

2016-18 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 2017, \$40.15 million, 31.39% from the General Fund.

Trends
Legend ↑ Increase, ↓ Decrease, → Steady

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

Productivity
Legend ↑ Improving, ↓ Worsening, →
Maintaining

For more information on administrative key, and productivity measures, go to 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:

- ○ Cardinal: general ledger system
- 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

Predefined Group	User Defined Group	Number Served Annually	Potential Number of Annual Customers	Projected Customer Trend
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	18,200	18,200	Stable
State Government Employee	Employees at Commonwealth Agencies and Institutions that use the statewide systems	7,358	7,358	Increase
State Government Employee	Employees of the Commonwealth	125,196	125,196	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 58 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 2017	FY 2018
0100	General Fund	\$12,602,753	\$12,603,165
0200	Special	\$430,424	\$430,424
0211	Commonwealth Charge Card Rebate Fund	\$432,422	\$432,422
0608	Payroll Service Bureau Services	\$2,653,260	\$2,783,466
0609	Enterprise Application - Cardinal	\$20,059,694	\$21,062,678
0615	Enterprise Application - Performance Budgeting	\$3,967,981	\$3,967,981

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.

Selected Measures

Measure ID	Measure	Alternative Name	Estimated Trend
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
151.0004	The number of W-2's processed per payroll staff member.	W-2's processed per payroll staff member	Maintaining

Key Risk Factors

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

Aging Workforce: DOA has 16% of staff who are currently eligible for retirement and 24% 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 2016.

Statistics Table

Description	Value
Statewide spending through the purchase charge card program (\$)	751,341,783
Approx. number of Cardinal transactions processed annually	13,232,000
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	92,727
Number of W-2s produced by the central payroll system for calendar year 2016	118,046
Estimated number of checks avoided due to usage of the purchase charge card program	803,828
Number of agencies served by the Payroll Service Bureau	58
Number of W-2s produced by the Payroll Service Bureau for calendar year 2016	23,123
Number of agencies served by the Fiscal Service Bureau	8
Number of vouchers processed by the Fiscal Service Bureau	6,580

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 payroll and accounting systems; this is discussed further under IT initiatives.

Information Technology

Major IT initiatives underway include:

Cardinal

Cardinal represents a shared vision between the offices of the Secretary of Transportation, Secretary of Finance and the Secretary of Technology to replace the Commonwealth's financial system (CARS) and the Virginia Department of Transportation's (VDOT) financial system (FMS) with a modern enterprise wide financial system (base financial system). Cardinal will 1) replace the two aging financial systems with an enterprise resource planning (ERP) financial system - PeopleSoft, 2) develop data standards that improve the sharing of information across agencies (Virginia Acts of the Assembly, Chapter 781, Item 460), and 3) allow the Commonwealth to reduce the risk inherent in operating up to 30 year old legacy systems 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 to include taking advantage of shared services, increasing functionality for better fiscal management, and reducing redundant agency financial systems and related cost.

Cardinal Financials has been implemented Statewide resulting in the decommissioning effective July 1, 2016.

DOA also continues to expand and improve the IT disaster recovery plan in order to reduce downtime in the event of a disaster.

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 enabling the 30-year-old CARS system to be decommissioned. Utilizing the current contract with Accenture, the Cardinal integration partner and post-production support provider, DOA entered into a Statement of Work (SOW) to execute the replacement of CIPPS. 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 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.

The estimated cost of the CIPPS replacement initiative is approximately \$42 million. 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.

Workforce Development

DOA is made up of many staff who are in professional accounting roles, including 23 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. Twenty-three employees have more than 30 years of service and are over 50 and therefore eligible to retire. Another seventeen are within five years of joining the 30 year and over 50 group. In addition, there are thirteen 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 35% 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.
