 appropriation-supported debt;
- Manage its bond issues in compliance with federal taxation and arbitrage laws; and
- Make recommendations to the Governor on proposed bond issues or other financing arrangements to approve terms of issues for benefit of higher education institutions and state agencies.

The Treasury Board also makes payments to the Virginia Public Building Authority for lease payments on state buildings and makes debt service payments on behalf of Commonwealth, VPBA, Commonwealth Transportation Board, and the VCBA appropriation-supported programs to trustees and agents for the bondholders.

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

General Fund	\$186,948,674
Special Revenue Fund	4,460,951
State Share of Jail Construction	<u>5,940,963</u>
Total	<u>\$197,350,588</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, 2000, 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, 2000

OPERATING RESOURCES AND USES	Office of the Secretary	Accounts		Planning & Budget	State Internal Auditor
	General Fund	General Fund	Nongeneral Funds	General Fund	General Fund
Original operating appropriations	\$ 453,613	\$ 9,083,368	\$ 3,958,218	\$ 5,225,804	\$ 699,248
Adjustments:					
Reappropriations	341,241	-	-	307,545	-
Additional revenue	-	-	-	-	-
Transfer between years	-	-	-	-	-
Federal cash management interest	-	-	-	-	-
Collection agency fees	-	-	-	-	-
Other	24,978	757,713	2,588,072	60,876	32,056
Adjusted operating appropriations	\$ 819,832	\$ 9,841,081	\$ 6,546,290	\$ 5,594,225	\$ 731,304
Resources:					
General fund appropriations	819,832	9,841,081	-	5,594,225	731,304
Unclaimed property collections	-	-	-	-	-
Public service company taxes	-	-	-	-	-
Treasury loan activity*	-	-	(271,120)	-	-
Transfer in	-	-	1,568,000	-	37,984
Delinquent tax collection fees	-	-	-	-	-
Court debt collection fees	-	-	-	-	-
Technology fund (90%)	-	-	-	-	-
Technology fund (10%)	-	-	-	-	-
Other	-	-	1,781,057	-	-
Total resources	819,832	9,841,081	3,077,937	5,594,225	769,288
Expenses:					
Salaries and benefits	438,077	7,028,667	165,440	4,478,704	516,248
EDP operations, supplies, and equipment	3,545	1,334,308	231,219	182,774	10,052
Postage and printing	2,182	86,195	-	18,647	1,906
Investment management services	-	-	-	-	-
Draw down loan interest	-	-	-	-	-
Building rentals	12,949	657,513	-	310,310	25,324
Payments to unclaimed property claimants	-	-	-	-	-
Technology funds	-	-	-	-	-
Other	323,535	507,743	162,756	267,422	185,812
Transfer out	-	-	1,088,073	-	5,928
Total uses	780,289	9,614,426	1,647,488	5,257,857	745,271
Net activity in fiscal year 2000	\$ 39,543	\$ 226,655	1,430,449	\$ 336,368	\$ 24,017
Nongeneral cash available at beginning of year			704,805		
Nongeneral cash available at end of year			\$ 2,135,254		

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 repayment of \$1,520,000 for a treasury loan, net of additional drawdowns for the Department of Human Resource Management's Integrated Human Resources and Information System (IHRIS). The Treasury loan balance at June 30, 2000 was \$5,728,880.

Taxation		Treasury		Secretarial Totals	
General Fund	Nongeneral Funds	General Fund	Nongeneral Funds	General Fund	Nongeneral Funds
\$ 56,622,659	\$ 21,269,740	\$ 6,381,410	\$ 3,344,282	\$ 78,466,102	\$ 28,572,240
322,122	14,409	-	971,250	970,908	985,659
-	-	-	421,173	-	421,173
154,113	(14,409)	-	-	154,113	(14,409)
-	-	754,866	-	754,866	-
-	2,500,000	-	-	-	2,500,000
-	-	841,628	266	1,717,251	2,588,338
<u>\$ 57,098,894</u>	<u>\$ 23,769,740</u>	<u>\$ 7,977,904</u>	<u>\$ 4,736,971</u>	<u>\$ 82,063,240</u>	<u>\$ 35,053,001</u>
57,098,894	-	7,977,904	-	82,063,240	-
-	-	-	44,821,776	-	44,821,776
-	217,008	-	-	-	217,008
-	-	-	-	-	(271,120)
-	-	-	142,881	37,984	1,710,881
-	3,123,969	-	-	-	3,123,969
-	2,885,241	-	-	-	2,885,241
-	10,487,760	-	-	-	10,487,760
-	1,165,337	-	-	-	1,165,337
-	78,244	-	648,204	-	2,507,505
<u>57,098,894</u>	<u>17,957,559</u>	<u>7,977,904</u>	<u>45,612,862</u>	<u>82,101,224</u>	<u>66,648,357</u>
39,376,455	950,901	2,732,912	1,887,324	54,571,063	3,003,665
5,226,118	701,475	281,916	211,623	7,038,713	1,144,316
4,060,815	229,793	1,059,721	136,609	5,229,466	366,402
-	-	1,623,565	-	1,623,565	-
7,015	-	754,866	-	761,881	-
2,061,099	99,688	181,013	129,641	3,248,208	229,329
-	-	-	14,070,772	-	14,070,772
-	11,004,439	-	-	-	11,004,439
5,973,771	3,012,928	1,343,899	1,519,305	8,602,182	4,694,989
-	31,651	-	26,165,162	5,928	27,284,886
<u>56,705,273</u>	<u>16,030,875</u>	<u>7,977,892</u>	<u>44,120,435</u>	<u>81,081,007</u>	<u>61,798,798</u>
<u>\$ 393,621</u>	<u>1,926,684</u>	<u>\$ 12</u>	<u>1,492,426</u>	<u>\$ 1,020,217</u>	<u>4,849,559</u>
	<u>4,845,613</u>		<u>7,118,610</u>		<u>12,669,028</u>
	<u>\$ 6,772,297</u>		<u>\$ 8,611,036</u>		<u>\$ 17,518,587</u>

January 15, 2001

The Honorable James S. Gilmore, III  
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, 2000. 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 Accounts and Taxation. 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 agencies have taken adequate corrective action with respect to audit findings reported in the prior year.

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

MSM:whb  
whb:67

AGENCIES OF THE SECRETARY OF FINANCE  
Richmond, Virginia

as of June 30, 2000

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