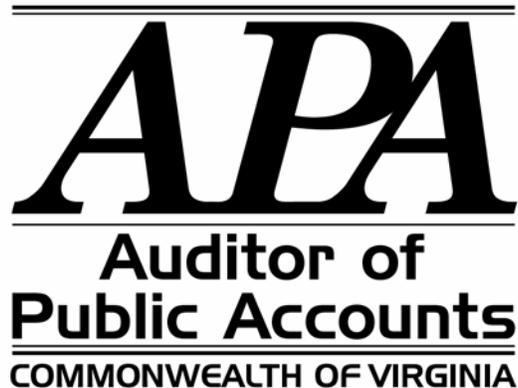


**VIRGINIA BOARD
OF ACCOUNTANCY**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2006**



AUDIT SUMMARY

Our audit for the Virginia Board of Accountancy for the year ended June 30, 2006 found:

- the financial statements are presented fairly, in all material respects;
- weaknesses in internal control that require Management's attention and corrective action; and
- an instance of noncompliance that is required to be reported under Government Auditing Standards.

- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS	1- 2
MANAGEMENT’S DISCUSSION AND ANALYSIS	3- 8
FINANCIAL STATEMENTS:	
Basic Financial Statements:	
Entity-Wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities	11
Fund Financial Statements:	
Balance Sheet	12
Statement of Revenues, Expenditures, and Changes in Fund Balance	13
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual	14
Notes to Financial Statements	15-19
INDEPENDENT AUDITOR’S REPORTS:	
Report on Financial Statements	20-21
Report on Internal Control over Financial Reporting and on Compliance and Other Matters	21-22
AGENCY RESPONSE	23
MEMBERS OF THE VIRGINIA BOARD OF ACCOUNTANCY	24

INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Evaluate Trust Account

The Code of Virginia gives the Virginia Board of Accountancy (Board) the authority to establish and maintain a trust fund to meet unanticipated costs of operation so as to minimize the effect that such events would have on the fees paid by regulants. The Board anticipates using this fund to pay for legal services and other costs should the Board need to pay for special enforcement or other actions, similar to those incurred by other state boards of accountancy following the financial scandals that occurred earlier in this decade.

The Board has the responsibility for setting the size of the fund and determining the mechanism to accumulate these resources. However, the Board has never formally adopted any policies concerning these matters.

According to management, the Board originally intended to transfer monies to their trust account until its balance reached \$5 million. Since its creation in 2004, the Board has transferred approximately \$1 million into its trust account. The Board generated these revenues by maintaining its regulant fees, but reducing operating costs from operational efficiencies achieved from automating its licensing and revenue collections over the web.

The Board needs to adopt formal policies concerning the funding, balance size, and effect the trust should have on the setting of fees. While in recent years, the Board's revenues have exceeded their operating expenses therefore creating a funding stream for the trust account, this situation will not continue. Management believes that increasing expenses in the near future will cause operating expenses to exceed revenues, resulting in the need to increase fees.

During future reviews of fees, the Board will need to provide management guidance on what they will need to consider in setting fees including funding the trust fund. The size of the fund, the timeframes to reach that goal, and other factors will have a direct effect on the amount of fees necessary to meet those objectives. Since reaching these objectives may take some time, the Board should set forth these criteria as part of its formal policies.

We therefore recommend that the Board formally adopt and incorporate into its policies the financial objectives of the trust fund. These policies should provide both management and future boards an understanding of how the Board set the objectives and how those objectives should affect future fee settings.

Comply with the Commonwealth's Security Standard

We found that the Board, like many smaller agencies in the Commonwealth, has an inadequate information security program. The Board is taking the following corrective action to bring their information security program into compliance with the Commonwealth's security standards:

- establishing a Security Awareness Training Program;
- completing a Business Impact Analysis;
- modifying the Board's Risk Assessment to include the following; listing of resources, which require protection against unavailability, unauthorized access, or disclosure and the types of safeguards required to address their defined risks;

- modifying the Board's Business Continuity Plan to include the following; sufficient information regarding essential business functions or IT systems needed to continue operating in the event of disruptions or ways to minimize the effect of disruptions;
- modifying the Board's Disaster Recovery Plan to include enough specific information to recover from a disaster affecting the network; additionally, the plan will include a prioritized list for restoring services; and
- establishing Data Security Policies and Procedures.

We commend the Board for the actions that it is taking to address the issues raised. Based on the review of the plan, the actions will address the security issues as they exist today; however, we believe the Board needs to consider the long-term commitment that maintaining this program will place on the staff and future resources.

Technology, information needs, and threats to these resources are an ever changing environment which requires constant update and review. Considering the Board only employs nine staff members, the Board may find it difficult to implement and maintain an adequate information security program. The Board should consider evaluating the different options available for managing and securing their information technologies such as: contracting with a vendor or another agency to manage their information systems, or joining a consortium or partnering with other smaller agencies to collectively manage the group's information systems.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

As management of the Board, we offer readers of the Board's financial statements this narrative overview and analysis of the financial activities of the Board for the fiscal year ended June 30, 2006.

Financial Highlights

The assets of the Board exceeded its liabilities at the close of the most recent fiscal year by \$1,391,249 (net assets), an increase of \$110,033 in comparison with the prior year. Of this amount, \$1,250,442 represents unrestricted net assets, which may be used to meet the Board's ongoing obligations to citizens and creditors.

At the close of the current fiscal year, the Board's governmental funds reported combined ending fund balances of \$1,255,461, an increase of \$65,104 in comparison with the prior year. The entire balance is unreserved and is available for spending at the Board's discretion.

At the close of the current fiscal year, unreserved fund balance for the Board's Operating Fund was \$419,247, or 62 percent of total operating expenditures. The Board also has a Special Enforcement Fund to be used for the study, research, investigation, and adjudication of matters involving possible violations of statutes or regulations relating to the profession of public accounting. At the close of the current fiscal year, the Special Enforcement Fund reported an ending fund balance of \$836,214.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Board's basic financial statements, which are comprised of three components: (1) the entity-wide financial statements, (2) the fund financial statements, and (3) the Notes to Financial Statements.

Entity-Wide Financial Statements

The entity-wide financial statements are designed to provide readers with a broad overview of the Board's finances, in a manner similar to private-sector business.

The Statement of Net Assets presents information on all of the Board's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Board is improving or deteriorating.

The Statement of Activities presents information showing how the Board's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e., earned, but unused vacation leave).

The entity-wide financial statements can be found on pages 10 and 11 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Board, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the Board's funds are governmental funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions as governmental activities in the entity-wide financial statements. However, unlike the entity-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the entity-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the entity-wide financial statements. By doing so, readers may better understand the long-term impact of the Board's near-term financing decisions. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Board has two governmental funds, both of which are special revenue funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance for each fund.

The Board adopts an annual operating budget for its Operating Fund. The Board's budget is prepared principally on a cash basis and represents appropriations as authorized by the General Assembly. A budgetary comparison statement has been provided for the Operating Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 12 through 14 of this report.

Entity-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Board's, assets exceeded liabilities by \$1,391,249 at the close of the most recent fiscal year.

By far the largest portion of the Board's net assets (90 percent) is unrestricted, meaning they may be used to meet the Board's ongoing obligations to citizens and creditors. The remaining ten percent of the Board's net assets reflects its investment in capital assets. The Board uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Net Assets

	<u>2006</u>	<u>2005</u>
Current assets	\$1,279,515	\$1,230,615
Capital assets	<u>140,807</u>	<u>95,204</u>
Total assets	<u>1,420,322</u>	<u>1,325,819</u>
Current liabilities	24,054	40,258
Long-term liabilities	<u>5,019</u>	<u>4,345</u>
Total liabilities	<u>29,073</u>	<u>44,603</u>
Net assets:		
Invested in capital asset:	140,807	95,204
Unrestricted	<u>1,250,442</u>	<u>1,186,012</u>
Total net assets	<u>\$1,391,249</u>	<u>\$1,281,216</u>

At the end of the current year, the Board is able to report a positive balance in both categories of net assets. The same situation held true for the prior fiscal year.

The Board's net assets increased by \$110,033 during the current fiscal year. This increase represents the degree to which license fees and interest income exceeded ongoing expenses. Key elements of this change are as follows:

Changes in Net Assets

	<u>2006</u>	<u>2005</u>
Program revenues:		
Charges for services	\$ 709,392	\$ 743,160
General revenues:		
Interest income	44,935	29,788
Monetary penalties	6,610	15,000
Other	<u>255</u>	<u>-</u>
Total revenues	<u>761,192</u>	<u>787,948</u>
Licensing and enforcement expenses	<u>627,528</u>	<u>538,591</u>
Increase in net assets before transfers	133,664	249,357
Transfers/(net)	<u>(23,631)</u>	<u>(30,753)</u>
Increase in net assets:	110,033	218,604
Net assets – July 1	<u>1,281,216</u>	<u>1,062,612</u>
Net assets – June 30	<u>\$1,391,249</u>	<u>\$1,281,216</u>

Financial Analysis of the Entity's Special Revenue Funds

As noted earlier, the Board uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the Board's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Board's financing requirements and fee structure. In particular, unreserved fund balances may serve as a useful measure of the Board's net resources available for spending at the end of the fiscal year.

Program Revenues and Expenditures

At the end of the current fiscal year, the Board's special revenue funds reported combined ending fund balances of \$1,255,461. This entire amount is unreserved, meaning it is available for spending at the Board's discretion.

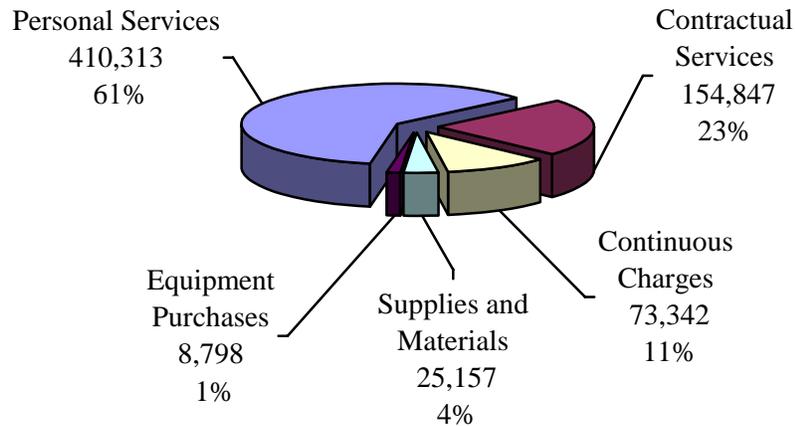
The Operating Fund is the chief operating fund of the Board. At the end of the current fiscal year, the unreserved fund balance of the Operating Fund was \$419,247. As a measure of the Operating Fund's liquidity, it may be useful to compare the fund balance to total fund expenditures. The fund balance represents 62 percent of total expenditures.

The fund balance of the Board's Operating Fund increased by \$36,630 during the current fiscal year. Key factors affecting the change in fund balance are as follows:

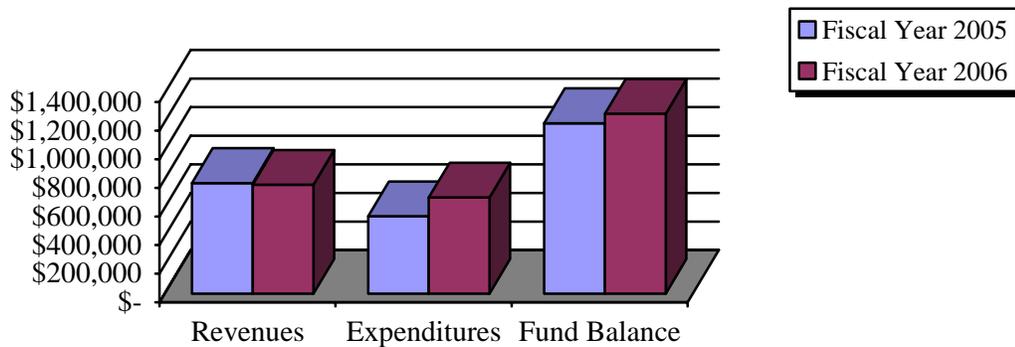
- The regulant population continues to grow steadily, causing revenues from applications and renewals to increase by \$75,390.
- Revenues from reinstatements decreased by \$109,158 due to the effectiveness of the Board's past efforts to reduce the number of expired licensees and registrations through reinstatement.
- Personnel service expenses increased by \$67,927 as new staff were hired to handle the increased workflow associated with in-house exam administration and position regrades for the Board's full-time staff.
- Other licensing and enforcement expenses increased by \$63,246 due to a contractual increase in the amount paid for accounting services and increased employee tuition and training costs.
- Mandatory transfers to the State General Fund increased by \$1,268, while transfers of monetary penalties to the State Literary Fund increased by \$6,610.

The Special Enforcement Fund has a total fund balance of \$836,214, all of which is unreserved. Interest income remains in the fund, helping to increase the fund balance.

Expenditures by Type



Revenues, Expenditures, and Fund Balances



Operating Fund Budgetary Highlights

The Board adopts an annual operating budget for its Operating Fund. The Board's budget is prepared principally on a cash basis and represents appropriations as authorized by the General Assembly. Differences between the original budget and the final amended budget totaled \$106,224. The budgetary increase can be summarized as follows:

- \$64,482 increase in personal services to fund three new part-time positions hired to handle the increased workflow associated with the in-house CPA exam administration and to fund cost-of-living and other salary adjustments.
- \$12,955 increase in contractual services to pay the increased costs of information technology services.
- \$15,000 increase in continuous changes to pay the increased cost of accounting services provided by the Department of Motor Vehicles.

- \$5,283 increase in supplies and materials and \$8,504 increase in equipment charges to fund one-time expenses for equipment, wiring, and furniture purchased for the computer-based CPA exam.

Capital Assets

The Board’s investment in capital assets at June 30, 2006, amounts to \$140,807 (net of accumulated depreciation). This amount includes software costs for the Board’s computerized licensing system. Additional information on the Board’s capital assets can be found in Note 5 on page 18 of this report.

Economic Factors and Next Year’s Budget and Rates

The Board’s major source of revenue is license fees. Revenue from license fees, especially renewals, is expected to increase as the Board’s regulant population continues to grow. The Board continues to encourage reinstatement of expired licenses and registrations and has experienced a high number of reinstatements during the last two years, adding to the increase in the regulant population.

CPA License Holders and Firm Registrations

	<u>At June 30, 2006</u>	<u>At June 30, 2005</u>
Individuals	19,778	18,545
Firms	<u>1,630</u>	<u>1,642</u>
Total	<u>21,408</u>	<u>20,187</u>

The Board determined that it would serve the citizens of the Commonwealth more effectively by assisting Virginia’s CPA examination candidates directly from the Board office in Richmond. For many years, administration of the examination has been contracted to an exam vendor located in Nashville. The Board is currently involved in planning the essentials for this major change, which is scheduled to begin in August 2006. There will be a substantial decrease in the administration fees for candidates, including both initial applications and retakes. Increases in expenditures are also projected for the next biennium to meet additional staffing and information technology needs.

All of these factors were considered in preparing the Board’s budget for the upcoming fiscal year.

FINANCIAL STATEMENTS

VIRGINIA BOARD OF ACCOUNTANCY
STATEMENT OF NET ASSETS
As of June 30, 2006
With Comparative Figures for 2005

	Governmental Activities	
	2006	2005
Assets:		
Cash held by the Treasurer of Virginia (Note 3)	\$ 1,277,015	\$ 1,215,615
Accounts receivable (Note 4)	2,500	15,000
Equipment, net of accumulated depreciation (Note 5)	140,807	95,204
Total assets	1,420,322	1,325,819
Liabilities:		
Accounts payable	13,655	7,335
Accrued salaries payable	7,899	17,923
Due to the State Literary Fund (Note 4)	2,500	15,000
Compensated absences payable (Note 8)	5,019	4,345
Total liabilities	29,073	44,603
Net assets:		
Invested in capital assets	140,807	95,204
Unrestricted	1,250,442	1,186,012
Total net assets	\$ 1,391,249	\$ 1,281,216

The accompanying Notes to Financial Statements are an integral part of this statement.

VIRGINIA BOARD OF ACCOUNTANCY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006
With Comparative Figures for 2005

	Governmental Activities			
	2006		2005	
	Program Revenues	Net (Expense)/ Revenue and Changes in Net Assets	Net (Expense)/ Revenue and Changes in Net Assets	
Functions/programs:	Charges for Services			
	Expenses			
Governmental activities				
Licensing and enforcement functions	\$ 627,528	\$ 709,392	\$ 81,864	\$ 204,569
General revenues:				
Unrestricted interest income		44,935	29,788	
Monetary penalties		6,610	15,000	
Other revenue		255	-	
Transfers:				
Transfers to the State General Fund		(17,021)	(15,753)	
Transfers to the State Literary Fund		(6,610)	(15,000)	
Total general revenues and transfers		28,169	14,035	
Changes in net assets		110,033	218,604	
Net assets, July 1		1,281,216	1,062,612	
Net assets, June 30		\$ 1,391,249	\$ 1,281,216	

The accompanying Notes to Financial Statements are an integral part of this statement.

VIRGINIA BOARD OF ACCOUNTANCY
BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2006
With Comparative Figures for 2005

	Special Revenue Funds			
	Operating Fund	Special Enforcement Fund	Total 2006	Total 2005
Assets				
Cash held by the Treasurer of Virginia (Note 3)	\$ 440,801	\$ 836,214	\$ 1,277,015	\$ 1,215,615
Accounts receivable (Note 4)	2,500	-	2,500	15,000
Total assets	443,301	836,214	1,279,515	1,230,615
Liabilities and fund balance				
Liabilities:				
Accounts payable	\$ 13,655	\$ -	\$ 13,655	\$ 7,335
Accrued salaries payable	7,899	-	7,899	17,923
Due to the State Literary Fund (Note 4)	2,500	-	2,500	-
Deferred revenue	-	-	-	15,000
Total liabilities	24,054	-	24,054	40,258
Fund balance:				
Unreserved	419,247	836,214	1,255,461	1,190,357
Total liabilities and fund balance	\$ 443,301	\$ 836,214	\$ 1,279,515	\$ 1,230,615
Amounts reported for governmental activities in the Statement of Net Assets are different because:				
Total fund balance (per above)			\$ 1,255,461	\$ 1,190,357
Capital assets reported for governmental activities are not financial resources and, therefore, are not reported in the funds.			140,807	95,204
Long-term liability for compensated absences is not due and payable in the current period and therefore is not reported in the funds.			(5,019)	(4,345)
Net assets of governmental activities (page 10)			\$ 1,391,249	\$ 1,281,216

The accompanying Notes to Financial Statements are an integral part of this statement.

VIRGINIA BOARD OF ACCOUNTANCY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2006
With Comparative Figures for 2005

	Special Revenue Funds			
	Operating Fund	Special Enforcement Fund	Total 2006	Total 2005
Revenues:				
Licenses and permits	\$ 709,392	\$ -	\$ 709,392	\$ 743,160
Interest income	16,461	28,474	44,935	29,788
Monetary penalties	6,610	-	6,610	-
Other revenues	255	-	255	-
Total revenues	732,718	28,474	761,192	772,948
Expenditures:				
Licensing and enforcement functions:				
Personal services	410,313	-	410,313	342,386
Contractual services	154,847	-	154,847	125,823
Supplies and materials	25,157	-	25,157	17,576
Transfer payments	-	-	-	-
Continuous charges	73,342	-	73,342	48,809
Equipment purchases	8,798	-	8,798	6,690
Total expenditures	672,457	-	672,457	541,284
Excess/(deficiency) of revenues over expenditures	60,261	28,474	88,735	231,664
Other financing sources/(uses)				
Transfers from other funds	-	-	-	-
Transfers to the State General Fund	(17,021)	-	(17,021)	(15,753)
Transfers to the State Literary Fund	(6,610)	-	(6,610)	-
Total other financing sources and uses	(23,631)	-	(23,631)	(15,753)
Net change in fund balance	36,630	28,474	65,104	215,911
Fund balance, July 1	382,617	807,740	1,190,357	974,446
Fund balance, June 30	\$ 419,247	\$ 836,214	\$ 1,255,461	\$ 1,190,357
Amounts reported for governmental activities in the Statement of Activities are different because:				
Net change in fund balance (per above)			65,104	215,911
Governmental funds report equipment purchases as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of equipment purchases less depreciation expense in the current period.			45,603	4,004
The expense associated with compensated absences reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds.			(674)	(1,311)
Changes in net assets of governmental activities (page 11)			\$ 110,033	\$ 218,604

The accompanying Notes to Financial Statements are an integral part of this statement.

VIRGINIA BOARD OF ACCOUNTANCY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
PREPARED ON THE BUDGETARY (CASH BASIS) OF ACCOUNTING
OPERATING FUND
For the Year Ended June 30, 2006
With Comparative Figures for 2005

	2006			2005	
	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive/ (Negative)	Actual Amounts
Revenues:					
Licenses and permits	\$ 586,000	\$ 692,224	\$ 709,392	\$ 17,168	\$ 743,260
Interest income	-	-	16,461	16,461	22,048
Monetary penalties	-	-	4,110	4,110	-
Miscellaneous revenue	-	-	255	255	-
Total revenues	586,000	692,224	730,218	37,994	765,308
Expenditures:					
Licensing and enforcement functions:					
Personal services	278,173	342,655	420,887	(78,232)	342,456
Contractual services	143,990	156,945	154,203	2,742	129,080
Supplies and materials	10,000	15,283	18,998	(3,715)	30,346
Transfer payments	-	-	-	-	997
Continuous charges	53,837	68,837	73,276	(4,439)	48,837
Equipment purchases	100,000	108,504	8,797	99,707	16,638
Total expenditures	586,000	692,224	676,161	16,063	568,354
Excess/(deficiency) of revenues over expenditures	-	-	54,057	54,057	196,954
Other financing sources/(uses):					
Transfers To Other Funds	-	-	-	-	(800,000)
Transfers to the State General Fund	-	-	(17,021)	(17,021)	(15,753)
Transfers to the State Literary Fund	-	-	(4,110)	(4,110)	-
Total Other Financing Sources and Uses	-	-	(21,131)	(21,131)	(815,753)
Net Change in Fund Balance	-	-	32,926	32,926	(618,799)
Fund Balance, July 1	407,875	407,875	407,875	-	1,026,674
Fund Balance, June 30	\$ 407,875	\$ 407,875	\$ 440,801	\$ 32,926	\$ 407,875

This statement presents comparisons of the legally adopted budget prepared on the cash basis of accounting with actual data prepared on the cash basis. Actual amounts reported on the modified

NOTES TO FINANCIAL STATEMENTS

THE VIRGINIA BOARD OF ACCOUNTANCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Board regulates the practice of accounting in Virginia, protecting and serving the citizens of the Commonwealth by administering the laws and regulations for their health, safety, and welfare. The Board's major activities include reviewing applications to ensure applicants are competent to enter the profession; administering the Uniform CPA exam; determining continued qualifications for licensure; conducting audits of continuing professional education; and adjudicating enforcement cases and disciplining those who do not follow acceptable, ethical or professional standards.

A separate report is prepared for the Commonwealth, which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The Board is an agency of the Commonwealth and is included in the Commonwealth's Comprehensive Annual Financial Report.

B. Fund Accounting

The activities of the Board are accounted for in its special revenue funds. Special revenue funds account for transactions related to resources received and used for restricted or specific purposes.

The Board has two special revenue funds. The Operating Fund is the Board's primary operating fund. It accounts for all financial resources of the Board, except those resources held in the Special Enforcement Fund. The Special Enforcement Fund accounts for the resources accumulated and payments made for the investigation and adjudication of matters involving possible violations of statutes or regulations pertaining to the profession of public accounting.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Entity-Wide Financial Statements – The entity-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the Board's financial activities. For the most part, the effect of interfund activity has been removed from these statements. The Statement of Activities demonstrates the degree to which direct expenses are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues consist of charges to regulants. Interest income and other revenues not included among program revenues are reported instead as general revenues.

The entity-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. License fees are recognized as revenue when received.

Governmental Fund Financial Statements – The financial statements also include separate fund financial statements. The Operating Fund and Special Enforcement Fund are reported in separate columns in the fund financial statements. The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within sixty days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due.

2. BUDGETARY INFORMATION

The Board adopts an annual operating budget for its Operating Fund. The Board’s budget is prepared principally on a cash basis and represents appropriations as authorized by the General Assembly. Unexpended appropriations at the end of the fiscal year generally lapse. However, they may be reappropriated for expenditure in the following fiscal year. The Governor, as required by the Code of Virginia, submits a budget composed of all proposed expenditures for the state, and of estimated revenues and borrowing for a biennium, to the General Assembly.

The budget is prepared on a biennial basis; however, the budget contains separate appropriations for each year within the biennial budget, as approved by the General Assembly, and signed into law by the Governor. For management control purposes, the budget is controlled at the program level.

Appropriations of special revenue funds may allow expenditures in excess of the original appropriations to the extent that revenues of the funds exceed original budget estimates and such additional expenditures are approved by the Governor through supplemental appropriations. The Board received supplemental appropriations of \$106,224 during the current fiscal year to fund new positions, cost-of-living salary increases, increases in information technology costs and equipments, and the increased costs of accounting services. The Board’s original and final adjusted budgets are included in the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual.

The Board has no current plans to spend monies in its Special Enforcement Fund. Consequently, the Board did not adopt an operating budget for the Special Enforcement Fund.

3. CASH WITH THE TREASURER OF VIRGINIA

All state funds of the Board are held by the Treasurer of Virginia, pursuant to Section 2.2-1800, Code of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Each fund’s equity in pooled state funds is reported as “Cash Held by the Treasurer of Virginia” and is not categorized as to credit risk.

4. RECEIVABLES AND DUE TO THE STATE LITERARY FUND

The Board levies and collects penalties from regulants found guilty of violating the Board's statutes or regulations. The proceeds from these penalties are deposited into the state's Literary Fund in accordance with Section 19.2-353, Code of Virginia. Consequently, receivables are offset by a corresponding amount Due to the State Literary Fund and are not available to meet the Board's current operating needs. At June 30, 2006, the amount Due to the State Literary Fund for collections on monetary penalties was \$2,500.

	<u>June 30, 2006</u>
Gross receivables	\$32,500
Less: allowance for doubtful accounts	<u>(30,000)</u>
Net Receivables	<u>\$ 2,500</u>

5. CAPITAL ASSETS

The following presents capital activity for the year ended June 30, 2006:

	<u>Balance at June 30, 2005</u>	<u>Acquired</u>	<u>Deleted</u>	<u>Balance at June 30, 2006</u>
Software	\$164,647	\$65,214	\$ -	\$229,861
Less accumulated depreciation	<u>(69,443)</u>	<u>(19,611)</u>	-	<u>(89,054)</u>
Capital assets, net	<u>\$ 95,204</u>	<u>\$45,603</u>	<u>\$ -</u>	<u>\$140,807</u>

The Board capitalizes all software and equipment with an initial, individual cost of \$5,000 and an estimated useful life in excess of one year. This includes capitalizing personal service cost associated with developing the software for internal use.

Capital assets are reported at historical cost less accumulated depreciation. Depreciation of software and equipment costs are expensed on a straight-line basis over their estimated useful lives of five and seven years, respectively.

6. TRANSFER TO THE SPECIAL ENFORCEMENT FUND

Effective July 1, 2004, in accordance with §54.1-4405 of the Code of Virginia, a special non-reverting fund known as the Board of Accountancy Special Enforcement Fund was created. The purpose of the fund is to provide a supplemental source of funds to the Board on a timely basis for use in the study, research, investigation and adjudication of matters involving possible violations of statutes or regulations pertaining to the profession of public accounting or for any other purpose that the Board determines is germane to its statutory purposes. There were no transfers to the Special Enforcement Fund during the current fiscal year.

7. LEASE COMMITMENTS

The Board is committed under an operating lease for office space. The lease is for a one-year term ending May 31, 2007. The Board expects that in the normal course of business, the lease will be replaced by a similar operating lease. Rental expense for the fiscal year ended June 30, 2006, was \$33,302.

A summary of future obligations under lease agreements as of June 30, 2006, follows.

<u>Year Ending June 30,</u> 2007	<u>Amount</u> <u>\$34,128</u>
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7. COMPENSATED ABSENCES

Compensated absences reflected in the Statement of Net Assets represent the amounts of vacation, sick, and compensatory leave earned by the Board's employees but not taken at June 30, 2006. The amount reflects all earned vacation, sick, and compensatory leave payable under the Commonwealth's leave payout policies. Information on the Commonwealth's leave payout policies is available at the statewide level in the Commonwealth's Comprehensive Annual Financial Report.

<u>Balance at</u> <u>June 30, 2005</u> <u>\$4,345</u>	<u>Increases</u> <u>\$6,231</u>	<u>Decreases</u> <u>\$(5,557)</u>	<u>Balance at</u> <u>June 30, 2006</u> <u>\$5,019</u>
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8. PENSION PLAN AND OTHER POST RETIREMENT BENEFITS

The Board's employees are employees of the Commonwealth. The employees participate in a defined benefit plan administered by the Virginia Retirement System (VRS). The VRS also administers life insurance and health related plans for retired employees. Information related to these plans is available on a statewide level only in the Commonwealth's Comprehensive Annual Financial Report. The Commonwealth, not the Board, has overall responsibility for contributions to these plans.

9. RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Board participates in insurance plans maintained by the Commonwealth. The state employee health care and worker's compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, faithful performance of duty bond, and automobile plans. The Board pays premiums to each of these Departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth's Comprehensive Annual Financial Report.

10. SUBSEQUENT EVENT - TRANSFER TO SPECIAL ENFORCEMENT FUND

On January 17, 2007, the Board transferred \$200,000 from the Operating Fund to the Special Enforcement Fund.



Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

February 5, 2007

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
And Review Commission

Board Members
Virginia Board of Accountancy

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities and the Special Revenue Funds of the **Virginia Board of Accountancy** (Board) as of and for the year ended June 30, 2006, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1A, the basic financial statements of the Board are intended to present the financial position and the changes in financial position of only that portion of the governmental-type activities and the aggregate remaining fund information of the Commonwealth of Virginia that is attributable to the transactions of the Board. They do not purport to, and do not, present fairly the Commonwealth of Virginia's overall financial position as of June 30, 2006, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the Special Revenue Funds of the Board as of June 30, 2005, and the respective changes in financial position and budgetary comparison for the Operating Fund, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis on pages 3 through 8 are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Board's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions, entitled "Evaluate Trust Account" and "Comply with the Commonwealth's Security Standard" are described in the section titled Internal Control and Compliance Findings and Recommendations.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards. The instance of noncompliance, entitled "Comply with the Commonwealth's Security Standard" is described in the section titled Internal Control and Compliance Findings and Recommendations.

The “Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters” is intended solely for the information and use of the Governor and General Assembly of Virginia, the Virginia Board of Accountancy and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on April 10, 2007.

AUDITOR OF PUBLIC ACCOUNTS

GDS:sk
sks:32



**COMMONWEALTH OF VIRGINIA
BOARD OF ACCOUNTANCY**

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Nancy Taylor Feldman
Executive Director/Agency Head

Stephen D. Holton, CPA
Chairman

Lawrence D. Samuel, CPA
Vice Chairman

O. Whitfield Broome, Ph.D., CPA
Board Member

Regina P. Brayboy, MPA
Board Member

Dian T. Calderone, MTX, CPA
Board Member

Tyrone E. Dickerson
Board Member

William E. Hunt, CPA
Board Member

TO: Walter J. Kucharski
Auditor of Public Accounts

FROM: Nancy Feldman, Executive Director

DATE: April 10, 2007

SUBJECT: BOA Comments for Final APA Audit

Thank you for allowing BOA staff the opportunity to discuss the 2006 APA Audit during the exit conference today.

The Board strongly disagrees with the assertion that it has an inadequate information security program but agrees that additional documentation is needed to fully support compliance with VITA's IT Security Standards. The audit report reflects the many steps the Board has already taken to strengthen its IT security policies and the board is actively working to address remaining concerns.

The Board agrees that more formalized funding and spending policies are needed for its Special Enforcement Fund. The Board will address these policy issues at its May Board meeting in connection with its current fee structure.

Nancy Taylor Feldman
Signature

4-10-07
Date

VIRGINIA BOARD OF ACCOUNTANCY

As of June 30, 2006

The Board is comprised of five certified public accountants, one educator in the field of accountancy, and one citizen member. The Governor appoints each member to a term of four years.

Jane M. Little, CPA
Chairman

Stephen D. Holton, CPA
Vice Chairman

Regina P. Brayboy, MPA Dian T. Calderone, CPA
O. Whitfield Broome, CPA Tyrone E. Dickerson, CPA
Lawrence D. Samuel, CPA