



Quarterly Report Summary - - October 1, 2011 to December 31, 2011

The Commonwealth Needs a Reserve Funding Policy for the State Employees Health Insurance Fund

Best practices indicate that the Commonwealth should, at a minimum, fund an actuarially determined “incurred but not paid” reserve. Although, there is no consensus on the funding of a contingency reserve, there does appear sound support for some actuarially determined funding of this reserve to prevent the reoccurrence of the funding issues from the late 1990’s and early 2000’s. (page 1)

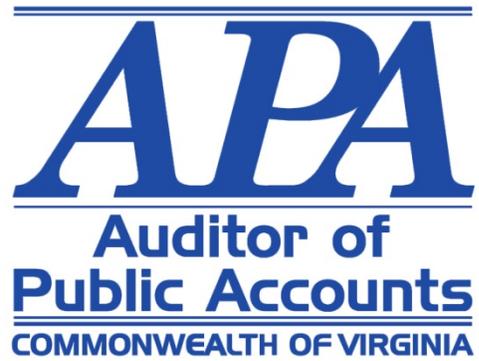
Taxation Is Improving Retail Sales and Use Tax Collection and Distribution Processes

The Commonwealth collects almost \$5 billion in retail sales and use taxes annually and distributes approximately \$1 billion of these revenues to localities as a one percent local option tax. Our interim report found that Taxation has implemented a number of internal controls and procedures in recent years to address and help reduce both business and agency errors in the business registration process, as well as the tax collection and distribution processes. (pages 1 and 2)

Virginia Employment Commission Is Improving Its Procedures for Overpayments

The Employment Commission has taken several actions to address overpayment issues identified in our November 2010 review. The Employment Commission changed its work search policy to allow claimants to use telephone contact for job search and increased staffing in the Benefit Payment Control Unit. The staffing increase resulted in a reduction in the backlog of potential overpayment cases for review by approximately 4,342 cases or 20 percent. (pages 2 and 3)

We will be happy to provide you any reports in their entirety, or you can find all reports listed in this document at our website <http://www.apa.virginia.gov/reports.cfm>. We welcome any comments concerning this report or its contents.



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State Employees Health Insurance Fund and Its Related Insurance Plans

The Commonwealth receives sound actuarial information to set employee health care premiums and reserves. Best practices indicate that the Commonwealth should, at a minimum, fund an actuarially determined “incurred but not paid” reserve. While there is no consensus on the funding of a contingency reserve, there does appear sound support for some actuarially determined funding of this reserve to prevent the reoccurrence of the funding issues from the late 1990’s and early 2000’s.

From 2007 to 2010, the State Health Insurance Fund (HIF) net assets exceeded 100 percent of the actuarially recommended reserve level, known as “overfunding.” To eliminate this overfunding, the Commonwealth has been providing a premium subsidy on behalf of active state employees, thereby allowing these employees and their agencies to pay less than the required monthly premium and using HIF net assets to make up the difference. Because the Commonwealth has no formal reserve funding policy, nothing prohibits Commonwealth management from taking actions that could drop net assets below the actuarially recommended level, and this occurred as of June 30, 2011.

Since the HIF reserves have fallen below the actuarially recommended amounts, the Departments of Human Resource Management, Planning and Budget, and the Governor will need to consider this as part of their analysis when proposing the fiscal year 2013 state health insurance premium rates and deciding whether to continue the current premium subsidy. The General Assembly will also need to consider this when reviewing the proposed rates and any subsidy during the legislative session.

The General Assembly may wish to consider establishing a reserve funding policy during the 2012 legislative session, before adopting the 2013 health insurance premium rates and choosing to continue other actions related to the HIF. Premium subsidies, withholding of interest, and low premiums all reduce state agency expenses and are attractive as a short-term fix to balance the Commonwealth’s budget during tight budgetary times. However, failure to set a reserve funding policy will likely end with the HIF net assets dropping too low, requiring additional General Fund support in the future to make it actuarially sound, similar to conditions that occurred in fiscal year 1997.

We performed this audit pursuant to the Appropriations Act Chapter 890 Item 1.2, 2-D, requiring the Auditor of Public Accounts to complete a financial review of the state employee health insurance fund and address the rate setting process and projected expenses compared to actual expenses. In addition to establishing a reserve funding policy, our report includes several recommendations to improve the HIF’s management.

Review of Retail Sales and Use Tax Collection and Distribution Processes

Review Summary -- Interim Report

The Commonwealth collects almost \$5 billion in retail sales and use taxes annually and distributes approximately \$1 billion of these revenues to localities as a one percent local option tax.

The Code of Virginia requires the Virginia Department of Taxation (Taxation) to collect all retail sales and use tax revenues in the Commonwealth and determine proper local allocations. For years, Virginia localities have experienced inaccuracies in their local retail sales and use tax distributions, and progressively, Taxation and localities have worked together to improve the accuracy of local distributions.

We performed this review pursuant to Section 30-133.2 of the Code of Virginia, which requires the Auditor of Public Accounts to perform a review of the collection and distribution of the Retail Sales and Use Tax with an important focus on the collection and distribution of local retail sales and use taxes.

This interim report provides background information on the collection and distribution process and discusses current practices employed by Taxation and localities to ensure accurate local distributions. We make the following observations based on this interim phase of our review.

- Retail sales and use tax collection and distribution is an evolving process that requires active participation by Taxation, localities, and taxpayers to ensure accurate distributions. Communication and coordination between the entities is critical to ensure the process is effective in minimizing distribution errors.
- In recent years, Taxation has implemented a number of internal controls and procedures to address and help reduce both business and agency errors in the business registration process, as well as the tax collection and distribution processes. Based on available data, both the number and dollar amount of adjustments required to correct erroneous local distributions has steadily decreased over the last three fiscal years. In fiscal year 2011, adjustments to correct erroneous distributions totaled \$8.6 million, which is less than one percent of total local distributions of over \$1 billion.
- Sales tax distribution errors do not impact all localities equally; therefore, any recommendations for improvements must undergo an evaluation of the cost effectiveness of the change.

We recognize that any recommendations for improvement must consider their potential impact on businesses. Suggested improvements that could result in increased costs for businesses or complicate the business registration process may not be cost effective solutions.

We identified several areas for further evaluation in the next phase of our review, focusing on the business registration process, and communication and coordination of information between Taxation and localities. Our evaluation in the next phase will also include recommendations for benchmarks to assess the effectiveness of Taxation's local retail sales and use tax collection and distribution process.

Virginia Employment Commission

During our audit, we also followed up on the status of recommendations included in our "Review of Unemployment Benefit Overpayments" issued in November 2010. We performed this review based on a legislative request to analyze unemployment benefit overpayment activity to

determine the amount of overpayments attributable to administrative errors. The Employment Commission has taken several actions to address overpayment issues identified in the review.

- Effective February 2011, the Employment Commission changed its work search policy to allow claimants to use telephone contact for job search. Previously, claimants could not contact employers by phone to satisfy the work search requirements and this resulted in benefit overpayments.
- In addition, the Employment Commission increased staffing in the Benefit Payment Control Unit by four investigators and one administrative staff. This Unit is responsible for detecting and addressing benefit overpayments. With the staffing increase, the backlog of cases for review for potential overpayments has decreased by approximately 4,342 cases or 20 percent.

The Employment Commission also has several system development projects underway, which we discuss later in this report. As the Employment Commission moves forward with these projects, they need to consider the need to analyze overpayment data and how to best record this information in their new system. While they are currently limited in their ability to analyze overpayment information due to system limitations, it is expected they will have opportunities to obtain better information for overpayment analysis once their new systems are implemented.

SUMMARY OF REPORTS ISSUED

The following reports on audit were released by this Office during the period October 1, 2011, to December 31, 2011. Those reports which included findings in the area of internal controls or compliance are indicated by an (*) asterisk.

Independent Agencies

Internal Control Report on Audit of Local Government Investment Pool, Virginia College Building Authority, Virginia Public Building Authority, and Virginia Public School Authority for the year ended June 30, 2011
Virginia College Savings Plan for the year ended June 30, 2011*
Virginia Retirement System for the year ended June 30, 2011
Virginia State Lottery Department for the year ended June 30, 2011

Executive Departments

Division of Selected Agency Support Services for the year ended June 30, 2011
Office of the Attorney General and the Department of Law for the year ended June 30, 2011*
Office of the Governor for the year ended June 30, 2011
Office of the Lieutenant Governor for the year ended June 30, 2011
The Governor's Cabinet Secretaries for the year ended June 30, 2011

Commerce and Trade

Department of Mines, Minerals, and Energy for the period July 1, 2008 through June 30, 2011
Virginia Biotechnology Research Partnership Authority for the year ended June 30, 2011*
Virginia Commercial Space Flight Authority for the year ended June 30, 2011
Virginia Economic Development Partnership for the year ended June 30, 2011
Virginia Employment Commission for the year ended June 30, 2011*
Virginia Racing Commission for the fiscal year ended June 30, 2011*
Virginia Tobacco Indemnification and Community Revitalization Commission for the year ended June 30, 2011

Colleges and Universities

Old Dominion University for the year ended June 30, 2011*
Old Dominion University Intercollegiate Athletics Programs for the year ended June 30, 2011
University of Virginia for the year ended June 30, 2011
Virginia Polytechnic University for the year ended June 30, 2011

Health and Human Resources

Virginia Foundation for Health Youth for the year ended June 30, 2011

Public Safety

Department of Alcoholic Beverage Control for the fiscal year ended June 30, 2011*

Technology

Innovation and Entrepreneurship Investment Authority, including its blended component unit, the Center for Innovative Technology for the year ended June 30, 2011

Transportation

Virginia Port Authority for the year ended June 30, 2011*

Special Reports

General Assembly, Legislative Agencies, and Commissions of the Commonwealth of Virginia
Financial Report for the year ended June 30, 2011, with the Independent Accountant's Report
on Applying Agreed-Upon Procedures

Report to the Joint Legislative Audit and Review Commission for the quarter July 1, 2011
through September 30, 2011*

Revenue Stabilization Fund Calculations for the year ended June 30, 2011

Review of Compliance with the Federal Payments in Lieu of Taxes (PILT) Act for the period
October 1, 2010 through September 30, 2011

Review of Retail Sales and Use Tax Collection and Distribution Processes – November 2011*

Review of the State Employees Health Insurance Fund—October 2011*

Clerks of the Circuit Courts

Counties:

County of King William – April 1, 2010 through September 30, 2011*

County of Prince George – April 1, 2010 through June 30, 2011*

County of Shenandoah – April 1, 2010 through March 31, 2011*

State Accounts

Cities:

City of Alexandria – for the year ended June 30, 2011

City of Bedford - for the year ended June 30, 2011

City of Bristol - for the year ended June 30, 2011
City of Charlottesville – for the year ended June 30, 2011
City of Covington – for the year ended June 30, 2011
City of Fairfax - for the year ended June 30, 2011
City of Falls Church – for the year ended June 30, 2011
City of Fredericksburg - for the year ended June 30, 2011
City of Hampton - for the year ended June 30, 2011
City of Harrisonburg for the year ended June 30, 2011*
City of Lynchburg – for the year ended June 30, 2011
City of Manassas Park – for the year ended June 30, 2011
City of Martinsville – for the year ended June 30, 2011
City of Newport News - for the year ended June 30, 2011
City of Petersburg - for the year ended June 30, 2011
City of Poquoson – for the year ended June 30, 2011
City of Portsmouth for the year ended June 30, 2011
City of Radford - for the year ended June 30, 2011
City of Roanoke for the year ended June 30, 2011*
City of Staunton - for the year ended June 30, 2011
City of Suffolk – for the year ended June 30, 2011
City of Virginia Beach – for the year ended June 30, 2011

Counties:

County of Accomack - for the year ended June 30, 2011
County of Albemarle - for the year ended June 30, 2011
County of Alleghany - for the year ended June 30, 2011
County of Appomattox – for the year ended June 30, 2011
County of Bath - for the year ended June 30, 2011
County of Bedford – for the year ended June 30, 2011
County of Botetourt for the year ended June 30, 2011
County of Buchanan - for the year ended June 30, 2011
County of Buckingham - for the year ended June 30, 2011
County of Campbell – for the year ended June 30, 2011
County of Caroline – for the year ended June 30, 2011
County of Charles City – for the year ended June 30, 2011
County of Charlotte - for the year ended June 30, 2011
County of Chesterfield – for the year ended June 30, 2011
County of Craig – for the year ended June 30, 2011
County of Culpeper - for the year ended June 30, 2011
County of Cumberland - for the year ended June 30, 2011
County of Dickenson – for the year ended June 30, 2011
County of Essex – for the year ended June 30, 2011
County of Fairfax for the year ended June 30, 2011
County of Fauquier – for the year ended June 30, 2011
County of Floyd – for the year ended June 30, 2011
County of Fluvanna- for the year ended June 30, 2011
County of Giles- for the year ended June 30, 2011

County of Greene – for the year ended June 30, 2011
County of Halifax – for the year ended June 30, 2011
County of Henrico – for the year ended June 30, 2011
County of King & Queen – for the year ended June 30, 2011
County of King George - for the year ended June 30, 2011
County of King William – for the year ended June 30, 2011
County of Loudoun – for the year ended June 30, 2011
County of Louisa - for the year ended June 30, 2011
County of Madison – for the year ended June 30, 2011
County of Middlesex for the year ended June 30, 2011*
County of Montgomery – for the year ended June 30, 2011
County of Nelson – for the year ended June 30, 2011
County of New Kent - for the year ended June 30, 2011
County of Northampton – for the year ended June 30, 2011
County of Page – for the year ended June 30, 2011
County of Patrick – for the year ended June 30, 2011
County of Pittsylvania – for the year ended June 30, 2011
County of Prince George – for the year ended June 30, 2011
County of Pulaski- for the year ended June 30, 2011
County of Rappahannock - for the year ended June 30, 2011
County of Richmond – for the year ended June 30, 2011
County of Rockbridge for the year ended June 30, 2011*
County of Scott – for the year ended June 30, 2011
County of Smyth – for the year ended June 30, 2011
County of Spotsylvania - for the year ended June 30, 2011
County of Stafford – for the year ended June 30, 2011
County of Surry – for the year ended June 30, 2011
County of Sussex – for the year ended June 30, 2011
County of Warren- for the year ended June 30, 2011
County of Washington – for the year ended June 30, 2011
County of Westmoreland - for the year ended June 30, 2011
County of Wise – for the year ended June 30, 2011
County of York – for the year ended June 30, 2011

General Receivers

Cities:

City of Alexandria for the year ended June 30, 2011
City of Bristol for the year ended June 30, 2011

Counties:

County of Arlington for the year ended June 30, 2011
County of Lee for the year ended June 30, 2011
County of Loudoun for the year ended June 30, 2011
County of Russell for the year ended June 30, 2011

County of Sussex for the year ended June 30, 2011
County of Washington for the year ended June 30, 2011

Magistrates

Cities:

City of Danville – July 1, 2010 through June 30, 2011
City of Suffolk – July 1, 2010 through June 30, 2011

Counties:

County of Bedford – July 1, 2010 through June 30, 2011
County of Buchanan – July 1, 2010 through June 30, 2011
County of Campbell – July 1, 2010 through June 30, 2011*
County of Carroll – July 1, 2010 through June 30, 2011
County of Gloucester – July 1, 2010 through June 30, 2011
County of Henry – July 1, 2010 through June 30, 2011
County of Russell – July 1, 2010 through June 30, 2011
County of Stafford – July 1, 2010 through June 30, 2011
County of Tazewell – July 1, 2010 through June 30, 2011
County of York – July 1, 2010 through June 30, 2011*

*Denotes management control finding