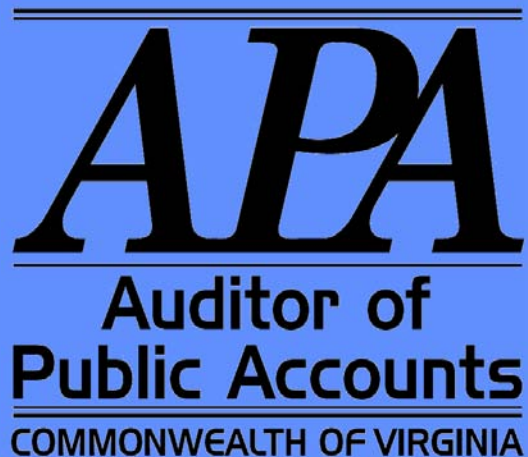


**COMPENSATION BOARD**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2009**



## **AUDIT SUMMARY**

Our audit of the Compensation Board, found:

- proper recording and reporting of all transactions, in all material respects, in the *Commonwealth Accounting and Reporting System*;
- a matter involving internal control and its operations necessary to bring to management's attention; and
- an instance of noncompliance with applicable laws and regulations or other matters that are required to be reported.

## **RISK ALERT**

During the course of completing the Compensation Board audit for the statewide single audit of federal funds, we encountered an issue that may require the action of other agencies, the Departments of Accounts and Criminal Justice Services. This matter represents a risk of potential questioned federal grant costs to the Commonwealth.

### **Establish Process to Manage Federal Funds**

In the past, the Compensation Board primarily received General Fund appropriations to pay for their programs. However, during fiscal year 2009, the Board received approximately \$109 million in one-time federal stimulus funds that it subsequently passed through to the local sheriff's offices and regional jails.

During fiscal year 2010, the Board will receive new federal stimulus funds, the Byrne Justice Assistance Grant (JAG) Program, and pass these funds to localities under a separate grant award. The federal funds for fiscal 2010 have significantly different recordkeeping and other requirements from the federal funds spent in fiscal 2009.

The federal grants place a significant additional administrative burden on agencies that receive those funds, especially if the agency passes the funding on to localities. Among other functions, federal grants require additional cash management, subrecipient monitoring, and reporting processes.

Until fiscal year 2009, the Compensation Board had no prior experience with federal grants. As a result, the Compensation Board has not previously established federal grants management functions and may not have the expertise or resources to appropriately manage federal funds.

This lack of grant management processes poses a significant risk to the Commonwealth and could result in severe penalties for non-compliance with federal laws. Given our experience this year, we are informing the State Comptroller and the Director of Criminal Justice Services that without assistance from other Commonwealth agencies, the Compensation Board may not fully comply with federal laws and regulations, which can result in federal questioned costs.

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## **AUDIT FINDING AND RECOMMENDATION**

### **Improve Subrecipient Monitoring**

The Compensation Board has not previously managed federal funds and consequently does not have detailed processes and policies for disbursing and managing federal funds. For the federal funds received in fiscal year 2009, the Compensation Board did communicate grant requirements and allocation of funds to the localities. However, the Compensation Board has not established a process for monitoring the local entities to ensure appropriate use of federal funds, including requesting and reviewing local entities' federal compliance audit reports (OMB Circular A-133 audit reports).

The Compensation Board has not established for fiscal 2010 the requirements for the localities to appropriately spend and receive reimbursement of the Byrne Justice Assistance Grant (JAG) Program. This program has significantly different recordkeeping and other requirements from the federal funds the Compensation Board disbursed in fiscal year 2009.

As an example of a federal compliance requirement for both grants, the Compensation Board did not communicate the requirement for all entities receiving funds to have a separate Data Universal Numbering

System (DUNS) number, as required by the federal government. As a result, the Compensation Board cannot ensure that the localities are appropriately managing and reporting federal pass-through funds.

Compensation Board management has begun working on establishing more detailed processes, policies, and procedures to address federal funds. The Compensation Board should continue to gain more knowledge about federal grant requirements and continue to develop its processes, policies, and procedures for managing and disbursing federal grants. This should include more communication with the localities to ensure that both parties are complying with federal laws and regulations.

## **AGENCY HIGHLIGHTS**

### **Overview**

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

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

### **Excess Fees**

Section 17.1-285 of the Code of Virginia requires that the Compensation Board calculate fees in excess of incurred costs of the Courts of Virginia to operate. The Local Governments receive two-thirds of the excess collected by Courts from operations in their Courts. The Commonwealth retains the remaining one-third. Each month, the Board performs an excess fee calculation using Circuit Court Clerks' collections and expenses for the prior month, with any resulting excess split as described above. This process relies on two key pieces of information: Court Fee revenue, which is self-reported by the Clerks of the Courts to the Compensation Board; and the actual payments from the Compensation Board to the Local Governments that pay the salaries and expenses for the respective courts.

### **Technology Trust Fund Fee**

Section 17.1-279 of the Code of Virginia requires that the Compensation Board administer the Technology Trust Fund Fee. This fee is a \$5 assessment on each civil action, recorded deed instrument, and docketed judgment in the judgment lien docket book. The purpose of the trust fund is to assist clerks of circuit courts in developing, updating, and implementing individual land-records' automation plans. The Compensation Board holds the fees in trust for the office that collected them, less 20 percent used for the administration of the land-records' automation plans and to assist smaller clerk's offices whose fees collections are insufficient to implement the automation plans. This process relies on the self-deposited Technology Trust Fund Fee collections by each individual clerk's office.

## Financial Activity

General Fund appropriations accounted for 83 percent of the Compensation Board budget during fiscal year 2009. In fiscal year 2009, the Compensation Board received approximately 14 percent of its funding, about \$109 million, from the federal State Fiscal Stabilization Funds. Compensation Board used these funds to supplant General Fund appropriations for constitutional officers' salaries and per-diem payments for the confinement of inmates in local and regional facilities. The following table summarizes the Compensation Board's financial activity for fiscal year ending June 30, 2009.

### Compensation Board Schedule of Program Expenses For the Year Ended June 30, 2009

<u>Program</u>	<u>Original Budget<sup>1</sup></u>	<u>Final Budget<sup>2</sup></u>	<u>Expenses<sup>2</sup></u>
Sheriffs' Offices and regional jails	\$413,155,963	\$515,624,955	\$405,932,892
Confinement of inmates in local and regional facilities	82,340,529	78,983,902	75,750,667
Attorneys of the Commonwealth	67,439,129	65,638,883	64,678,201
Clerks of the Circuit Court	52,860,106	52,347,715	51,312,434
Local Commissioners of the Revenue	20,225,910	20,013,928	20,012,870
Local Treasurers	19,912,939	19,675,880	19,675,597
Local Finance Directors	6,693,340	6,052,070	5,988,867
Administrative and support services	<u>7,617,458</u>	<u>7,880,538</u>	<u>7,880,537</u>
Total	<u>\$670,245,374</u>	<u>\$766,217,871</u>	<u>\$651,232,065</u>

Source:

<sup>1</sup>Appropriations Act (Chapter 781 of the 2009 Acts of the Assembly)

<sup>2</sup>Commonwealth Accounting and Reporting System



# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

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

October 15, 2009

The Honorable Timothy M. Kaine  
Governor of Virginia  
State Capital  
Richmond, Virginia

The Honorable M. Kirkland Cox  
Chairman, Joint Legislative Audit  
and Review Commission  
General Assembly Building  
Richmond, Virginia

We have audited the financial records and operations of the **Compensation Board** for the year ended June 30, 2009. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

## Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Compensation Board's internal controls, test compliance with applicable laws and regulations, and review corrective actions of audit findings from prior year reports. Our tests of compliance included work to support the Commonwealth's Statewide Single Audit.

## Audit Scope and Methodology

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

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit



procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

- Federal grant revenues and expenses
- Transfer payments
- Information systems applications access
- Excess fee payments

We performed audit tests to determine whether the Compensation Board's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Compensation Board's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

### Conclusions

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

We noted one matter involving internal control and its operation and compliance with applicable laws and regulations that requires management's attention and corrective action. This matter is described in the section entitled "Audit Finding and Recommendation."

The Compensation Board has taken adequate corrective action with respect to the audit finding reported in the prior year.

### Exit Conference and Report Distribution

We discussed this report with management October 23, 2009. Management's response has been included at the end of this report.

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

AUDITOR OF PUBLIC ACCOUNTS

BEM:alh

FRANK DREW  
CHAIRMAN

W.J. KUCHARSKI  
JANIE E. BOWEN  
EX-OFFICIO MEMBERS



ROBYN M. DE SOCIO  
EXECUTIVE SECRETARY

## COMMONWEALTH OF VIRGINIA

### *Compensation Board*

P.O. Box 710  
Richmond, Virginia 23218-0710

October 28, 2009

#### MEMORANDUM

TO: Office of the Auditor of Public Accounts

SUBJECT: Agency Response to Audit Report and Finding

Thank you for the opportunity to review your preliminary report of the Compensation Board's audit for the fiscal year ended June 30, 2009 and to respond to the finding noted in the report.

In FY09, general fund dollars were supplanted with federal funds at fiscal year-end, and prior expenditures by the Compensation Board to reimburse localities and regional jail authorities for personnel costs incurred were transferred to federal funds. This allocation of federal funds to localities was done after the end of the fiscal year, during year-end close, and was an allocation of State Fiscal Stabilization Funds – General, utilized for the payment of Commonwealth expenditures to support personnel costs in sheriffs' offices and regional jails, and to support per diem payments to localities for support of jail operational costs. The decision to utilize federal funds in this manner, and budgetary and accounting transactions to effect the supplant, were not decisions or transactions of the Compensation Board but were handled by other Finance agencies. Staff did provide assistance and information to the degree possible to assist these agencies in performing the supplant, and staff did assist in providing notification to Sheriffs, Regional Jails and local governments regarding the supplant action.

While certain assurances, particularly regarding the existence of DUNS numbers in localities where funds were supplanted and reviews of federal single audits to ensure local controls were in place for proper management of federal funds, were not determined in advance of the year-end supplant, policies and procedures are in place governing the reimbursement of expenses budgeted by the Compensation Board and incurred by localities in support of personnel in the sheriff's office or regional jail, and are also in place governing the payment of per diem amounts to localities in support of local/regional jail operational costs. Appropriateness of payment, regardless of fund source, was determined prior to original payment of incurred expenses through the Board's standard budgeting, reimbursement, and per diem payment processes. Appropriateness of use of this stream of federal stimulus funds for the supplant of general funds for these specific payments was confirmed by Finance agencies with the federal governing agency.

In FY10, the 2009 General Assembly provided an allocation of \$23.3 million in federal stimulus funds (Edward Byrne Justice Assistance Grant – JAG) to keep whole the budgets set by the Compensation Board for sheriffs' offices and regional jails, restoring a significant portion of a proposed general fund reduction in funding for FY10. Working with the Department of Criminal Justice Services – the prime recipient of the federal JAG funds – the Compensation Board has identified reimbursable salaries and benefits of sworn deputies and regional jail officers in Sheriffs' Offices and Regional Jails as the expenses to be covered by the federal funds, and the Board included the federal funds as a funding source in setting level-funded budgets for these offices for FY10 on May 1, 2009.

MEMO: Office of the Auditor of Public Accounts  
October 28, 2009  
Page 2

While the Compensation Board is still working with DCJS and the Department of Accounts (DOA) to finalize its detailed plans for distribution of the federal funds in the third quarter of FY10, the general processes have been established and in place for several months and the Compensation Board has communicated to localities preliminary information regarding the grant, its intended use, local distribution amounts and preliminary requirements regarding financial management and reporting. The Compensation Board has also requested and obtained DUNS number information from all localities impacted.

At this time, the Compensation Board is awaiting final guidance from DCJS and DOA regarding reporting and cash disbursement requirements prior to communicating final detailed processes and instructions to localities and Sheriffs' Offices and Regional Jails. Compensation Board staff met with staff of DCJS earlier this week, and will be meeting again with DCJS and with DOA at the end of this week to finalize the detailed requirements for cash management and identify detailed reporting requirements. Staff from the Office of the Auditor of Public Accounts has also been included in these meetings. The Compensation Board anticipates that it will be able to provide additional detailed information regarding disbursement processes and reporting requirements to localities and Sheriffs' offices/Regional Jails within the next three weeks.

Regarding subrecipient monitoring, Compensation Board staff has reviewed independent auditor federal compliance reports related to OMB Circular A-133 for FY08 for approximately one-third of recipient localities and is in the process of reviewing additional records for remaining localities. Staff is also in discussions with DCJS regarding their ability to meet the subrecipient monitoring requirements for this grant through a memorandum of understanding between both agencies, as DCJS already has in place a review process for similar grants it administers directly to localities, and the Compensation Board does not have adequate resources to devote to this process.

Please let me know should you have any additional questions or need further information.

Sincerely,

A handwritten signature in black ink, appearing to read "Robyn M. de Socio", with a stylized flourish at the end.

Robyn M. de Socio  
Executive Secretary

cc: Compensation Board Members  
Linda Gutshall, Fiscal Officer

## **AGENCY OFFICIALS**

### **COMPENSATION BOARD Richmond, Virginia**

Frank Drew, Chairman

Janie E. Bowen, Ex Officio

Walter J. Kucharski, Ex Officio

Robyn M. de Socio, Executive Secretary