



SECRETARY OF FINANCE

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2016

Auditor of Public Accounts
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AUDIT SUMMARY

This report summarizes our fiscal year 2016 audit results for the five agencies under the Secretary of Finance and arises from our work on the Comprehensive Annual Financial Report (CAFR). Overall, our audit for the year ended June 30, 2016, found the following:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System, Cardinal, and in the agencies' accounting systems;
- five internal control and compliance findings requiring management's attention;
- one risk alert, which represents an issue that is beyond the corrective action of one individual agency and requires the cooperation of others to address the risk; and
- adequate corrective action with respect to audit findings reported in the prior year that are not referenced in this report as "REPEAT."

This report also includes information on several significant initiatives for agencies under the Secretary of Finance, including the status of system development projects, modernization of the financial reporting processes, and reporting changes of other postemployment benefits.

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SIGNIFICANT INITIATIVES

The following section provides updates on major Commonwealth initiatives affecting Secretary of Finance agencies.

Status of System Development Projects

Applicable to: *Secretary of Finance and Department of Accounts*

Cardinal Financial System

The Commonwealth successfully transitioned all agencies to the Cardinal Financial System (Cardinal) in February 2016. Cardinal is a modern, enterprise-wide financial system that provides the flexibility and technology needed for the Commonwealth to compile financial information efficiently. Beginning in fiscal year 2017, Cardinal officially replaced the Commonwealth Accounting and Reporting System (CARS) as the Commonwealth's system of financial record. The Department of Accounts (Accounts) Cardinal team is currently providing post-production support for Cardinal while correspondingly upgrading the financial system and working on the design phase of the Cardinal Payroll project. The upgrade project team is planning to be complete in the spring of 2017; although the project timeline is tight, the team is currently on track.

Cardinal Payroll Project

In August 2016, the Cardinal team launched the Cardinal Payroll project, which will result in the replacement of the Commonwealth's Integrated Personnel and Payroll System (CIPPS). The Commonwealth implemented CIPPS in 1986, and currently 200 state agencies use the system for payroll and/or leave tracking purposes. The Cardinal team has scheduled to complete implementation of the Cardinal Payroll project during 2018, as vendor software support for CIPPS will no longer be available as of May 31, 2018. The Cardinal team will deploy the Cardinal Payroll project in two releases. The first release is set for April 2018 and will include 25 percent of state employees. The second release is scheduled for October 2018 and will include the remaining state employees. Upon completion of the second release, CIPPS will be fully decommissioned.

The Cardinal team has estimated a total cost of \$42 million to implement the Cardinal Payroll project. The project scope includes implementation of the following modules: payroll, time and labor, absence management, and limited human resource functions. In addition, the project scope includes integration with the Cardinal Financials system. The Cardinal Payroll project should reduce risks associated with an aging payroll system and meet the majority of the Commonwealth's payroll requirements. Further, by integrating the Payroll and Financial modules, the Commonwealth will have a variety of reporting capabilities available.

However, as with all projects, the Cardinal team will face risks during the Payroll system implementation. For example, due to the impending cease of vendor support for CIPPS, the Cardinal Payroll project has a restrictive implementation timeline. In addition, although the Cardinal team is

familiar with the software product, their experience has been limited to Financials; therefore, the new payroll subject matter inherently poses additional risks.

Additionally, there are external risks to the Cardinal Payroll project, such as the need for all current CIPPS agencies to maintain involvement and stay diligent to the existing timeline so the project can achieve the planned schedule. An additional external risk involves the timeliness of the Cardinal Financials upgrade. The Cardinal Payroll project will rely on the upgraded financial system; therefore, if the Cardinal team does not complete the upgrade on time, the Cardinal Payroll schedule will be impacted.

The Cardinal team, as well as all current CIPPS users, will need to continue to devote key personnel and technology resources to mitigate the risks associated with the aggressive implementation plan of the Cardinal Payroll project.

Fixed Asset Accounting and Control System

Applicable to: *Secretary of Finance, Secretary of Administration, Department of Accounts, Department of the Treasury, and Department of General Services*

The Commonwealth currently uses numerous systems for managing its assets, and a different agency owns each system. Of those systems, the most significant to the finance secretariat are Accounts' Fixed Asset Accounting and Control System (FAACS) and the Department of the Treasury's (Treasury) Virginia Agency Property System (VAPS). Accounts uses FAACS, a mainframe system, to track and report assets of the Commonwealth. Treasury uses VAPS to store insurance values for state-owned buildings, buildings in the Commonwealth's care, custody and control, and contents of non-owned buildings occupied by state agencies.

From a financial reporting perspective, FAACS is the most critical of the Commonwealth's asset management systems. Accounts uses data extracted from FAACS to report assets in the CAFR. For fiscal year 2016, Accounts obtained data from FAACS to report approximately \$7.5 billion of the Commonwealth's governmental assets. Both FAACS and VAPS operate on Virginia Information Technology Agency's (VITA) infrastructure and Accounts and Treasury perform system coding, maintenance, and user account administration. FAACS is at the end of its life cycle and has unsustainable technology to remain compliant with the Commonwealth's Security standards.

In fiscal year 2014, the General Assembly required the Secretaries of Administration and Finance to convene a work group consisting of Accounts, Treasury, and the Department of General Services (General Services) to evaluate options for improving the efficiency and accuracy of the Commonwealth's method of collecting and maintaining state asset data. The General Assembly's overall objectives for the evaluation were to identify a centralized information system solution; designate the appropriate agency to maintain and administer the system; and identify the implementation, administration, and maintenance costs of the system, and any possible savings, for the Commonwealth. The work group reported its findings to Planning and Budget, the Governor, and the Chairmen of the House Appropriations and Senate Finance Committees in October 2014.

The report addressed two options: either maintain the status quo or provide a centralized integrated management solution. Neither the Code of Virginia nor the Appropriation Act directed the implementation of either option.

Around the same time, General Services discovered the software vendor no longer supported its Integrated Real Estate Management System (IREMS), so General Services solicited for and purchased a new real estate management system in 2015. The new system, COVA Trax, included functionality that could track an entity's complete asset inventory, which led General Services to evaluate the possibility of using this system to meet Accounts and Treasury's information management needs. The work group included this system as the possible solution for a centralized integrated management solution in its report.

The initial phase of COVA Trax went live in fiscal year 2016, replacing IREMS. Even though there is no mandate for implementation, General Services, working closely with Accounts and Treasury, began the next phase of developing requirements to incorporate FAACS and VAPS functions into COVA Trax. General Services took the lead for directing the replacement of FAACS and VAPS with COVA Trax since General Services is the COVA Trax owner. However, during the planning phase, General Services, Accounts, and Treasury agreed to place the implementation project on hold due to resource limitations at General Services. Currently there is no tentative date of when the project will resume.

Modernization of Financial Reporting Processes

Applicable to: Department of Accounts

Cardinal is a modern system and provides the flexibility and technology needed to make financial reporting more efficient. Prior to fiscal year 2016, Accounts focused its efforts primarily on the development and implementation of the financial system. As the Commonwealth moves closer to issuing its first annual financial report produced primarily from financial data residing within Cardinal, we continue to emphasize the importance of Accounts re-examining the Commonwealth's entire financial reporting process. This re-examination should include identifying opportunities for leveraging the use of technology, how to best communicate with agencies, and the overall analysis of financial activity. In light of a changing accounting and regulatory environment, this analysis is essential to Accounts continued issuance of accurate financial reports.

Other Postemployment Benefits Reporting Changes

The Governmental Accounting Standards Board (GASB) issued two new standards related to accounting and reporting for postemployment benefits other than pensions (OPEB). The first is GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which covers accounting and reporting of postemployment benefit plans other than pension plans. This Statement is effective for fiscal year 2017 and should have a minimal impact on other postemployment benefit information included in the Commonwealth's financial statements. The second standard is GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment*

Benefits Other Than Pensions, which is effective for fiscal year 2018 and covers participating employer accounting and reporting of postemployment benefits other than pensions. This standard will have a major impact on the Commonwealth's fiscal year 2018 financial report, significantly increasing OPEB liabilities reported in the financial statements.

The Commonwealth currently has six OPEB plans, including Group Life Insurance, the Retiree Health Insurance Credit Program, the Disability Insurance Trust Fund, the Line of Duty Death and Disability Program, the Virginia Local Disability Program, and the Pre-Medicare Retiree Healthcare Program. The Virginia Retirement System (the System) administers all programs except Pre-Medicare Retiree Healthcare, which the Department of Human Resource Management administers. Additionally, some state agencies administer and participate in plans that are not part of the Commonwealth, and they will be responsible for ensuring compliance with the new standards.

As with pensions under the new standards, the Commonwealth will report OPEB liabilities as employees earn benefits by providing services. The Commonwealth is allowed to offset the OPEB liabilities by the assets it has accumulated to fund the benefits. This offset is currently not possible for the Pre-Medicare Retiree Healthcare program, as it operates on a "pay as you go" basis; and therefore, has no accumulated assets. Lastly, under the new standards, there will be a significant increase in the required financial statement disclosures discussing OPEBs. As with the change in reporting for pensions, we continue to emphasize that Accounts, the System, and Human Resource Management continue to work together extensively to meet all new reporting requirements for other post-employment benefits.

RISK ALERT

During the course of our audit, we encountered issues that are beyond the corrective action of agency management alone and require the action and cooperation of management and VITA. The following issue represents such a risk to the agency and the Commonwealth.

Mitigate Server Vulnerabilities

Applicable to: *Department of Taxation*

The Commonwealth's IT Infrastructure Partnership with Northrop Grumman (Partnership) provides agencies with installation, maintenance, operation, and support of IT infrastructure components, such as servers, routers, firewalls, and virtual private networks. During our review, we found that the Partnership is not maintaining current server operating system security patches in accordance with the Commonwealth's Information Security Standard, SEC 501-09 (Security Standard).

The Partnership does not update its servers that support some of Taxation's mission critical functions with critical and highly important security patches that mitigate known vulnerabilities in the server operating systems. Taxation relies on the Partnership for the installation of security patches for the server operating systems.

The Security Standard, Section SI-2, requires the installation of security-relevant software updates within 90 days of release. As of August 29, 2016, one critical and 490 highly important security patches were absent from Taxation's server environment that is managed by the Partnership. Servers that are missing critical security updates are at an increased risk of cyberattack, exploit, and data breach by malicious parties.

Taxation is working with the Partnership to ensure that all servers have all critical and highly important security patches installed. Additionally, our separate audit of the Commonwealth's IT Partnership contract administrator, VITA, will include a contract performance review regarding this risk alert.

INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Department of Accounts

Continue Improving Cardinal System Security Controls – REPEAT

Accounts continues to improve some of the required controls to protect the enterprise resource planning system, Cardinal, as required by the Security Standard and industry best practices. Cardinal is a web-based system that processes and stores sensitive data, including personally identifiable information, and serves as the Commonwealth's official accounting system of record.

While Accounts has resolved four system security control weaknesses from the prior year audit, one weakness continues to exist, which was communicated to management in a separate document marked Freedom of Information Act Exempt (FOIAE) under Section 2.2-3705.2 of the Code of Virginia due to it containing descriptions of security mechanisms. The Security Standard requires implementing specific controls to reduce unnecessary risk to data confidentiality, integrity, and availability.

Accounts should continue its efforts to implement the controls discussed in the communication marked FOIAE in accordance with the Security Standard and industry best practices.

Improve Internal Controls for Creating and Updating Vendors in Cardinal

Accounts' Commonwealth Vendor Group's (CVG) current policies and procedures do not adequately reflect CVG's review process over the different methods of receiving requests for adding a new vendor to Cardinal. Existing procedures currently encompass review processes over the submission of a Vendor Maintenance Request form (AP-SW-502); however, interfacing and direct-key agencies also submit requests for new vendors through spreadsheets. Current policies and procedures do not reflect the required review CVG should perform over spreadsheet vendor submissions. In addition, CVG's current policies and procedures do not include reoccurring, allowable exceptions for information normally required for creating a new vendor in Cardinal. Common reoccurring exceptions include instances where a vendor does not supply a tax identification or social security number and overrides of Cardinal controls by CVG for simple vendor updates. In certain instances, CVG will also make changes to a vendor record on an agency's behalf, without requiring the submission of a new AP-SW-502. Lastly, we communicated an additional weakness to management in a separate document marked Freedom of Information Act Exempt (FOIAE) under Section 2.2-3705.2 of the Code of Virginia, due to it containing descriptions of Accounts securing sensitive vendor information.

Best practices indicate that an agency should document, review, and update policies and procedures regularly to ensure they are clear, concise, and adequately address operational risk identified. Lack of clearly documented and updated policies and procedures over the different methods of requesting a vendor in Cardinal increases the risk of an inconsistent review of new

vendors. Furthermore, without the inclusion of allowable exceptions to normally required vendor information, Accounts is increasing the risk of a CVG analyst approving a vendor that has an inappropriate exception. In addition, the Security Standard requires implementing specific controls to reduce unnecessary risk to data confidentiality, integrity, and availability.

Accounts' CVG is a relatively new department, with operations established in 2013. Accounts created the CVG to maintain the Commonwealth's single vendor database, which replaced agencies being responsible for creating vendors within the statewide accounting system. Accounts' management of vendors statewide is a huge undertaking and requires continual review and modification of processes to meet the unique vendor needs of all state agencies. Further, with all agencies transitioning to Cardinal at the end of fiscal year 2016, CVG's workload increased significantly.

Accounts should prioritize resources to ensure there are comprehensive policies and procedures governing the CVG group and its operations. The policy should include allowable and reoccurring exceptions to standard procedures. Accounts should also prioritize compliance with the Security Standard relating to the security weakness identified in the communication marked FOIAE.

Adjust Practices as Needed and Request Identifying Numbers Assigned by Pass-Through Entities

The Commonwealth's Schedule of Expenditures of Federal Awards (SEFA) does not contain identifying numbers, if any, assigned by pass-through entities. The Commonwealth spent \$111 million in federal funds from pass-through entities; however, Accounts did not require individual Commonwealth agencies to provide identifying numbers assigned by pass-through entities as part of the process used to compile the Commonwealth's SEFA.

Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) §200.510(b) requires the auditee to prepare the SEFA and, for Federal awards received as a subrecipient, the SEFA must include the name of the pass-through entity and identifying number assigned by the pass-through entity.

If any of the 616 pass-through entities that provided federal funding to the Commonwealth and assigned an identifying number attempt to review the Commonwealth's Single Audit report, they will not be able to locate the related expenditures on the Commonwealth's SEFA using the number they assigned. However, a pass-through should be able to use its name to locate the related expenditures on the Commonwealth's SEFA. Furthermore, 18 percent of the individual awards from pass-through entities on the SEFA do not report a Catalog of Federal Domestic Assistance (CFDA) number. In the cases where no CFDA number is reported, Accounts does report additional awarding identification information that pass-through entities may be able to use to locate the funding they provided to the Commonwealth. In total, there are 936 individual awards on the SEFA that contain neither additional award information nor an identifying number assigned, if any, by pass-through entities.

Accounts interpreted the new requirement to report the “identifying number assigned by the pass-through” to mean that the Commonwealth only needed to report the CFDA number associated with the grant. As a result, Accounts did not modify its instructions to Commonwealth agencies to capture this required information for federal programs with identifiable CFDA numbers.

When faced with new requirements, Accounts should reconcile its current practices with the new requirements and make adjustments, as necessary, to achieve the new requirement. If Accounts has questions about its obligation from a new requirement, it should consider seeking input from peers, professional organizations, and others as appropriate to ensure its interpretation is consistent with what is expected. With respect to reporting identifying numbers assigned by pass-through entities, Accounts should modify its instructions and guidance to Commonwealth agencies to capture this information.

Department of the Treasury

Maintain Adequate Staffing in Accounting and Reporting Functions

The Trust Accounting section of Treasury does not maintain adequate staffing levels to ensure they follow internal controls, make timely submissions to Accounts, and maintain continuity of operations in the event of the loss of key staff. The fiscal year 2016 audit identified the following issues:

- Out of 82 items required by Accounts, 31 of these items were submitted after the required due date, ranging from one to 31 days late.
- Several reconciliations were performed and reviewed by the same employee. Additionally, other reconciliations were not reviewed in a timely manner.
- Several issues related to timely collections of insurance premiums and payment of vendor invoices on behalf of the Division of Risk Management of Treasury.

Accounts provides Treasury with the “Directive Requirements Listing for the Department of the Treasury” annually with required items and due dates for information from the Treasury, in order to facilitate the preparation of the CAFR. Additionally, the Commonwealth Accounting Policies and Procedure (CAPP) Manual Topic 20905 requires appropriate segregation of duties when performing reconciliations. It is Treasury’s policy that employees reconcile activity and balances for the previous month within the current month.

Trust Accounting performs many critical functions of statewide significance including, but not limited to, the accounting and reporting functions of the Virginia College Building Authority, Virginia Public Building Authority, Virginia Public School Authority, and Local Government Investment Pool; debt service payments on bond issuances; payment of insurance claims and receipt of insurance payments; and accounting and reporting functions for the General Account of the Commonwealth of Virginia. The late submission of required items to Accounts results in possible delays in preparing

the CAFR as well as timing difficulties related to the Auditor of Public Accounts' audit of the CAFR. A lack of segregation of duties and delays in reviewing reconciliations timely increases risk related to accuracy and completeness of the underlying data.

The underlying reason provided for the exceptions noted is the prioritization of key functions by staff and turnover in positions within the Trust Accounting Section. Additionally, the implementation of Cardinal has caused some of the functions noted above to take additional time. As a central state agency responsible for the Commonwealth's cash, investments, and debt accounting, the conversion to Cardinal required a significant amount of staff time in fiscal year 2016. Due to the time spent on the Cardinal conversion, both in developing interfaces and redesigning processes, staff were not able to prepare for year-end accounting as is usually done. Learning the new Cardinal procedures during the first few months after conversion also slowed processing.

Currently, a few highly qualified and experienced employees, who work overtime regularly to ensure continuity of operations, perform many of these functions. The number of qualified and adequately trained staff to ensure all these functions are performed in a timely manner is insufficient to allow Trust Accounting to follow its internal control procedures in peak times and to ensure staff are adequately cross-trained in the event of the loss of staff in key positions in order to comply with internal control procedures.

Treasury should evaluate the structure of its Trust Accounting section, including reviewing the workload and responsibilities of its staff, and ensure they maintain a staffing level that is sufficient to enable it to follow its internal controls throughout the year, provide timely financial reporting submissions to Accounts, and ensure adequate cross-training of key positions.

Improve myVRS Navigator Documentation and Procedures

Treasury does not retain monthly reconciliations between the Personnel Management Information System (PMIS) and the Virginia Retirement System *myVRS Navigator* (*myVRS Navigator*). Additionally, Treasury does not have a policy or procedure in place to detail what steps need to be taken to ensure that the reconciliation is performed and documented accurately.

Based on Accounts-issued Payroll Bulletin 2014-05, agencies should be reconciling the creditable compensation in PMIS to that reported within *myVRS Navigator* as detailed within payroll bulletin 2013-02. This process requires agencies to perform this reconciliation to identify and correct errors prior to certifying the monthly contribution snapshot. This is also required as part of CAPP Manual Topic 50410 and the Contribution Confirmation and Payment Scheduling Chapter of the Virginia Retirement System Employer Manual.

Without sufficient reconciliation documentation, there is no evidence that Treasury performed the monthly reconciliations to ensure the *myVRS Navigator* contribution snapshot was accurately confirmed. Insufficient reconciliations can lead to improper confirmation of retirement contributions, which affect financial reporting and the sustainability of the retirement system.

Treasury has insufficient procedures documented for responsible employees to perform the monthly reconciliations in accordance with Accounts and CAPP Manual requirements. Treasury does not retain documentation of reconciliations performed to show that the *myVRS* Navigator contribution snapshot was accurately confirmed.

Treasury should update its *myVRS* Navigator procedures to include Accounts and CAPP Manual requirements. In addition, Treasury should retain clear documentation for all reconciliations performed to support the accuracy of the *myVRS* Navigator contribution snapshot confirmed.

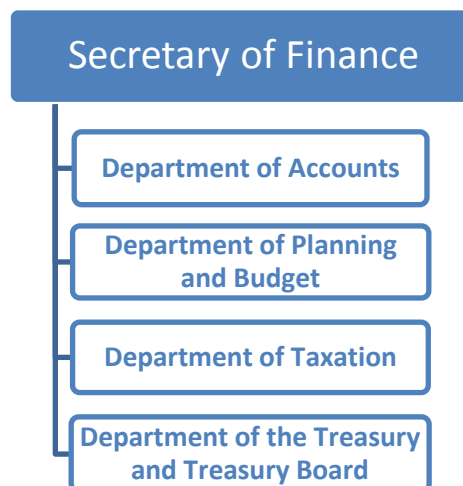
FINANCE SECRETARIAT OVERVIEW

The Departments of Accounts, Planning and Budget, Taxation, and the Treasury and the Treasury Board report to the Secretary of Finance. The individual audits of these agencies primarily support the audit of the CAFR for the fiscal year ended June 30, 2016, and this report is intended to report on the results of this work.

Our office also issues other reports related to activities or agencies under the Secretary of Finance, these include:

- The “Office of the Governor and Cabinet Secretaries” report, which summarizes activities of the Cabinet Secretaries, including the Secretary of Finance. We expect to issue this report in Summer 2017.
- The “Statewide Performance Measures” report, which summarizes work on performance measures reported on the Virginia Performs website, which Planning and Budget maintains. We expect to issue this report in Winter 2017.

The Secretary of Finance (Secretary) assists the Governor in the management and direction of the finance agencies and performs program coordination, policy planning, and budget formulation activities. To accomplish this, the Secretary oversees the following agencies, which perform critical functions in the Commonwealth’s statewide financial management system.



These four agencies work closely together in the budgeting, managing, and reporting of the Commonwealth’s financial resources. They handle all of the financial transactions of the Commonwealth from collecting taxes to paying bills to distributing aid to localities. Their primary responsibilities include:

- forecasting and collecting revenues;
- preparing and executing the Commonwealth’s budget;
- managing the Commonwealth’s cash and investments;

- issuing bonds on behalf of various boards and authorities;
- administering the Commonwealth statewide accounting and payroll systems;
- overseeing the Commonwealth’s financial reporting processes; and
- making strategic financial plans.

These agencies primarily serve other agencies within the Commonwealth in a central support capacity. A more detailed discussion of these activities is included in Appendix A along with the interaction of the agencies within the Finance Secretariat while performing these activities.

The operations of these four agencies are primarily funded with general funds. Table 1 summarizes the original and final operating budgets, as well as expenses for all finance agencies except the Treasury Board. The Treasury Board’s financial activity is not included since its activities consist primarily of the payment of debt service on general obligation debt rather than administrative expenses.

Summary of Budget and Expenses for Fiscal Year 2016

Table 1

	Original Budget	Final Budget	Expenses
Secretary of Finance	\$ 453,785	\$ 634,931	\$ 599,683
Department of Accounts	38,022,635	81,571,863	72,735,436
Department of Planning and Budget	7,510,850	7,264,911	6,169,893
Department of Taxation	106,531,391	108,978,108	100,305,671
Department of the Treasury	19,914,002	19,684,407	18,758,503
Total – Finance Agencies	\$172,432,663	\$218,134,220	\$198,569,186

Source: Commonwealth Accounting and Reporting System

The most significant budgetary changes within the Finance agencies took place in Accounts. The \$43.5 million increase in Accounts’ final budget includes a \$19.7 million Working Capital Advance to assist with the rollout of the Cardinal system to state agencies. Additionally, Accounts received \$21.5 million to pay the U.S. Department of Health and Human Services Division of Cost Allocation, resulting from an October 2015 demand letter covering state fiscal years 2009 through 2014. The \$21.5 million repayment represents the federal share of vendor rebates the Commonwealth receives, including the small purchase charge card and internal service fund profits and transfers.

The majority of expenses in the Finance Secretariat are for personal services (approximately 52 percent) and contractual services (approximately 43 percent). Table 2 summarizes the type of expenses each of the Finance Secretariat agencies incurred during fiscal year 2016.

Summary of Expenses by Type for Fiscal Year 2016

Table 2

	Secretary of Finance	Accounts	Planning and Budget	Taxation	Treasury
Personal services	\$ 566,877	\$14,580,278	\$5,333,543	\$66,255,663	\$ 9,702,228
Contractual services	8,237	35,215,387	303,289	28,545,942	7,671,853
Transfer payments	-	21,471,060	368	56,880	243,407
Continuous charges	24,193	1,238,324	331,001	3,803,091	692,022
Equipment	-	143,740	182,350	1,276,922	329,705
Supplies and materials	377	78,775	19,342	367,174	119,287
Other	-	7,873	-	-	-
Total expenses	\$599,684	\$72,735,437	\$6,169,893	\$100,305,672	\$18,758,502

Source: Commonwealth Accounting and Reporting System

Retail Sales and Use Tax Collection and Distribution

In accordance with Section 30-133.2 of the Code of Virginia, we perform work related to retail sales and use tax distributions as part of our annual audit of Taxation. Our review covers retail sales and use tax with a focus on the collection and distribution of local sales and use taxes. As part of our initial review, we reviewed activity for fiscal years 2009 through 2012 and established a benchmark by which to evaluate errors in the process.

In fiscal year 2016, Taxation collected approximately \$6.2 billion in retail sales and use taxes, with \$1.2 billion of these revenues being distributed to localities as a one percent local option tax. Taxation collects the tax and determines the local portion, which is distributed to the locality where the sale or activity occurred.

The sales and use tax distribution process requires a joint effort between Taxation, localities, and businesses. There are a number of controls and processes in place to help ensure that locality distributions are accurate and made to the correct locality. When an error is detected, Taxation processes an adjustment to correct the distribution and transfer the funds to the correct locality.

Table 3 shows the local distribution amount for retail sales and use tax, as well as the amount and rate of distribution errors identified and corrected by Taxation in each of the last three fiscal years.

Error Rate for Local Sales Tax Distributions

Table 3

	2014	2015	2016
Local distribution amount	\$1,094,793,721	\$1,143,329,727	\$1,188,704,491
Errors identified and corrected	5,067,477	11,255,590	7,830,223
Error rate	0.46%	0.98%	0.66%

Source: Taxation's Integrated Revenue Management System

As shown above, the error rate for fiscal year 2016 was 0.66 percent. This is within the one percent benchmark established in our earlier review and a decrease from the fiscal year 2015 error rate of 0.98 percent. Transfers of the locality portion of sales tax occur when taxpayers do not allocate the proper amounts to the locality, or a taxpayer has a liability in more than one locality. Based on these results, it appears that the error rate is within the established benchmark, and Taxation is properly distributing the local portion of the retail sales and use tax. We do not recommend any changes in the established benchmark.



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January 27, 2017

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
Vice Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the agencies under the **Secretary of Finance** for the year ended June 30, 2016. 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.

Audit Objectives

Our primary audit objectives for the audit of the Departments of Accounts, Planning and Budget, Taxation, and Treasury for the fiscal year ended June 30, 2016, include the following:

- to determine whether management has established and maintained internal controls over the Commonwealth's financial reporting and other central processes and the centralized services provided to agencies and institutions in support of the preparation of the financial statements as indicated in the scope section of this report;
- to determine whether management has established and maintained adequate operating and application system controls over CARS, Cardinal, CIPPS, FAACS, LAS, the Integrated Revenue Management System, the Performance Budgeting System, and other central systems;
- to evaluate the accuracy of financial transactions related to tax collections including accounts receivable, deferred revenues and taxes, accounts payable and other liabilities, and tax and interest revenue as reported in CARS and the Integrated Revenue Management System and in supplemental information prepared by Taxation;

- to evaluate the accuracy of financial transactions related to cash and cash equivalents, investments, debt, risk management, and unclaimed property activity, which is controlled by Treasury as reported in CARS, Cardinal, and Treasury’s accounting records, and in supplemental information prepared by Treasury (including the activity of the Treasury Board, the Local Government Investment Pool, the Virginia College Building Authority, the Virginia Public School Authority, and the Virginia Public Building Authority);
- to evaluate whether the budget approved by the General Assembly is appropriately recorded in CARS and Cardinal and controls in CARS and Cardinal are adequate to ensure program expenses do not exceed appropriations;
- to determine whether the agencies have complied with applicable laws, regulations, contracts, and grant agreements; and
- to review corrective actions related to audit findings from the prior year report.

Audit Scope and Methodology

Management has responsibility for establishing and maintaining internal control and complying with applicable laws, regulations, contracts, and grant agreements. 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 reviewed and gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following processes and systems.

Department of Accounts

Financial Reporting*
 Commonwealth Accounting and Reporting System (CARS)
 Cardinal
 Commonwealth Integrated Payroll/Personnel System (CIPPS)
 Fixed Asset Accounting and Control System (FAACS)
 Lease Accounting System (LAS)

Department of Planning and Budget

Performance Budgeting System
 Budget Execution

Department of Taxation

Financial Reporting
Tax Return Processing
Tax Revenue Collections
Integrated Revenue Management System
Administrative Activities

Department of the Treasury (including Treasury Board operations)

Financial Reporting*	Bank Reconciliation System
Bond Issuance	Trust Accounting
Debt Service Expenses	Check Processing System
Investment Trading	Risk Management Claim System
Investment Accounting	Unclaimed Property Management System
Investment Accounting System	Administrative Activities
Securities Lending Transactions	

*including preparation of the Comprehensive Annual Financial Report and Schedule of Expenditures of Federal Awards by Accounts and the preparation of financial statements of the Local Government Investment Pool, the Virginia College Building Authority, the Virginia Public Building Authority, and the Virginia Public School Authority by Treasury.

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

A nonstatistical sampling approach was used. Our samples of transactions were designed to support conclusions about our audit objectives. An appropriate sampling methodology was used to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Audit Conclusions

We noted certain matters at Accounts and Treasury involving internal controls related to the Commonwealth's financial reporting and central processes and the centralized services provided to agencies and institutions in support of the preparation of the financial statements as indicated in the scope section of this report. These are described in the findings entitled "Adjust Practices as Needed and Request Identifying Numbers Assigned by Pass-Through Entities" and "Maintain Adequate

Staffing in Accounting and Reporting Functions.”

We noted certain matters at Accounts and Treasury involving internal control and compliance with applicable laws and regulations that are required to be reported under Government Auditing Standards related to operating and application system controls of central systems. These are described in the findings entitled “Continue Improving Cardinal System Security Controls,” “Improve Internal Controls for Creating and Updating Vendors in Cardinal,” and “Improve myVRS Navigator Documentation and Procedures.”

We found that Taxation properly stated, in all material respects, the financial records reviewed in support of the tax collections activity detailed in the audit objectives as reported in CARS, Cardinal, the Integrated Revenue Management System, and supplemental information.

We found that Treasury properly stated, in all material respects, the financial records reviewed in support of the cash and investments, securities lending, debt, risk management and unclaimed property activity reported in CARS, Cardinal, Treasury’s accounting records, and supplemental information.

We found that the budget approved by the General Assembly is appropriately recorded in CARS and Cardinal, and controls in CARS and Cardinal were adequate to ensure program expenses do not exceed appropriations.

For the agencies specified in the scope section of this report, we found they properly stated, in all material respects, the financial and budgetary transactions related to their administrative activities recorded and reported in CARS and Cardinal. The financial information presented in this report related to the administrative activities of the agencies came directly from CARS and Cardinal and is recorded 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 agencies of the Secretary of Finance have taken adequate corrective action with respect to audit findings reported in the prior year that are not referenced in this report as “REPEAT.”

Exit Conference and Report Distribution

We discussed this letter with management of the respective agencies of the Secretary of Finance and have included their responses at the end of this report. We did not audit management’s responses and, accordingly, we express no opinion on it.

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

AUDITOR OF PUBLIC ACCOUNTS

LCW/alh

Appendix A

This Appendix includes more detailed information on the various services, programs, and activities managed by the agencies in the Finance Secretariat.

Planning, Budgeting, and Evaluation Services

Planning and Budget aids in the development and administration of the state budget, ensuring that agencies conduct their activities within fund limitations provided in the Appropriation Act and in accordance with gubernatorial and legislative intent. Planning and Budget relies on information from all agencies and universities in developing revenue estimates and expense budgets. Accounts provides Planning and Budget with information regarding unspent balances and carry forward amounts. Taxation develops the General Fund revenue forecast because the largest source of revenue for the Commonwealth is individual and fiduciary income taxes and state sales and use taxes. Taxation also develops the revenue forecasts for certain non-general fund revenues, which are primarily transportation-related.

Once the General Assembly and the Governor have approved the budget, Planning and Budget provides an electronic copy to Accounts to upload into CARS. CARS contains automated edit controls to ensure agencies do not exceed the spending authority established in the budget.

Throughout the year, Planning and Budget, along with the Governor, has certain statutory authority to increase, decrease, or transfer funds and personnel positions within constraints set forth in the Act. Planning and Budget and Accounts jointly ensure that CARS properly reflects these adjustments. During fiscal year 2016, over 6,000 administrative adjustments were processed by Planning and Budget resulting in a \$1.9 billion increase to the Commonwealth's operating budget. These adjustments typically represent additional funding received, transfers between programs, sum sufficient amounts, or any other routine budget adjustments that are processed by the agency and/or Planning and Budget during the fiscal year.

Revenue Administration Services

Taxation administers and enforces the tax laws of the Commonwealth. Due to its tax return processing duties, Taxation is the single largest collector of Commonwealth revenue, which it primarily deposits to the General Fund. During fiscal year 2016, Taxation collected over \$17 billion in net revenue, depositing \$16.7 billion into the General Fund. In addition, both Taxation and Accounts collect money owed to the Commonwealth through a debt set-off program that they jointly administer in accordance with the Code of Virginia's Debt Collection Act.

Taxation also collects and distributes Communication Sales and Use Tax to localities and members of the transportation districts as required by the Code of Virginia. During fiscal year 2016, Taxation distributed \$406.7 million of Communication Sales and Use Tax revenues.

Check Processing and Bank Reconciliation

Treasury prints and distributes all Commonwealth of Virginia check disbursements, including vendor payments, social service benefits, payroll, and tax refunds. Treasury also reconciles all Treasurer of Virginia bank accounts within 45 days of month end as required by the Code of Virginia. This includes approximately 70 bank accounts, including the Commonwealth's large concentration bank accounts, disbursing accounts, and regional depository accounts.

Unclaimed Property Administration

Under the Unclaimed Property Act, Treasury serves as custodian of certain personal properties (intangible and tangible personal property) until the Commonwealth can locate the owner. Treasury identifies abandoned personal property through annual reporting requirements and the performance of audits and compliance reviews, administers the fund under the Commonwealth's control, and uses its best efforts to return the property to its owner.

Investment, Trust, and Insurance Services

Treasury, under the direction of the State Treasurer, invests the Commonwealth's funds and provides trust and insurance services. Treasury manages and invests the Commonwealth's funds throughout the year striving to preserve capital and liquidity while earning the best possible return, in accordance with Treasury Board approved investment guidelines. The largest portfolio Treasury manages is the General Account of the Commonwealth, a pool of investments representing assets of the Commonwealth's General Fund, highway maintenance, and transportation trust funds. The General Account has two portfolios: the primary liquidity portfolio and the extended duration and credit portfolio. Treasury internally manages the primary liquidity portfolio, which provides the major source of liquidity for the disbursement requirements and operational needs of the Commonwealth. The externally managed "Extended Duration and Credit Portfolio" seeks to generate higher total returns over time. Treasury's target allocation for the overall general account asset mix is 75 percent for the primary liquidity pool and 25 percent for the externally managed pool.

Treasury also manages the Local Government Investment Pool, a short-term investment pool offered to counties, towns, cities, state agencies, departments, and authorities of the Commonwealth of Virginia. It is an open-ended money market type fund that offers public funds investors daily liquidity, diversification, and professional management. Further, Treasury manages the Commonwealth's statewide banking network and monitors its own and other agencies' specialized banking services.

Treasury is also responsible for the issuance and management of debt of the Commonwealth and several of its boards and authorities. Treasury provides staff support to the Virginia Public School Authority, the Virginia College Building Authority, the Virginia Public Building Authority, the Debt Capacity Advisory Committee, the Tobacco Settlement Financing Corporation, and the Treasury Board.

Finally, Treasury administers insurance programs on behalf of the Commonwealth that cover state government, other public entities, and certain individuals serving in the public interest. Administered insurance programs are either self-insured, commercially insured, or are a combination of both. Treasury bills state agencies, the Compensation Board, and local governments for insurance premiums to cover current and future costs. Types of insurance include property, auto liability, medical malpractice, general liability, and fidelity bonds.

We performed audits of the financial activity of the Local Government Investment Pool, the Virginia College Building Authority, the Virginia Public School Authority, and the Virginia Public Building Authority for the year ended June 30, 2015, and reported our audit results in a separate audit report issued in February 2016. Our audits for these entities for fiscal year 2016 will be available later this winter.

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. Treasury provides support services to the Treasury Board in fulfilling its responsibilities, which include the following:

- Exercise general supervision over the investment of state funds
- Administer the Virginia Security for Public Deposits Act
- Control and manage sinking and other funds that the Commonwealth holds as fiduciary
- Contract with an outside manager for the administration of the State Non-Arbitrage Program
- Provide advice and supervision in the financing of state buildings
- Approve the terms and structure of proposed state educational institution bond issues and other financing arrangements
- Approve the terms and structure of proposed bond issues secured by state appropriations
- Administer the regional jail financing reimbursement program
- Issue all general obligation debt of the Commonwealth
- Manage its bond issues in compliance with federal taxation and arbitrage laws

In addition, the Treasury Board makes payments for the Virginia College Building Authority and the Virginia Public Building Authority for lease payments and/or bond principal and interest on the Authorities' appropriation-supported debt. The Board also pays debt service on Article X, Section 9(b) general obligation bonds and processes debt service payments to trustees and/or paying agents on behalf of the Commonwealth Transportation Board.

Financial Systems Development and Management

Accounts operates and maintains the Commonwealth's centralized automated accounting, payroll, and fixed asset systems. CARS is a cash-basis accounting system that records all of the Commonwealth's cash receipts and disbursement transactions and provides a means to enforce state appropriation law for all state agencies through automatic edits and manual reviews. With the implementation of Cardinal, Accounts fully decommissioned CARS at the conclusion of fiscal year 2016. Cardinal is an enterprise-wide financial system that Accounts also operates and maintains. Cardinal officially replaced CARS as the Commonwealth's financial system of record at the beginning of fiscal year 2017. CIPPS is the Commonwealth's central payroll and leave system. Agencies and institutions use CIPPS to process employee salaries and wages, tax computations, payroll deductions, and leave transactions. FAACS and LAS record the Commonwealth's capital and controllable assets and equipment leases.

Accounting Services

To facilitate the operation of CARS, Cardinal, CIPPS, FAACS, and LAS, Accounts has developed policies and procedures for entering transactions in the systems and offers periodic training courses to other agencies. In addition, Accounts grants access to the systems, monitors activity in the systems, provides assistance to agencies on financial reporting issues, performs reconciliations, and resolves errors as necessary.

Accounts processes certain transactions in CARS and Cardinal, including reoccurring or correcting journal entries, transfers as required by the Appropriation Act, and the quarterly calculation and allocation among the various funds of interest earned by Treasury on the Commonwealth's cash and investments. Accounts is responsible for all aspects of the payroll process including payroll production, payroll and benefits accounting, and compliance with state and federal tax regulations.

Accounts calculates and distributes certain revenues collected by Taxation to local governments as required by the Code of Virginia. The Appropriation Act budgets and Accounts records these transfer payments under agency 162, Department of Accounts Transfer Payments. Accounts distributed the following amount of revenue during fiscal year 2016.

Sales and use tax for education	\$1,324,852,681
Personal Property Tax Relief Act	950,000,000
Recordation taxes	19,639,049
Other	6,381,428
Total	\$2,300,873,158

Source: Commonwealth Accounting and Reporting System

Accounts also made recordation tax transfers to the Department of Transportation for the Northern Virginia Transportation District Fund and the Transportation Improvement Set-Aside Fund in the amounts of \$19,256,213 and \$1,104,735, respectively.

Another accounting services item Accounts completes is the preparation of several key reports used to monitor the Commonwealth's activity throughout the year and report year-end results. The other agencies within the Finance Secretariat contribute to this process due to the significance of their roles in the budgeting and financial management activities of the Commonwealth.

During the year, the Commonwealth monitors its General Fund revenue collections using the Monthly Revenue Report, which the Secretary of Finance issues. Accounts accumulates the financial information for this report from CARS, Cardinal, and various agencies. Taxation provides Accounts with the General Fund revenue forecast for the report and provides detailed information on certain actual revenue collections. Treasury provides Accounts with information on the Commonwealth's investing activity.

At year-end, Accounts prepares two reports: the General Fund Preliminary Report and the CAFR. Accounts prepares the General Fund Preliminary Report using CARS financial activity and information provided by Planning and Budget for the classification of remaining General Fund balances. Accounts prepares the CAFR using financial activity recorded in CARS and Cardinal as well as information submitted by agencies. Due to the significance of the activity controlled by Taxation and Treasury, these agencies must work closely with Accounts in providing the information necessary to prepare the CAFR. To ensure accuracy of the data in the General Fund Preliminary Report and CAFR, the Quality Assurance division of Accounts performs periodic quality assurance reviews of agency submitted information.

Other reports prepared throughout the year include the Popular Annual Financial Report, the federal and full-costing Statewide Indirect Cost Allocation Plan, and the Statewide Schedule of Expenditures of Federal Awards.

Service Center Administration

The Payroll Service Bureau division of Accounts processes payroll, leave accounting, and certain benefits data entry functions for selected agencies. Additionally, the Finance and Administration division of Accounts provides services for selected agencies, including processing payroll, vendor payments, and revenues.



COMMONWEALTH of VIRGINIA

DAVID A. VON MOLL, CPA
COMPTROLLER

Office of the Comptroller

P. O. BOX 1971
RICHMOND, VIRGINIA 23218-1971

February 2, 2017

Ms. Martha S. Mavredes
Auditor of Public Accounts
James Monroe Building
101 N. 14th Street
Richmond, Virginia 23219

Dear Ms. Mavredes:

The Department of Accounts (Accounts) appreciates the opportunity to respond to the *Internal Control and Compliance Findings and Recommendations* contained in your 2016 Secretary of Finance Audit Report. We give your comments the highest level of importance and consideration as we continue to review and improve our current practices.

Internal Control and Compliance Findings and Recommendations

Continue Improving Cardinal Financials System Security Controls

Improve Internal Controls for Creating and Updating Vendors in Cardinal Financials

Accounts and the Cardinal support team understand the importance of ensuring adequate controls, particularly in the area of system security. There has always been a high focus level placed on the system security by the agency and the team. Accounts remains committed to implementing the security control improvements recommended in this report.

Accounts appreciates the Auditor's acknowledgement regarding the improvements Accounts has made regarding recent management comments. Accounts concurs that there are enhancements that can be made to expand and improve its systems monitoring posture. Specific planned corrective actions have been provided in a separate communication.

Adjust Practices as Needed and Request Identifying Numbers Assigned by Pass-Through Entities

Accounts concurs that some identifying numbers provided by pass-through entities were not included in the fiscal year 2016 Schedule of Expenditures of Federal Awards (SEFA). These other identifying numbers will be included in the Federal Audit Clearinghouse. Additionally, Accounts will modify the financial reporting directive to obtain this information for inclusion in the fiscal year 2017 SEFA.

(804) 225-2109

FAX (804) 786-3356

TDD (804) 371-8588

Ms. Martha S. Mavredes
February 2, 2017
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Significant Initiatives

Status of System Development Projects – Fixed Asset Accounting and Control System

Accounts will continue to work collaboratively with the Departments of General Services and Treasury to determine the feasibility of replacing the Fixed Asset Accounting and Control System. Accounts will ensure that any new system provides the necessary information to appropriately report capital assets in the Comprehensive Annual Financial Report. Accounts will ensure that the Fixed Asset Accounting and Control System remains operational until a suitable replacement system is identified and successfully implemented.

Other Postemployment Benefits Reporting Changes

We agree that GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plan*, and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, will have a significant impact on the Commonwealth's reporting. Accounts has previously met with personnel from both the Virginia Retirement System and Department of Human Resource Management to discuss the impact of these statements and begin implementation planning. Accounts will continue to coordinate with both agencies as these GASB statements are implemented in fiscal years 2017 and 2018, respectively.

Sincerely,



David A. Von Moll

Copy: The Honorable Richard D. Brown, Secretary of Finance
Lewis R. McCabe, Jr., Deputy State Comptroller



COMMONWEALTH of VIRGINIA

Department of Taxation

January 12, 2017

Ms. Martha S. Mavredes
Auditor of Public Accounts
James Monroe Building
101 N. 14th Street
Richmond, Virginia 23219

Dear Ms. Mavredes:

Thank you for the opportunity to provide the Department of Taxation's (Virginia Tax) response to your audit of Taxation's financial records and operations for the year ended June 30, 2016. As always, we appreciate the professionalism of your employees in the performance of the audit of an agency as complex as Virginia Tax. The only issue suggesting a response is the *Risk Alert*. As acknowledged, Virginia Tax is not responsible for the issue noted in the *Risk Alert*; we can only request issues such as these be addressed by the responsible entity and has done so in the past. The most recent communication on the issue noted in the *Risk Alert* is attached.

Again, thank you for the opportunity to respond to your report. The Department strives to maintain strong internal controls and business processes that ensure high standards of integrity, efficiency, and control.

Sincerely,

A handwritten signature in black ink, appearing to read "Craig M. Burns".

Craig M. Burns
Tax Commissioner

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COMMONWEALTH of VIRGINIA

Department of Taxation

January 4, 2017


Mr. Nelson Moe
Chief Information Officer
Commonwealth of Virginia
11751 Meadowville Lane
Chester, Virginia 23836

Dear ^{Nelson} Mr. Moe:

I recently received a draft of the Auditor of Public Accounts' (APA) FY16 audit points for the Department of Taxation. The points included an Agency Risk Alert titled *Mitigate Server Vulnerabilities* (Attached). Unfortunately, the issue the APA noted is the responsibility of the Commonwealth's IT Infrastructure Partnership (Partnership) to maintain and update the servers to mitigate vulnerabilities. As you know, by not properly and timely applying patches, data security is at risk.

The report accurately documents that the number and the severity of the issues have diminished since this time last year. However, due to the importance of this issue, Taxation Technology personnel have contacted your staff to raise awareness and consider additional processes and controls that could be implemented to resolve this audit point. I would ask that you monitor the Partnership's progress in rectifying this important issue and to contact me if I or my staff can be of assistance. Thank you for your responsiveness in addressing this important issue.

Sincerely



Craig M. Burns
Tax Commissioner

Cc: The Honorable Richard D. Brown, Secretary of Finance

Attachment

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COMMONWEALTH of VIRGINIA
Department of the Treasury

MANJU S. GANERIWALA
TREASURER OF VIRGINIA

P.O. BOX 1879
RICHMOND, VIRGINIA 23218-1879
(804) 225-2142
FAX (804) 225-3187

February 2, 2017

Ms. Martha Mavredes
Auditor of Public Accounts
101 N. 14th Street, 8th Floor
Richmond, VA 23219

Dear Ms. Mavredes,

The Department of the Treasury (Treasury) appreciates the opportunity to respond to both the *Maintain Adequate Staffing in Accounting and Reporting Functions* and *Improve VNAV Documentation and Procedures* recommendations in your Report on Audit of the Agencies of the Secretary of Finance for the fiscal year ended June 30, 2016. Your comments and recommendations are appreciated and given the highest level of consideration by Treasury as we continually strive to improve our processes.

Comments to Management

Maintain Adequate Staffing in Accounting and Reporting Functions

Over the last several years, workload in the account and reporting unit has increased considerably due to growth in programs, higher levels of debt issuances and refundings undertaken, and implementation of new accounting standards. To keep up with the consistent increase in workload, Treasury has on two occasions requested additional positions and funding through the budget process; however, these requests were not approved. To help address the staffing shortfall, two years ago, Treasury used funding from other areas in its budget to establish and fill a senior-level accountant position for the unit.

In fiscal year 2016, as noted in your recommendation, Accounting staff spent a significant amount of time and resources preparing for the conversion to the new statewide accounting system, Cardinal, and actually transitioning to the new system. Treasury could not hire outside consultants to assist with the accounting-related conversion tasks to switch to Cardinal, as these tasks required the expertise and skills of staff with Treasury-specific experience.

Ms. Martha Mavredes
February 2, 2017
Page 2

During this same time, Accounting also experienced turnover of several of its accounting staff, which only compounded the issue of constrained resources. Turnover in the accounting functions is a statewide concern. Treasury has a limited Accounting staff of eight so a few vacancies result in a significant workload increase for remaining staff.

The time spent on the conversion to Cardinal, coupled with staff turnover in fiscal year 2016, prevented Accounting from preparing for its year-end responsibilities, resulting in the delays in meeting year-end due dates. To compensate for the additional workload, accounting staff worked considerable overtime throughout the fiscal year. Going forward, Treasury will once again re-evaluate its staffing needs for the accounting and reporting function before the next budget cycle and request additional staffing, as deemed necessary.

Improve VNAV Documentation and Procedures

Treasury files show that the VNAV reconciliations were performed; however, sufficient documentation may not have been retained. Going forward, Treasury will ensure that it maintains the documentation indicating that the reconciliations were completed.

Sincerely,



Manju S. Ganeriwala

cc: The Honorable Ric Brown, Secretary of Finance

SECRETARY OF FINANCE AGENCY OFFICIALS

As of June 30, 2016

Richard D. Brown
Secretary of Finance

David A. Von Moll
Comptroller

Daniel S. Timberlake
Director of the Department of Planning and Budget

Craig M. Burns
Tax Commissioner

Manju S. Ganeriwala
Treasurer