

COMPENSATION BOARD

**REPORT ON AUDIT FOR
FISCAL YEARS ENDED
JUNE 30, 2005 AND 2006**

APA

**Auditor of
Public Accounts**

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Compensation Board found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no matters involving internal control and its operations necessary to bring to management's attention;
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported; and
- one risk alert which is discussed below.

Risk Alert:

During the course of our audits, we sometimes encounter issues which are beyond the corrective action of management and require the action of either another agency, outside party, or the method by which the Commonwealth conducts its operations. The following matter represents a risk to the Compensation Board (Board), but the Board must rely on Virginia Information Technology Agency to address the risk.

- Because Virginia Information Technologies Agency has not provided assurance that appropriate security is available to meet the Board's information security requirements, the Board cannot fulfill their responsibilities for the security and safeguarding of all of the agency's information technology assets, systems, and information as stated in the state policy. This may put the Board's information technology assets, systems, and information at risk. This risk alert is described in greater detail on page one.

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COMMENTS TO MANAGEMENT

Risk Alert

During the course of our audits, we sometimes encounter issues which are beyond the corrective action of management and require the action of either another agency, outside party, or the method by which the Commonwealth conducts its operations. The following matter represents a risk to the Compensation Board (Board), but the Board must rely on the Virginia Information Technologies Agency to address the risk.

Security Risk Assurance for Infrastructure

The Board has responsibility for the security and safeguarding of all of the agency's information technology assets, systems, and information. Over the past three years, the Commonwealth has moved the information technology infrastructure supporting these databases to the Virginia Information Technologies Agency (VITA). In this environment, VITA and the Executive Secretary clearly share responsibility for the security of the Board's information technology assets, systems, and information and must provide mutual assurance of this safeguarding.

The Board has provided VITA with all the documentation required to make this assessment. However, VITA has not been able to provide the Board with assurance that they can provide hardware and software configurations that satisfy these requirements and appropriate controls to secure information technology assets, systems, and information.

Therefore, the Board cannot fulfill their responsibilities stated in the state policy, which puts its information technology assets, systems, and information at risk. As such, VITA needs to provide assurance to the Board that appropriate security is available to meet the Board's information security requirements.

AGENCY HIGHLIGHTS

The Board consists of the Auditor of Public Accounts and the State Tax Commissioner as ex-officio members, and one member appointed as Chairman by the Governor. The Board has responsibility for:

- Determining the state’s share of Constitutional Officers’ (county and city Sheriffs, Treasurers, Commissioners of Revenue, Commonwealth’s Attorneys, and Clerks of the Circuit Court) budgets and reimbursing localities for Constitutional Officers’ salaries and expenses.
- Reimbursing local governments and regional jails for the state’s share of holding inmates and reporting weekly on jail population.
- Providing an annual report of the Courts and Commonwealth’s Attorneys collection of court fines and fees.
- Issuing an annual report of jail revenues and expenditures for all local and regional jails and jail farms that receive Compensation Board funding.
- Administering the Technology Trust Fund to reimburse Clerks of the Circuit Court for automation of land records.

During our review, we evaluated the Board’s progress toward resolving the issues identified in the Review of Information Security in the Commonwealth of Virginia report issued by our office in December 2006. The Board is in the process of obtaining additional information from VITA in order to expand and improve their policies and procedures as well as update their Continuity of Operations Plan. They have already addressed issues within their security awareness training program.

The following tables summarize the Board’s financial activity for fiscal years 2005 and 2006.

	Fiscal Year 2005		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
Sheriffs	\$ 325,503,606	\$ 335,498,863	\$ 331,998,989
Jails	69,490,593	67,923,849	67,582,635
Commonwealth's attorneys	45,114,580	46,385,693	45,548,713
Clerks of the circuit court	34,512,177	35,686,865	35,381,845
Treasurers	16,333,518	16,932,493	16,409,545
Commissioners of the revenue	16,160,606	16,706,682	16,373,802
Local finance directors	5,536,713	5,624,713	5,608,554
Payments on behalf of localities	5,100,464	5,125,464	4,817,135
Administrative and support services	1,996,157	2,046,342	1,957,381
Technology trust fund	<u>5,002,345</u>	<u>7,738,931</u>	<u>5,790,780</u>
Total	<u>\$ 524,750,759</u>	<u>\$ 539,669,895</u>	<u>\$ 531,469,379</u>

*Source: Appropriations Act (Chapter 4 of the 2004 Acts of the Assembly) and the Commonwealth Accounting and Reporting System

	Fiscal Year 2006		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
Sheriffs	\$ 333,784,422	\$ 356,984,501	\$ 356,150,353
Jails	70,262,693	70,611,907	70,567,645
Commonwealth's attorneys	48,224,044	51,484,227	49,895,453
Clerks of the circuit court	34,519,621	36,561,203	36,430,671
Treasurers	16,427,370	17,644,718	17,326,474
Commissioners of the revenue	16,275,312	17,587,406	17,522,797
Local finance directors	5,536,713	5,913,896	5,884,769
Payments on behalf of localities	5,100,464	5,130,464	5,130,451
Administrative and support services	1,991,651	2,222,714	2,221,837
Technology trust fund	<u>11,725,965</u>	<u>11,727,360</u>	<u>8,360,054</u>
Total	<u>\$ 543,848,255</u>	<u>\$ 575,868,396</u>	<u>\$ 569,490,504</u>

*Source: Appropriations Act (Chapter 951 of the 2005 Acts of the Assembly) and the Commonwealth Accounting and Reporting System

Ninety-eight percent of the Board's funding comes from General Fund Appropriations. The remaining funding is attributable to the Technology Trust Fund for the clerks of the circuit courts. We recently issued a separate report on the Technology Trust Fund, entitled "Virginia Circuit Courts System," which describes, in detail, the nature of these funds and their use.

Between fiscal years 2005 and 2006, the budgetary variances resulted from pay increases for state-supported local salaries. However, employee turnover at the locality level resulted in less than expected transfer payments creating a variance between the final budgets and actual expenses.

The Board's administrative expenses, while relatively stable across the two fiscal years, reflect some one time expenditures. The development and implementation of a new reimbursement request software system and the Constitutional Officers' Information Network (COIN) make up a material portion of these one time expenses.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
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February 16, 2007

The Honorable Timothy M. Kaine
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Thomas K. Normant, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited the financial records and operations of the **Compensation Board** for the fiscal years ended June 30, 2005 and 2006. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

The Auditor of Public Accounts is an ex-officio member of the Compensation Board. He has knowledge of the relevant reporting requirements and generally accepted government auditing standards. This audit has been conducted in accordance therewith, and, in the opinion of management, his independence has not been compromised, as he neither directly nor indirectly participated in the audit, nor did he instruct the auditors in any manner as to the conduct of the audit.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System. In support of this objective, we reviewed the adequacy of the Compensation Board's internal control, and tested compliance with applicable laws and regulations.

Audit Scope, and Methodology

The Compensation Board's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Transfer payments
Payroll transactions
Application access

We also followed up on the status of the Compensation Board's resolution of issues identified in the Review of Information Security in the Commonwealth of Virginia report.

We performed audit tests to determine whether the Compensation Board's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records and Agency operations. We reviewed and performed testwork on internal policies and procedures applicable to transfer payments, payroll expenditures and application access. We performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that the Compensation Board properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Board records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System and the Appropriation Act, Chapter 4 of the Acts of the Assembly of 2004 and Chapter 951 of the Acts of the Assembly of 2005.

We noted no matters involving internal control and its operation that we consider necessary to be reported to management. The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

EXIT CONFERENCE AND REPORT DISTRIBUTION

We discussed this report with management at an exit conference held on April 4, 2007. This report is intended for the information and use of the Governor and General Assembly, Management, and the citizens of the Commonwealth of Virginia and is a public record.



AUDITOR OF PUBLIC ACCOUNTS

JBS/whb

COMPENSATION BOARD
Richmond, Virginia

Frank Drew, Chairman

Janie E. Bowen, Ex Officio

Walter J. Kucharski, Ex Officio

Robyn DeSocio, Executive Secretary