

**COMPENSATION BOARD
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE TWO-YEAR PERIOD ENDED
DECEMBER 31, 1999**

***AUDITOR OF
PUBLIC
ACCOUNTS***



COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Compensation Board for the two-year period ended December 31, 1999, found:

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



Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

May 8, 2000

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 **Compensation Board** for the two-year period ended December 31, 1999. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

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

Audit Objectives, Scope, and Methodology

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

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Board's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

- Expenditures
- Revenues
- Information Systems

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Board's controls were adequate, had been placed in operation,

and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

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

Our audit was more limited than would be necessary to provide 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 found that the Board properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Board records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

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

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

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 CONFERENCE

We discussed this report with management at an exit conference held on July 20, 2000.

AUDITOR OF PUBLIC ACCOUNTS

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AGENCY BACKGROUND

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 Courts) 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 bimonthly on jail population.
- Administering the Technology Trust Fund to reimburse Circuit Court Clerks for maintenance of court records and automation of land records.
- Providing an annual report of the Courts and Commonwealth's Attorneys collection of court fines and fees.
- Issuing an annual report of jail revenues and expenditures for all local and regional jails and jail farms that receive Compensation Board funding.

The Personal Property Tax Relief Act, passed during 1998, provided local governments with relief for administrative costs associated with the phasing out of Virginia's personal property taxes. The Compensation Board received a General Fund appropriation to reimburse localities for these costs. The Board instituted an Internet web-based system that allows localities to access the system to request expenditure reimbursements. The Board then processes payments for reimbursements through transmittal to the Department of Accounts. The Board approved \$4.7 million and paid \$4,327,461 for administrative costs during fiscal year 1999.

FINANCIAL HIGHLIGHTS

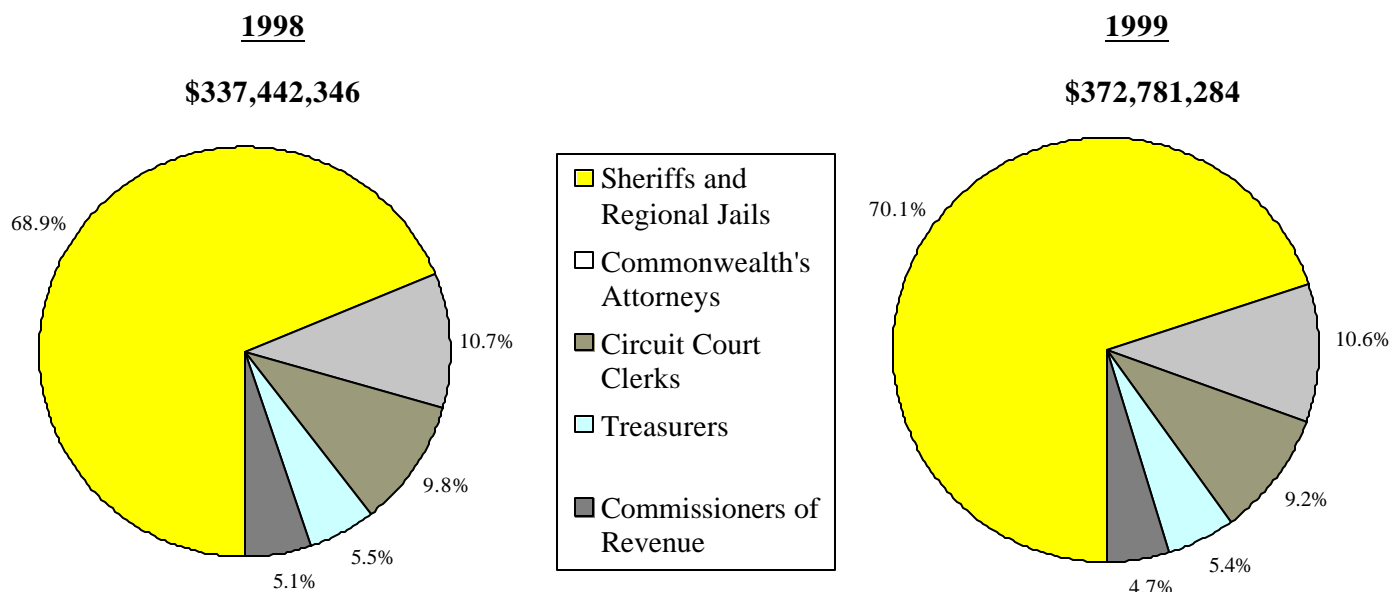
Agency Programs and Funding

The Board received General Fund appropriations of \$427,224,212 and \$441,888,478 in fiscal years 1998 and 1999, respectively. The Compensation Board's expenditures totaled \$397,165,084 and \$433,026,148 during fiscal years 1998 and 1999, respectively.

State Network Interface Project

During fiscal years 1998 and 1999, the Board disbursed \$337,442,346 and \$372,781,284, respectively, to local governments for constitutional officers and their employees salaries and other expenses. The State Network Interface Project (SNIP) is an information system that allows localities to enter budget information and make reimbursement requests. The Compensation Board then uses SNIP to calculate and display an on-line voucher to reimburse localities. The following charts show SNIP disbursements by constitutional officers.

Total SNIP Disbursements



Local Inmate Data System

During fiscal years 1998 and 1999, the Board made quarterly payments totaling \$54,613,718 and \$50,743,612, respectively, to local and regional jails, and jail farms. Virginia's local jails, regional jails, and jail farms use the Compensation Board's Local Inmate Data System to maintain and report various inmate data. The Board's primary means of paying for prisoners uses several per-diem amounts, which require the actual reporting of prisoners. To test the accuracy of reported prisoner populations, the Board has auditors who verify the information in the Local Inmate Data System. During the past two years, the Board has identified inaccurate classification and reporting of prisoners by local and regional jails with estimated recoveries of \$1.6 million.

Compensation Board Operations

During fiscal years 1998 and 1999, the Board's total operating costs were \$1,078,937 and \$1,322,267, respectively. Eighty-four to eighty-eight percent of the Board's expenditures were for personal services and contractual services. The remaining operating expenditures paid for supplies, continuous charges, and equipment, including a new phone system.

Other Programs

Circuit Court Clerk's Fees

All Circuit Court Clerks deposit clerks' fees to the General Fund of the Commonwealth, therefore the funds are not available for the Board's operations. The Clerks deposited fees of \$44,066,736 during fiscal year 1998 and \$50,120,320 during fiscal year 1999. The Board is responsible for refunding excess clerks' fees to localities, which totaled \$10,180,031 in 1998 and \$12,948,600 in 1999.

Technology Trust Fund Fees

The Board received Technology Trust Fund Fees of \$4,822,886 in fiscal year 1998 and \$5,768,995 in fiscal year 1999. This three-dollar fee is assessed by the court on each land transaction and is deposited in the Board's Technology Trust Fund. The Board is responsible for allocating the fee to localities for automating land records. During fiscal years 1998 and 1999, the Board disbursed \$3,473,547 from the Technology Trust Fund.

Annual Reports

Unpaid Fines and Costs

In accordance with §19.2-349 of the Code of Virginia, the Board issues an annual report of the total fines, costs, forfeitures, and penalties assessed, collected, and unpaid and those that remain unsatisfied or do not meet the conditions of §19.2-354 by each circuit and district court. This document reports the collection efforts of court-ordered fines and fees in the Commonwealth by the Clerks of Courts and Commonwealth's Attorneys.

Jail Cost Report

The 1998 Appropriation Act instructed the Board to prepare an annual report detailing all expenditures and revenues of Virginia's local and regional jails and jail farms. The result was the fiscal year 1998 Compensation Board Jail Cost Report. The Report contains a brief profile of each facility and its operating environment. It also contains sources of funds and types of expenditures used to operate the Commonwealth's jails. The Board and jails use this report as a reference when analyzing funding requests and making decisions. This first report detailed fiscal year 1998 and future reports will provide historical data and trend analysis.

COMPENSATION BOARD
Richmond, Virginia

June Funkhouser, Chairman

Walter J. Kucharski

Danny M. Payne

Bruce W. Haynes, Executive Secretary

