

2014-16 Executive Progress Report

Commonwealth of Virginia
Secretary of Finance

Department of the Treasury

At A Glance

As steward of the Commonwealth's financial resources, the Department of the Treasury's mission is to ensure excellence in the management of its banking, investing, and financing services and the administration of unclaimed property and insurance programs.

Staffing 105 Salaried Employees, 4 Contracted Employees, 121 Authorized, and 8 Wage Employees.

Financials Budget FY 2015, \$18.90 million, 41.24% from the General Fund.

Trends ↑ Electronic Payments

↑ Unclaimed Property claims

↓ Number of checks printed

Legend ↑ Increase, ↓ Decrease, → Steady

Key Perf Areas

↑ Investment return comparison

↑ Timely delivery of checks

Productivity

↑ Movement to electronic payment

Legend

↑ Improving, ↓ Worsening, →
Maintaining

For more information on administrative key, and productivity measures, go to www.vaperforms.virginia.gov

Agency Background Statement

The Department of the Treasury is an innovative, customer-driven, results-oriented state agency providing statewide financial management services for the Commonwealth. Treasury's philosophy of service through innovation is part of our culture and has been the hallmark of our program and service delivery. The agency has a long history of increased productivity and response to customer needs. Time and again, Treasury has been successful in identifying a customer need, developing a solution to fit the need, securing the authority and resources necessary to deliver the solution and then, most importantly, making it happen. As a result, Treasury has been a leader in identifying, developing and implementing new programs to better serve our customers.

Treasury consists of seven very distinct divisions that serve the Commonwealth. Debt Management directs financing for capital needs of the Commonwealth and its agencies, boards and authorities. Risk Management administers statewide insurance and self-insurance programs. Cash Management and Investments invests the Commonwealth's funds and maintains a statewide banking network. Unclaimed Property administers the Uniform Disposition of Unclaimed Property Act and the Escheats Generally Statute. Accounting and Trust Services provides support services to Treasury and related boards and authorities for budgeting and accounting for investments, trust and bond funds, and debt issuances. Check Processing and Bank Reconciliation provides support services for the receipt and disbursement of state funds. Administrative Services provides day-to-day management and control of the agency.

Major Products and Services

In FY 2013, Treasury managed investments totaling \$9.1 billion in state and local government funds, issued or participated in financing \$1.6 billion in debt obligations, processed 2.1 million checks, collected \$115.2 million in unclaimed property revenue, returned \$29.2 million to rightful owners, and transferred \$75.0 million to the Literary Fund for public education purposes. In addition, Treasury provided liability and property insurance for the Commonwealth, its agencies and institutions, and local officials and employees in over 500 political subdivisions and non-profit organizations. Treasury also manages the Commonwealth's statewide banking network that accelerates the deposit and availability of state funds received from approximately 285 regional depositing locations.

Customers

Customer Summary

Treasury continues to implement systems to improve services to the citizens of Virginia. The agency continues to harness the use of electronic technology to strengthen its ability to serve the citizens with greater efficiency and service. With the successful retention of an AAAm rating of the Local Government Investment Pool (LGIP) by Standard & Poor's, the number of pool shareholders will continue to grow. The investment portfolio for LGIP was \$3.1 billion in FY 2013. As Unclaimed Property continues to promote holder education of the requirements of the Unclaimed Property Act, the numbers of holders reporting to the Commonwealth will increase. In addition, outreach and increased media coverage of unclaimed property, will impact the volume of inquiries and claims. Over the past five years, the State Insurance Reserve Trust Fund has been statutorily required to provide insurance coverage to certain public service type private and not-for-profit organizations and individuals. It is anticipated there will be continued placement of additional groups under the protection of the state risk management plans.

Customer Table

Predefined Group	User Defined Group	Number Served Annually	Potential Number of Annual Customers	Projected Customer Trend
State Agency(s),	Business Partners/Interagency	108	108	Stable
General Assembly	Legislative Branch and Money Committees Staff	158	158	Stable
Attorney General	Executive Branch	350	350	Stable
State Agency(s),	Boards and Authorities	25	25	Stable
Local or Regional Government Authorities	Local Governments for K-12 Financing Services	134	134	Stable
Local or Regional Government Authorities	Local Government Officials and Non-profit Participants - Insurance Services	650	1,000	Increase
Local or Regional Government Authorities	Political subdivisions, Nonprofit Organizations and Employees	1,500	5,000	Increase
Local or Regional Government Authorities	Local Government Investment Pool Customers	376	650	Increase
Business and Finance	Holder of Unclaimed Property	25,600	100,000	Increase
Business and Finance	Financial Institutions Holding Virginia Public Deposits	120	120	Stable
Business and Finance	Insurance Companies Conducting Business in Virginia	1,125	1,125	Stable
State Government Employee	Intra-Agency Staff	121	121	Stable
Business and Finance	Business Partners	265	265	Stable

Finance

Financial Summary

Treasury's base budget is funded 45% from general fund dollars and 55% from nongeneral funds.

Fund Sources

Fund Code	Fund Name	FY 2015	FY 2016
0100	General Fund	\$7,795,088	\$8,065,414
0200	Special	\$341,594	\$341,594
0471	Transportation Trust Fund	\$185,187	\$185,187
0700	Trust And Agency	\$3,845,614	\$4,242,526
0703	Unclaimed Property	\$6,029,402	\$6,373,524
0909	Insurance Collateral Assessment Fund	\$705,757	\$705,757

Revenue Summary

Treasury receives revenues from various services provided to its customers and constituencies. These nongeneral fund sources are from the receipt of unclaimed property used to administer the Commonwealth's unclaimed property laws; from charges to state agencies and localities for insurance coverage; from charges to select agencies for check printing services; from charges to debt issuing authorities and agencies for debt issuance and management services; for investment services provided to state and local governments; and for fees charged financial institutions and insurance carriers. It is expected that nongeneral fund revenue will remain stable.

Performance

Performance Highlights

Enhanced Security for Public Deposit Reporting Capabilities – With the instability in the banking industry over the last several years, Treasury has taken measures to enhance its procedures to monitor financial institutions' compliance with the Security for Public Deposits Act.

Insurance Services Customer Service Initiatives – Treasury's Information Systems upgraded and integrated several existing Risk Management web applications to include more functionality and security.

Increase in Electronic Payments and Reduction in Check Volume – Treasury's efforts to work with check-writing agencies to reduce check volume by converting payments to an electronic format thereby reducing risk of loss and costs. Since 2005, check volume has been reduced from 7.6 to 2.1 million checks. Treasury's payment card program has been essential in the reduction of checks.

Energy Leasing Program - \$23.2 million in energy efficiency projects were financed by agencies of the Commonwealth during the year. In addition, \$11.1 million in equipment was financed using the Master Equipment Leasing Purchase Program at favorable rates.

American Reinvestment and Recovery Act - Debt Management Division successfully utilized several of the bond programs implemented under the American Reinvestment and Recovery Act. Build America Bonds were issued for General Obligation projects, Virginia College Building Authority, Virginia Public School Authority, and Virginia Public Building Authority projects.

Payee Match Positive Pay Check Security Service – Treasury continues to use a check security feature offered by Commonwealth's disbursement banks that matches check payee name to the payee name submitted on the check issue files transmitted to the disbursement banks to detect alterations of payee names on checks.

Electronic Reporting by Unclaimed Property Holders - With the passage of Treasury initiated legislation in 2004, holders of 25 or more properties are required to report electronically. As the number of electronic reports has grown and efficiencies have been achieved, Treasury intends to extend an alternative electronic reporting tool for small to medium holders to continue to increase the number of holders filing electronic reports.

Update Imaging Technology - The Division of Unclaimed Property updated its imaging and document management technology to increase efficiency and reduce the amount of space needed in the work area to store paper documents. The new Document Management System has been expanded to include Risk Management, Operations, and Human Resources.

Selected Measures

Measure ID	Measure	Alternative Name	Estimated Trend
15272503.001.001	Number of basis points by which yield on Virginia's general fund investment earnings exceed an industry benchmark by 15 basis points.	Investment return comparison	Improving
15273216.001.002	Number of checks printed per year by Treasury's Check Processing and Bank Reconciliation Service Area.	Movement to electronic payment	Improving
15273216.001.001	Percentage of checks delivered in a timely and accurate manner.	Timely delivery of checks	Improving
15273213.001.001	Ensure that all debt payment obligations are paid on time.	Timeliness of debt payments	Maintaining

Key Risk Factors

Federal Government Uncertainty - Due to Virginia's proximity and economic dependence on federal employment, actions (or inactions) such as furloughs and sequestration, could have a detrimental impact on Virginia's economy. In addition, regulatory, congressional, and other actions by the federal government could negatively impact Commonwealth bond ratings.

Tax-Exempt Bond Market - Actions by Congress and regulators that could alter the tax-exempt bond market (e.g., reducing or eliminating the tax-exemption on municipal bonds, tax reform, excluding municipals from definition of high quality liquid assets (HQLA) for banks, etc.) could have the effect of increasing state and local borrowing costs, and would limit the state and local governments' abilities to finance critical infrastructure needs.

Master Settlement Agreement - In 2007, the Virginia Tobacco Settlement Financing Corporation (VTSFC) issued bonds secured by 50 percent of future Master Settlement Agreement payments to be received by the Commonwealth. Declines in tobacco consumption have resulted in lower payments, which threaten the ability of the VTSFC to stay current on its debt service payments. No other security was pledged to the bondholders; however, investors will likely look to the Commonwealth for a remedy.

Aging Workforce - Nearly half of Treasury's workforce is over the age of 50, including several senior management positions. Currently, 19 of Treasury's employees are either eligible or will be eligible for full retirement within the next three years. The sudden loss of institutional knowledge will be extremely disruptive, whether due to retirement or sudden absence from work. The loss of a manager without a successor in place could require the use of external management at a substantial cost to the Commonwealth.

Local Government Investment Pool (LGIP) - The LGIP is managed in accordance with Governmental Accounting Standards Board requirements and Securities and Exchange Commission (SEC) Rules for Money Market Mutual Funds. The LGIP must adopt all rules promulgated by the SEC even though LGIPs are not actually registered with or overseen by the SEC. The SEC has recently proposed changes to the rules governing registered Money Market Funds. These proposed rules could make LGIPs less attractive in general to local government participants, as well as make the funds more costly to manage. Depending on the particular changes the SEC actually adopts, there is a risk that Treasury's LGIP may not serve as the first choice of many local government entities to meet their cash management needs.

Reported Unclaimed Property - Reported unclaimed property has increased in recent years; however, there are areas in state law where exemptions have been granted that provide limited consumer protection for property. Exemption examples include: gift cards, rebates, promotional incentives, layaways, payments and business-to-business payables, and capital credits. In addition, unclaimed property holders are continually looking at ways to add service charges to different types of inactive property thereby depleting (or exhausting) the value of the property.

Unclaimed Property Audits - In several states, business communities (or holders of property) have successfully initiated legislation to limit the use of external fee-based auditors for Unclaimed Property noncompliance. The limitations on states' ability to use these auditors negatively impacts enforcement, consumer protection, efficiencies, and recoveries.

Unclaimed Property Held by the Federal Government - Federal government agencies are not required to report unclaimed property to states that belongs to state citizens, including such property as matured U.S. Savings Bonds, Internal Revenue Service tax refunds, Housing and Urban Development escrow funds and U.S. Postal Service Money Orders. These exemptions hinder the ability of states, including Virginia, to recover property for the rightful owners.

Agency Statistics

Statistics Summary

The following statistics provide a comprehensive snapshot of Treasury's productivity during FY 2014:

Statistics Table

Description	Value
Number of separate financings completed by Debt Management	17
Billions of dollars in financings completed by Debt Management	2
Millions of dollars in present value savings generated by Debt Management in refunding bonds	25
Number of state buildings insured by Insurance Services	12,873
Value in billions of dollars of state buildings and their contents insured by Insurance Services	28
Value in billions of dollars in fine art insured by Insurance Services	2
Billions of dollars in investment portfolios managed by Banking and Investment Services	9
Billions of dollars in general account portfolio managed by Banking and Investment Services	5
Billions of dollars in LGIP portfolio managed by Banking and Investment Services	3
Billions of dollars in additional portfolios managed by Banking and Investment Services	1
Number of owners contained holder reports received by Unclaimed Property Administration	757,560
Number of inquiries handled by Unclaimed Property Administration	144,205
Number of claims processed by Unclaimed Property Administration	53,359
Number of electronic reports collected by Unclaimed Property Administration	10,091
Number in millions of checks printed and distributed by Check Processing	2

General Information About Ongoing Status of Agency

Mission Focus - The Department of the Treasury (Treasury) continues to strive to achieve its mission to ensure excellence in the management and administration of its diverse financial programs and services through innovative fiscal management, fiduciary oversight, and instill these values in its leadership, financial professionals, and staff.

Dashboard Reporting Project - Treasury is developing a Dashboard Reporting System that will allow management to integrate, gather, present, and analyze internal and external data from disparate sources. Through the dashboard, management will have more readily available and timely information to provide insight into the organization's performance related to daily operations and long-term goals. This real-time data will allow management to monitor both agency and division-level performance and facilitate fact-based decision making. Mid-level managers will be able to track progress against performance measures and goals in real-time, improving the ability to proactively manage the operations. Treasury intends to have dashboard drill down analysis capabilities to allow managers to further investigate data outliers to more readily identify anomalies, new trends, or new correlations. The dashboard will improve the agency's ability to monitor Treasury's numerous regulatory requirements, including those related to the cash and investments programs.

Additionally, Treasury would like to implement a public facing dashboard to promote transparency and openness with Commonwealth citizens and stakeholders. Furthermore, the Treasury Board can utilize the dashboard to obtain more timely performance information for Treasury's various programs, including the cash and investments, Securities for Public Deposit Act, and various bond programs.

Cash Flow Business Analysis Project. With the aid of a business analyst, Treasury plans to analyze its cash management processes with the intent of streamlining, modernizing and automating key processes and functions. This project will include a review of: cash flow forecasting to determine real-time cash positions; funds transfer and accounting; investment trading, processing and accounting; portfolio management; and required reporting. The goal is to streamline, automate, standardize, consolidate and simplify processes and functions; reduce reliance on manual and/or paper processes; create a more well-documented, sustainable, and flexible program which adapts to the ever-changing environment; provide more timely, accessible and pertinent reporting information to internal and external stakeholders; and integrate technology where possible.

Risk Management Business Analysis Project. With the aid of a business analyst, Treasury plans to analyze its risk management functions with the intent of streamlining, modernizing, and automating key processes and functions. This project will include a review of: managing and tracking Commonwealth insured assets; setting premium allocations to insured entities; invoicing and accounts receivable processes; and processing claims. The goal is to streamline, automate, standardize, consolidate and simplify processes and functions; reduce reliance on manual and/or paper processes; and accept online enrollment applications and credit card transactions for premium payments.

Information Technology

Detailed information for Treasury's technology needs is outlined in the VITA Information Technology Strategic Plan. Treasury's current and future technology projects are summarized below:

As steward of the Commonwealth's financial resources, the Department of the Treasury's mission is to ensure excellence in the management of its banking, investing, and financing services and the administration of unclaimed property and insurance programs.

Treasury has a number of applications written using legacy technologies that support this mission. These legacy systems present support and maintenance issues due to the age of the technologies used and the lack of available IT resources to support them. Staff with expertise in the legacy technologies is not readily available in the marketplace, and this situation is expected to worsen in the coming years.

Virginia Auto Count and Car Care System (VACCS) Integration into Civitas (Risk Management's claims and billing system) – To enhance efficiencies in accounting and reporting and to provide for future upgrades, these stand-alone systems should be migrated to Civitas and become a module of Civitas where all member and billing data is stored and maintained. There is currently no funding for this necessary upgrade.

AdVantage – The AdVantage system utilizes legacy technologies which in the future will no longer be supported. AdVantage should be rewritten using up to date technologies. The agency needs to implement credit card processing features for the AdVantage module. There is currently no funding for this necessary upgrade.

Click and Claim System Enhancements – Unclaimed Property Division (UCP) must expand the functionality of the Click and Claim web-based page, which allows the rightful owners of unclaimed accounts to search and claim accounts reported to the Division. UCP needs to upgrade existing technology and functionality to provide for a mobile version of Click & Claim and Click & Report programs. UCP needs to enhance the functionality in the Click & Claim and Click & Report processes to allow claimants and holders to upload completed forms and supporting documentation. Non-General funds are available for these enhancements.

Treasury Unclaimed Property System (TUPS) Enhancements – UCP will continue to enhance the functionality of the newly developed TUPS application. Enhancements would include the following: Unclaimed Property Holder Upload Upgrade – UCP needs to expand the functionality of the web-based page to allow unclaimed property Holders to report and remit their annual unclaimed property report. Non-General funds are available for these enhancements.

PaperVision Upgrade – The agency needs to expand usage of the document management system to improve efficiencies, replace outdated work

flows and decrease printed paper. Expansion of the system will require additional software modules and licensing.

Unclaimed Property Reporting Application – UCP needs to implement software that will support Treasury in reporting outstanding checks in accordance with §55-210 of the Code of Virginia for the due diligence and charge-off of checks process. The solution may be in the form of off the shelf software or a custom solution written in-house.

Develop Database for Leasing Programs – Debt Management (DM) needs to convert the records related to outstanding lease purchase obligations to a database format. The records are currently maintained in multiple Excel workbooks under a process that was established 25 years ago. The new system will provide the ability to query, generate and prepare required reports and improve the management of these long-term obligations of Commonwealth agencies.

Debt Management Website Enhancements – DM needs to modify and enhance investor information related to bonds and bond programs provided on Treasury's website. There is increasing demand by investors and regulators for accurate information to be promptly available to bond investors. Virginia has fallen behind other states in this effort.

Process Development, Integration and Simplification – The agency needs to improve critical business processes in order to enhance process efficiencies through automation of key processes. Processes under review would include all operating divisions. Integrating these functions electronically will greatly enhance efficiencies, reduce the risk of error and simplify the management information and reposting processes. Implementing this plan may require hiring a full time business analyst position or a contractor to manage the process.

An information technology management suite that will assist in the overall management of Information Technology resources consisting of account management, equipment inventory, software inventory, reporting, project and change management modules. The new system would replace the existing standalone Centralized Access Database (CAD) account management system and Workspaces, the Information Systems project and documentation system.

Server Virtualization – The agency is currently in the process of virtualizing all physical server hardware and implementing these virtual machines at the Commonwealth Enterprise Solutions Center (CESC). Migrating the servers to CESC and at the same time upgrading the operating systems and SQL Server database systems helps eliminate Operational Risk Issues with operating system and database system versions. Migrating away from the Monroe physical location eliminates risk associated with the servers and the physical space.

Dashboard Reporting System – The Dashboard Reporting project will allow management to integrate, gather, present, and analyze internal and external data from disparate sources. Through the dashboard, management will have more readily available and timely information to provide insight into the organization's performance related to daily operations and long-term goals. This real-time data will allow management to monitor both agency and division-level performance and facilitate fact-based decision making. Mid-level managers will be able to track progress against performance measures and goals in real-time, improving the ability to proactively manage the operations. Treasury intends to have dashboard drill down analysis capabilities to allow managers to further investigate data outliers to more readily identify anomalies, new trends, or new correlations. The dashboard will improve the agency's ability to monitor Treasury's numerous regulatory requirements, including those related to the cash and investments programs. Additionally, Treasury would like to implement a public facing dashboard to promote transparency and openness with Commonwealth citizens and stakeholders. Furthermore, the Treasury Board can utilize the dashboard to obtain more timely performance information for Treasury's various programs, including the cash and investments, Securities for Public Deposit Act, and various bond programs.

Check Processing Data Standardization - Treasury currently receives multiple formats of data from agencies which is used to print checks. Major progress has been made to migrate some agencies to a standard format but there are still agencies using legacy formats. Completion of the migration to the new standard will allow for much easier maintenance of the check processing system.

Treasury supports a number of systems that integrate and have interfaces with Cardinal, these systems will require upgrades and replacement as a result of the new system. Agency accounting systems are not compatible with the new Cardinal system and will require replacement, this is a major effort and will likely require additional resources to meet the Cardinal production deadlines.

Workforce Development

In order to provide the high level of performance and service required by a critical, high-level finance agency, Treasury employs financial professionals who are experts in their fields. Treasury is dealing with several challenges in maintaining a top-level staff. First, Treasury has an aging workforce. Almost half of the workforce is over age 50; higher among managers. Currently, 19 employees are either eligible or will be eligible for full retirement within the next three years, including several key employees. These include individuals who are currently age 60 or older plus individuals who are age 52 or older and have 27 years or more total service. Second, Treasury employees are recruitment targets by banking, finance, investment, and insurance firms, as well as Universities and other finance offices. In the past year, Treasury lost approximately 7% of its workforce. The current unemployment rate is 5.3%. Treasury can expect to continue to experience turnover as employers seek knowledgeable, highly skilled, well trained, candidates to fill their positions. Third, Treasury salaries are below market as compared with the private sector, Richmond area local government entities and even other state agencies. As a result of budget restrictions, the agency has not been able to make much progress to bring key, high performing employees' salaries in line with averages for comparable positions in other organizations. As the economy improves, Treasury will need to be able to offer competitive salaries in order to recruit, retain, and motivate its employees.

In order to maintain a high-level of service in light of budget constraints, Treasury has revised its training policy, using an extensive needs analysis to develop a training plan. The plan will develop specific job skills for existing staff that might be needed to step in and fill the void created by retirements, resignations and emergency situations. In addition, cross training has been augmented to address potential Continuity of Operations contingencies. Ultimately, salary issues will need to be addressed if and when funding becomes available.

Physical Plant

The Department of the Treasury (Treasury) leases space on three floors in the Monroe Building in support of its mission. Treasury successfully meets all established requirements and standards in providing accommodations, facilities, equipment and amenities that are suitable for its employees. However, in order to better address spatial relations to accommodate the needs of the agency and staff, it is critical that the third floor space be renovated. This renovation will result in a more logical grouping of divisions and units around their specific missions, improve out-of-date furnishings and work stations, and address needs for additional space for conference and meeting rooms. There have been no major renovations to Treasury's occupancy of the third floor in over 30 years and this area is in need of repair, reorganization and renovation.
