AUDIT SUMMARY

This report includes all agencies reporting to the **Secretary of Finance** as well as the Secretary's office. The agencies are the **Departments of Accounts, Planning and Budget, State Internal Auditor, Taxation, and Treasury and the Treasury Board**. The finance agencies handle the financial transactions of the Commonwealth including: collecting taxes, paying bills, and distributing aid to localities. Responsibilities include: forecasting and collecting revenues; managing the Commonwealth's cash, investments, and debt; and preparing and executing the Commonwealth's budget.

Our audits of these agencies for the year ended June 30, 1998, found:

- internal control matters that we consider reportable conditions;
- no instances of noncompliance with laws and regulations tested required to be reported under Government Auditing Standards;
- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System; and
- adequate implementation of corrective action on prior audit findings, except as listed on page 17.

Each audit finding is explained in detail in the section entitled "Internal Control and Compliance Findings and Recommendations." Our findings include:

- Planning and Budget should develop procedures to ensure user access to the Budget Adjustment System is appropriate;
- Taxation should review its Internal Audit Division to ensure it operates efficiently and effectively and has adequate resources to perform the necessary internal audit functions related to security, data processing, and other financial activities; and
- Taxation should evaluate its processes for recording fixed assets and budgetary information and eliminate duplication of efforts to enhance efficiency of operations.

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INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

DEPARTMENT OF ACCOUNTS

Complete and Document Disaster Recovery Plan for Disbursements

As noted in the prior year's audit, Accounts should complete a contingency plan for processing warrants if the check writing equipment were to become unusable. After Accounts has formulated and tested the feasibility of alternative processing, they must document the process in a disaster recovery plan. Completing the contingency plan will provide the Commonwealth with an added degree of security in the event problems occur. The contingency planning section of COV ITRM Standard 95-1 issued by the Council on Information Management also requires emergency response procedures appropriate to any incident or activity that may endanger the capability to perform essential functions.

DEPARTMENT OF PLANNING AND BUDGET

Review User Access to the Budget Adjustment System

The Department does not have procedures to monitor whether users have appropriate access to the budget adjustment system, after initially granting access. Additionally, the budget adjustment system cannot produce a report of active users but instead lists all current and revoked users, making a periodic review of the report difficult and inefficient.

Management should develop written procedures to ensure user access records are current and accurate for users internal and external to the Department. Furthermore, Management should consider changing the system to provide a user report to improve the efficiency of the access review process. Proper monitoring of access to critical systems is essential for preventing inappropriate user access.

Properly Account for Fixed Assets

The Department did not enter capitalizable assets of $65,072 and controllable assets of $85,985 into the statewide fixed asset accounting system. Section 30105 of the Commonwealth Accounting Policy and Procedures (CAPP) Manual requires agencies to establish adequate and cost beneficial internal controls that ensure proper monitoring of fixed assets.

We understand that the Department is working to record fiscal year 1998 equipment purchases in the statewide fixed asset accounting system. We encourage Management to continue with this initiative and recommend that Management ensure all disposed assets are properly deleted and all current fixed assets are properly inventoried, tagged, and recorded. Management should establish written procedures to ensure that the Department meets the internal control requirements outlined in the CAPP Manual and evaluate whether an internal, personal computer based system would be more efficient for controllable assets.

DEPARTMENT OF TAXATION

Reevaluate the Internal Audit Department

The Department of Taxation does not make effective use of its Internal Audit Division. During our review of the Division, we found an under-staffed division and an outdated audit workplan.

In October 1998, Taxation hired a Director of Internal Audit. Before his hiring, the Division had only one employee, hired in October 1997 with no audit experience. Since October 1997, this individual spent only 600 hours working to complete the internal audit workplan. The employee spent the remaining time on administrative and Year 2000 issues.

The Division has not developed a workplan since fiscal year 1997 and completed only two of the six audits identified in the workplan. Of the two audit reports issued, the Division issued one report 18 months after the audit period ended.

The Division should develop a new audit workplan for the 1999 fiscal year, possibly incorporating work from the 1997 workplan. Using this plan, the Internal Audit Director should analyze the number of staff needed to perform these duties and responsibilities. The Commissioner should consider providing sufficient resources and oversight to ensure that the Division operates efficiently and effectively, and that the Division hires qualified and competent personnel to perform the necessary internal audit functions related to security, data processing, and other financial activities.

Evaluate Procedures to Enhance Efficiency

During our review, we identified the following issues that Taxation should evaluate to enhance operations.

- Taxation uses both an In-House Fixed Asset System and a Fixed Asset Accounting and Control System (FAACS) to record fixed assets. The In-House System records all assets valued at $100 or more while FAACS records assets valued at $5,000 and over. Although the State Comptroller allows agencies to use a system other than FAACS to record controllable assets, the use of both systems duplicates the recording of all fixed assets $5,000 and greater. To eliminate duplication of effort, Taxation should review both systems and either use FAACS or use its In-House System and become a Summary FAACS User.

- Taxation's physical inventory and reporting procedures of fixed assets include accounting for all assets valued at $100 or more. Accounting for such low-dollar assets is inefficient and the cost of maintaining accurate records may exceed the cost of the asset. The State Comptroller suggests that an agency record controllable fixed assets in the $2,000-$4,999 range and all fixed assets over $5,000. Using the $2,000 threshold would eliminate time and effort used to account for low-dollar items.

- The In-House Budget System requires duplicate data entry to both this system and the state Commonwealth Accounting and Reporting System (CARS). If Taxation used the Financial Information Downloading System (FINDS), staff would have to enter data once into CARS, and subsequently download it to an automated spreadsheet. Finally, the In-House Budget System amounts do not reconcile to CARS, making the In-House data unreliable. Taxation should consider replacing the In-House Budget System with FINDS and an automated spreadsheet.

- Taxation uses the Commonwealth's small purchase cards with a $1,000 limit rather than the $5,000 permitted by the program. This limitation requires Taxation's purchasing group to individually purchase and process all items over $1,000. In order to reduce purchasing, processing, and payment paperwork, Taxation should consider using the upper purchase limit and increasing the number of card users.

Disseminate and Adhere to Program Change Procedures

The Office of Information Resource Management (OIRM) needs to strengthen program change procedures and practices. During our review, we found:

- Program change procedures need updating and modification
- All program changes should be documented
- Certain duties and responsibilities should be separated

Taxation is currently updating and consolidating its program change procedures. Once this is accomplished, OIRM should distribute the procedures and follow them. Additionally, the procedures should address the development and maintenance of supporting documentation for program changes. Finally, management should reevaluate job responsibilities and improve separation of duties to minimize inappropriate access to computer resources.

Perform Asset Inventories Timely

Taxation has not completed a fixed asset inventory since March 1995 and will not complete the next physical inventory until January 1999, nearly four years later. The State Comptroller requires agencies to perform a physical inventory of fixed assets at least once every two years. Purchasing and Facilities Management should establish a timetable and conduct the required asset inventories. Taking regularly scheduled inventories enables Taxation to properly safeguard assets and maintain fiscal accountability.

OVERVIEW OF FINANCE SECRETARIAL AREA

The Departments of Accounts, Planning and Budget, State Internal Auditor, Taxation, and Treasury and the Treasury Board report to the Secretary of Finance. These agencies handle the financial transactions of the Commonwealth, from collecting taxes to paying bills and distributing aid to localities. Responsibilities include: forecasting and collecting revenues; managing the Commonwealth's cash, investments, and debt; selling bonds; and preparing and executing the Commonwealth's budget. The "Summary Financial Information" section contains a secretarial-wide summary of operating appropriation and expense activity and a summary of expenses by category. In addition to operating activity, the Department of Accounts distributes certain state revenues to localities; the Department of the Treasury receives and distributes unclaimed property; and the Treasury Board makes payments on the Commonwealth's debt. Selected financial data for each agency can be found in the supplementary schedule on pages 12-13.

STATEWIDE SYSTEMS

Agencies within the Secretary of Finance operate several statewide systems. Except for the PROBUD system operated by Planning and Budget and the FAACS system operated by Accounts, the systems are not Year 2000 compliant. However, all of the Departments have plans to make these systems fully compliant.

The Department of Accounts operates several systems. The **Commonwealth Accounting and Reporting System** (CARS) records the state's financial transactions and is the official accounting record of the Commonwealth. Any agency-based accounting system must interface electronically or through magnetic media with CARS. The **Commonwealth Integrated Personnel and Payroll System** (CIPPS) processes payrolls for classified and hourly employees. The **Integrated Human Resources and Information System** (IHRIS) is a new system under development which will replace CIPPS and two other personnel support systems. The Auditor of Public Accounts issued a separate report in June 1998 documenting the status of IHRIS, and will issue another report in February 1999. The **Fixed Asset Accounting and Control System** (FAACS) tracks fixed assets owned or controlled by the Commonwealth. Agencies record detailed or summary fixed asset accounting information in this system. The **Electronic Data Interchange** (EDI) electronically transmits payments to localities, non-state agencies, vendors, and state employees. EDI processes approximately 50% of state disbursements.

Accounts has completed the renovation phase for CARS and CIPPS, substantially completed the testing and validation phase for CARS, and partially completed phases for CIPPS. For EDI, Accounts has partially completed the renovation stage, the testing and validation phase, and the implementation phase. IHRIS will be Year 2000 compliant when implemented. Accounts' estimated costs for the Year 2000 problem is approximately $2.5 million.

Planning and Budget maintains two statewide systems: the **Program Budget System** (PROBUD) and the **Form 27 Automated Transaction System** (FATS). PROBUD receives, collects, balances, and reports budget-related data for the development of the Governor's proposed budget and for subsequent development and monitoring of agency operating plans. FATS allows agencies and Planning and Budget to review, approve, and track operating plan adjustments from initial creation through the update of the Commonwealth's centralized accounting system. The PROBUD system is Year 2000 compliant and Planning and Budget upgraded to a Year 2000 version of Adabas, which is the software that supports the on-line PROBUD system. Planning and Budget completed renovation of FATS, as well as numerous sub programs generated by PROBUD and FATS, in 1998. Planning and Budget is now in the validation stage for all critical systems with

an anticipated completion date of March 1999. Planning and Budget has substantially completed the assessment stage and partially completed the renovation stage for their embedded technology systems, including telecommunications and network services. Planning and Budget estimates the cost at $176,000 to address the Year 2000 problem.

Taxation uses two systems to process taxpayer data and collect on delinquent accounts. The **State Tax Accounting and Reporting System** (STARS) is an integrated tax system that supports different tax collections and enables Taxation to consolidate all of a taxpayer's demographic and financial data across different taxes on one system. The **Enhanced Collection System** (ECS) is an integrated computerized collection and telephone system to collect delinquent taxpayer accounts. The system uses a centralized taxpayer database linked with an automated telephone call distributor to support the collection process.

Section 58.1-202.2 of the Code of Virginia authorizes the Tax Commissioner to enter public-private partnership contracts to finance agency business and technology needs. Under this alternative procurement process, the Tax Commissioner, subject to approval of the measurement process by an external oversight group, would determine the total amount of increased revenue attributable to the successful implementation of a project. In July 1998, Taxation signed a public-private partnership contract with American Management Systems, Incorporated (AMS) to replace STARS. The partnership does not anticipate the new system to be fully operational until July 2003.

The partnership project includes two different external oversight mechanisms. The first group, mandated by the enabling legislation, has the responsibility of reviewing and approving the terms of the contract for the measurement of the revenue attributable to the project. This oversight group includes the State Comptroller, the Director of Planning and Budget, the State Internal Auditor, one representative appointed by the President Pro Tempore of the Senate, and one representative appointed by the Speaker of the House of Delegates. Taxation received approval of this oversight group in May 1998.

The second oversight process is an external vendor. The selected vendor will conduct periodic project performance monitoring and evaluation services. The vendor will also monitor and report on the compliance of the deposit of revenue into the Technology Fund and proper payment of contract deliverables from the Fund. Taxation issued the RFP to procure the services for this vendor in October 1998.

In March 1998, Taxation developed a detailed plan to address Year 2000 issues for the following: STARS, remittance processing, data entry, non-STARS systems, computer hardware, commercial off-the-shelf software, facilities, telecommunications, data exchanges, and other Year 2000 areas. Since the development of the plan, Taxation has made significant progress towards completing all Year 2000 renovations, testing, and implementation. Taxation has concentrated its efforts on making the STARS system Year 2000 compliant, with ninety-five percent of all STARS programs remediated, tested, and implemented. With the exception of tax form changes, external data exchange testing, continued assessment of suppliers, and detailed contingency planning, management expects to complete all information systems, facilities, telecommunications, equipment, hardware and software on time. Taxation estimates total completion by June 30, 1999.

To date, Taxation has spent approximately $2.5 million on the Year 2000 project and estimates the remaining costs at approximately $4.3 million. Management expects the largest percentage of the remaining costs will target contingency solutions for key business objectives.

REVENUE STABILIZATION FUND

The Revenue Stabilization Fund (rainy day fund) established by a constitutional amendment in fiscal year 1992, seeks to offset anticipated revenue shortfalls. The mandatory deposit calculation uses the certified tax revenues as compared to the anticipated revenues in the most recent tax year. The following shows the required deposit calculations and the maximum fund allowed.

Fiscal Year	Mandatory Deposit Requirement
1992	$ -
1993	79,896,927
1994	-
1995	66,624,672
1996	58,314,172
1997	123,833,649
1998	194,135,805
Interest Earnings at June 30, 1998	19,425,557
Total Fund Balance	$ 542,230,782
Maximum Fund Allowed (MFA)	$ 706,288,091
% of MFA	77%

The Commonwealth has made deposits for fiscal years 1993, 1995, and 1996. The mandatory deposits for fiscal years 1997 and 1998 must occur by June 30, 1999 and 2000, respectively. As of June 30, 1998, the fund has earned $19,425,557 in interest for a balance of $224,261,328. After making the required deposits listed above, the fund will have reached 77 percent of its maximum balance.

DEPARTMENT OF ACCOUNTS

The Department of Accounts, under the direction of the State Comptroller, maintains the Commonwealth's centralized automated accounting, payroll, and fixed asset systems. To maintain appropriation controls and provide statutory budget reports, the State Comptroller requires the reporting of all revenue and expense transactions involving state funds in the accounting system.

Accounts prepares the Commonwealth's Comprehensive Annual Financial Report and the Popular Report to inform the general public, Governor, and other state officials of the state's financial condition. Accounts also issues policies and procedures to provide agencies with guidance for maintaining internal controls over state funds. The State Comptroller produces a quarterly Report on Statewide Financial Management and Compliance that reports the degree of agency compliance with Commonwealth accounting and financial management policies, procedures, regulations, and practices.

Accounts makes distributions to the Commonwealth's counties, cities, and towns for the following revenues:

Sales and use tax for education	$ 634,243,666
Recordation taxes	22,260,271
ABC profits	10,654,123
Wine taxes	8,510,839
Rolling stock taxes	5,589,732
Public facilities rebate tax	284,369
Other	580,840
Total	$ 682,123,840

Accounts also made recordation tax transfers to the Department of Transportation for the Northern Virginia Transportation District Fund and the Transportation and Improvement Set-Aside Fund in the amounts of $16,639,004 and $1,100,722 respectively.

DEPARTMENT OF PLANNING AND BUDGET

The Department of Planning and Budget is the central budgeting agency for state government and has broad responsibilities for executive budgeting and analytical support. Planning and Budget develops the budgeting process for state government, formulates the executive budget, and monitors agencies' activity to determine that they follow the funding limitations of the Appropriation Act.

DEPARTMENT OF THE STATE INTERNAL AUDITOR

The Department of the State Internal Auditor coordinates with agency and institution internal auditors for the investigation of anonymous complaints of fraud, waste, and abuse. The Department receives these reports through the State Employee Hotline. The Department's responsibilities also include assisting state agencies and institutions in developing and maintaining internal audit programs and providing statewide training for internal auditors. In addition, the Department should perform quality reviews of internal audit programs.

As a result of reductions in resources, beginning July 1, 1995, the Department primarily administers the State Employee Hotline, sponsors and coordinates training courses for internal auditors, and completes special projects and reviews requested by cabinet secretaries or agency heads.

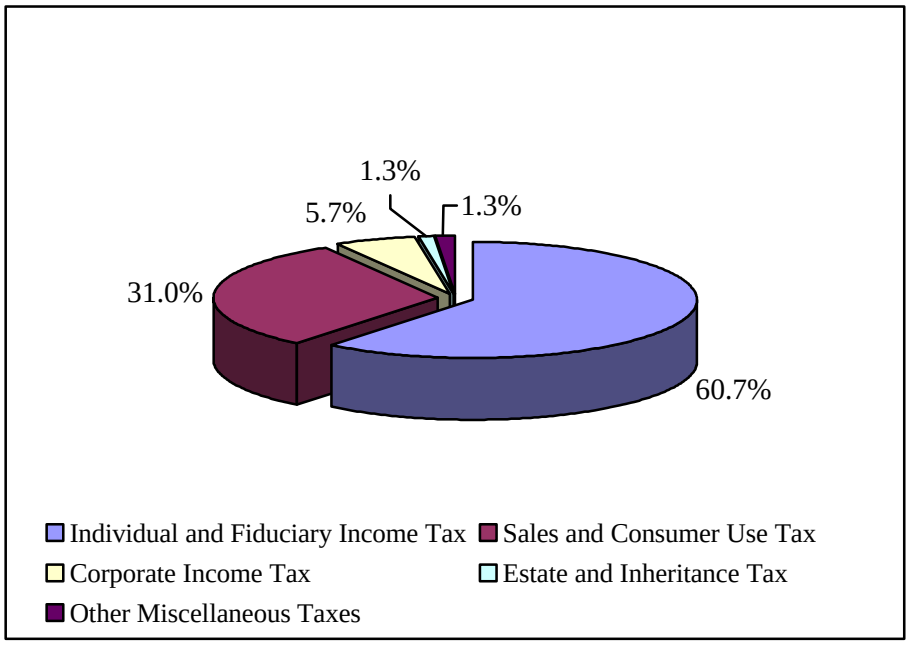
DEPARTMENT OF TAXATION

The Department of Taxation is the collector of revenue to finance the Commonwealth's services. During fiscal year 1998, Taxation collected $9.3 billion in revenue through the administration of 29 income, sales and use, and miscellaneous taxes. The majority of these collections go to the Commonwealth's general fund for services such as education, conservation, law enforcement, highways, and social services. Because Taxation receives general fund appropriations to collect and disburse taxes, they do not use any of their collections to fund operations.

Acting as agent, custodian, and trustee for the Commonwealth, Taxation collects and transfers miscellaneous taxes specifically designated for the use of other state agencies. For example, Taxation deposits the motor vehicle fuel sales tax to the transportation funds at the Department of Transportation.

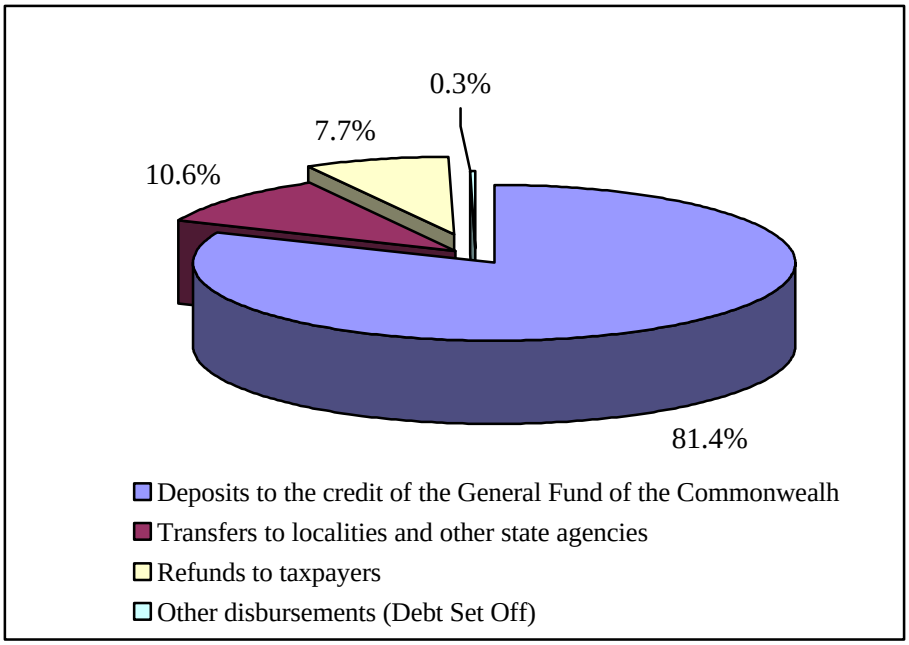
Following is a summary of Tax Collections and Disbursements during fiscal year 1998.

Summary of Tax Collections



NOTES: Sales and Consumer Use Tax represents all taxes collected (state, local and transportation trust fund).
Other miscellaneous taxes represent other taxes collected by the Department of Taxation and deposited into the general fund or transferred to other state agencies (e.g., interest and penalty on delinquent taxes, fuel tax, tobacco tax, litter tax, and the tire tax).

Summary of Disbursements



Federal Retiree Settlement Program

Statutes provided refunds to approximately 154,000 federal retirees for individual state income taxes paid on federal retirement income between 1985 and 1988. Taxation administers the three Federal Retiree Settlement Programs. Program participants have received $250.5 million in annual installments through fiscal year 1998. Participants will receive the final payments of approximately $66 million on or before March 31, 1999.

Court Debt Collection Unit

In January 1995, Taxation established the Court Debt Collection Unit in an effort to assist courts in collecting past due fines and costs. The Unit operates independently of Taxation's collection function and is fully self-supporting. State law allows the Unit to recover from participating courts, currently 244 out of the 325 courts, the on-going operational costs for the program. The Unit has set the goal to perform collection activity at the lowest possible cost. This reimbursement rate has been 15 percent.

Since it's inception in 1995, the Unit has increased annual collections for court costs and fines by over $15.2 million.

Fiscal Year	Number of Courts Participating	Total Collections in Court Fines and Costs	Total Fees Collected for the Unit
1995	142	$ 2,760,619	$ 414,093
1996	191	$ 7,820,997	$ 1,136,768
1997	219	$ 12,966,262	$ 1,923,190
1998	244	$ 17,990,393	$ 2,706,929

DEPARTMENT OF THE TREASURY

The Department of the Treasury, under the direction of the State Treasurer, serves as custodian of state funds. Treasury provides centralized cash management, investment, debt financing, and accounting services to agencies and institutions. Treasury also administers the Unclaimed Property Program and provides staff support for the Treasury Board and several authorities including the Virginia Public School Authority, the Virginia Public Building Authority, and the Virginia College Building Authority.

The general account of the Commonwealth is a pool of investments representing assets of various funds including the general, higher education operating, highway maintenance, and transportation trust funds. Beginning January 1995, the general account portfolio had two pools, the primary liquidity pool and the total return pool. Treasury staff manage the primary liquidity pool which is the major source for the disbursement requirements and operational needs of the Commonwealth. The externally-managed total return pool seeks to generate higher total returns over time as compared to the liquidity pool. Treasury's allocation for the overall general account asset mix is approximately 80 percent for the primary liquidity pool and 20 percent for the total return pool. The average daily invested balance for the fiscal year ended June 30, 1998, was $3 billion. The net earnings for fiscal year 1998 were $181.5 million.

Treasury also manages or sponsors a number of special purpose investment pools and individual customized investment programs. The Local Government Investment Pool (LGIP) is an open-ended money market fund managed by Treasury for the benefit of public entities of the Commonwealth. The State Non-

Arbitrage Program (SNAP) is a program providing comprehensive investment management, accounting, and arbitrage rebate calculations for proceeds of tax-exempt financing of Virginia state and local bond issuers. the State Treasurer, as trustee for the Commonwealth and certain authority financings, oversees the investment of proceeds according to the individual bond indentures and contracts for these funds. Further, Treasury manages the Commonwealth's statewide banking network and monitors its own and other agencies' specialized banking services.

The nongeneral fund source of Treasury's budget comes from the receipt of unclaimed property. In 1998, Treasury spent about $3.3 million to collect over $42 million in unclaimed property. Treasury had the following activity in the Unclaimed Property Fund:

Collections	$ 41,766,493
Property returned to owners	(8,202,961)
Transfers to the Literary Fund	(27,000,000)
Operating expenses	(3,327,594)
Net change	3,235,938
Balance at July 1, 1997	6,841,339
Balance at June 30, 1998	$ 10,077,277

TREASURY BOARD

The Code of Virginia sets forth the appointments to the Treasury Board which includes the State Treasurer, the State Comptroller, the State Tax Commissioner, and four members appointed by the Governor. The Board has responsibility to:

1) exercise general supervision over the investment of state funds.

2) administer the Virginia Security for Public Deposits Act.

3) control and manage sinking and other funds the Commonwealth holds as fiduciary.

4) provide advice and supervision in the financing of state buildings.

5) approve the terms and structure of proposed state educational institution, agency, and authority bond issues.

6) approve the terms and structure of proposed state authority bond issues which receive General Fund appropriations for debt services.

7) administer the regional jail financing reimbursement program.

8) manage its bond issues in compliance with federal taxation and arbitrage laws.

The Treasury Board also makes payments to the Virginia Public Building Authority for lease payments on state buildings and pays debt service on Article X, Section 9(b) general obligation bonds and Commonwealth Transportation Board bonds to trustees and agents for the bondholders.

Bond and loan payments made by the Treasury Board are as follows:

General fund	$ 140,464,671
Special fund	4,865,332
State share of jail construction	9,698,395
Total	$ 155,028,398

The Treasury Board operates a tax-exempt commercial paper program to provide start-up or interim funding for several of the Commonwealth's capital borrowing programs. During fiscal year 1998, the Treasury Board issued $64 million in tax-exempt commercial paper for general obligation bond projects, $35 million for projects of the Virginia Public Building Authority (VPBA), and $15 million for projects of the Virginia College Building Authority (VCBA). As of June 30, 1998, $64 million in tax-exempt commercial paper for general obligation bond projects remained outstanding and both the VPBA and VCBA tax-exempt commercial paper had been retired with bond proceeds.

AGENCIES OF THE SECRETARY OF FINANCE
SELECTED SUMMARY FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 1998

OPERATING RESOURCES AND USES	Office of the Secretary	Accounts		Planning & Budget	State Internal Auditor	Taxation		Treasury		Secretarial Totals	
	General Fund	General Fund	Nongeneral Funds	General Fund	General Fund	General Fund	Nongeneral Funds	General Fund	Nongeneral Funds	General Fund	Nongeneral Funds
Original operating appropriations	$ 359,226	$8,871,449	$5,723,546	$ 4,459,139	$ 396,283	$109,381,742	$1,760,012	$ 5,829,033	$ 5,299,711	$129,296,872	$12,783,269
Adjustments:											
Reappropriations	46,561	-	705,385	234,215	59,169	342,448	-	58,218	-	740,611	705,385
Transfer between years	-	-	(2,424,448)	-	-	-	-	-	-	-	(2,424,448)
Federal cash management interest	-	-	-	-	-	-	-	903,467	-	903,467	-
Wallen's Ridge Prison	-	-	-	-	-	-	-	6,311,543	-	6,311,543	-
Retiree settlement	-	-	-	-	-	(62,583,565)	-	-	-	(62,583,565)	-
Collection agency fees	-	-	-	-	-	-	2,725,000	-	-	-	2,725,000
Other	19,661	(117,699)	302,508	117,342	57,531	869,631	960,800	101,665	398,400	1,048,131	1,661,708
Adjusted operating appropriations	$ 425,448	$8,753,750	$4,306,991	$ 4,810,696	$ 512,983	$ 48,010,256	$5,445,812	$13,203,926	$ 5,698,111	$ 75,717,059	$15,450,914
Resources:											
General fund appropriations	425,448	8,753,750	-	4,810,696	512,983	$48,010,256	$ -	13,203,926	-	75,717,059	-
Unclaimed property collections	-	-	-	-	-	-	-	-	41,766,493	-	41,766,493
Public service company taxes	-	-	-	-	-	-	198,058	-	-	-	198,058
Treasury loan activity *	-	-	1,368,880	-	-	-	-	-	-	-	1,368,880
Transfer in	-	-	1,522,507	-	-	-	-	-	282,577	-	1,805,084
Delinquent tax collection fees	-	-	-	-	-	-	3,004,278	-	-	-	3,004,278
Court debt collection fees	-	-	-	-	-	-	2,706,929	-	-	-	2,706,929
Other	-	-	710,218	-	-	-	122,204	-	227,245	-	1,059,667
Resources received in fiscal year 1998	425,448	8,753,750	3,601,605	4,810,696	512,983	48,010,256	6,031,469	13,203,926	42,276,315	75,717,059	51,909,389
Expenses:											
Salaries and benefits	369,393	6,299,898	168,330	3,694,791	389,480	34,967,833	887,389	2,361,628	1,480,042	48,083,023	2,535,761
EDP operations, supplies, and equipment	1,631	1,477,015	3,233,454	301,075	25,842	2,931,798	1,016,676	119,773	520,640	4,857,134	4,770,770
Postage and printing	1,585	79,224	794	19,474	77	4,357,235	176,349	1,151,997	22,856	5,609,592	199,999
Investment management services	-	-	-	-	-	-	-	1,631,243	7,057	1,631,243	7,057
Federal cash management interest	-	-	-	-	-	-	-	903,467	-	903,467	-
Wallen's Ridge Prison	-	-	-	-	-	-	-	6,311,543	-	6,311,543	-
Building rentals	21,570	432,712	-	291,418	50,578	804,147	22,394	167,290	127,883	1,767,715	150,277
Payments to collection agencies	-	-	-	-	-	-	2,399,730	-	-	-	2,399,730
Payments to unclaimed property claimants	-	-	-	-	-	-	-	-	8,202,961	-	8,202,961
Other	23,071	464,869	195,954	356,969	46,768	4,741,060	325,189	556,874	1,452,229	6,189,611	1,973,372
Transfer out	-	-	157	-	-	-	945,538	-	27,384,000	-	28,329,695
Total uses	417,250	8,753,718	3,598,689	4,663,727	512,745	47,802,073	5,773,265	13,203,815	39,197,668	75,353,328	48,569,622
Net activity in fiscal year 1998	$ 8,198	$ 32	$ 2,916	$ 146,969	$ 238	$ 208,183	$ 258,204	$ 111	$ 3,078,647	$ 363,731	$ 3,339,767

The financial information presented above came directly from the Commonwealth Accounting and Reporting System which is recorded on a cash basis of accounting.

* This amount represents additional Treasury Loan drawdowns during fiscal year 1998, net of repayments. The treasury loan balance at June 30, 1998 was $4,868,880, consisting of $300,000 for Year 2000 and $4,568,880 for IHRIS.

January 22, 1998

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Richard J. Holland
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Office of the Secretary of Finance; the Departments of Accounts, Planning and Budget, State Internal Auditor, Taxation, and the Treasury; and the Treasury Board** for the year ended June 30, 1998. We conducted our audits in accordance with generally accepted government auditing standards.

Audit Objective, Scope, and Methodology

Our audits' primary objectives were to review the internal control structures over the Commonwealth's financial reporting process, central accounting and reporting systems, centralized services provided to agencies and institutions, and processing of tax returns; review the agencies' internal control structure over payroll and other expenses; test their compliance with applicable laws and regulations; and evaluate the accuracy of financial transactions recorded on the Commonwealth Accounting and Reporting System. We also determined the status of audit findings from prior year reports.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the following operations:

- Financial Reporting
    - Commonwealth Accounting and Reporting System
    - Commonwealth Integrated Payroll and Personnel System
    - Fixed Asset Accounting and Control System
    - Cash Management and Investment
    - Debt Financing
    - General Fund Appropriation Transaction Processing
    - Tax Revenue Collection
    - Administration of the Federal Retiree Settlement Programs
    - Unclaimed Property

We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations, over the significant cycles, classes of transactions, and account balances.

We obtained an understanding of the relevant policies and procedures for these internal accounting controls. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the agencies' policies and procedures were adequate, had been placed in operation, and were being followed. Our audits also included tests of compliance with provisions of applicable laws and regulations.

Management has responsibility for establishing and maintaining an internal control structure and complying with applicable laws and regulations. The objectives of an internal control structure are to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are processed in accordance with management's authorization, properly recorded, and comply with applicable laws and regulations.

Our audits were more limited than would be necessary to provide an opinion on the internal control structure or on overall compliance with laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of the internal control structure to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Audit Conclusions

We noted certain matters involving the internal control structure and its operation that we considered to be reportable conditions for the Departments of Accounts, Planning and Budget, and Taxation. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the agencies' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. These reportable conditions are discussed in the section entitled "Internal Control and Compliance Findings and Recommendations." We believe none of the reportable conditions are material weaknesses. Further, the results of our tests of compliance disclosed no instances of noncompliance that are required to be reported herein under Government Auditing Standards.

We found that the agencies properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The agencies record their financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in the accompanying schedules came directly from the Commonwealth Accounting and Reporting System.

The agencies have not taken adequate corrective action with respect to the previously reported findings listed below. Accordingly, we included these findings in the section entitled "Internal Control and Compliance Findings and Recommendations."

Department of Accounts:
- Complete and Document Disaster Recovery Plan for Disbursements

Department of Taxation:
- Disseminate and Adhere to Program Change Procedures (formerly Document Program Changes)

In addition, The Department of Accounts is working with the federal government to resolve the prior year comment "Refund Federal Share of Over-Recoveries in the Internal Service Funds." This point has not been repeated in this report. The agencies have taken adequate corrective action with respect to other audit findings reported in the prior year that are not repeated in this report.

EXIT CONFERENCES

We discussed this report with management at each agency.

AUDITOR OF PUBLIC ACCOUNTS

MSM:jld
jld:89

AGENCIES OF THE SECRETARY OF FINANCE
Richmond, Virginia

as of June 30, 1998

Ronald L. Tillett
Secretary of Finance

William E. Landsidle
Comptroller

Scott D. Pattison
Director of the Department of Planning and Budget

Merritt L. Cogswell
State Internal Auditor

Danny M. Payne
Tax Commissioner

Susan F. Dewey
Treasurer