

VIRGINIA BOARD OF ACCOUNTANCY

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2008**

APA

**Auditor of
Public Accounts**

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Virginia Board of Accountancy for the year ended June 30, 2008, found:

- the financial statements are presented fairly, in all material respects;
- no internal control matters that we consider to be material weaknesses;
- no instances of noncompliance with material laws and regulations or other matters that are required to be reported; and
- certain practices subsequent to the balance sheet date that we believe put the Board at significant risk on which the Board should take immediate action.

AUDIT RISK ALERT

Subsequent to June 30, 2008, the Board has undergone some significant changes in its general and accounting operations. These changes have raised some concerns by our office regarding the adequacy of internal controls over financial reporting in future years. Our concerns are further discussed in the Audit Risk Alert prefacing the Management Discussion and Analysis.

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AUDIT RISK ALERT

Subsequent to June 30, 2008, the Board has undergone some significant changes in its general and accounting operations. The Executive Director position has been vacant since November 7, 2008, the BOA has terminated its accounting services agreement with another state agency and the individual who has previously prepared its financial statements would not continue to perform this function. The Board brought this accounting function in-house. As part of the audit, we observed the operations of the Board staff and have serious concerns about maintaining accurate accounting information, having adequate internal controls and preparing financial statements for the next fiscal year.

We believe that the existing staff, who assumed the accounting services duties formerly outsourced, do not have the training and expertise to undertake these duties. Additionally, the Board has no documented policies and procedures to assist the staff in performing these duties.

We understand that the Board is negotiating an agreement with the Department of Accounts for accounting services and the Department of Human Resources for human resource services but has not filled the financial statement preparation function. Currently a search process is in effect to fill the Executive Director position.

We suggest the Board take immediate action to:

1. Fill the position of Executive Director as soon as possible
2. Provide staff training in how to use Commonwealth Systems to provide daily operations along with the existing Board licensing system and credit card acceptance system. The Board should obtain interim assistance from the State Comptroller to assist in processing and reconciling transactions, pending either continued performance of these duties internally, or entering into another accounting services agreement.
3. Develop documented operating procedures that address sufficient audit trails for purchase card transactions, revenue refund transactions, and general accounting procedures, including: reconciliation of the licensing, credit card, and accounting systems; recognition and capitalization of fixed asset expenses; recognition and recording of lease obligations; procedures for batching and approving regular accounting transactions. Also, there is a need to develop some emergency procedures should the Board lose its accounting support in the future.
4. Re-examine internal staffing assignment and resources to adequately segregate duties between accounts receivable, treasury, accounts payable, purchasing, and general accounting functions.
5. Either internally address the lack of staff experience and training in Generally Accepted Accounting Principles sufficient to ensure adequate preparation of financial statements or seek to contract again with someone to prepare the year-end statements.

While we understand that the Board is attempting to examine and select an alternative, we believe that the Board is at risk if it should lose any additional staff especially in the area of accounting. We recommend that the Board contact the State Comptroller to seek interim assistance and potentially consider the use of one of the other state agencies that provide smaller agencies assistance.

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, 2008.

Financial Highlights

The assets of the Board exceeded its liabilities at the close of the most recent fiscal year by \$954,480 (net assets), a decrease of \$287,022 in comparison with the prior year. Of this amount, \$820,224 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 \$833,222, a decrease of \$291,755 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, the unreserved fund balance for the Board's Operating Fund was \$40,386 or four 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 \$792,836.

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 11 through 13 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, assets exceeded liabilities by \$954,480 at the close of the most recent fiscal year.

By far the largest portion of the Board's net assets (86 percent) is unrestricted, meaning they may be used to meet the Board's ongoing obligations to citizens and creditors. The remaining 14 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>2008</u>	<u>2007</u>
Current assets	\$ 936,859	\$1,228,679
Capital assets	<u>134,256</u>	<u>129,743</u>
Total assets	<u>1,071,115</u>	<u>1,358,422</u>
Current liabilities	103,637	103,702
Long-term liabilities	<u>12,998</u>	<u>13,218</u>
Total liabilities	<u>116,635</u>	<u>116,920</u>
Net assets:		
Invested in capital asset:	134,256	129,743
Unrestricted	<u>820,224</u>	<u>1,111,759</u>
Total net assets	<u>\$ 954,480</u>	<u>\$1,241,502</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 decreased by \$287,022 during the current fiscal year. This decrease represents the degree to which payroll and other operating expenses exceeded license fees and interest income. Key elements of this change are as follows:

Changes in Net Assets

	<u>2008</u>	<u>2007</u>
Program revenues:		
Charges for services	\$ 796,714	\$ 775,650
General revenues:		
Interest income	50,370	61,130
Monetary penalties	<u>152,120</u>	<u>64,500</u>
Total revenues	<u>999,204</u>	<u>901,280</u>
Licensing and enforcement expenses	<u>1,125,006</u>	<u>976,382</u>
Increase (decrease) in net assets before transfers	(125,802)	(75,102)
Transfers/(net)	<u>(161,220)</u>	<u>(74,645)</u>
Increase (decrease) in net assets:	(287,022)	(149,747)
Net assets – July 1	<u>1,241,502</u>	<u>1,391,249</u>
Net assets – June 30	<u>\$ 954,480</u>	<u>\$1,241,502</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 \$833,222. 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 \$40,386. 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 four percent of total expenditures.

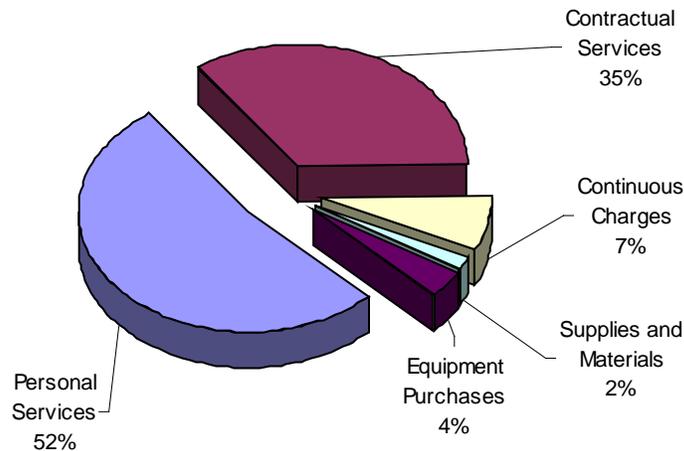
The fund balance of the Board's Operating Fund decreased by \$291,755 during the current fiscal year. Key factors affecting the change in fund balance are as follows:

- Revenues from individual licensing fees increased by \$37,776 during the year. The number of licensed CPA's continues to grow steadily, causing revenues from new applications and renewals to increase.
- Revenues from examination applications increased by \$11,880 during the year. Last year the Board saw a decrease in the number of new examination applications as a result of the new 150-hour rule. This downward trend reversed itself in the current fiscal year as exam candidates earned the additional credit hours, causing examination revenues to increase.
- Revenues from firm registrations decreased by \$9,160 during the year. Changes to the firm registration requirements reduced the number of firms required to be licensed, causing revenues from firm renewals to decrease.
- Interest income decreased by \$10,760 during the year as a result of declining cash balances and lower interest rates.
- Personal service expenses increased by \$99,157 during the year. This increase results from cost of living and other salary adjustments made during the year as well as the addition of a new full-time investigator hired to handle the Board's increasing enforcement caseload.
- Contractual service expenses for software development and maintenance increased by \$55,830 during the year. This increase was offset by a \$89,617 savings in information technology wage expense that resulted from the Board's April 2007 decision to outsource its software maintenance activities

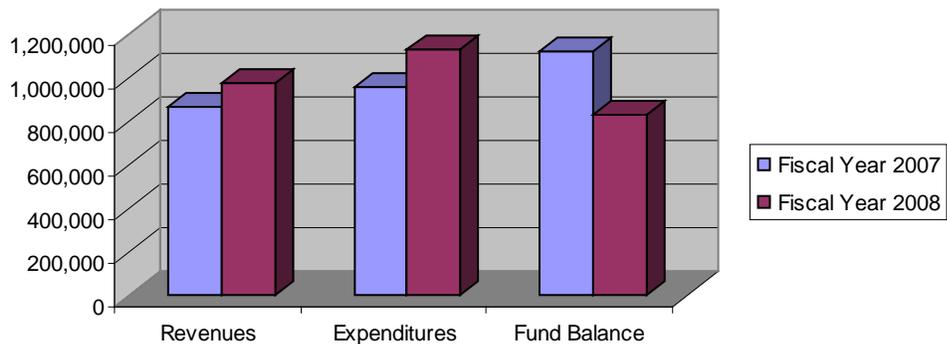
- Contractual service expenses increased by \$38,750 during the year as a result of implementing the state-mandated ARMICS internal control initiative.
- Other licensing and enforcement expenses increased by \$68,500 during the year, primarily due to the increased information technology and hardware maintenance costs.

The Special Enforcement Fund has a total fund balance of \$792,836, all of which is unreserved. Interest income remains in the fund, helping to increase the fund balance. During the year the Board transferred \$132,000 from the Special Enforcement Fund to the Operating Fund to provide needed cash for ongoing expenditures. Consequently, the fund balance of the Board's Special Enforcement Fund decreased by \$87,544 during the current fiscal year.

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 \$291,880. The budgetary increase can be summarized as follows:

- \$25,632 increase in personal services to fund cost-of-living and other salary increases.
- \$52,414 increase in contractual services to fund ongoing information technology maintenance costs and one time upgrades to the Board's server and other information technology equipment.
- \$174,800 increase in contractual services to fund the Board's new automated licensing system.
- \$10,000 increase in continuous changes to fund the increased cost of accounting services provided by the Department of Motor Vehicles.
- \$29,034 increase in equipment costs to fund purchases of office furniture and equipment associated with the move to the Perimeter Center location.

Capital Assets

The Board's investment in capital assets at June 30, 2008, amounts to \$134,256 (net of accumulated depreciation). This amount consists of 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 20 of this report.

Economic Factors and Next Year's Budget and Rates

The Board's major source of revenue is licensing and exam fees. Key factors affecting the Board's revenues are as follows:

- The Code of Virginia was amended effective July 1, 2006, to require persons seeking licensure to obtain at least 150 semester hours of education before applying to sit for the CPA exam. Revenue from examination fees dropped significantly in the prior year as a result of this change. However, this downward trend reversed itself in the current year and the Board experienced a significant increase in examination fees. Revenue from examination fees is expected to continue growing in the coming year as new candidates begin the process of certification.
- The Board experienced a large increase in the number of licensed individuals in the current year which is expected to cause revenue from renewals to increase in the coming year. However, the 2007 Acts of Assembly included language to facilitate mobility between states and the Board has many CPA licensees with out-of-state addresses. It is likely that many of these CPAs will discontinue renewal of their licenses in Virginia when they become fully aware of the mobility provisions and that revenue from renewals will decrease in future years.

- The Board experienced a large decrease in the number of licensed firms and related revenues in FY2008 as a result of statutory changes to firm registry requirements. Since firm registration certificates expire every two years, a similar decrease in firm renewals is expected in FY2009. Thereafter, the number of registered firms is expected to stabilize.

CPA License Holders and Firm Registrations

	<u>At June 30, 2008</u>	<u>At June 30, 2007</u>
Individuals	22,150	19,778
Firms	<u>1,270</u>	<u>1,630</u>
Total	<u>23,420</u>	<u>21,408</u>

During the current year the Board contracted with an outside vendor for a new automated licensing system. The contract calls for progress payments and on June 23, 2008, the Board paid System Automation \$12,500 for the first deliverable. The remaining \$167,500 will be paid in the coming fiscal year, causing expenditures to increase.

During the current year the Board contracted with an outside consultant to complete state-mandated ARMICS internal control test work. The Board plans on conducting this annual test work internally in future years, causing expenditures to decrease.

On August 2, 2007, the Board moved its offices to a new location, incurring one-time costs for moving and equipping the Board's new office space. As a result, expenditures for office furniture, leasehold improvements, and computer set-up and wiring are expected to decrease in the coming year.

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, 2008
With Comparative Figures for 2007

	Governmental Activities	
	2008	2007
Assets:		
Cash held by the Treasurer of Virginia (Note 3)	\$ 888,859	\$ 1,192,179
Accounts receivable (Note 4)	48,000	36,500
Capital assets, net of accumulated depreciation (Note 5)	<u>134,256</u>	<u>129,743</u>
Total Assets	<u>1,071,115</u>	<u>1,358,422</u>
Liabilities:		
Accounts payable	28,703	41,378
Accrued salaries payable	26,934	25,824
Due to the State Literary Fund (Note 4)	48,000	36,500
Compensated absences payable (Note 6)	<u>12,998</u>	<u>13,218</u>
Total Liabilities	<u>116,635</u>	<u>116,920</u>
Net Assets:		
Invested in capital assets	134,256	129,743
Unrestricted	<u>820,224</u>	<u>1,111,759</u>
Total Net Assets	<u>\$ 954,480</u>	<u>\$ 1,241,502</u>

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, 2008
With Comparative Figures for 2007

	2008		2007	
	<u>Expenses</u>	<u>Program Revenues Charges for Services</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
<u>Functions/programs:</u>				
Governmental activities				
Licensing and enforcement functions	\$ 1,125,006	\$ 796,714	\$ (328,292)	\$ (200,732)
General revenues:				
Unrestricted interest income			50,370	61,130
Monetary penalties			152,120	64,500
Transfers:				
Transfers to the State General Fund			(9,100)	(10,245)
Transfers to the State Literary Fund			(152,120)	(64,400)
Total general revenues and transfers			<u>41,270</u>	<u>50,985</u>
Changes in net assets			(287,022)	(149,747)
Net assets, July 1			<u>1,241,502</u>	<u>1,391,249</u>
Net assets, June 30			<u>\$ 954,480</u>	<u>\$ 1,241,502</u>

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, 2008
With Comparative Figures for 2007

	Special Revenue Funds			
	Operating Fund	Special Enforcement Fund	Total 2008	Total 2007
Assets:				
Cash held by the Treasurer of Virginia (Note 3)	\$ 96,023	\$ 792,836	\$ 888,859	\$ 1,192,179
Accounts receivable (Note 4)	48,000	-	48,000	36,500
Total assets	<u>144,023</u>	<u>792,836</u>	<u>936,859</u>	<u>1,228,679</u>
Liabilities and fund balance:				
Liabilities:				
Accounts payable	\$ 28,703	\$ -	\$ 28,703	\$ 41,378
Accrued salaries payable	26,934	-	26,934	25,824
Due to the State Literary Fund (Note 4)	28,000	-	28,000	-
Deferred revenue	20,000	-	20,000	36,500
Total liabilities	<u>103,637</u>	<u>-</u>	<u>103,637</u>	<u>103,702</u>
Fund balance:				
Unreserved	<u>40,386</u>	<u>792,836</u>	<u>833,222</u>	<u>1,124,977</u>
Total liabilities and fund balance	<u>\$ 144,023</u>	<u>\$ 792,836</u>	<u>\$ 936,859</u>	<u>\$ 1,228,679</u>
Amounts reported for governmental activities in the Statement of Net Assets are different because:				
Total fund balance (per above)			833,222	1,124,977
Capital assets reported for governmental activities are not financial resources and, therefore, are not reported in the funds.			134,256	129,743
Long-term liability for compensated absences is not due and payable in the current period and therefore is not reported in the funds.			(12,998)	(13,218)
Net assets of governmental activities (page 9)			<u>\$ 954,480</u>	<u>\$ 1,241,502</u>

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, 2008
With Comparative Figures for 2007

	Special Revenue Funds			
	Operating Fund	Special Enforcement Fund	Total 2008	Total 2007
Revenues:				
Licenses and permits	\$ 796,714	\$ -	\$ 796,714	\$ 775,650
Interest income	5,914	44,456	50,370	61,130
Monetary penalties	132,120	-	132,120	28,000
Total revenues	934,748	44,456	979,204	864,780
Expenditures:				
Licensing and enforcement functions:				
Personal services	590,740	-	590,740	581,200
Contractual services	390,804	-	390,804	244,273
Supplies and materials	20,454	-	20,454	18,305
Transfer payments	5,291	-	5,291	-
Continuous charges	82,162	-	82,162	75,247
Equipment purchases	40,288	-	40,288	38,094
Total expenditures	1,129,739	-	1,129,739	957,119
Excess/(deficiency) of revenues over expenditures	(194,991)	44,456	(150,535)	(92,339)
Other financing sources/(uses):				
Transfers from Other Funds	132,000	(132,000)	-	-
Transfers to the State General Fund	(9,100)	-	(9,100)	(10,245)
Transfers to the State Literary Fund	(132,120)	-	(132,120)	(27,900)
Total other financing sources and uses	(9,220)	(132,000)	(141,220)	(38,145)
Net change in fund balance	(204,211)	(87,544)	(291,755)	(130,484)
Fund balance, July 1	244,597	880,380	1,124,977	1,255,461
Fund balance, June 30	\$ 40,386	\$ 792,836	\$ 833,222	\$ 1,124,977

VIRGINIA BOARD OF ACCOUNTANCY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2008
With Comparative Figures for 2007

	<u>Special Revenue Funds</u>	
	<u>Total</u>	<u>Total</u>
	<u>2008</u>	<u>2007</u>
Amounts reported for governmental activities in the Statement of Activities are different because:		
Net change in fund balance (per above)	(291,755)	(130,484)
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.	4,513	2,809
The capital asset write-off 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.	-	(13,873)
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.	<u>220</u>	<u>(8,199)</u>
Changes in net assets of governmental activities (page 10)	<u>\$ (287,022)</u>	<u>\$ (149,747)</u>

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

VIRGINIA BOARD OF ACCOUNTANCY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
PREPARED ON THE BUDGETARY (CASH BASIS) OF ACCOUNTING
SPECIAL REVENUE FUND
For the Year Ended June 30, 2008
With Comparative Figures for 2007

	Operating Fund				2007
	2008		Actual Amounts	Variance with Final Budget - Positive/ (Negative)	
	Original Budget	Final Budget			
Revenues:					
Licenses and permits	\$ 709,500	\$ 709,500	\$ 796,714	\$ 87,214	\$ 775,650
Interest income	16,500	16,500	5,914	(10,586)	16,964
Monetary penalties	-	-	140,620	140,620	30,400
Miscellaneous revenue	-	-	-	-	-
Total Revenues	726,000	726,000	943,248	217,248	823,014
Expenditures:					
Licensing and enforcement functions:					
Personal services	628,037	653,669	589,630	64,039	563,425
Contractual services	115,777	342,991	419,741	(76,750)	212,707
Supplies and materials	48,769	48,769	13,805	34,964	22,123
Transfer payments	1,028	1,028	5,291	(4,263)	-
Continuous charges	50,354	60,354	72,501	(12,147)	75,029
Equipment purchases	21,661	50,695	40,336	10,359	38,087
Total Expenditures	865,626	1,157,506	1,141,304	16,202	911,371
Excess/(deficiency) of revenues over expenditures	(139,626)	(431,506)	(198,056)	233,450	(88,357)
Other financing sources/(uses):					
Transfers from other funds	-	132,000	132,000	-	-
Transfers to the State General Fund	-	-	(9,100)	(9,100)	(10,245)
Transfers to the State Literary Fund	-	-	(140,620)	(140,620)	(30,400)
Total other financing sources and uses	-	132,000	(17,720)	(149,720)	(40,645)
Net change in fund balance	(139,626)	(299,506)	(215,776)	83,730	(129,002)
Fund balance, July 1	311,799	311,799	311,799	-	440,801
Fund balance, June 30	\$ 172,173	\$ 12,293	\$ 96,023	\$ 83,730	\$ 311,799

VIRGINIA BOARD OF ACCOUNTANCY
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 PREPARED ON THE BUDGETARY (CASH BASIS) OF ACCOUNTING
 SPECIAL REVENUE FUND
 For the Year Ended June 30, 2008
 With Comparative Figures for 2007

This statement presents comparisons of the legally adopted budget prepared on the cash basis of accounting with actual

	<u>2008</u>	<u>2007</u>
	Actual	Actual
	<u>Amounts</u>	<u>Amounts</u>
Net change in fund balance (per above)	(215,776)	(129,002)
Accrued revenues on modified accrual basis	(8,500)	(2,400)
Accrued expenditures on modified accrual basis	11,565	(45,748)
Accrued transfers on modified accrual basis	<u>8,500</u>	<u>2,500</u>
Change in fund balance on modified accrual basis (page 12)	<u>\$ (204,211)</u>	<u>\$ (174,650)</u>

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

NOTES TO FINANCIAL STATEMENTS

THE VIRGINIA BOARD OF ACCOUNTANCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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. Both funds are considered major funds of the Board.

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.

D. Summarized Comparative Data

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Board's financial statements for the year ended June 30, 2007, from which the summarized information was derived.

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 \$291,880 during the current fiscal year to fund cost-of-living and other salary increases, increased information technology costs and equipment purchases, increased accounting costs, the purchase and modification of a new automated licensing system, and the costs associated with moving to the Perimeter Center location. The Boards 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, 2008, the amount Due to the State Literary Fund for collections on monetary penalties was \$48,000.

	<u>June 30, 2008</u>
Gross receivables	\$68,000
Less: allowance for doubtful accounts	<u>(20,000)</u>
Net Receivables	<u>\$48,000</u>

5. CAPITAL ASSETS

The following presents capital activity for the year ended June 30, 2008:

	<u>Balance at June 30, 2007</u>	<u>Acquired</u>	<u>Deleted</u>	<u>Balance at June 30, 2008</u>
Software	\$246,243	\$17,074	\$(2,112)	\$261,205
Tenant improvements	<u>-</u>	<u>17,249</u>	<u>-</u>	<u>17,249</u>
Total depreciable assets	<u>246,243</u>	<u>34,323</u>	<u>(2,112)</u>	<u>278,454</u>
Less accumulated depreciation	<u>(116,500)</u>	<u>(27,698)</u>	<u>-</u>	<u>(144,198)</u>
Capital assets, net	<u>\$129,743</u>	<u>\$ 6,625</u>	<u>\$(2,112)</u>	<u>\$134,256</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 costs and vendor payments associated with developing its licensing software for internal use. The Board capitalized the tenant improvement costs associated with preparing the Perimeter Center building for occupancy to the extent that they exceeded \$5,000.

Capital assets are reported at historical cost less accumulated depreciation. Depreciation of software and equipment costs is expensed on a straight-line basis over their estimated useful lives of five and seven years, respectively. Depreciation of tenant improvement costs is expensed on a straight-line basis over the ten year life of the lease agreement.

6. 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, 2008. 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, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at</u> <u>June 30, 2008</u>
<u>\$13,218</u>	<u>\$17,879</u>	<u>\$(18,099)</u>	<u>\$12,998</u>

7. TRANSFERS TO AND FROM 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. On April 14, 2008, the Board transferred \$132,000 from the Special Enforcement Fund to the Operating Fund to provide needed cash for ongoing expenditures.

8. LEASE COMMITMENTS

On August 2, 2007, the Board moved its offices to the Perimeter Center Building at 9960 Mayland Drive. The move brought the Board together with five other state agencies to facilitate the use of shared space and services. On August 29, 2007, the Board entered into a ten-year operating lease for the new space. Total rental expense for the fiscal year ended June 30, 2008, was \$24,066.

A summary of future obligations under lease agreements as of June 30, 2008, follows.

<u>Year Ending June 30,</u>	<u>Amount</u>
2009	\$47,351
2010	48,666
2011	50,018
2012	51,407
2013	47,889
2014-2018	<u>271,390</u>
	<u>\$516,721</u>

9. OTHER COMMITMENTS

On January 7, 2008, the Board contracted with System Automation Corporation for a new automated licensing system. The contract calls for System Automation and the Board to work collaboratively to modify System Automation's "My License Suite" to meet the Board's licensing and enforcement needs. The total contract price for the new licensing system and user training is \$180,000. The contract calls for progress payments and on June 23, 2008, the Board paid Systems Automation \$12,500 for the first deliverable. The remaining \$167,500 will be paid in fiscal year 2009 as each specific phase of the project is completed.

10. 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 only available on a statewide level in the Commonwealth's Comprehensive Annual Financial Report. The Commonwealth, not the Board, has overall responsibility for investing contributions to these plans.

11. 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.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

January 29, 2009

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable M. Kirkland Cox
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 major funds of the Virginia Board of Accountancy (Board) as of and for the year ended June 30, 2008, 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. The prior year partial comparative information has been derived from the Board's 2007 financial statements and, in our report dated March 18, 2008, we expressed unqualified opinions on the financial statements of the governmental activities and the major funds.

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 opinions.

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, 2008, 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 financial position of the governmental activities and each major fund of the Board as of June 30, 2008, and the respective changes in financial position 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 1 through 7 and the Schedule of Revenues, Expenditures, and Changes in Fund Balance Prepared on the Budgetary (Cash Basis) of Accounting – Special Revenue Fund on pages 15 and 16 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board’s internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’s internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity’s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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, contracts and grant agreements, 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Report Distribution and Exit Conference

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.

We discussed this report with the Board Chairman on January 29, 2009.

AUDITOR OF PUBLIC ACCOUNTS

AWP/clj



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BOARD OF ACCOUNTANCY**

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February 4, 2009

Dian T. Calderone, MTX, CPA
Chairman

O. Whitfield Broome, PhD., CPA
Vice Chairman

Lawrence D. Samuel, CPA
Immediate Past Chairman

Regina P. Brayboy, MPA
Board Member

Tyrone E. Dickerson, CPA
Board Member

Stephen D. Holton, CPA
Board Member

William E. Hunt, CPA
Board Member

Commonwealth of Virginia
Auditor of Public Accounts

I am writing in response to the Audit Risk Alert dated January 26, 2009 issued by your office in conjunction with your audit of the Virginia Board of Accountancy financial statements for the year ended June 30, 2008. The Board takes very seriously your comments and is moving to implement changes which will address your concerns. These actions are as follows:

1. Executive Director Position – The board began the search process for an Executive Director in January 2009. A position description has been developed and the position has been posted to the Board website, regional newspapers and professional organizations. The application process closes February 18, 2009 and candidate screening and the interview process will begin at that time. It is the intent of the Board to fill this position as soon as administratively possible.
2. Accounting Services – The Board of Accounting has entered into an MOU with the Department of Accounts to perform the accounting functions of the VBOA effective February 4, 2009. The DOA will provide the accounts payable function, CARS reconciliation, vendor edit table maintenance, 1099 reporting, fixed asset accounting and lease accounting, annual financial reports and other fiscal year end submissions and budgeting. A copy of this MOU will be provided to the Auditor of Public Accounts.

3. Financial Statement Preparation – The board is exploring various options to have these statements prepared by an individual(s) outside of the agency staff. We expect a final decision to be made within 90 days.

We appreciate your comments and wish to assure you that we will make every effort to address all concerns in an expeditious manner. Should you need additional information, please feel free to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Dian T. Calderone". The signature is fluid and cursive, with a large initial "D" and "C".

Dian T. Calderone, MTX, CPA
Board Chair

VIRGINIA BOARD OF ACCOUNTANCY

As of June 30, 2008

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.

Dian T. Calderone, CPA
Chairman

O. Whitfield Broome, CPA
Vice Chairman

Regina P. Brayboy, MPA Tyrone E. Dickerson, CPA
Stephen D. Holton, CPA William E. Hunt, CPA
Lawrence D. Samuel, CPA