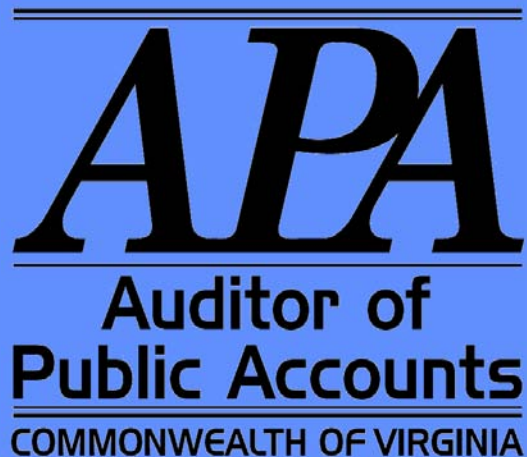


**LOCAL GOVERNMENT INVESTMENT POOL
VIRGINIA COLLEGE BUILDING AUTHORITY
VIRGINIA PUBLIC BUILDING AUTHORITY
VIRGINIA PUBLIC SCHOOL AUTHORITY**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2008**



AUDIT SUMMARY

We have audited the basic financial statements of the following entities as of and for the year ended June 30, 2008, and have issued our reports thereon dated January 15, 2009.

- Local Government Investment Pool
- Virginia College Building Authority
- Virginia Public Building Authority
- Virginia Public School Authority

The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing. Our audit of the Entities found:

- the financial statements are presented fairly, in all material respects;
- certain matters involving internal control and its operations necessary to bring to management's attention as noted in the findings entitled "Establish Adequate Reviews over Financial Records" and "Perform Adequate Oversight over Trustee"; and
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported under Government Auditing Standards.

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Internal Control Findings and Recommendations

Establish Adequate Reviews over Financial Records

Treasury misstated interest on investment income and higher education disbursements by \$1.5 million on the Virginia College Building Authority's (VCBA) financial statements. This error is a result of inadequate reviews of individual transactions that Treasury staff post to VCBA records.

In addition, Treasury overstated bond interest payable by \$1.3 million on the Virginia Public Building Authority's (VPBA) financial statements. Treasury staff caused this error by not using the recalculated bond interest for a refunded bond.

Generally accepted auditing standards require the auditor to consider whether a control deficiency exists when the design or operation of a control does not allow management or their employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. The standard provides specific indicators the auditor should regard as at least a significant deficiency and a strong indicator of a material weakness in internal control. In these situations, the lack of an adequate review prevented Treasury from detecting the error initially. As a result, we identified the material misstatements while performing our audit of the Authorities' financial statement preparation.

We recommend that Treasury establish adequate controls and review over Authority financial records to ensure that they are free of material misstatement.

Perform Adequate Oversight over Trustee

Treasury contracts with the Bank of New York Mellon to provide trustee services for the Virginia College Building Authority and the Virginia Public Building Authority. Under this relationship, Treasury is responsible for providing contract management to ensure that Bank of New York Mellon provides adequate services. Treasury is dependent on the trustee and uses their information when compiling the authorities' annual financial statements.

Treasury does not monitor and manage the Bank of New York Mellon adequately to ensure that it is meeting its trustee service requirements. During our audit, we noticed several issues with the trustee's performance, including: posting transactions to the incorrect accounts, untimely postings, missing statements, untimely resolution of errors, and account balances that do not reflect an accurate transaction history. In addition, the trustee could not originally confirm two significant account balances for VCBA.

Treasury also questions the integrity of the electronic data that they receive and therefore, does not rely on this information and continues to enter all transactions manually. Treasury staff have noticed these issues and contacted Bank of New York Mellon with some of these concerns. However, we believe that Treasury has not adequately followed-up on these concerns and effectively communicated these concerns internally within Treasury, or escalated the issues to Bank of New York Mellon management. Recently, management has begun to address more concerns and met with the trustee's management in December to discuss a list of their concerns. Treasury management expects Bank of New York Mellon to make significant progress by March.

By not managing the trustee arrangements adequately, Treasury has created an environment that can allow numerous reporting errors that Treasury staff must find and address. This reduces the efficiency of Treasury staff, since they must review each transaction carefully, make note of inaccuracies, inform the

trustee of issues, and enter information for over five hundred accounts manually. If Treasury manages this relationship properly and demands accurate and timely information, Treasury could not only reduce the amount of time spent on correcting inaccuracies, but could also upload the information into their spreadsheets electronically and analyze the information.

Treasury management should formally evaluate the trustee's performance and communicate concerns to the Bank of New York Mellon. Management should then monitor this relationship more adequately to ensure that the Bank of New York Mellon meets its contractual requirements. Once Treasury believes that the trustee is providing adequate services, Treasury should reevaluate their processes to determine where inefficiencies exist and what information and format they need from the trustee. Treasury can then make necessary efficiency improvements such as using available electronic data.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

January 15, 2009

The Honorable Timothy M. Kaine
Governor of Virginia

The Virginia Treasury Board and Local
Government Investment Pool Participants

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission

Board of Directors of:
Virginia College Building Authority
Virginia Public Building Authority
Virginia Public School Authority

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

We have audited the basic financial statements of the following entities as of and for the year ended June 30, 2008, and have issued our reports thereon dated January 15, 2009.

- Local Government Investment Pool
- Virginia College Building Authority
- Virginia Public Building Authority
- Virginia Public School Authority

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered each Entities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Entities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Entities' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as described below, we

identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies entitled "Establish Adequate Reviews over Financial Records" and "Perform Adequate Oversight over Trustee," which are described in the section titled "Internal Control Findings and Recommendations," to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Entities' financial statements are free of material misstatement, we performed tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Report Distribution and Exit Conference

The "Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters" is intended solely for the information and use of the Governor and General Assembly of Virginia, the Entities' Boards and management, and Local Government Investment Pool participants, and is not intended to be and should not be used by anyone, other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

We discussed this report with management at an exit conference held on February 2, 2009.

AUDITOR OF PUBLIC ACCOUNTS

BEM/alh



COMMONWEALTH of VIRGINIA

MANJU S. GANERIWALA
TREASURER OF VIRGINIA

Department of the Treasury
February 10, 2009

P. O. BOX 1879
RICHMOND, VIRGINIA 23218-1879
(804) 225-2142
Fax (804) 225-3187

Mr. Walter J. Kucharski
Auditor of Public Accounts
101 N. 14th Street
Richmond, VA 23219

Dear Mr. Kucharski:

The Department of the Treasury (Treasury) appreciates the opportunity to respond to the comments and recommendations in your Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters for the fiscal year ended June 30, 2008. Your comments are appreciated and given the highest level of importance by the Administration and Treasury as we continue to review and improve our financial reporting practices and procedures.

Internal Control Findings and Recommendations

Establish Adequate Reviews over Financial Records

Treasury will conduct a thorough review of the procedures and controls over processes associated with the preparation of the Authorities' financial statements. Treasury has revised procedures to ensure interest calculation misstatements will not reoccur.

Perform Adequate Oversight over Trustee

Treasury has brought the performance issues to the Bank's attention numerous times which escalated to a meeting with Bank officials on December 4, 2008 in order to resolve the issues noted. Treasury will continue to monitor and evaluate the performance of the trustee. If satisfactory performance is not provided and contractual requirements not met, Treasury will seek another trustee for services. Once the trustee is providing satisfactory performance, Treasury will review our processes and determine possible enhancements.

Again, thank you for the opportunity to respond to your report.

Sincerely,

A handwritten signature in cursive script that reads "Manju S. Ganeriwala".
Manju S. Ganeriwala

c: The Honorable Richard D. Brown
Secretary of Finance

BOARD MEMBERS

As of June 30, 2008

VIRGINIA COLLEGE BUILDING AUTHORITY

William L. Nusbaum, Chairman
Heidi W. Abbott, Vice-Chairman
Vinod B. Agarwal
John F. "Jack" Carter II
Joseph S. Testa
Edward Villanueva
Elaine R. Wilde

EX-OFFICIO

J. Braxton Powell, State Treasurer
David A. Von Moll, State Comptroller
Richard D. Brown, Director, Department of Planning and Budget
Daniel LaVista, Executive Director, State Council of Higher Education for Virginia

VIRGINIA PUBLIC BUILDING AUTHORITY

Sarah B. Williams, Chairman
Priscilla Burbank, Vice-Chairman
Monique Nadeau-Langridge
Sharon M. McDonald
Steven R. Perkins

EX-OFFICIO

J. Braxton Powell, State Treasurer
David A. Von Moll, State Comptroller

VIRGINIA PUBLIC SCHOOL AUTHORITY

James J. Wheaton, Chairman
James M. Holland, Vice-Chairman
Woodrow Mullins, Jr.
Hady Amr
Brenda L. Skidmore

EX-OFFICIO

J. Braxton Powell, State Treasurer
David A. Von Moll, State Comptroller
Dr. Billy Cannaday, Jr., Superintendent of Public Instruction