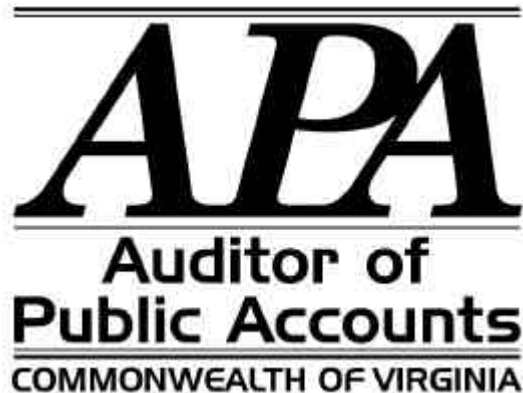


**THE LIBRARY OF VIRGINIA
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE PERIOD
JANUARY 1, 2000 THROUGH JUNE 30, 2001**



AUDIT SUMMARY

Our audit of The Library of Virginia for the period January 1, 2000 through June 30, 2001 found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- an internal control matter that we consider a reportable condition, however, we do not consider this matter to be a material weakness; and
- no instances of noncompliance with applicable laws and regulations tested that are required to be reported.

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March 25, 2002

The Honorable Mark R. Warner
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of **The Library of Virginia** for the period January 1, 2000 through June 30, 2001. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Library's internal control, and test compliance with applicable laws and regulations.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Library's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance, with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Expenditures	Fixed Assets
Revenues	Contract Management

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Library's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

The Library's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that the Library properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Library records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted a certain matter involving internal control and its operation that we consider to be a reportable condition. A reportable condition involves matters coming to our attention relating to deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Library's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. The reportable condition entitled "Complete a Memorandum of Understanding with the Library Foundation" is described in the section titled "Internal Control Finding and Recommendation." We believe that the reportable condition is not a material weakness.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that is required to be reported under Government Auditing Standards.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on April 23, 2002.

AUDITOR OF PUBLIC ACCOUNTS

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OVERVIEW

The Library of Virginia provides reference and research assistance to other state agencies, members of the General Assembly, public libraries, and the general public. It also houses the archival records of the Commonwealth of Virginia.

The Library currently maintains a collection of more than 1.3 million books, state and federal government publications, reference works and other research resources, pamphlets, broadsides, reports, and additional printed materials. The Library also has approximately 370,000 microforms that are available through the Online Catalog, as well as 91,000,000 archival items.

The Library provides assistance to state agencies and public libraries in maintaining libraries and collections, publications, educational services, and record management. In fiscal year 2001, the Library of Virginia distributed funds of over \$20.4 million in state aid to 90 public library systems.

The Library opened the new State Records Center on July 1, 1999. This multi-purpose facility houses the records center, as well as the archives annex, reading room, media vault, and Imaging Services Department. The State Records Center maintains inactive and permanent records, as well as security microfilm copies of state and local government records.

OPERATIONAL AND FINANCIAL HIGHLIGHTS

The Library of Virginia houses comprehensive informational resources on Virginia and its people. The Library also serves as the research and reference library for state government and conducts its operations through the following four programs:

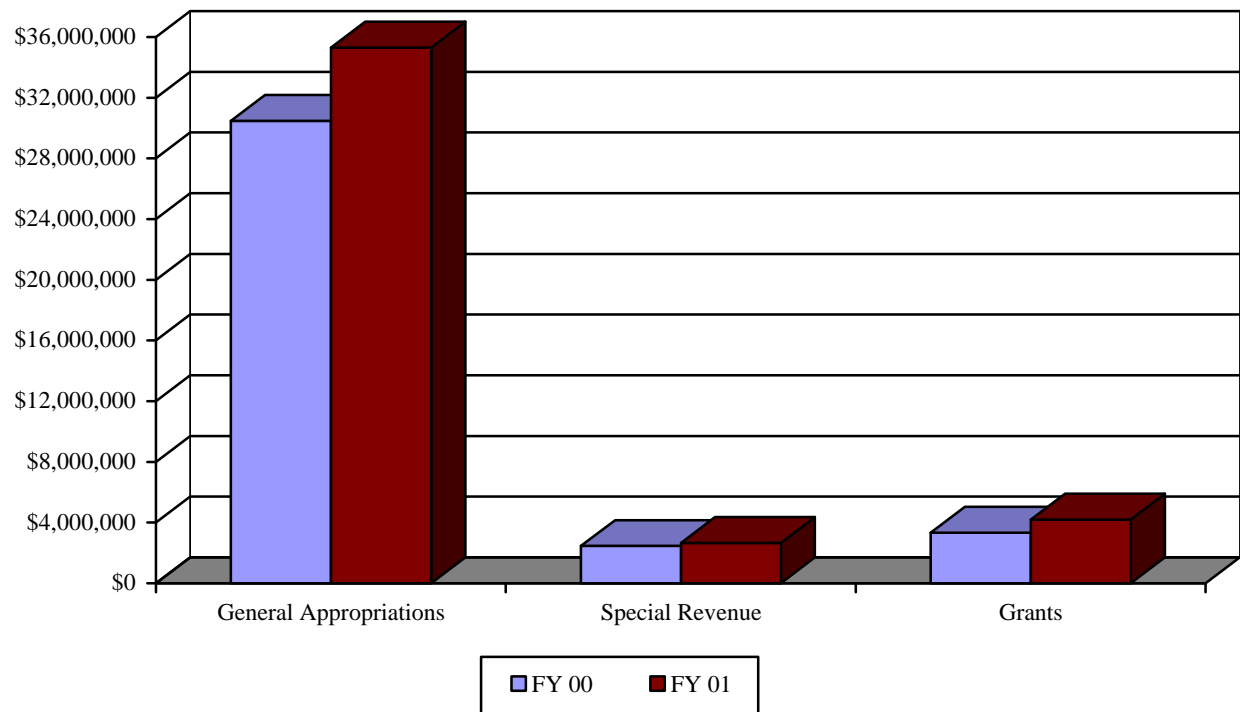
Archives Management program provides a central reference library, a repository for all state publications, and the archives of the Commonwealth. The Library preserves library resources covering Virginia's history. This program also administers the Circuit Court Records Preservation Program, which distributes funds to the Circuit Courts, enabling them to preserve materials on-site.

Financial Assistance for Cultural and Artistic Affairs program provides management guidance, fiscal oversight, staff development, and other consulting services to more than 90 public library systems. This program administers state aid to public libraries based on the formula in the Code of Virginia. Historically, the Library has not received sufficient appropriations to fully fund the formula-calculated assistance. During fiscal years 1998, 1999, and 2000, appropriations funded 73 percent, 80 percent, and 85 percent of the calculated assistance level, respectively. The fiscal year 2001 Appropriations Act provided funding to the state aid program at a level that allowed the Library to fully fund the state aid to localities program.

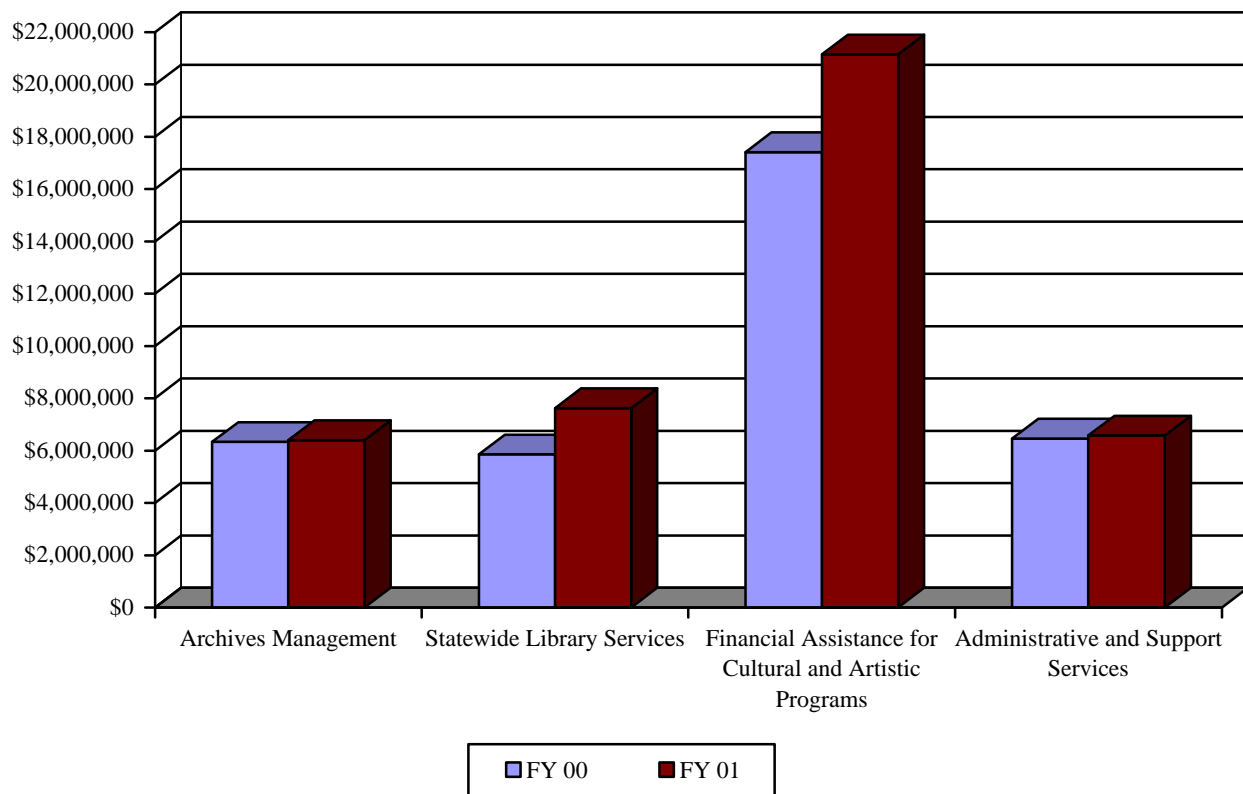
Statewide Library Services program provides advisory assistance to public libraries within the Commonwealth and provides public access to more than 1.5 million materials ranging from books to posters and paintings. The program also promotes and encourages access through reading rooms, exhibitions, workshops for Virginia educators, publications, tours, special events, and information technology.

Administrative and Support Services program includes accounting, budgeting and financial reporting, human resources, a public information office, photographic and digital imaging, information technology, facilities management, housekeeping, and similar activities.

Revenue - Fiscal Years 2000 and 2001



Expenses - Fiscal Years 2000 and 2001



Program funding primarily comes from General Fund appropriations. The Library also receives special revenues from circuit court fees, records storage fees, and other sources, as well as federal grants. The Library has received increased General Fund appropriations that have allowed additional funding for state aid to localities, infopowering the Commonwealth, and the elimination of the 54-year backlog of unprocessed archival material. The Library has also experienced an increase in federal grant revenue over the past several years. The amount from the circuit courts represents a one dollar fee collected from Circuit Courts for deed recording and indexing for use in preserving the permanent records of the circuit courts. The Library, in cooperation with the circuit courts, administers the sum collected for this purpose.

INTERNAL CONTROL FINDING AND RECOMMENDATION

Complete a Memorandum of Understanding with the Library Foundation

The Library of Virginia has not documented the relationship and responsibilities between itself and the Library of Virginia Foundation (Foundation). The Foundation is a private, non-profit corporation; however, the Foundation's employees are state employees who receive state benefits and the Library processes their payroll. The Foundation reimburses the Library for these payroll expenses on a quarterly basis. In addition, the Library charges the Foundation for phone and postage expenses, which it also pays on a quarterly basis. Lastly, the Foundation uses space in the Library for their office and Library Shop at no charge to the Foundation.

The Library of Virginia should document in an agreement or memorandum of understanding the relationship and responsibilities between the Library and the Foundation. This is essential given the relationship between the state and non-state entity and the fact that the Library is relying on the Foundation for reimbursement of different types of expenses. At a minimum, this agreement should address methods of reimbursement, reimbursement of certain costs, and the sharing of office space and resources.

THE LIBRARY OF VIRGINIA
Richmond, Virginia

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