

## 2014-16 Executive Progress Report

Commonwealth of Virginia  
Secretary of Finance  
Department of Accounts

### At A Glance

Provide a uniform system of accounting, financial reporting, and internal control adequate to protect and account for the Commonwealth's financial resources while supporting and enhancing the recognition of Virginia as the best managed state in the nation.

Staffing 134 Salaried Employees, 0 Contracted Employees, 168 Authorized, and 7 Wage Employees.

Financials Budget FY 2015, \$36.77 million, 32.28% from the General Fund.

Trends  
➔ Number of Customers  
➔ Revenue  
➔ Information Technology Costs

Key Perf Areas  
➔ Payrolls Proc. by Cert. Date  
➔ Fin. Management System Availability  
➔ Receive Certificate of Excellence in Financial Reporting

Legend  
⬆ Increase, ⬇ Decrease, ➔ Steady

Productivity  
Legend  
⬆ Cost per CARS/CIPPS Trans.  
⬆ Improving, ⬇ Worsening, ➔ Maintaining

For more information on administrative key, and productivity measures, go to [www.vaperforms.virginia.gov](http://www.vaperforms.virginia.gov)

### Agency Background Statement

In 1927, the General Assembly created the Division of Accounts and Controls in the Department of Finance, and in 1966, it was renamed the Department of Accounts (DOA). Under the direction of the State Comptroller, DOA is responsible for: providing a unified financial accounting and control system for state funds; developing a comprehensive system of checks and balances between state agencies entrusted with the collection, receipt and disbursement of state revenues; and maintaining a central accounting system for all state agencies and institutions. DOA's primary statutory authority resides in § 2.2-800 - § 2.2-816, Code of Virginia. Other statutory authority is included in § 2.2-1512, § 2.2-2825, and § 2.2-1819-1825.

DOA is committed to excellence in all service areas. The major service areas within DOA are General Accounting, Payroll Operations, Financial Reporting, Finance and Administration, Financial Systems Development and Maintenance, Payroll Service Bureau and Financial Oversight for Enterprise Applications.

### Major Products and Services

DOA's most visible and widely used products are the statewide accounting applications, including:

- ○ Commonwealth Accounting and Reporting System (CARS): general ledger and disbursement control system
- Cardinal: CARS replacement general ledger system currently in production at VDOT and DOA being implemented statewide
- Commonwealth Integrated Payroll Personnel System (CIPPS): central payroll system
- Fixed Asset Accounting and Control System (FAACS): fixed asset system

In addition, there are several state and federal mandates that DOA must satisfy:

- ○ Cash Management Improvement Act of 1990: establishes federal/state agreements regulating cash draw and interest payment responsibilities
- Statewide Indirect Cost Allocation Plan: used to recover allowable indirect and overhead costs for agencies receiving federal grants and contracts
- Statewide Single Audit Report: requires preparation of a "Schedule of Resolution of Prior Year Audit Findings" and the "Schedule of Expenditures of Federal Awards" for inclusion in the report
- Internal Revenue Service (IRS) Payroll Requirements: deposit and reporting of payroll taxes on behalf of state agencies' employees
- Governmental Accounting Standards Board (GASB) Standards: comply with GASB standards for financial reporting in order to obtain an unqualified audit opinion on the Comprehensive Annual Financial Report (CAFR)
- Locality Distributions: distribution of approximately \$1 billion to local governments each year as part of the administration of various shared-tax programs

### Customers

#### Customer Summary

DOA's customers are primarily those served by our major systems (i.e. state agencies, localities, and employees). In addition to our primary customers, DOA serves the citizens of the Commonwealth by preparing both the CAFR and the Virginia Financial Perspective, a report to the citizens of the Commonwealth otherwise known as the "popular report".

**Customer Table**

<b>Predefined Group</b>	<b>User Defined Group</b>	<b>Number Served Annually</b>	<b>Potential Number of Annual Customers</b>	<b>Projected Customer Trend</b>
Business and Finance	Standard and Poor's, Moody's, Fitch	3	3	Stable
Local Government Employee	Employees at Local Political Subdivisions that use the statewide systems	344	344	Stable
Local or Regional Government Authorities	Localities	325	325	Stable
Local or Regional Government Authorities	Number of non-state agencies required to comply with financial reporting directives	38	38	Stable
State Agency(s),	All state agencies and institutions	280	280	Stable
State Government Employee	Agency employees paid by Payroll Service Bureau	16,750	16,750	Stable
State Government Employee	Employees at Commonwealth Agencies and Institutions that use the statewide systems	7,430	7,430	Stable
State Government Employee	Employees of the Commonwealth	117,405	117,405	Stable

**Finance**

**Financial Summary**

DOA receives general fund appropriation for its core operations. The agency has four nongeneral funds, the Commonwealth Charge Card Rebate Fund, the Payroll Service Bureau, the Enterprise Application-Cardinal Fund, and the Enterprise Application-Performance Budgeting Fund. The Commonwealth Charge Card Rebate Fund accounts for the rebate and administrative cost associated with the Commonwealth of Virginia purchase charge card program. The Payroll Service Bureau provides payroll services to 59 other agencies; this fund accounts for the agency fees and administrative costs. The Enterprise Application Funds account for the charges to agencies for the ongoing operating costs of the Commonwealth's two enterprise application financial management and budgeting systems, Cardinal and Performance Budgeting. The Payroll Service Bureau and Enterprise Application Funds are internal service funds. These type of funds are created to account for the operations of state agencies that render services to other state agencies, institutions, or other governmental units of the Commonwealth on a cost-reimbursement basis.

**Fund Sources**

Fund Code	Fund Name	FY 2015	FY 2016
0100	General Fund	\$11,866,585	\$12,770,740
0200	Special	\$412,717	\$412,717
0211	Commonwealth Charge Card Rebate Fund	\$409,239	\$409,239
0608	Payroll Service Bureau Services	\$2,495,148	\$2,495,148
0609	Enterprise Application - Cardinal	\$17,620,483	\$17,973,016
0615	Enterprise Application - Performance Budgeting	\$3,961,775	\$3,961,775

**Revenue Summary**

The largest source of nongeneral fund revenue for DOA is related to the Enterprise Application Cardinal and Performance Budgeting Internal Service Funds (EA ISF). DOA centrally manages the fiscal operations of Cardinal and Performance Budgeting under the EA ISF. Agencies are charged on a quarterly basis. This simplifies collection, alleviates potential cash flow limitations experienced by non-general funds and limits the need to utilize the Treasury Loan authority granted in Item 256 A.3. of Chapter 2 to meet the short term cash flow needs of the EA ISF.

The other major source of revenue at DOA comes from fees charged to other agencies for services rendered by the Payroll Service Bureau. The Bureau is operated on a cost-reimbursement basis with fees charged equaling the costs to administer the bureau.

The statewide Small Purchase Charge Card Program is mandatory for state agencies and optional for political subdivisions. DOA receives a rebate from the financial institution sponsor (Bank of America) on the total spending for each fiscal year. The rebate earned is based on a contractually based rebate grid containing basis points for different Annual U.S. Dollar Card Volume Tiers. Once the rebate is reviewed and agreed upon by DOA and Bank of America, Bank of America makes a payment to DOA. DOA uses a portion of the rebate for oversight costs for Higher Education level 3 institutions. Additionally, DOA disburses a proportionate share of the rebate to political subdivisions, less a management fee of 2.5 basis points, and a federal share of the rebate is returned to the federal government. Certain DOA charge card administration expenses are also borne by the rebate fund. The remainder is provided to the Commonwealth as general fund revenue.

**Performance**

**Performance Highlights**

A key measure that has a direct impact on the financial state of the Commonwealth as a whole is the continued receipt of an unqualified opinion on the CAFR and the Certificate of Excellence in Financial Reporting from the Government Financial Officers Association. The audited CAFR is prepared on the basis of generally accepted accounting principals (GAAP) and is used extensively by rating agencies, investment banks and others involved in the issuance and marketing of Commonwealth bonds. DOA has produced a GAAP-basis report that has received an unqualified audit opinion every year since 1986.

DOA also measures the cost per transaction of providing core system administration for the statewide financial management systems. It is anticipated that as agencies move their applications from the mainframe, the cost for those agencies remaining on the mainframe will change. DOA anticipates the transition of systems from the mainframe environment (CARS) to a web environment (Cardinal) will offer more progressive and efficient self-service delivery services, more flexibility in system design and development, a mitigation of the risk of mainframe rates rising significantly as more users go from the mainframe to client/server, and more opportunities for taking advantage of proven emerging technology.

**Selected Measures**

Measure ID	Measure	Alternative Name	Estimated Trend
15172404.001.002	Cost per transaction of providing core system administration for the statewide financial management systems (CARS, Cardinal and CIPPS).	Cost per CARS/CIPPS Trans.	Worsening
15173703.004.001	Percent of payrolls reviewed and processed by the final certification date.	Payrolls Proc. by Cert. Date	Maintaining
15172404.001.003	Percent of time that financial management systems are available to customer state agencies.	Fin. Management System Availability	Maintaining
151.0003	Receive the Certificate of Excellence in Financial Reporting from the Government Finance Officers of America for the Comprehensive Annual Financial Report.	Receive Certificate of Excellence in Financial Reporting	Maintaining

**Key Risk Factors**

Several factors will have a significant impact on the agency over the next few years:

**Aging Workforce:** DOA has 13% of staff who are currently eligible for retirement and 18% of staff eligible or over the age of 60. Transition and succession planning is critical to ensure that critical skills are transferred and proper cross-training is ongoing.

**Adequate Supply of Accounting Personnel:** Currently there is a high demand for qualified accounting personnel in both private and public sectors. This increases the difficulty of being able to recruit and retain qualified staff for open positions. As the responsible organization for establishing and ensuring compliance with accounting policy in the Commonwealth, this impediment affects DOA significantly. If DOA as an agency or other state agencies have difficulty securing qualified staff, the reliability of state financial information can be put at risk. In the long run, this may impact the quality of the CAFR and the bond rating of Virginia.

**New Accounting Policies:** The Governmental Accounting Standards Board (GASB) continues to issue new pronouncements, and there is a continuous challenge to appropriately evaluate and implement the new reporting requirements. As the statements continue to be technically challenging, additional stresses are being placed on the accounting professionals at DOA as well as the Commonwealth agencies to continue to produce more with fewer resources.

**Information Technology:** Compliance with new and evolving security policies, procedures, and monitoring is a challenge. DOA continues to expand and improve its IT disaster recovery plan to address the challenges of full compliance with the Commonwealth's IT security standards in order to reduce downtime in the event of a disaster.

**Agency Statistics**

**Statistics Summary**

The following statistics provide a snapshot of the magnitude of DOA operations during Fiscal Year 2014.

**Statistics Table**

Description	Value
Statewide spending through the purchase charge card program (\$)	678,000,000
Approx. number of Commonwealth Accounting and Reporting System(CARS) transactions processed annually	11,000,000
Approx. number of Fixed Asset Accounting Control System (FAACS) transactions processed annually	40,000
Average number of employees the central payroll system supports payments to per month	90,000
Number of W-2s produced by the central payroll system for calendar year 2013	121,000
Estimated number of checks avoided due to usage of the purchase charge card program	781,250
Number of agencies served by the Payroll Service Bureau	59
Number of W-2s produced by the Payroll Service Bureau for calendar year 2013	20,280
Number of agencies served by the Fiscal Service Bureau	8
Number of vouchers processed by the Fiscal Service Bureau	5,000

### General Information About Ongoing Status of Agency

DOA's mission to provide a uniform system of accounting, financial reporting, and internal control adequate to protect and account for the Commonwealth's financial resources continues to be the driving focus of DOA's services. DOA strives to provide high level service to its customers through its payroll and fiscal service bureaus and its statewide accounting operations. DOA is expanding its service bureaus to gain further statewide efficiencies. A major initiative for DOA is the replacement of the Commonwealth's accounting system; this is discussed further under IT initiatives.

### Information Technology

Major IT initiatives underway include:

#### System Modernization and Replacement

The Commonwealth is currently in the process of replacing its aged financial accounting system (implemented in the late 1970s) with a modern, commercial off-the-shelf application. The software selected, PeopleSoft 9.1, is a robust, web-based application that will greatly enhance the Commonwealth's ability to manage and account for its financial resources. It will equip policy-makers with complete and timely data, while providing the transparency demanded by taxpayers today. The system, known as Cardinal, will develop data standards that improve the sharing of information across agencies, allow the Commonwealth to reduce the risk inherent in operating a 30 year old legacy system and keep pace with future technology improvements. More importantly, the financial base system provides a solid foundation for the Commonwealth to expand system functionality and facilitate better integration of key administrative systems across the state. This foundation will enable the state to re-engineer activities taking advantage of shared services, increasing functionality for better fiscal management, and reducing redundant agency financial systems and related cost. Cardinal Financials is being implemented in three parts. The first part implemented the Virginia Department of Transportation's financial system in December 2011. The second part implemented the base statewide financial system at DOA in October 2012. The third part of the project includes transitioning all other state agencies to the Cardinal base system planned to occur during fiscal year 2016.

#### Archival Solutions

DOA is implementing archival solutions to manage document storage. This initiative is intended to improve security over documents and improve the efficiency with which these documents and related information are accessed. Types of documents include permanently retained electronic data interface (EDI) security forms, human resource files, Line of Duty Act records, Payroll Service Bureau records and accounts payable documentation.

#### Future of Payroll

The Commonwealth's centralized payroll system, known as CIPPS, was implemented in the mid-1980s. It is a purchased software package supported by Infor Global Solutions (formerly McCormack and Dodge, Dun and Bradstreet, and GEAC). The application runs on the IBM mainframe and supporting programs are largely written in COBOL (COmmon Business-Oriented Language). Infor has announced technical support for the current system through May 31, 2018. Technical support is needed to obtain software updates for federal/state (Virginia has employees in 17 states) tax rate and rule changes. This critical technical support will likely be discontinued on, or soon after, that date. Additionally, most technical support (DOA and Infor) personnel either have reached or are approaching eligibility for retirement. While effective, the technology of the system is outdated from the aspect of having a sufficient pool of talent to provide support in the future.

Given the amount of lead time required to define system requirements, develop and implement the system and train the users of 200+ agencies and central support staff, moving forward with a strategic plan to replace CIPPS is critical and is underway.

#### Planned Approach – PeopleSoft (Oracle)

COV purchased PeopleSoft for the purpose of replacing legacy enterprise systems. The purchase included the full suite of applications including Payroll. This solution also requires integration services to develop requirements, design, test and implement the solution, develop conversion programs and develop and deliver comprehensive change management and training programs.

Under this approach, DOA will leverage the existing proven Cardinal project management and production support capabilities that have successfully (on-time, on-budget) implemented Cardinal in VDOT (7,500 users), DOA, 143 Wave 1 agencies (390 users) and, by February, 2016, Wave 2 agencies (1,500 users), enabling the 30 year old CARS system to be decommissioned. A contract is available with Accenture, the Cardinal integration partner and post-production support provider, to establish a Statement of Work (SOW) to begin work on the CIPPS replacement initiative. Under this strategy DOA will continue to augment its' functional expertise (i.e., State Payroll Operations) with the existing Cardinal Enterprise System Program office's project management and PeopleSoft technical expertise and experience. By continuing this DOA/VDOT shared service approach, the need to stand-up a separate Payroll project management office will be avoided using the proven PeopleSoft product and Accenture's proven implementation methodologies.

This approach is considered substantially less risky and ultimately more cost effective than issuing a Request for Proposal to procure either or both Payroll software and implementation services. Utilizing a proven product, proven implementation methodologies, highly experienced/skilled resources with a trusted implementation partner will minimize the risk that COV will be unable to process payroll for its approximately 100,000 CIPPS employees. Implementing the CIPPS replacement on a common platform with the Cardinal statewide financial system will leverage the

existing Cardinal production infrastructure and ultimately lead to lower operating costs than would be incurred with multiple software platforms.

Pursuant to an RFI, DOA obtained a high level budget estimate of approximately \$30 million as the total implementation cost to replace CIPPS. Budget language authorizing a Working Capital Advance (WCA) to fund the project has been approved. WCA repayment and payroll system operating costs will be captured through internal service fund rates following implementation. Initial work will entail a negotiated SOW to define requirements and perform a software fit/gap analysis, which will enable more refined budget estimates for total implementation costs.

### **Workforce Development**

DOA is made up of many staff who are in professional accounting roles, including 24 Certified Public Accountants. There is a significant demand in both the public and private sectors for qualified accounting professionals. This demand is currently far outpacing supply. As a result, it has become increasingly difficult to recruit experienced, professional accountants. In addition it continues to be challenging to retain staff as private sector salaries prove to be more lucrative than what DOA is currently able to offer.

Another challenge affecting DOA is its aging workforce. Eighteen employees have more than 30 years of service and are over 50 and therefore eligible to retire. Another five are within five years of joining the 30 year and over 50 group. In addition, there are six employees who are over 60 but do not have 30 years of service but who may be leaving the workforce in the near future. This group near retirement makes up over 22% of our workforce. Each area of the agency will monitor the plans for their staff and perform succession planning well in advance of staff departures.

### **Physical Plant**

DOA is centrally located in the James Monroe Building in downtown Richmond. DOA leases this space from the Department of General Services.

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