

2016-18 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 2017, \$23.03 million, 39.92% from the General Fund.

Trends
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 2016, Treasury managed investments totaling \$10.2 billion in state and local government funds, issued or participated in financing \$1.6 billion in debt obligations, processed 2.0 million checks, collected \$153 million in unclaimed property revenue, returned \$41.4 million to rightful owners, and transferred \$250.3 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 \$4.1 billion in FY 2016. 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 from both general fund and nongeneral funds dollars .

Fund Sources

Fund Code	Fund Name	FY 2017	FY 2018
0100	General Fund	\$9,195,562	\$8,818,326
0200	Special	\$335,994	\$335,994
0220	Vcba Private College Financing Program Fees	\$49,285	\$126,365
0471	Transportation Trust Fund	\$185,187	\$185,187
0700	Trust And Agency	\$4,556,207	\$4,595,702
0703	Unclaimed Property	\$8,005,377	\$8,498,068
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 2.0 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.

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.

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.

Implemented a Data Breach Expense Recovery Program - In September 2016, Treasury implemented a statewide data breach expense recovery program covering all state agencies. This program helps state agencies meet the out of pocket expense of a data breach by providing and reimbursing forensic investigations, notification requirements, credit monitoring, call centers and similar expenses required immediately following a data breach. This program helps fulfill the administration's cyber security efforts.

Implemented a New Treasury Unclaimed Property System (TUPS) - In March 2016, Treasury completed the design, development and implementation of the Treasury Unclaimed Property System (TUPS) to replace an inefficient two-decade old system. TUPS is web-based system which enables outreach staff to log in remotely to access live data to expedite payments to claimants. TUPS created a paperless processing environment and enabled staff to process claims more quickly and efficiently.

New Portal Created for Filing of Annual Unclaimed Property Reports - In October 2016, Treasury launched the Holder Upload Portal. It allowed Treasury to respond to businesses regarding their reporting issues much quicker than in the past. The holder community was appreciative of Treasury's efforts to automate filing of annual reports. Commitment to a 24-hour response time helps the company and the

agency work together for the good of all citizens in Virginia.

Simplified Estate Claim Processing - In 2016, Treasury initiated legislation that provided the State Treasurer the authority pay claims for property of deceased owners that would otherwise have been denied. The bill allows the State Treasurer to accept an affidavit stating that the claimant is entitled to the property.

Enhancing Pay Card Security - In 2016, in conjunction with the Governor's Executive Directive 5, Treasury successfully converted all pre-paid debit cards used to pay recipients of child support, TANF, unemployment benefits and payroll to chip technology. This helps to protect citizens from counterfeit card fraud as well as fraudulent activity against the Commonwealth. Virginia was one the earliest states to do this conversion.

Enhanced Credit Card Security - In 2016, Treasury worked with various agencies to convert credit card terminals to EMV chip technology for processing credit card payments. Virginia is one of the first states to accomplish this task which protects the Commonwealth from liability for fraud losses.

Conversion of Investment Program - In 2016, Treasury, in concert with the State Non Arbitrage Program (SNAP) administrator successfully accomplished the conversion of the SNAP investment portfolio from a Prime Money Market Mutual Fund to a Local Government Investment Pool structure. This became necessary when the Securities and Exchange Commission's (SEC) made rules that would force SNAP participants to discontinue investing in the fund. The conversion, a major project, enabled SNAP Participants to preserve the required "stable value" status of their invested proceeds and retain the advantage the program provides to participants for managing arbitrage risk.

Provided Access to Lower Cost Financing - Treasury initiated legislation (enacted in 2016) that allows foundations of higher education in Virginia to use the Virginia College Building Authority as a conduit issuer to access the tax-exempt bond market for financing foundation-sponsored capital projects. Prior to this legislation, the foundations were limited to suing local IDA's or private bank loans, which cost more than going through the VCBA.

Managing Statewide Credit Card Contract - Treasury manages a credit card contract for the entire Commonwealth to enable localities and agencies to accept credit card payments. This state wide contract benefits all users since they can access this contract without the need to establish a separate contract and saves costs since the price is calculated on the combined volume. The state received over \$1.5 Billion in total credit and debit card payments during calendar year 2016.

Brought Auto Insurance Program in-House - In July of 2014, Treasury brought the management of the auto insurance program in-house creating efficiencies and delivering better customer service. The first year after implementation, the cost was reduced by about 11.6%, the second year (FY 16) the savings was about 10.4%.

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. In light of the above, S&P recently revised its outlook on the Commonwealth's "AAA" rated General Obligation bonds from "stable" to "negative".

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, several of Treasury's employees are either eligible or will be eligible for full retirement within the next few 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.

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 2016:

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	10
Billions of dollars in general account portfolio managed by Banking and Investment Services	6
Billions of dollars in LGIP portfolio managed by Banking and Investment Services	4
Billions of dollars in additional portfolios managed by Banking and Investment Services	1
Number in millions of unclaimed property returned to it rightful owner	41
Number of claims processed by Unclaimed Property Administration	60,839
Number of owners contained in holder reports received by Unclaimed Property Administration	1,419,185
Number in millions of checks printed and distributed by Check Processing	2
Number in millions of electronic payments made	15

Management Discussion

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.

Conversion of Cash Management and Investments Processes to an Electronic Platform - Treasury began the study and ultimately, the conversion of its banking and investment operations to an electronic platform. This project, began in FY15 will, upon completion in early FY 18, streamline daily information processing for bank account management, portfolio investing and risk controls while eliminating manual and repetitive processes. It will also greatly enhance Treasury's reporting capabilities, effectively giving critical information in near real time to enhance decision making.

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 Virginia Information Technologies Agency (VITA) Information Technology Strategic Plan. Treasury's current and future technology projects are summarized below:

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.

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.

Treasury Unclaimed Property System (TUPS) Enhancements – UCP will continue to enhance the functionality of the newly developed TUPS application. Enhancements would include an outreach module that enables internal TUPS users a way to facilitate creating claims on the spot, an auction module that supports UCP in selling tangible properties, and an audit module that gives the UCP audit users the ability to conduct the Holder audit process. These projects are to be completed during FY 2018.

Unclaimed Property Reporting Application – UCP needs to implement software that will support Treasury in reporting outstanding checks set to become unclaimed property. UCP is statutorily required to perform due diligence to attempt to find the legal owners of these checks prior to performing the charge off process and making them unclaimed property. The solution may be in the form of off the shelf software or a custom solution written in-house.

Debt Management Website Enhancements – Debt Management 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.

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.

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. Currently, the Cardinal System, Department of Accounts, Department of Taxation, and several processes from Department of Social Services (DSS) and the Virginia Retirement Services (VRS) have been transitioned. The Virginia Employment Commission and remaining processes from DSS and VRS are set to be transitioned by the end of FY 2018.

PaperVision Upgrade and Expansion – The agency needs to upgrade and expand usage of the document management system to improve efficiencies, replace outdated work flows and decrease printed paper. Upgrades will need to be made to be compatible with new state and agency software such as Cardinal. Expansion in the Operations, Cash Management and General Management divisions will require additional software modules and licensing.

Frontier Upgrade – With Server 2008 and SQL Server 2008 being replaced, Frontier needs to be upgraded to work in the new environment.

Northrop Grumman (NG) Migration – With the end of the NG/VITA partnership coming soon, VITA has already begun awarding contracts to new contractors for various systems within the Commonwealth. With these awards comes the migration of those systems away from NG control to the new contractor. This year, the state's mainframe, e-mail, and other systems will have to be migrated as the contracts are awarded and the details worked out with VITA and the new contractor.

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 and SQL Server Upgrades – The agency is currently in the process of updating all Windows Server 2008 servers and all SQL Server 2008 servers to new versions at the Commonwealth Enterprise Solutions Center (CESC). Updating the servers at CESC helps eliminate Operational Risk Issues with operating system and database system versions.

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, several employees are either eligible or will be eligible for full retirement within the next few years, including several key employees. 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 Richmond area unemployment rate is 4.3%. 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 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. In an effort to better address spatial relations to accommodate the needs of the agency and staff, the third floor space was recently renovated. This renovation resulted 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. In FY 2018, Treasury will renovate the fifth floor to implement similar grouping and spatial improvements to the Unclaimed Property division work area.