

## 2018-20 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 143 Salaried Employees, 0 Contracted Employees, 169 Authorized, and 3 Wage Employees.

Financials Budget FY 2019, \$41.60 million, 32.44% 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](http://www.vaperforms.virginia.gov)

### Background and History

#### 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: financial 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 or Regional Government Authorities	Localities	324	324	Stable
Local or Regional Government Authorities	Number of non-state agencies required to comply with financial reporting directives	31	31	Stable
State Agency(s),	All state agencies and institutions	285	285	Stable
State Government Employee	Agency employees paid by Payroll Service Bureau	19,191	19,191	Stable
State Government Employee	Employees at Commonwealth Agencies and Institutions that use the statewide systems	6,947	6,947	Increase
State Government Employee	Employees of the Commonwealth	123,957	123,957	Stable

## Finance and Performance Management

## Finance

### Financial Summary

DOA receives general fund appropriation for its core operations. The agency has five nongeneral funds, the Commonwealth Charge Card Rebate Fund, the Payroll Service Bureau, the Enterprise Application-Cardinal Fund, the Enterprise Application-Performance Budgeting Fund, and the Enterprise Application-Payroll 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 65 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 2019	FY 2020
01000	General Fund	\$13,493,096	\$13,493,096
02011	Doa Statewide Accounting Svcs	\$433,726	\$433,726
02111	Charge Card Rebate Fund	\$559,094	\$559,094
06011	Enterprise App - Payroll	\$0	\$0
06080	Payroll Service Bureau Service	\$2,682,503	\$2,762,479
06090	Enterprise App - Cardinal	\$21,768,143	\$22,421,187
06150	Enterprise App-Perf Budgeting	\$2,660,587	\$2,684,775

### 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 259 A.5. of Chapter 854 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 19% of staff who are currently eligible for retirement and 30% 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 2019.

## Statistics Table

Description	Value
Statewide spending through the purchase charge card program (\$) (FY2018)	885,573,405
Approx. number of Cardinal transactions processed annually (FY2017)	25,799,000
Approx. number of Fixed Asset Accounting Control System (FAACS) transactions processed annually	45,000
Average number of employees the central payroll system supports payments to per month	89,000
Number of W-2s produced by the central payroll system for calendar year 2018	118,433
Estimated number of checks avoided due to usage of the purchase charge card program (FY2018)	817,645
Number of agencies served by the Payroll Service Bureau	65
Number of W-2s produced by the Payroll Service Bureau for calendar year 2018	24,830
Number of agencies served by the Fiscal Service Bureau	8
Number of vouchers processed by the Fiscal Service Bureau (FY2018)	4,842

## Management Discussion

### 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:

#### Future of Payroll

The Commonwealth's centralized payroll system (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 (**C**OMMON **B**USINESS-**O**RIENTED **L**ANGUAGE). Infor has announced technical support for the current system through May 31, 2018. Infor support is needed to obtain software updates for federal/state tax rate and rule changes. DOA has been able to extend Infor technical support through 2021. Additionally, the technical support personnel (DOA and Infor) either have reached or are approaching eligibility for retirement. The mainframe system is outdated technology and there is not a sufficient pool of talent to provide support.

DOA initiated the Cardinal Payroll project to migrate payroll processing to the Commonwealth's Enterprise Resource Planning (ERP) system. This effort is now a part of the Cardinal HCM project.

#### Cardinal HCM

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.

DOA initiated a project to replace the 30+ year old mainframe CIPPS application with the necessary PeopleSoft HCM modules. A planning phase was conducted beginning in March 2015 to define requirements, conduct a fit-gap assessment using the PeopleSoft HCM software, and estimate the implementation scope-cost, schedule and resources required to implement a modern payroll system and supporting business processes for the Commonwealth. The Cardinal Payroll Project began June 2016 and was to be completed in October 2018. In April 2018, the Cardinal Payroll project was tasked to include a full HR and benefits module replacing the Commonwealth's PMIS and BES systems. An analysis and planning project began in July 2018 and concluded in April 2019 providing the requirements, schedule, and budget to implement Cardinal HCM. The Cardinal HCM project was approved by the Secretaries of Finance and Administration in May 2019. Cardinal HCM project will comprise Payroll, Time and Labor, Absence Management, HR, Benefits, and Employee Self Service functions replacing CIPPS, PMIS, BES, TAL, and assorted DHRM and DOA web applications. Cardinal HCM will deploy in two releases with final deployment in October 2021.

Budget language authorizing a Working Capital Advance (WCA) to fund the planning project was approved and additional authorization for the expanded scope is included in the Governor's budget approved as part of the 2019 General Assembly Session. WCA repayment and payroll system operating costs will be captured through internal service fund rates following implementation.

#### Fixed Asset Accounting System (FAACS)

The Commonwealth's Fixed Asset Accounting System (FAACS) was designated to be replaced with the DGS COVA TRAX system as part of the

Secretariat mandate. This initiative has been put on indefinite hold. FAACS comprises a web-front end for agency input and a mainframe component that performs the financial processing. DOA has migrated the FAACS mainframe system to the web platform and the system is currently undergoing User Acceptance Testing. The target date to retire FAACS mainframe is February 2020.

### **Workforce Development**

DOA is made up of many staff who are in professional accounting roles, including 20 Certified Public Accountants. The state's compensation plan does not allow for recognition of the more complex responsibilities of central agencies' positions in general in both classification and compensation and is not aligned with the market at all levels of the organization from the State Comptroller down to entry level accountants. Better positioned line agencies offer higher salaries for less demanding jobs, eliminating a once well-established pipeline from line agencies to central government agencies like DOA. As a result, DOA's ability to attract and retain the talent needed to fulfill the agency's mission is inhibited. DOA has enhanced its internal training, compensation and recognition programs. This is intended to encourage retention of top-performing employees and to provide the means to improve their performance. Recognition of significant accomplishments is intended to reward and encourage employees. The ability to pay in accordance with market trends and with recognition of the skills required to accomplish the work will enhance the ability to retain staff.

Another challenge affecting DOA is its aging workforce. Twenty-six employees have more than 30 years of service and are over 50 and therefore eligible to retire. Another eleven are within five years of joining the 30 year and over 50 group. In addition, there are eleven 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 34% 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.

---