

AUDITOR OF PUBLIC ACCOUNTS



2004 REPORT TO THE GENERAL ASSEMBLY



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- TABLE OF CONTENTS -

TRANSMITTAL LETTER

SPECIALTY TEAMS:

Acquisition and Contract Management
Budgeting and Performance Management
Financial Management
Data Analysis
Higher Education
Information Systems Development
Information Systems Security
Judicial Systems
Property and Materials Management
Reporting and Standards
Social and Medical Services

INTERNAL CONTROL

FRAUD

FOLLOW-UP ON FINDINGS

APPENDICES:

A: Fiscal Year 2004 Budgetary Analysis
B: About The Auditor Of Public Accounts
C: Issued Reports
D: Audited Courts
E: Contact Information



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

October 1, 2004

Members of the General Assembly

This is our second annual Report to the General Assembly and covers the fiscal year ended June 30, 2004. We have provided summaries of significant reports that we released over the past year grouped by general topic. These general topics primarily reflect the influence of our specialty teams, which address the highly technical issues of financial management and internal controls.

We have specialty teams addressing Acquisition and Contract Management, Budgeting and Performance Management, Financial Management, Data Analysis, Higher Education Programs, Information Systems Development, Information Systems Security, Judicial Systems, Property and Materials Management, Reporting and Standards and Social and Medical Services. Each specialty team identifies at least one issue per year beyond our normal audit work for review. This report highlights the work of the specialty teams showing at least one of their audits with a brief description of the team's work.

Special Reviews

Many of the issues in our reports come from performing the annual audit of the Comptroller's Comprehensive Annual Financial Report and the Statewide Single Audit of Federal Programs. The work on these audits provides us with an on-going insight into the operation of the Commonwealth's major agencies and institutions.

Using the knowledge gained from these two audits and our annual reviews of most agencies' fiscal operations, we have begun identifying issues that require review and oversight on a statewide basis. During this past year, these issues have included reviews of the Commonwealth's management of its vehicle fleet, the Small Purchase Charge Card and travel card programs and performance measure reporting.

Several of our reports have also resulted in additional work and reviews at the request of the General Assembly. For next fiscal year, we will review deferred maintenance, general internal controls, and systems used by the Comptroller to manage the Commonwealth's finances and conduct follow-ups on both the Departments of Transportation and Motor Vehicles.

Audit Work

A significant portion of our work is the regular review of agency fiscal operations and internal controls and circuit and district court clerk accountability, and assistance in reporting local government revenues and expenses. These continuing projects provide information on agency use of funds and management of resources. During the past year, these audits have recommended consolidating the Department of Minority Business Enterprises' fiscal operations with another agency, adopting a business plan and improvements to financial reporting within the newly created Virginia Information Technology Agency, and continued

highlighting of the funding problems with the Virginia Employment Commission's Unemployment Compensation Fund.

Circuit and district court clerk accountability audits have resulted in the Commonwealth recovering over \$100,000 that clerks improperly deposited with localities. Also, the General Assembly, due to concerns over circuit court clerks not addressing the internal control issues raised by these audits has required, as of July 1, 2004, that clerks provide a written response to our findings and if not addressed by the next audit, they would not receive a salary increase.

The Comparative Report of Local Government Revenues and Expenditures continues to provide important information on the operations of local governments. Recognizing the usefulness of this report, the General Assembly has requested that we work with the telecommunication industry to help develop an alternative to the current local tax structure. We will gather this information and provide it to the General Assembly on October 15, 2004.

Fiscal 2005

During this upcoming year, the Office will undertake a number of special reviews arising out of past reports. In addition, we are undertaking several studies in new areas, which we believe can lead to some efficiencies and potential financial management improvements within the Commonwealth. These studies include a comparison of the various eligibility systems and controls within the Secretary of Health and Human Resources, a summary of the Commonwealth's Federal Homeland Security funds, and an examination of the State Police's implementation of a new statewide radio system.

We are also extending the statewide approach to reviewing internal and financial management reviews, such as our review last year of the fleet vehicles, into areas of self insurance funds, inventory, budget controls, debt management, and capital outlay. We will review how the agencies manage these activities and determine whether they have the controls in place to effectively use these resources.

AUDITOR OF PUBLIC ACCOUNTS

ACQUISITION AND CONTRACT MANAGEMENT

The Commonwealth spends over \$3.8 billion each year on goods and services and has a current capital outlay budget of over \$5.5 billion. The Commonwealth needs to administer its procurement in an efficient, effective, and accountable manner. The Acquisition and Contract Management Team helps ensure the Commonwealth's purchasing function meets its objectives, complies with laws and regulations, and supports the agencies' mission objectives.

SMALL PURCHASE CHARGE CARD (SPCC) PROGRAM

The Commonwealth uses SPCCs to purchase over \$135 million in goods and services. Our review found that the Department of Accounts (Accounts) has taken positive steps to improve controls over the SPCC program in response to our 2002 review of the program. In addition, Accounts has worked with the contractor, American Express (Amex), to streamline the monthly data exchange process. Currently, Amex provides automated billing statements and is working towards providing automated reconciliation and allocation of charges. Automating the reconciliation and charge card allocation process will significantly increase program efficiencies.

In performing our review of the SPCC program, we identified several key issues:

- Mandated use of the Commonwealth's online purchasing system, eVA, has negated certain SPCC program efficiencies. As a result, some agencies are refusing to process SPCC transactions through eVA or are choosing to purchase through eVA using means other than the SPCC.

In order to keep use of the SPCC program from decreasing and to preserve the original intentions of the program, which is to reduce administrative time and paperwork, Accounts should work with the Department of General Services (DGS) to consider the cost/benefit of requiring SPCC purchases to be executed through eVA and to explore other ways to capture SPCC data in eVA's

data warehouse for analysis and reporting purposes.

- Accounts should require the SPCC contractor to maximize purchasing details and expedite the availability of software that will allow agencies to automate their reconciliation and allocations process. These enhancements would streamline the reconciliations and allocation processes and enhance the monitoring and reviewing of charge card processes.
- Accounts should consider implementing policies and procedures to mitigate inherent risks of the SPCC Program. However, Accounts must determine whether the benefits of implementing such policies and procedures outweigh the costs involved.
- Agency administrators should follow established policies and procedures and require cardholders' supervisors to perform initial and annual cardholder analysis in writing for the Administrator to review and keep on file. Administrators should adjust limits and cancel cards based on the results. Such an analysis is the only way to determine if cardholders have the appropriate limits or if a need still exists for a card.

SPEND ANALYSIS AND PROCUREMENT CONSULTING SERVICES

DGS contracted for spend analysis and procurement consulting services. These services

included analyzing the Commonwealth's purchasing data, developing an alternative procurement strategy to obtain better pricing, and training contracting officers on the process. As part of the procurement strategy, the consultant identified commodities that had the greatest potential for price reduction and suggested procuring these commodities using competitive sealed negotiation. Historically, the DGS and the Virginia Information Technology Agency procured statewide contracts for these commodities using competitive sealed bidding.

By using competitive negotiation instead of competitive bidding, the contractor uses purchasing techniques that previous administrations did not consider preferred. While we noted some benefits, this approach also creates some shifts in procurement policy that DGS and others will need to monitor.

The new commodity contracts achieve lower pricing by means of reduced item pricing, discounts, rebates, and incentive payments. However, a system that generates a substantial portion of its cost reduction from rebates and incentive payments is highly dependent on a system that can monitor spending activity. DGS should make sure that it can verify the process has generated a low cost for goods and services in the long term. Maintaining this information is essential for both future contracts and more importantly, monitoring contract compliance with the current vendor.

We performed two reviews and found that the Secretaries of Administration and Finance authorized DGS to borrow and use funding designated for the Commonwealth's online purchasing system, eVA, for the spend analysis and procurement consulting services. Subsequently, DGS obligated the Commonwealth for almost \$5 million without first obtaining additional appropriations for these services.

We also found that DGS and Virginia Partners in Procurement are each using different scenarios to project future activity of the spend management effort. DGS is using a more conservative scenario in developing the financing plan, while Virginia Partners in Procurement is using an almost total compliance scenario to calculate cost reductions. Based on the total compliance scenario, Virginia

Partners in Procurement is communicating that the spend analysis project will result in \$25 million in cost reductions. However, based on the same methodology used to compile the financing plan, total cost reduction may only amount to \$16 million. Further, of the \$16 million only \$7.6 million and \$4.8 million, respectively, will be directly available to agencies and institutions.

TRAVEL CARD PROGRAM

In order to provide employees with a means of charging reimbursable travel and related expenses while conducting official state business, the Commonwealth of Virginia established a statewide travel charge card program. Unlike the Commonwealth's SPCC program where the government directly receives and pays the charge card bill, the travel cardholder or employee has direct responsibility for all charges incurred on the travel card account and for paying the monthly bill. The Commonwealth expects the cardholder to use the state travel card only for valid travel expenses related to official state business and submit proper documentation for reimbursement.

In performing our review of the travel charge card program, we identified several key issues:

- We discovered instances of potentially abusive travel card activity, which do not relate to official state travel. Charges included crematory services, veterinary charges, massage therapy, and jewelry sales and repair. In addition, cardholders charged almost \$11,000 to Virginia ABC stores. We also identified questionable transactions with vendors including the Genetics & IVF Institute, Carnival Cruises, Victoria's Secret, Best Buy, and Neiman-Marcus.
- We found weaknesses in Commonwealth travel card policies and procedures related to monitoring and training. As a result, agencies are unsure of their responsibility, which affects their ability to monitor delinquencies and promptly detect and prevent potentially fraudulent and abusive activities.
- We noted that over 2,800 (33 percent) of approximately 8,500 cards issued through the Commonwealth had no charge activity

during the past 12 months. Because DGS does not maintain a current list of agency program administrators, AMEX cannot contact agencies directly to determine if current Commonwealth employees still hold these inactive accounts. There is the possibility that former employees may hold a significant number of these inactive accounts.

- The Commonwealth's poor charge-off and delinquency performance has negatively affected the Commonwealth's ability to obtain rebate payments in accordance with the travel charge card contract. In addition, the Commonwealth's charge-off and delinquency history may affect its ability to procure future travel charge card services and increases the risk that the Commonwealth may have to pay a higher service fee in the future.

Accounts and DGS should develop policies and procedures, which clearly identify agency responsibilities. In addition, agencies should ensure that cardholders follow established policies and procedures and use the travel cards for official business travel expenses only. Further, DGS should administer the travel card contract to maximize rebates for the Commonwealth by monitoring travel card activity, and reducing delinquencies and charge-offs.

Background of the Acquisition and Contract Management Team

Over 100 Commonwealth agencies and institutions actively manage their own purchases of goods and services and capital budget programs. Providing guidance for this process are DGS and Accounts. Additionally, the Commonwealth has a statewide online procurement system, eVA, but at the same time continues to delegate additional responsibilities and duties to individual agencies and institutions.

Using this approach to purchasing and capital budgeting, team members monitor changes in procurement laws and regulations and keep current on other acquisition and contract management issues in the Commonwealth, in other states, and on the federal level. The Team uses their

knowledge and experience to identify, evaluate, and report on procurement issues.

Fiscal 2005 Projects

Small Purchase Charge Card Study

Because of the inherent risks of the Small Purchase Charge Card (SPCC) program, this is a continuing project for the Team. We plan to follow-up on issues raised during the prior year's review related to the required use of eVA and the provision of automated reconciliations. We will also collect and analyze statewide data to identify areas of risk and perform detailed test work. In addition, we will review any changes made to the statewide SPCC procedures.

Capital Outlay

The Team will continue collecting and analyzing capital project data at a statewide level and provide this information for audit planning. The Team will also provide data and share suggested audit procedures to other audit groups testing capital outlay to increase their audit efficiency on other audits. The Team is also reviewing the capital outlay process to determine the roles and responsibilities of all stakeholders, analyze construction in progress, and determine if agencies are delivering projects on time and within budget.

Review of Contract Management Procedures

The Team will perform a statewide review to determine the types of services the Commonwealth procures. We will also examine the use of outsourcing and determine if the Commonwealth has an adequate process to evaluate outsourcing options. As part of our study, we will determine if agencies use reliable cost estimates or cost benefit studies to adequately assess and decide what savings would occur. We will also determine if the Commonwealth has a method to monitor contract compliance for services.

Ongoing Activities

The Team will continue to monitor and track changes to the Agency Purchasing and Surplus Property Manual, the Capital Outlay Manual, and

Virginia procurement laws. We will also review changes in the Commonwealth Accounting Policies and Procedures manual affecting the

SPCC and travel card programs and any other procurement areas that can affect acquisition and contract management.

BUDGETING AND PERFORMANCE MANAGEMENT

The Budgeting and Performance Management team helps this office communicate with the General Assembly, management of agencies and institutions, and the public on how the Commonwealth uses its annual budget of \$25 billion in the manner as foreseen by Thomas Jefferson: “The accounts of the United States ought to be and may be made as simple as those of a common farmer and capable of being understood by common farmers.”

CHANGE IN FINANCIAL REPORTING

During the past year, this Team has led the way in developing a new format for reporting governmental financial activities. Bond and federal grant and contract reporting requirements mandate that we continue the more traditional financial reporting approach for some agencies and all of the institutions of higher education; however, we have some flexibility in reporting financial information for other projects. The Team has developed new reporting formats that integrate budget information into financial reporting. This reporting format allows the reader to compare the budget actions recommended by the General Assembly and actual results. Below are two examples of this reporting using the Governor’s Office and a new reporting format that showed the budget and appropriation activities in the agencies of the Secretary of Public Safety. Included in this annual report is the introduction to that report.

Governor’s Office Audit Report

The Governor has responsibility for managing the

executive branch of the government, serving as Chief of State, and acting as the Commander-In-Chief of the Virginia National Guard. The Division of Selected Agency Support Services in the Office of the Secretary of Administration provides financial administrative support to the Governor’s Office.

The Governor’s Office receives its funding through an appropriation from the General Fund of the Commonwealth. Since fiscal year 2000, the Governor’s Office has received supplemental funding for unbudgeted operating expenses. During fiscal year 2000, the Governor’s Office received fund transfers from the other Cabinet Secretaries’ Offices to offset expenses in this office. In response to a finding in the fiscal year 2000 audit, the Governor’s Office began receiving the additional funding in the form of supplemental appropriations.

Since fiscal year 2000, the budget shown in the Appropriations Act does not reflect the Governor’s Office actual expenses. In the future, the Governor’s Budget Bill should reflect the actual expenses of the Governor’s Office.

	FY 2000	FY 2001	FY 2002	FY 2003
Original appropriation	\$ 2,267,323	\$ 2,378,854	\$ 2,379,597	\$ 2,427,764
Supplemental appropriations and other adjustments	<u>849,015</u>	<u>676,317</u>	<u>1,341,789</u>	<u>1,355,879</u> ²
Final appropriation	3,116,338	3,055,171	3,721,386	3,783,643
Expenses	<u>3,103,208</u> ¹	<u>3,050,441</u>	<u>3,694,344</u>	<u>3,739,769</u>
Unexpended balance	<u>\$ 13,130</u>	<u>\$ 4,730</u>	<u>\$ 27,042</u>	<u>\$ 43,874</u>

Notes:

¹The amounts shown for fiscal year 2000 as “Supplemental appropriations and other adjustments” and “Expenses” include an adjustment to treat the transfers from the Cabinet Secretaries’ Offices as if they were a supplemental appropriation rather than an offset to expenses. The following table shows the effect on “Supplemental appropriations and other adjustments” and “Expenses.”

Supplemental appropriations	\$ 147,115
Expenditure credits	661,464
Expenditure refunds	<u>40,436</u>
Supplemental appropriations and other adjustments	<u>\$ 849,015</u>
Net expenses	\$ 2,401,308
Expense credits	661,464
Expense refunds	<u>40,436</u>
Total gross expenses	<u>\$ 3,103,208</u>

²The amount shown for fiscal year 2003 as “Supplemental appropriations and other adjustments” includes the reduction mandated in Chapter 1042 of the Appropriation Act as follows:

Supplemental appropriations	\$ 1,695,081
Reductions per Chapter 1042	<u>(339,202)</u>
Supplemental appropriations and other adjustments	<u>\$ 1,355,879</u>

In fiscal year 2003, the Governor’s Office received supplemental appropriations, which increased its total budget and exceeded the budget cuts of \$339,202 taken in the 2003 Session of the General Assembly in Chapter 1042.

Secretary of Public Safety Budget Analysis

This report summarizes fiscal year 2003 budget changes for the 11 agencies under the Secretary of Public Safety. The report includes original budget information for each agency, as well as changes to the budget during the year and actual results.

The original fiscal year 2003 operating budget for agencies in the public safety secretariat totaled \$1.96 billion. In addition to statewide budget reductions, the agencies requested and the Department of Planning and Budget approved various adjustments to the original budget, resulting in a final operating budget of \$1.95 billion. Although most public safety agencies experienced budget reductions, there were offsetting budget increases as several agencies identified new revenue sources. The following table summarizes the original and final operating budgets for all public safety agencies.

	Original Budget	Final Budget
Secretary of Public Safety	\$ 674,264	\$ 649,082
Commonwealth Attorney Training and Services Council	500,000	503,627
Department of Alcoholic Beverage Control	326,498,812	329,719,940
Department of Correctional Education	49,726,975	45,962,161
Department of Corrections	831,498,924	805,037,783
Department of Criminal Justice Services	283,050,946	271,085,401
Department of Emergency Management	15,061,268	35,516,206
Department of Fire Programs	13,425,969	17,861,234
Department of Juvenile Justice	200,575,286	191,656,578
Department of Military Affairs	23,368,449	27,694,599
Department of State Police	224,293,841	231,989,285
Virginia Parole Board	<u>705,624</u>	<u>709,971</u>
Total	<u>\$ 1,969,380,358</u>	<u>\$ 1,958,385,867</u>

STATEWIDE REVIEW OF PERFORMANCE MEASURES

Overall, performance measures information on the Virginia Results Internet website (Virginia Results) is complete and accurate. Virginia Results, maintained by the Department of Planning and Budget, contains strategic planning and performance measures information for every executive branch agency. This information is also accessible to the general public.

While the performance measures information currently reported on Virginia Results is reliable, there are several issues that need to be addressed to further improve the accuracy and relevance of the information.

- All agencies must follow Planning and Budget's instructions for entering and reporting information.
- Planning and Budget needs to continue to improve their procedures for reviewing the data. There are many measures that are not clearly defined and could not be easily understood by an average user.
- Planning and Budget should revisit their policies over target performance information reported on Virginia Results. We recommend that Planning and Budget require target performance information for all measures reported on Virginia Results.
- Another area requiring examination is Planning and Budget's responsibility for reviewing changes to existing performance measures. Currently, agencies can modify, add, or delete measures without review.
- The Governor's Office needs to clarify the relationship between the performance measures in executive agreements and the performance measures reported on Virginia Results.

Overall, Virginia Results is a good tool for communicating government results to the general public; however, there are several related issues

that must be addressed if performance management is going to be fully implemented in Virginia. We reported these issues in our previous report and reiterate them in this report. The Commonwealth needs to examine whether agencies have selected the most appropriate measures for evaluating the effectiveness of programs, activities, and agencies in state government. This includes identifying the specific users of the information, as well as how to use the information. Our review of measures found that many measures reported on Virginia Results are not significant or relevant to agency goals and programs. Without addressing and resolving these issues, the Commonwealth will continue to allocate resources to collecting and reporting performance information that may have limited use.

Additionally, there has not been an implementation of this process, on even a limited basis, to fund either new or existing programs or activities using a performance management funding model. A successful performance management system requires leadership and active participation by both the executive and legislative branches. Further, it requires a clear definition of the roles and responsibilities in the performance management process. To start this process, the Commonwealth needs to identify and use a performance management process to fund a limited number of programs or activities to show how this process would work.

ASSISTANCE TO THE COUNCIL ON VIRGINIA'S FUTURE

The Council on Virginia's Future has responsibility for developing a "roadmap" that defines the vision, long term objectives, and performance measures for state government. The 2003 General Assembly session established the Council and its membership includes the Speaker of the House, President Pro Tempore of the Senate, the Majority and Minority Leaders of both Houses of the General Assembly, the Chairmen of House Appropriations, and a member of Senate Finance. In addition to the aforementioned members of the General Assembly, the Governor and other state officials and prominent citizen members comprise the Council.

Members of the Budgeting and Performance Management Team, along with the staff of other legislative and executive branch agencies, provide support for the Council operations. Team members participate in various Council workgroups and provide other assistance as required.

Background of the Budgeting and Performance Management Team

The Team focuses on the Commonwealth's budgeting and performance management systems. The budget is the primary mechanism for allocating and monitoring state government resources and drives the state's accounting and financial reporting systems. The performance management system integrates strategic planning and performance measurement into the planning process. Both the budget and performance management systems are significant parts of the Commonwealth's financial management system.

The Team helps to ensure the Office is up-to-date on current budget developments and performance management issues. Team members attend legislative meetings throughout the year and monitor revenue projections and forecasts. The Team also performs budget analysis and provides training and resources for all audit staff.

Fiscal 2005 Projects

Statewide Budget Controls

The Team will evaluate statewide financial budgetary controls to monitor the execution of the fiscal aspects of the budget. The review will examine the effectiveness of the controls at the Departments of Planning and Budget and Accounts to determine if these agencies have sufficient internal controls and information to ascertain whether the rest of the Commonwealth's agencies and institutions limit their spending to the guidance in the Appropriation Act.

Assistance to the Council on Virginia's Future

The Team will continue to provide assistance to the Council on Virginia's Future throughout its deliberations.

Ongoing Activities

The Team will continue its reviews of the accuracy and reliability of the performance measures information, as well as make recommendations for new or revised measures. This report will be the third report in this series. The Team will continue to examine and extend the reporting of budget versus actual in other secretarial areas other than Public Safety.

FINANCIAL MANAGEMENT

The Commonwealth of Virginia has cash and investments of approximately \$56 billion and long term debt of approximately \$17.7 billion. The Financial Management team specializes in understanding the nature and effect these activities have on the Commonwealth's operations.

VIRGINIA EMPLOYMENT COMMISSION

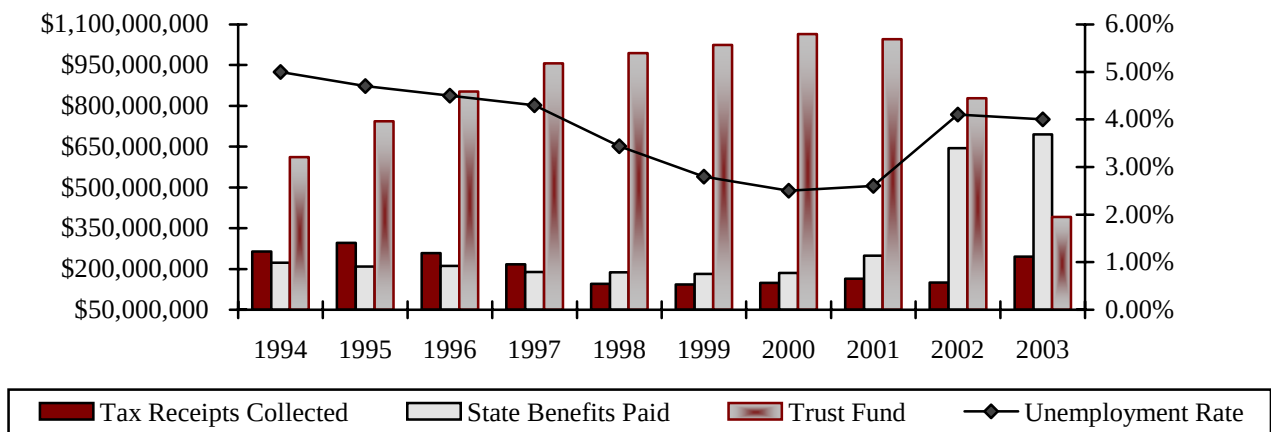
Unemployment Trust Fund

The Unemployment Trust Fund's solvency factor, applicable to calendar year 2004, dropped below 50 percent for the first time since 1984. For the sixth consecutive year, benefits paid out exceeded collections and the Trust Fund balance dropped below \$400 million at fiscal year end 2003. The difference between payments and collections resulted in a net loss of nearly \$84 million in calendar year 2001; however, the most significant net losses occurred in both 2002 and 2003 with a total net loss for the two years approaching \$950 million. This net loss comes out of a starting fund balance of slightly over \$1 billion in 2000. The Employment Commission projects that the fund may go as low as \$65 million during the spring of 2004.

As a result of the economic downturn in 2001, the former Governor issued an Executive Order increasing all unemployment benefits by 37.3 percent. This increased the minimum weekly benefit from \$50 to \$69 and the maximum weekly benefit from \$268 to \$368. These higher benefit amounts remained in effect through January 4, 2003. As the economy works towards recovery, the General Assembly continues to reduce these increased benefit levels. Legislation reduced minimum and maximum weekly benefits to \$59 and \$318, respectively, for the period January 5, 2003 to July 5, 2003. Additional legislation reduced the minimum and maximum weekly benefits to \$50 and \$316, respectively, beginning July 6, 2003 through July 3, 2004.

The illustration below presents historical trends, which show the changes in tax collections, benefit payments, the Trust Fund balance, and the unemployment rate over the past several years.

Trends in the Unemployment Trust Fund



Note: The Trust Fund balance also includes interest credited to the account. The unemployment rate represents the average rate for the entire fiscal year.

The Trust Fund's solvency and the employer tax rates are inversely related. As the Fund's solvency decreases, the tax rates increase. The Employment Commission levies taxes on employers' wages according to rates set by the General Assembly. Under current law, employers only pay taxes on the first \$8,000 of each employee's wages. The tax rates imposed on employers consider the Trust Fund's solvency and the employment histories of individual businesses, referred to as the experience rating. This rating requires employers with a history of higher unemployment claims to pay a greater rate and allows those with fewer claims to pay less or nothing at all.

The Unemployment Compensation Act sets the lowest tax rate at zero as long as the Trust Fund solvency remains at or above 100 percent. Since the Trust Fund solvency dropped below 100 percent at fiscal year ending 2002, the zero minimum rate was not applicable for calendar year 2003, therefore, requiring all employers to pay unemployment taxes. For calendar year 2003, the minimum rate that an employer could be required to pay on taxable wages was 0.13 percent, while the maximum rate was 6.23 percent.

An additional adjustment to the tax rates for calendar year 2003 was the inclusion of the pool tax. The pool tax represents a levy to recover

benefits not chargeable to a specific employer, referred to as pool costs. Interest income from the Trust Fund offsets the total pool costs. Due to prior year interest income not exceeding pool costs, the Employment Commission added a pool tax rate of 0.03 percent to the employer tax rates for calendar year 2003 (included in the minimum and maximum rates above). The Employment Commission cannot use interest income to offset the total pool costs when the Trust Fund solvency is below 50 percent. Because the solvency has fallen below 50 percent, the pool tax for calendar year 2004 will increase to 0.14 percent. 1996 was the last calendar year in which the Employment Commission levied a pool tax.

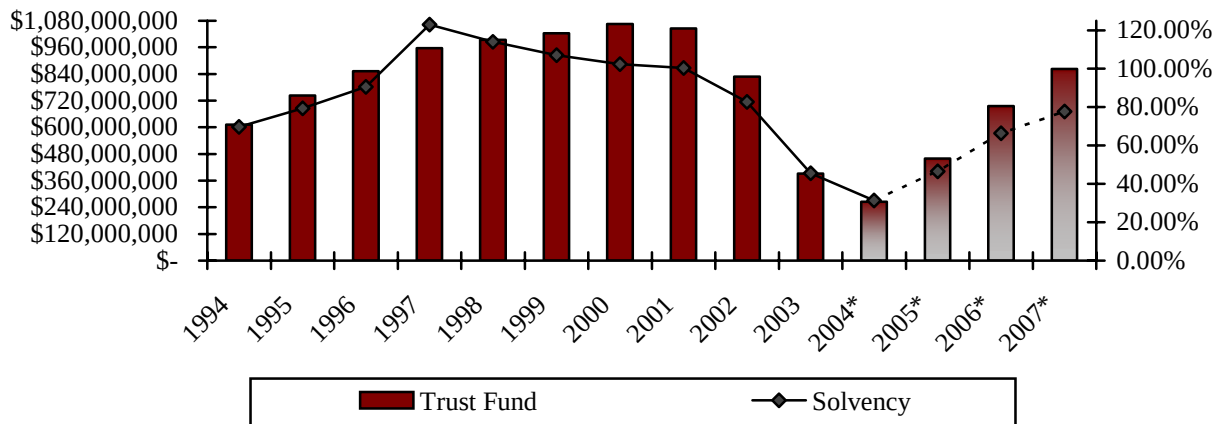
As mentioned above, the Trust Fund solvency is currently below 50 percent and should continue to decrease in the coming year. State law requires a fund-building tax rate of 0.2 percent to the employer tax rates if the fund balance drops below 50 percent, which helps the Trust Fund remain solvent. The minimum and maximum rates for calendar year 2004 are 0.44 percent and 6.54 percent, respectively. These rates include both the pool tax for calendar year 2004 and the fund-building tax. The following table breaks down the various taxes for calendar years 2003 and 2004.

	Calendar Year 2003 Tax Rates		Calendar Year 2004 Tax Rates	
	Minimum	Maximum	Minimum	Maximum
Tax rate	0.10%	6.20%	0.10%	6.20%
Pool tax	0.03%	0.03%	0.14%	0.14%
Fund-building tax	<u>0.00%</u>	<u>0.00%</u>	<u>0.20%</u>	<u>0.20%</u>
Total	<u>0.13%</u>	<u>6.23%</u>	<u>0.44%</u>	<u>6.54%</u>

The Trust Fund has a projected balance of approximately \$294 million by the end of fiscal year 2004 and the solvency rate at 33 percent. Due to the increasing pool tax and the fund-building rate addition, the Trust Fund balance should begin

increasing. The following illustration presents the projections for the Trust Fund balance and solvency as projected by the Employment Commission.

Unemployment Trust Fund Balance and Solvency



Note: Trust Fund solvency is an indicator of the Fund's ability to pay benefits during periods of high unemployment. The solvency indicator compares the Fund's actual balance to the calculated balance needed to pay these benefits for 16.5 months. The formula used to calculate the balance uses historical benefit and wages data. Trust Fund solvency does not directly relate to current year tax collections or benefits paid. Since June 1996, the computation of solvency uses a modified accrual basis as stipulated in §60.2-533 of the Code of Virginia. Both the Trust Fund balance and solvency rate are calculated for the state fiscal year. * projected

Current Employment Commission calculations estimate the Trust Fund balance to drop as low as \$65 million by April of 2004, which is the period before the Trust Fund receives quarterly taxes from employers. These calculations do not forecast that the Trust Fund will run out of money, although additional changes in the economy, unemployment levels, and severe weather will continue to change these projections. If the Trust Fund does run out of money, short-term, no-interest loans are available from the United States Department of Labor. The last federal loan Virginia received was for \$45.6 million in 1983, which the Commonwealth repaid during the same year. The Employment Commission has never received money from the General Fund to pay regular unemployment benefits.

DEPARTMENT OF TREASURY

Due to the statewide impact of agency's services to other agencies, the Treasurer began an internal review to identify redundant processes, find ways to automate processes, and assess the effectiveness of the management structure. In connection with this review, the Treasurer sought the assistance of both this Office and Treasury's internal audit director. During the course of our audit, we identified the following areas of concern that

deserved the attention of her internal review:

- Create policies and procedures
- Provide adequate accounting systems
- Eliminate redundant accounting systems
- Complete the debt database
- Performance management

We will continue to work with the Treasurer to determine the adequacy of the efforts to complete the policies and procedures, inquire about the need for accounting systems, and complete the debt database for all debt handled by Treasury. The result of these actions and our continued joint efforts will enable the Commonwealth to improve the efficiency and cost effectiveness of handling cash, investment, and debt transactions.

Background of the Financial Management Team

The Team's overall objective is to reduce the level of financial management risk by auditing the cash, investments, and long term debt of the Commonwealth. During 2003, we expanded the scope of our work to include the Commonwealth's self insurance funds. Audits of these areas are ongoing throughout the fiscal year.

The Financial Management Team recently developed a statewide approach to audit cash and investments, long term debt, and self insurance funds for the Commonwealth Annual Financial Report (CAFR). Our cash and investments audit work will concentrate on the entities holding the most significant amounts: the Virginia Retirement System; the University of Virginia Investment Management Company; the Virginia College Savings Plan; and Treasury. Our long term debt audit work is concentrated at the Departments of Treasury and Transportation. Our self insurance audit work is concentrated at the Departments of Human Resource Management, Treasury's Division of Risk Management, and the Virginia Retirement System. In the future, we anticipate that this statewide approach will also facilitate relevant and easily understood reporting of the financial management issues in these areas.

Fiscal 2005 Projects

Statewide Cash and Investments

The Team performs a statewide audit of cash and investments. The project focuses on ensuring agencies use industry standards and best practices in managing cash and investments and compliance with reporting standards and investment policies. We do this by continually monitoring the activities of the Virginia Retirement System, the Virginia College Savings Plan, and the Treasury Board.

Statewide Long Term Debt

The Team performs a statewide audit of long term debt. This project focuses on the various ways the Commonwealth finances debt and its presentation

in the CAFR. We do this by continually monitoring the activities of the Commonwealth Transportation Board, the Treasury Board, the Virginia Public Building Authority, the Virginia Public School Authority, and the Virginia College Building Authority. This year, the Team will also begin performing analysis on debt capacity policies at institutions of higher education.

Statewide Self Insurance Funds

The Team will perform a statewide review of the Commonwealth's self-insurance funds, similar to the report referred to above, on the Virginia Employment Commission. This report will include an analysis on the funding status and show how agencies use the actuarial analysis for setting premiums and presenting the fund in the Commonwealth's financial statements.

Literary Fund

Team members from Budget and Performance Management, Reporting and Standards, and Financial Management will perform an indepth study of the Commonwealth's Literary Fund. This study will define the responsibilities of the various agencies involved in the revenue and expenses of the fund and provide a cash flow analysis of the fund and the Literary Funds CAFR presentation.

Ongoing Activities

New team members will continue to work on obtaining certification as Certified Investment and Derivative Auditors. This, coupled with continuing education on investment instruments, strategies, and policies will allow the Office and the Team to remain current with the ever-changing investment and municipal debt markets.

DATA ANALYSIS

Best practices and benchmarking require an understanding of the process and costs before setting the standard. Getting the information and understanding the data is the key to successfully using best practices and benchmarking. Data Analysis specializes in understanding the process, getting the data, and making the data usable for our auditors and for best practices and benchmarking.

DEPARTMENT OF MOTOR VEHICLES COST ANALYSIS SPECIAL REPORT

Ongoing cash flow issues at the Department of Motor Vehicles (Motor Vehicles) led the General Assembly to request the Auditor of Public Accounts to develop a cost accounting model designed to accurately and completely document the true total costs, both direct and indirect, of the activities and services provided by Motor Vehicles.

To develop this model, we reviewed processes related to funding and financing sources, expense budget development, cash flow and revenue forecasting, accumulation and assignment of costs, development of the strategic plan, and automated information systems.

The report cost model calculated the average cost of an original driver license issued at a customer service center to be \$30.51. However, this cost varied significantly by specific customer service center. For example, the average cost of an original driver license issued in the Emporia customer service center is \$95.26, while the same license cost \$22.82 in the Tyson's Corner customer service center.

The way a driver gets a license also significantly affects the cost. For example, a driver license renewal performed at a customer service center cost an average of \$12.63 versus \$3.18, if completed over the Internet, or \$7.05 through the mail. The Commonwealth collects an average of \$20.00 for each of these services.

The cost model illustrates the need for a balance between revenue collections and customer service. The Department of Motor Vehicles' management

and decision makers must determine whether the current level of service is worth the cost to the taxpayer.

After a detailed analysis, we found Motor Vehicles does not have a systematic way to identify or collect the costs of its products and services, and therefore, cannot reasonably determine their annual budgetary requirements. Motor Vehicles has an inconsistent coding structure to capture revenues and expenses, the coding inconsistencies make it difficult to extract and analyze this information.

When pricing products or determining its level of service, Motor Vehicles must have a per-unit cost that includes all of the services it must or plans to provide. The cost model developed in this report identifies the per-unit cost for the various driver and vehicle products and delivery methods.

The revenues retained by Motor Vehicles for a functional area do not always cover the expenses. Driver Services, Vehicle Services, and Transportation Safety Services incur expenses in excess of their retained revenues. Conversely, Records Management and Motor Carrier Services functions are significant contributors to the operations of Motor Vehicles. The primary sources of revenues in both of these areas are not a direct result of the expenses incurred through Motor Vehicles' operations. Record Management generates its revenues from the sale of information to various sources, primarily insurance carriers. The records are a byproduct of the information systems that Motor Vehicles maintains to track driver and vehicle information.

Motor Vehicles' management must also develop productivity measures and use these measures as

an effective tool to staff customer service centers and other operations. This will allow Motor Vehicles to achieve the desired level of service. Without effective performance measures for productivity, a reviewer cannot reach the conclusion that Motor Vehicles needs to retain a greater portion of revenue or that the General Assembly needs to raise a fee simply to cover Motor Vehicles' costs.

Background of the Data Analysis Team

The Team strives to develop and teach techniques that can be used on every project and for crosscutting queries and analysis. In addition, the Team attempts to identify potential fraud, waste, and abuse indicators while improving project efficiency. The Team supports the office's statewide audit approach by helping to establish a risk-based approach to prioritize and conduct audits by utilizing technology and computer-assisted auditing techniques in performing audits.

The Team provides information for audit field work by writing computer programs to provide information from the state's centralized accounting system, individual agency systems, and college and university transaction files. Various statistical sampling techniques, together with stratification and summary reports, provide the auditor a statistical basis on which to evaluate an entity's operations. The Team also produces reports and

performs comparisons and other procedures to detect potential errors or irregularities. Working closely with other audit staff, the Team develops new computer-assisted audit techniques.

Fiscal 2005 Projects

Follow-up Studies on the Departments of Transportation and Motor Vehicles

The General Assembly has requested a follow-up to the report mentioned in the beginning of this section and a study on the Department of Transportation, which we released in July 2002. Both follow-up reviews will report the status of the departments' implementation of the report findings and any new recommendations. The Team expects to complete the work and release these reports before the beginning of the 2005 General Assembly Session.

Ongoing Activities

The Team will continue to assist in the design and maintenance of a data warehouse containing information from the statewide accounting, budget, fixed asset, and payroll systems. In addition, the Team will continue to develop and refine tools to better retrieve and analyze financial data. These tools will help the Team and other auditors use this information to recommend best practices and benchmarks.

HIGHER EDUCATION

The institutions of higher education of the Commonwealth had \$6.16 billion of revenue and controlled assets of over \$9.28 billion. They conduct research in every major field from nuclear medicine to homeland security and operate a number of businesses through auxiliary enterprises to support their teaching mission and provide services to their students, faculty and staff.

Background of the Higher Education Team

Higher education institutions comprise the most diverse group of organizations in the Commonwealth. They provide various services, operating these units like for-profit organizations, and conduct research into the fields of medicine, engineering, technology, and other areas. Adding to this complexity is the federal government's involvement in funding research, as well as providing many students with financial aid to meet the cost of tuition and fees.

The Team develops auditors who have the knowledge to deal with the special nature of college and university business operations. By specializing in higher education audits, team members develop best practices both in audit planning and techniques for these audits and in the financial operations of colleges and universities. The Team also provides specific guidance on student financial aid, research and development programs, and NCAA compliance issues.

Fiscal 2005 Projects

Higher Education Auxiliary Enterprises

The Team will analyze the colleges' auxiliary enterprise activities and year-end balances (deficits) using National Association of College and University Business Officers and State Council of Higher Education for Virginia guidelines for being self-supporting and compare and contrast the activities between all public colleges and universities.

Ongoing activities

The Team continues to build its knowledge by participating in the National Association of College and University Business Officers and Association of College and University Auditors. The Team will conduct a series of training sessions on the Commonwealth's decentralization of certain functions to higher education institutions and especially monitor the development of charter institutions.

INFORMATION SYSTEMS DEVELOPMENT

The Commonwealth's 2004 Information Technology Strategic Plan included 138 technology investment projects totaling more than \$1 billion. The Information Systems Development team specializes in understanding project management best practices and controls and uses this knowledge to review development projects throughout their life cycle. The goal of the team is to protect the assets of the Commonwealth through the early identification of risks that could lead to project delays, cost overruns, or project failure if not corrected timely by agency management.

VIRGINIA INFORMATION TECHNOLOGIES AGENCY

During 2003, the General Assembly adopted legislation that created the position of Chief Information Officer (CIO), consolidated the Commonwealth's information technology agencies into the Virginia Information Technologies Agency (VITA), and transferred personnel, equipment and technology infrastructure from individual executive branch agencies to VITA. In addition, this legislation created an Information Technology Investment Board (Board) to provide oversight of VITA and the CIO, to have the power to recommend information technology projects to both the Governor and General Assembly, and to provide oversight to these projects, including having the power to discontinue them.

Because of the anticipated growth of VITA, we undertook a review of VITA's accounting systems and internal controls. Our review resulted in the improvements suggested below:

- *Develop Appropriate Rate Setting Methodologies* - VITA must develop appropriate methodologies to set rates, bill services, and account for both revenues and expenses of operations. Further, VITA needs to have a mechanism to control and monitor service costs as the agency transfers take place.
- *Create a Business Plan* - VITA's business plan consisted of a variety of documents

such as the operating plan, service delivery customer workbook, and a consultant's report. However, we found that VITA's business plan documents do not provide many of the characteristics found in a well-written business plan.

- *Shift How VITA Interacts with the Board* - The Secretary of Technology took an active role in the early start up of VITA. The Board also needed to develop and build a working relationship with VITA management, including the new CIO when hired. We recommended that the Board meet with the CIO to explain its expectations, including how to resolve the issues contained within our report.

Subsequent to our report, VITA took the following actions:

- In February 2004, a permanent CIO was hired under a five year contract with the Board.
- In April 2004, VITA issued a revised business plan that contains more characteristics of a well-written plan.
- VITA modified their revenue methodology from rate setting for services to a cost plus administrative fee approach approved at the June 2004 JLARC meeting. A billing system is currently under development and VITA plans to bill agencies for new services starting August 2004.

- Board members have become more involved in developing working relationships with the CIO and VITA staff. Four committees have been formed that meet regularly with VITA staff and the CIO. In addition, the June 2004 board meeting included a day dedicated to strategic planning.

VIRGINIA INFORMATION PROVIDERS NETWORK AUTHORITY

In 1997, the Virginia Information Providers Network Authority (Authority) entered into a contract with Virginia Interactive, LLC (Interactive) to serve as the Authority's network manager. Interactive charges service fees to fund its operation and employs its own staff who performs web development and programming, systems administration, marketing, accounting, and graphic design.

Interactive works with various state and local entities to design their web pages and to facilitate on-line sales. In fiscal year 2003, Interactive collected \$34 million in on-line revenue from a variety of sources with the largest source being insurance companies with driving record inquiries. Of the \$34 million collected, about \$28 million represented revenue due to state agencies and the remaining \$6 million represents Interactive's fees.

Based on Interactive's internal financial report, their operating expenses are about \$2 million, which results in a net profit to Interactive of nearly \$4 million annually.

We found that Interactive does not have a revenue accounting system, as defined and required by the contract between Interactive and the Authority. In addition, there are no formal accounting policies and procedures adopted by Interactive management, only informal and incomplete documentation created by the Interactive accountant to describe how she performs her daily job functions.

The lack of a revenue accounting system has resulted in the Interactive accountant creating a series of informal worksheet reports that they use as the basis for making payments to state and local entities and for paying Interactive their service fees. We found this manual process has resulted

in errors that we could not resolve due to the lack of an audit trail.

To improve, our report includes recommendations for Interactive to provide an adequate revenue accounting system and adopt formal accounting policies and procedures. Further, if Interactive fails to take action, we recommend the Authority's Board review its options under the contract.

Background of the Information Systems Development Team

The Team's primary objective is to ensure the Commonwealth has sound controls over the development of its information systems to minimize the likelihood of project failure. We accomplish this objective by maintaining a comprehensive database of systems development projects and using a risk model to identify those that represent the highest significance and/or greatest risk of loss to the Commonwealth.

For high risk or significant projects, the Team assigns a specialist to monitor the project throughout its development and determine that the project team employs project management best practices to minimize project delays, cost overruns, and avoid project failure. In fiscal 2004, the Team actively monitored projects at the Departments of Taxation and General Services, Christopher Newport University, the College of William and Mary, and the University of Virginia Medical Center, to name a few.

Our long-term involvement in these projects consisted of reviewing project documents, such as the project plan and budget, and meeting at regular intervals with the project manager to assess the quality of the project management. We also evaluated the project team and their efforts from the beginning to the end of the project, including the effectiveness of internal controls designed into the system. Generally, the Team discusses any concerns with the project manager as they arise, so the project manager can address the situation timely, rather than waiting for a written report. If the Team continues to have concerns, we report our concerns to the agency head through a personal meeting, letter, or special audit report. We report the status of all major projects when the Office issues a report on the control agency or institution.

VITA has, as one of its primary statutory duties, the development and monitoring of statewide and mission critical systems. In 2004, the Team also monitored the development of VITA's Project Management Office, the Information Technology Investment Board (ITIB) Project Review Committee, the Commonwealth's IT Strategic Plan, and all project management standards issued by VITA to ensure they followed best practices.

Fiscal 2005 Projects

VITA Business Plan and New System Development

In December 2003, the Team completed a report on the Virginia Information Technologies Agency that provided recommendations to improve their business plan, develop a billing system, establish a rate setting methodology, and improve the working relationship between the ITIB and VITA staff.

In fiscal 2005, the Team will continue to follow and report on the implementation of VITA. This review will include monitoring financial information, especially cash flows, fund management, and rate setting. Further, we will follow and report on VITA's internal system development efforts, such as billing and asset management systems. Finally, we will monitor the ITIB and project management offices' oversight of new financial and financial related systems.

Department of State Police - STARS Radio System

In July 2004, the Department of State Police awarded a contract to Motorola at a cost of \$329 million to design, manufacture, install, optimize, test, and integrate the Statewide Agencies Radio System (STARS). The STARS project will be the foundation for a shared statewide public safety grade radio system that facilitates law enforcement mobile data and interoperability with the localities. The project schedule estimates project completion in fiscal year 2010. We will monitor the development and implementation of STARS to determine whether the system remains on schedule and on budget, and provides the required functionality.

Ongoing Activities

The Team will continue to monitor the systems development processes over major systems to determine that the projects are on schedule and on budget, and provide required functionality. This includes systems development projects for the Departments of Corrections, Education, Game and Inland Fisheries, Social Services, Taxation, and Transportation and six higher education institutions. The Team will also review and compare agencies that have similar systems implementation projects in the Commonwealth and will recommend that the ITIB take a business enterprise solutions approach. This would result in cost savings and efficiencies.

INFORMATION SYSTEMS SECURITY

The Commonwealth's information computer networks contain everything from employee payroll records to an HIV register. All of these electronic information systems share networks and are vulnerable to threats from hacking, viruses, natural disaster, and human error. It is no longer possible to only review the controls over financial systems and believe that these controls alone will protect the assets of the Commonwealth. One hacker has the opportunity to compromise an entire department and potentially more of state government by penetrating one state agency's or institution's internet portal.

SPECIAL REVIEW - SURPLUS COMPUTER EQUIPMENT DATA REMOVAL

We found sensitive information such as vaccination records, personnel records and credit card numbers on computer equipment ready for auction by the Commonwealth. The Commonwealth regularly sells off or, in some cases, has private vendors dispose of old used computer equipment. The Commonwealth does not have a policy or standard to erase the hard drives before disposing of used equipment.

Our audit included a review of the Commonwealth's policies and the procedures to implement these policies by reviewing seven agencies and one institution of higher education. In addition, we tested several computers and hard drives that were ready for sale or transfer to determine if personnel had followed the proper procedures for data removal. We found severe weaknesses that could lead or have already led to sensitive data being released.

Our review of laptop and desktop computers ready for auction found that they contained:

- vaccination information;
- Women, Infant and Children (WIC) personal information;
- personnel evaluations of individuals;

- personnel records of grievances of individuals;
- scholastic evaluations of individually identifiable students; and the
- personal credit card number of a college Dean.

Our recommendations include the following:

- Agency personnel should immediately inspect all computer technology slated for sale or transfer to determine that personnel have removed all data from devices in such a manner that will prevent ready reading or reading by using utility software.
- VITA should create a policy and procedure defining the responsibility for the removal of data before sale or transfer of surplus equipment.
- VITA should create a data removal or disk cleaning standard for all agencies and institutions. These standards should make use of disk cleansing utilities or require the destruction of hard drives. Mere formatting of hard drives is insufficient in most cases.
- The Chief Information Officer or designated Information Security Officer of each agency should create an audit function to randomly test equipment that is ready for public auction or transfer.

NETWORK VULNERABILITY ASSESSMENT AND PENETRATION TESTING SERVICES

Auditors conducted two network vulnerability assessment and penetration tests (ethical hacking) at the Department of Medical Assistance and Virginia Employment Commission. The auditors used sophisticated tools, along with a complex knowledge of systems, to probe weaknesses of networked systems. These probes examined both the external and internal safeguards to determine if someone could obtain unauthorized information from the agency. Both tests recommended changes to management to tighten controls.

Background of the Information Systems Security Specialty Team

All of the Commonwealth's agencies and institutions use integrated systems operating on complex networks that allow for internal communication and data transmission, as well as communication with agencies, institutions, local governments, specific customers and the general public. Many of these networks allow each user multiple points of access to both the network and, more importantly, information on the network.

It is no longer possible to only review the controls over financial systems and believe that these controls alone will protect the assets of the Commonwealth. Agencies and institutions need to maintain security and limit access to their complex networks and applications that require the auditor to review the entire network and security since one hacker can compromise an entire department and potentially, a significant portion of the state government by penetrating one state agency's or institution's internet portal.

The goal of the Team is to ensure that adequate controls are in place to control access and security to systems. In addition, the Team has begun to review compliance with privacy laws that are pertinent to information systems such as the federal Health Insurance Portability and Accountability Act (HIPAA) and state regulations.

Team members receive highly technical training in technology and security. The members have a

variety of certifications including Certified Public Accountant, Certified Information Systems Auditor, and Microsoft Certified Systems Engineer. In addition, some members have years of experience in information technology operations. The work includes evaluating mainframe security over financial records, reviewing Internet addressing configurations in routers or firewalls, and encryption methods used to transfer data.

Fiscal 2005 Projects

Health Insurance Portability and Accountability Act (HIPAA)

This federal act requires that "protected health information" (PHI) be secured. This includes control of access to PHI, ability to protect data from accidental or intentional disclosure of PHI, or alteration or destruction of PHI. Criminal penalties and fines exist for improper use of PHI and non-compliance of the security portion of the act. As of April 2005, agencies such as the Departments of Medical Assistance, Corrections, and Health and the UVA Medical Center must be in compliance. As a result, we will determine the progress made towards compliance with this act through a review of policies and procedures and limited testing at relevant agencies to ensure the Commonwealth is not at risk.

Follow-up to Special Review - Surplus Computer Equipment Data Removal

The Team will determine if agencies and institutions have corrected their policies and started to follow new procedures to ensure there is no sensitive information on equipment designated as surplus. We will also determine the adequacy of the policies and procedures issued by VITA to address this issue.

Ongoing Activities

The Team will continue to perform access and security reviews of all the major agencies and institutions. Several agencies have asked the Team to do penetration tests. Finally, the Team will continue to receive training and upgrade its software and equipment to do its work.

JUDICIAL SYSTEMS

"The ordinary administration of criminal and civil justice . . . contributes, more than any other circumstance, to impressing upon the minds of the people affection, esteem, and reverence towards the government," Alexander Hamilton Federalist Papers, No. 17.

STATEWIDE COURT ISSUES

In addition to the individual court audit report, the Judicial System Team compiles a listing of issues affecting the statewide financial management of circuit and district courts. Statewide issues are those internal control or compliance findings that multiple individual courts share and therefore, require that the Executive Secretary of the Supreme Court, as the courts' administrator, consider issuing new guidelines or provide training to help the courts improve.

In our latest statewide reports of circuit and district courts issued in December 2003, we noted the following statewide issues:

- Reconcile bank account. (Both circuit and district courts; Repeat issue for district courts)
- Improve receipting procedures and safeguard assets. (Both circuit and district courts)
- Manage accounts receivable. (Both circuit and district courts; Repeat issue for circuit courts)
- Assess and record court fees and costs. (Both circuit and district courts; Repeat issue for circuit courts)
- Improve trust fund management. (Repeat issue for circuit courts)
- Monitor and disburse liabilities. (Repeat issue for circuit courts)
- Supervise and/or improve accounting operations. (Repeat issue for both circuit and district courts)

OTHER COURT ISSUES

Recovery of State Funds

The Team identified issues at several individual circuit courts that resulted in the recovery of almost \$99,000 in state funds. The courts either improperly transferred funds to localities or used funds to reimburse localities for nonreimbursable equipment purchases.

Investigations

During fiscal year 2004, the Team conducted six investigations stemming from reports of possible fraud in the courts and other local government offices. The Team is fortunate to have two certified fraud examiners (CFE) who have led or consulted on several fraud investigations.

Background of Judicial System Team

The Team promotes sound financial management and accountability for public funds through audits of the various courts and related agencies that comprise the Judicial Branch of Virginia's State Government. The Team has five regional groups visiting over 320 individual circuit, district, and juvenile and domestic relations courts throughout the Commonwealth at least biennially. Our audits are financial-related with the objectives of determining whether the internal controls are adequate to ensure accurate and timely entry of financial transactions in the courts automated information systems, ensuring that internal controls are adequate to provide proper safeguarding and distribution of financial assets, and testing compliance with certain laws and regulations.

Fiscal 2005 Projects

Statewide Court System Revenue and Expenses

The Team will attempt to report on the total revenues and expenses of the circuit and district courts. The report will try to include both state and local government expenses for the courts. The Team expects to use the information from the Comparative Report of Local Government Revenues and Expenditures. Depending on the

availability of information, the Team hopes to expand this report in the future to include all related activities of the courts.

Ongoing Activities

The Team will continue to monitor changes in the statutes that affect the collection of revenue and the Supreme Court's changes to its automated system. Additionally, the Team will continue to monitor the court's collection efforts of fines and costs.

PROPERTY AND MATERIALS MANAGEMENT

The Commonwealth of Virginia has capital assets of approximately \$32.3 billion and inventories of \$181 million. The Property and Materials Management team specializes in understanding the financial management, control and accounting for these assets.

STATEWIDE REVIEW OF AGENCY-OWNED VEHICLES

The Commonwealth owns over 20,000 vehicles having an average cost of \$23,443 and representing an investment of over \$468 million. Further, the Commonwealth spends on average \$100 million each fiscal year buying vehicles, gas, and maintenance and paying state employees for driving their vehicles on state business.

The Commonwealth's general vehicle policies and procedures covering usage and management are subject to misinterpretation and provide only limited oversight of agency-owned passenger vehicles. Also, there are no general policies and procedures governing non-passenger vehicles such as SUVs and pickup trucks.

Most agencies do not have adequate policies and procedures or do not adequately track and record information over vehicle purchase, assignment, use, and maintenance. As a result, we could not determine whether the Commonwealth's agencies and institutions are efficiently purchasing, using, and maintaining their vehicles.

To improve overall fleet management, the report includes recommendations to amend the Commonwealth's overall policies and procedures and change existing central processes. One of these recommendations includes either amending *Executive Order 20* or the Code of Virginia to provide guidelines for the oversight of non-passenger vehicles.

This review also tested some of the agencies that maintain a significant number of vehicles. We also recommended various changes in internal controls, policies, and procedures for the following agencies:

- Department of State Police
- Department of Corrections
- Virginia Polytechnic Institute and State University
- Department of Forestry
- Department of Game and Inland Fisheries
- Department of Conservation and Recreation
- Department of Mines, Minerals, and Energy

These recommendations should improve and maximize use of the Commonwealth's vehicles while strengthening the agencies' and institutions' control over agency-owned vehicles.

DEPARTMENT OF TRANSPORTATION

We found that Transportation has not assigned central responsibility for and does not have adequate internal controls surrounding the recording and reporting of capital assets. In addition, Transportation has not developed a method to capture and capitalize the costs of improvements, other than buildings, for existing assets so that they can capitalize this information by 2006. Transportation's Equipment Management System is antiquated and inefficient in providing financial data for the majority of Transportation's equipment. Transportation has not taken a complete inventory of its computer equipment and updated the Fixed Asset Accounting and Control System since fiscal year 2000. In addition, Transportation did not properly perform inventories over major equipment. We included some of these issues in

last year's report. We believe the controls surrounding capital assets are inadequate and that these issues are so pervasive that they represent a material weakness in Transportation's internal controls.

We also found weaknesses in internal controls surrounding materials and supplies inventory, disclosures for future lease payments and contractual commitments, user access to information systems, written agreements with other agencies to use Transportation's information systems, and monitoring of federal funds passed through to localities.

Transportation has begun a reorganization of its financial operations and hired a consultant to assist management in addressing the findings related to capital asset management. To resolve these issues, the management will need long term solutions, which will take time to implement.

Background of the Property and Materials Management Team

The Team's overall objective is to ensure that the Commonwealth has the proper management, control, and valuation of its capital assets, infrastructure, depreciation, preventive and deferred maintenance, fleet management, leases and installment purchases, inventory, supplies and materials, and historic treasures. Audits of these areas occur throughout the year.

During fiscal year 2003, the Team developed and implemented a statewide approach to auditing capital assets for the Commonwealth Annual Financial Report (CAFR). We substantiated the fact that Transportation owns a majority of the Commonwealth's assets; therefore, concentrated our capital asset work for the CAFR and allowed the Team to expand its focus on other issues and other agencies. We plan to expand this approach into the area of inventory and leases.

This approach, coupled with the skills and in-depth work of the team members, allowed the Team to issue two reports that introduced this section. These two reports covered the financial management and internal controls over 61 percent

of the Commonwealth's \$32.3 billion in capital assets.

Fiscal 2005 Projects

Deferred Maintenance

In December 2001, the Team completed a report on "Preventive and Deferred Maintenance Policies and Practices." In this report, we reviewed the status of maintenance performed by state agencies and higher education institutions over the Commonwealth's buildings and determined the extent of maintenance being performed, the effectiveness of the maintenance, and the impact it has on the buildings. We determined that many agencies and institutions do not have preventive maintenance schedules. We found that most agencies could not reasonably or accurately determine the extent of their deferred maintenance backlog and that most had no methodology in place to allow them to do so.

As a result of this report, the General Assembly has included language in the Appropriations Act for an Audit of Deferred Maintenance. The Team will oversee the collection, analysis, and prioritization of the data needed to audit deferred maintenance costs. We will establish procedures and acquire software to develop and implement a Capital Outlay Deferred Maintenance System throughout all state agencies and institutions to gather information on the maintenance needs of all Commonwealth-owned buildings. In conjunction with this audit, we will evaluate and recommend options to fund the backlog of and ongoing need for major maintenance on state buildings.

Supplies and Materials Inventory

The Property and Materials Management Team will perform a Statewide Review of Supplies and Materials Inventory. This project will focus on gaining an understanding of supplies and materials inventory in the Commonwealth. We will research industry best practices in inventory and make recommendations for how the Commonwealth could apply these practices to create cost savings and efficiencies. We will determine what comprises inventory at the various agencies and

whether items are properly included/excluded as inventory versus fixed assets. We will evaluate inventory management including forecasting; planning; and reordering and stocking levels; and consider inventory reduction possibilities.

Ongoing Activities

The Team will monitor the implementation of the recommendation included in its two reports on

Transportation and agency-owned vehicles. The Team will continue to monitor and respond to exposure drafts of new accounting and auditing standards in the specialty team's area. We will also monitor and track changes to the Commonwealth Accounting Policies and Procedures manual for capital assets, leases, and inventory and any relevant statewide systems. We continuously seek and develop ideas for new projects to explore each year.

REPORTING AND STANDARDS

Maintaining the Commonwealth's Triple A bond rating depends on issuing timely annual financial statements that meet all of the current accounting standards. Continued federal funding depends on having the Statewide Single Audit done on time. The Reporting and Standard Team makes sure that both this Office and the Commonwealth issue these reports on time and meet the standards.

DEPARTMENT OF ACCOUNTS IN SUPPORT OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE COMMONWEALTH OF VIRGINIA

Improve Controls Over Financial Reporting Process

During the 2003 audit of the Commonwealth's Comprehensive Annual Financial Report (CAFR), we noted the need for the Comptroller to improve several areas in the internal controls over the report preparation process. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of the information contained in the financial reports prepared by an entity.

In planning and performing our audit, we consider the Comptroller's internal controls over financial reporting in order to determine the nature, timing, and extent of our auditing procedures. The internal control improvements suggested below resulted from our auditors having to propose several material adjustments.

- *Inform the Auditor of Material Journal Entries* – The Comptroller's staff recorded several material journal entries before discussing the nature of or the process used to prepare the entries with the Auditor. Failure to notify the Auditor in a timely manner of material adjustments to the financial statements and the process used to develop the adjustments could result in a scope limitation on the audit. Because there is a risk of misstatement often linked to nonstandard journal entries and other adjustments, the Comptroller should

disclose such entries to the Auditor to ensure there is sufficient time to perform an audit to review the internal control process surrounding the development of these entries.

- *Update Procedures in a Timely Manner* – Accounts often updates its procedures that document the financial statement preparation process as they are preparing or after they have completed the financial statements. The procedures used to prepare the financial statements are an important internal control over the financial reporting process and should serve as a tool to ensure the proper recording of all necessary journal entries and balances and use of the appropriate sources of the financial data. In order for the internal control to be effective, staff should update the procedures before preparing the financial statements and provide the information to the auditors.
- *Educate Agency Financial Staff on the Financial Reporting Process* – Since the Comptroller has ultimate responsibility for the financial information included in the CAFR, he must ensure that the information submitted by agencies outside of Accounts is accurate. During the audit, we noted several instances where an agency submitted incorrect or incomplete information. In some cases, these submission errors arose because agency personnel sending the information lacked an understanding of how and why the Comptroller needed the information. In other cases, the submission errors were the result of agency personnel not taking the time to properly prepare the information in order to meet established deadlines.

The Comptroller and his staff should ensure that each agency submitting financial information understands how its information fits into the financial reporting process and the annual report. In addition, the Comptroller should cite agencies for noncompliance with the Comptroller's directives if they submit incomplete information in order to meet established deadlines. Finally, the Comptroller should ensure the internal controls governing the financial reporting process at the agency level are adequate since those controls are a vital element of the overall internal control process for preparing the CAFR.

The Comptroller and his staff have the ultimate responsibility for the completeness and reliability of the information presented within the CAFR. Receiving accurate and timely information depends on the strength of the internal controls surrounding the financial reporting process. The Comptroller and his staff often rely on the review of the Auditor of Public Accounts to ensure the controls are operating as intended. As previously stated, we consider the internal controls when developing our audit procedures in order to provide reasonable assurance about whether the financial statements are free of material misstatements.

However, the Auditor's reviews cannot serve as substitute for the Comptroller's responsibility to have well trained and informed staff in all agencies providing information for the CAFR. The Comptroller needs to take the appropriate ongoing steps to ensure the accuracy and timeliness of information used in the financial reporting process.

Comply with the Virginia Truth in Revenue Source Reporting Act

Section 2.2-813.1 of the Code of Virginia, the "Virginia Truth in Revenue Source Reporting Act," became effective July 1, 2003, and subsequently, the Comptroller posted to Accounts' Internet site the listing of revenue by source of collection. Prior to its implementation, our office informed the Comptroller that the intent of the code section dealt with the use of the revenue "for any purpose other than the purpose originally established in law for such revenue source."

Therefore, in order to comply with the intent of the code section, the Comptroller should include on his Internet site any transfers in the Appropriation Act that redirect revenues for purposes different than those originally established in law. The Comptroller indicated that without a control finding, he believed his posting was correct.

This point serves as a control finding that the Comptroller should work with the Department of Planning and Budget to identify those items in the Appropriation Act that transfer or redirect funds for any purpose other than that originally established by law.

We advised the Comptroller that, at a minimum, he should include all of the transfers in "Part 3: Miscellaneous of the Appropriation Act" that do not represent payments for services and indicate the revenue stream from which the transfer was made. While the Comptroller has posted all of the transfers in Part 3 of the Appropriation Act that do not represent payments for services to his Internet site, he has not indicated the revenue stream from which the transfer was made. The Comptroller should work with the Department of Planning and Budget and appropriate legislative committees to obtain this information as quickly as possible after the enactment of the Appropriation Act.

COMPARATIVE REPORT OF LOCAL GOVERNMENT REVENUES AND EXPENDITURES

This annual report is the only source of financial information to compare the fiscal operations of Virginia's counties, cities, and towns with a population of over 3,500. This report summarizes the information from 170 localities and is the only source of such information that also undergoes a review by the locality's auditor.

To assist localities and improve the quality of this report and information going to the Virginia Department of Education, we developed an electronic template, so localities can readily identify the differences between the Comparative Report information and the Annual School Report. We continued our quality control reviews of the work of five local government auditors and made recommendations for improvements in their audits for the future.

We continue to have difficulty in completing the Comparative Report by the statutory deadline of February 1 of each year due to the failure of localities and their auditors in completing and submitting their information on time. As with prior years, we issued this report without eight localities providing timely information for inclusion.

Background of the Standards and Reporting Team

Performing audits in accordance with professional standards, meeting the requirements of the United States Comptroller General of the Government Accounting Office, and ensuring that the Commonwealth complies with the appropriate accounting standards is the fundamental charge of the Standards and Reporting Team. In addition, the Team provides the key leadership for the Comptroller's Comprehensive Annual Report and the Statewide Single Audit of federal grants and contracts.

The Team helps to ensure the Office is following current accounting and auditing standards and adopts newly issued standards. Throughout the year, team members participate on and serve as a reference to other staff assigned to financial statement audits. The Team reviews both proposed, as well as new accounting and auditing standards to determine the effect they will have on the operations of the office and, more importantly, on those of the Commonwealth. If these standards will have an effect on the Commonwealth, the Team works with the Comptroller to notify state agencies and provides both training and assistance to localities.

Governmental accounting and auditing standards are beginning to address more complex issues. As these standard setters adopt these new standards, their impact will have significant effect not only on accounting and reporting, but on how governmental units make financial decisions and control operations. Further, there is a growing push for states and larger governmental units to prepare not just comprehensive annual financial reports, but quarterly information with the same level of information.

Therefore, the Team monitors the various standard setting bodies, such as the American Institute of

Certified Public Accountants and the Governmental Accounting Standards Board. The Team reviews, analyzes, and responds to proposed new standards and expresses the Commonwealth's concerns for consideration by the standard setting body.

Finally, the Team conducts internal reviews of our work to assure not only the quality of the audit, but to improve our efficiency. Based on these reviews, the Team develops better audit tools and provides both group and individual training.

Fiscal 2005 Projects

Review of the State Comptroller

As a result of the findings in the first report of this section, the General Assembly in the Appropriation Act required a study of the Comptroller's operations. The Comptroller maintains the key systems of the Commonwealth to provide accountability, budgetary monitoring, and execution, and the means of paying state employees, recipients, vendors, and citizens.

Over the next two years, the Team will lead the project, which has the following objectives:

- Determine the factors that have led to the current structure of the Commonwealth's financial accounting and control operations.
- Determine the Comptroller's responsibility for financial and internal controls.
- Determine the impact of decentralization on the financial structure and internal controls.
- Determine whether the Commonwealth has a modern financial system and structure.
- Provide the Chairmen of the Senate Finance Committee, the House Appropriations Committee, and the House Finance Committee with an assessment of the information available to them and illustrate how any changes in the Commonwealth's financial accounting and control operations could enhance their oversight, and what resources would be necessary to accomplish this function.

We will report our initial findings by December 1, 2004 and issue a final report by November 15, 2005 with recommendations for proposed budgetary and statutory changes.

Telecommunications Taxes

In conjunction with our work on the Comparative Report, House Bill 1174 of the 2004 Session directed this Office to determine the telecommunication tax revenues received by the Commonwealth and its localities for fiscal year 2004. We are to include the taxes and fees collected by the service providers: gross receipts tax in excess of 0.5 percent, Virginia Relay Center assessment, local consumer utility tax, and E911 taxes and fees. The report will compare these revenues to the proposed telecommunication taxes and fees.

On-going Activities

The Team will continue to have primary responsibilities for the completion of the Comptroller Comprehensive Annual Financial Report and the Statewide Single Audit. By adjusting the focus of these audits, the Team has allowed other specialty teams the time to undertake more statewide reviews by building on the work done on these audits.

In continuing to improve the usefulness of the Comparative Report, the Team plans to develop a user-friendly version to post on the Internet to enable quick analysis of the data by the users. In addition, they will develop a plan to manage the data collected in the transmittal forms in a database. As part of the plan development, we will inventory the data that we currently collect and survey localities and other interested parties for their information needs.

SOCIAL AND MEDICAL SERVICES

Within the agencies of the Secretary of Health and Human Services, the Commonwealth planned to spend 26 percent of the total 2004 budget. These agencies spend almost 77 percent of the \$3.7 billion the Commonwealth receives from the federal government. The Social and Medical Services team specializes in understanding the risk and needed controls over these programs.

INTERRELATED ACTIVITIES

Many of the agencies within the Secretary of Health and Human Services provide services and assistance to the same recipients. This interrelationship exists because eligibility for service and assistance comes from meeting certain common income, social, or medical criteria.

In order to reduce duplication and not have different staff performing the same work or gathering the same information, many of the agencies within the secretarial area contract with each other to perform certain functions. For example, the Department of Medical Assistance Services uses the intake worker at the local social services offices to determine recipient eligibility for Medicaid.

Making sure that each to these agreements is accomplishing their assigned task is essential to the effective delivery of services. The following are findings from the audit reports of the Departments of Social Services and Medical Assistance Services showing a need to improve their interactions.

The Social and Medical Services Team examines areas needing increased oversight between agencies. More importantly, they are beginning to examine opportunities to eliminate or reduce duplication.

DEPARTMENT OF SOCIAL SERVICES

The Department of Social Services (DSS) has an agreement with the Department of Medical Assistance Services (DMAS) to determine an individual's eligibility for services and to operate a system to review that the staff determining eligibility are properly performing their duties.

DMAS also contracts with DSS to conduct a Medicaid Eligibility Quality Control (MEQC) review as required by the federal government. The quality control process verifies the accuracy of the Medicaid eligibility process. The departments need to work together to improve the quality control function.

Timely Submit Final Results and Corrective Action Plans of Medicaid Eligibility Quality Control Pilot Reviews

DSS did not timely complete and submit final results and corrective action plans to DMAS for the two fiscal year 2002 MEQC pilots. The sample period for one pilot ended in March 2002 and the other pilot ended in April 2002. DSS did not submit final results and corrective actions plans for these pilots to DMAS until November 2003, over 19 months after the sample period ended. Although this submission met federal deadlines, DSS did not provide the information timely to DMAS personnel for review and appropriate action.

DSS periodically submits results and meets with DMAS to discuss issues resulting from the pilot reviews. However, final results and corrective action plans are not prepared and submitted to DMAS, in some cases, until over two years after the end of the sample period. This is not timely enough for DMAS to review and improve controls over the Medicaid eligibility function.

DMAS spent almost \$2 billion in federal dollars for the Medicaid program. DSS plays a very critical role in determining eligibility for the Medicaid program. Although DSS did meet the federal deadline for federal fiscal year 2002 pilots, failing to submit future final error rate analysis and

corrective action plans to DMAS on a timely basis may result in the inability of the Commonwealth to participate in future MEQC pilots.

DSS should adequately review pilot case information to timely submit final error rates and corrective action plans to DMAS in order for them to take appropriate action.

DEPARTMENT OF MEDICAL ASSISTANCE SERVICES

The Center for Medicaid and State Operations (CMS) requires each state to operate an approved Medicaid Eligibility Quality Control (MEQC) system. The MEQC system redetermines recipient eligibility for Medicaid and projects the dollar impact of payments to ineligible beneficiaries. Historically, the Commonwealth has reported a three percent error rate, which met federal standards. As a result of this low error rate, the Commonwealth received authorization to participate in a MEQC pilot project. This pilot differs from the traditional system in that it provides states an opportunity to customize their eligibility quality control process to address specific problems affecting their state. By establishing a pilot, DMAS can experiment with alternative testing methods without risk of federal sanctions. DMAS has initiated eight pilots focusing on eligibility determinations for groups such as long-term care and medically-indigent recipients.

Develop Formal Medicaid Eligibility Quality Control Review Policies and Procedures

DMAS does not have adequate policies and procedures to monitor and control the submission, resolution, and completion of the MEQC pilots. DMAS did not send the error rate analysis and corrective action plans for the two pilots that ended in March 2002 and April 2002 to CMS until November 2003, over 19 months after the sample period ended. For other pilots reviewed, we could not determine the submission dates to CMS of error analysis and corrective action plans due to inadequate documentation. Furthermore, the error rate analysis and corrective action plans for all pilots were developed anywhere from 19 months to over two years after the sample period ended.

DMAS has not developed formal policies and procedures to ensure:

- Memorandums of Understanding include realistic target dates of information received from DSS;
- they submit error summary results and corrective action plans to CMS on a timely basis; and
- they maintain adequate documentation supporting all pilots.

DMAS spent almost \$2 billion in federal dollars for the Medicaid program. DSS plays a very critical role in determining eligibility for the Medicaid program. DMAS should ensure that they receive the necessary information timely from DSS to review and improve controls over the Medicaid eligibility function. If DSS cannot provide the information in a timely manner, DMAS should consider hiring an outside contractor to perform the function.

DMAS appears to be performing MEQC pilot requirements. However, failure to develop pilot policies and procedures that address timely submission and analysis of results and failure to maintain adequate documentation may result in the inability of the Commonwealth to participate in future MEQC pilots. Furthermore, material weaknesses in internal controls around MEQC pilots could result in the auditor questioning some, most, or all costs relating to eligibility determination for the Medicaid program.

Background of the Social and Medical Services Team

This is a relatively new group with the charge of working within this complex area. The Team is orienting itself to the numerous federal regulations, which govern the activities of each agency and program. The Team has begun to identify common issues within programs and the interrelationship and services that agencies provide each other.

With a thorough knowledge of the programs and criteria for both accounting and eligibility, the

Team hopes to identify process and procedures that can reduce duplication. The Team also seeks to improve our audit coverage by showing the agencies areas to improve their internal control and minimize the risk to the Commonwealth.

Fiscal 2005 Projects

Eligibility

The Team will perform a review of eligibility determination across several health and human services programs: Temporary Assistance for Needy Families; Food Stamps; Medicaid; the Ryan White CARE Act of 2000; Women, Infants and Children; and Disability Insurance. This project will focus on gaining an understanding of (1) the type of information gathered in order to determine eligibility and the commonalities between programs; (2) how the information is gathered; (3) what systems maintain and process the information; and (4) how eligibility determination is shared with other agencies. We will research applicable programs and systems and make recommendations for how the

Commonwealth could improve efficiencies by sharing information between programs and information systems.

Improper Payments

The Team will perform a review of the Payment Accuracy Method (PAM) project ongoing at DMAS. Fiscal 2004 marked the beginning of the project, which measures the accuracy of Medicaid payments in both the fee-for-service and managed care programs. Currently, DMAS will participate in a PAM project once every three years with the intent of replacing its MEQC testing process. DMAS expects the federal government to replace MEQC with PAM on a permanent basis in the near future. We plan to review the criteria used and resulting error rates and will report our findings in the DMAS agency report.

Ongoing Activities

The Team will continue identifying issues similar to the eligibility project to determine if other opportunities exist to coordinate the accumulation of data and increase operating efficiencies.

INTERNAL CONTROL

Internal control is anything done to safeguard, or make more efficient or effective use of, the Commonwealth's assets and follow the law. While this may sound complex, internal control is actually just using common sense as one carries out individual job responsibilities.

Fundamental within every audit or assignment we undertake is making sure that agencies and institutions are safeguarding and making efficient and effective use of their assets. Unlike criticism leveled at corporate auditors by the Chairman of the Public Company Accounting Oversight Board putting into practice the Sarbanes-Oxley Act,

"In the past, internal controls were merely considered by auditors..."

"... solid internal controls are the first line of defense against misconduct and one of the most effective deterrents to fraud,"

we have always reviewed and tested internal controls.

Internal control is a broad process effected by an agency or institution's governing body, management, and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

In addition to making recommendations to improve safeguards, our reports also included points that would make operations more efficient and effective.

DEPARTMENT OF MINORITY BUSINESS ENTERPRISE

Our audit of the Department of Minority Business Enterprise found that the Department had several

internal control weaknesses related to its fiscal operations. During fiscal year 2003, the Department experienced staff turnover in its fiscal operations area, which contributed to the internal control deficiencies noted during our audit. The Department opted to utilize existing employees to perform fiscal responsibilities, who had limited financial experience and knowledge of state accounting rules and regulations. However, the Department did seek training for these employees once they assumed the fiscal responsibilities.

Consolidate Fiscal and Procurement Operations With Another Agency

The Auditor of Public Accounts has, as recently as our audit for the year ended June 30, 2000, recommended the consolidation of the Department's fiscal and procurement activities with another large agency. Past Secretaries and agency directors have resisted consolidating operations; however, this report is an example of how insufficient and inexperienced staff can cause the Department to have inadequate internal controls.

We commend the current Director for his actions to strengthen the Department's internal controls and train the staff. However, fundamentally, the loss of one or two individuals can easily erode these actions in a small agency, such as the Department.

We again recommend the consolidation of the fiscal and procurement function within a larger agency. Numerous small agencies have similar arrangements including a central accounting service for the Governor and Cabinet Secretaries. Because of the work relationship with the Department of DGS, we would recommend consolidation with this agency, which already

provides these services to other small departments.

Prior to our audit, the current Director, who has been with the Department since September 2002, had recognized the need for additional internal controls and had undertaken a review of the Department's operations to identify areas that needed improvement.

This audit report included other internal control weaknesses and compliance issues. We recommended that the Department develop and document policies and procedures to address these

issues to ensure continuity of sound internal controls over fiscal operations in the event of future employee turnover.

OTHER REPORTS

In addition to the recommendation above, this annual report includes similar points to improve efficiency and effectiveness. All of the specialty teams are looking to find ways to not only strengthen internal controls, but to either save time, save resources, or enhance management information. The following is a listing of those reports.

Report	Speciality Team	Page
Department of Treasury	Financial Management	15
Department of Motor Vehicles Cost Analysis	Data Analysis	17
Virginia Information Technology Agency	Information Systems Development	20
Statewide Review of Agency-Owned Vehicles	Property and Materials Management	27

Fiscal 2005 Work Plan

Our work plan for fiscal 2005 includes a number of projects designed to improve safeguards and operations of internal controls. We highlight these projects under the discussion of each specialty

team. While many of these projects, including the ones listed above, may not result in direct cost reductions, they do allow agencies to reallocate their resources without the need for additional resources to accomplish their mission.

FRAUD

Upon the discovery of circumstances suggesting a reasonable possibility that a fraudulent transaction has occurred involving funds or property under the control of any state department, court, officer, board, commission, institution or other agency of the Commonwealth, including local constitutional officers and appointed officials exercising the powers of elected constitutional officers, as to which one or more officers or employees of state or local government may be party thereto, the state agency head, court clerk or local official in charge of such entity shall promptly report such information to the Auditor of Public Accounts and the Superintendent of State Police. Section 30-138 of the Code of Virginia.

During the course of the year, in accordance with the above statute, we receive reports of circumstances indicating a reasonable possibility of fraudulent transactions. This Office conducts an initial review of all reports and, depending on the nature and circumstance, determines how best to proceed. The majority of reports and related situations result in this Office and the State Police coordinating our activities with agency, institution, and locality officials, primarily internal auditor and local law enforcement. The tables below outline the volume of activity we reported during the fiscal 2004 and prior years.

<u>Fraud Reports</u>	2004	2003	2002
Outstanding cases at July 1, 2003	44	34	77
New reports	59	46	68
Closed reports	<u>(58)</u>	<u>(36)</u>	<u>(111)</u>
Outstanding cases at June 30, 2004	<u>45</u>	<u>44</u>	<u>34</u>

The following table provides a breakdown of the new reports received during fiscal 2004 by type of entity.

<u>New Reports</u>	2004	2003	2002
Courts	4	1	5
Local government	2	4	5
Institutions of higher education	18	17	23
State agency	35	24	35

During the year, we were able to resolve and close a number of reports. The breakdown of this resolution follows.

<u>Disposition</u>	2004	2003	2002
Conviction	3	2	8
Conviction and Restitution	5	6	19
Suspension	3	1	6
Termination	13	16	25
Termination and Restitution	1	0	0
No Administrative Action	5	0	3
No Fraud	14	6	23
No Suspect	12	4	21
No Conviction	<u>2</u>	<u>1</u>	<u>6</u>
Total	<u>58</u>	<u>36</u>	<u>111</u>

Each of the specialty teams contributes members to a special fraud group, which coordinates and conducts our reviews. Many of the group members have received special training and a number are certified fraud examiners.

Obtaining this designation requires the individual to take and pass a nationally-administered examination. The organization that provides this certification is recognized nationally for its training and skills taught for the investigation of white collar crime.

FOLLOW-UP ON FINDINGS

Included throughout this report are references to individual reports issued by this Office over the past year, which had findings or brought matters to the attention of the General Assembly and agency management. Some of these findings and issues required further follow-up. Below are those findings, followed by their current status.

If you have any question or other concerns about the status of any report, please contact this office.

Small Purchase Charge Card (SPCC) Program (page 5)

Both the Departments of Account and General Services are working with the small purchase card vendor to address the issues related to eVA and decrease in Purchase Card program usage. Accounts is also in the process of obtaining access to automated reporting and reconciliation tools to enhance monitoring and streamline the reconciliation process. Accounts is also working on implementing the other recommendation within the report.

Spend Analysis and Procurement Consulting Services (page 5)

The Appropriation Act Chapter 4 of the 2004 Acts of the Assembly provides a \$5 million treasury loan for the Virginia Partners in Procurement spend management program. Additionally, the Department of General Services has expanded the program to include fifteen other commodities, and continues to use the almost total compliance scenario in calculating cost reductions.

Travel Card Program (page 6)

Both the Departments of Account and General Services have instituted procedures and controls to address all of the findings in the report.

Statewide Review of Performance Measures (page 11)

The Department of Planning and Budget is working with both the Governor's Office and the agencies to implement the recommendations.

Virginia Employment Commission (page 13)

The Unemployment Trust Fund balance, which has dropped over the past three years, has begun to level and the Commission is projecting an increase due to the current economic recovery and the application of the fund builder tax. The additional 0.2 percent fund builder tax applies to employers whenever the solvency of the fund as measured is below 50 percent. The commission projects this additional tax will remain in effect for calendar years 2005 and 2006. Additionally, the Commission is working to implement the recommendations made last year.

Department of Treasury (page 15)

The State Treasurer's staff is implementing the recommendations and has completed two of the items.

Department of Motor Vehicles Cost Analysis Special Report (page 17)

The Appropriation Act Chapter 4 of the 2004 Acts of the Assembly includes language requiring this Office to conduct a follow up review of our finding and provide a copy of the report to the Committees of House Appropriations and Transportation and Senate Finance and Transportation by December 1, 2004. We are conducting this study and will meet the delivery date of the report.

Virginia Information Technologies Agency (page 20)

Virginia Information Technologies Agency, under the direction of the Information Technology Investment Board, has implemented all but one of the recommendations, which is the selection of an Internal Audit Director. They are in the process of recruiting for this position at this time.

Virginia Information Providers Network Authority (page 21)

Staffs of this office and of Virginia Information Technologies Agency (VITA) have met with Interactive to discuss the controls expected in a revenue accounting system. We discussed options from changing the current revenue accounting processes to acquiring an accounting system. We understand that Interactive is researching alternatives and plans to present a solution to VITA and this office in October 2004. This office will conduct the next audit of VIPNet in November 2004; we expect these findings to continue.

Special Review – Surplus Computer Equipment Data Removal (page 23)

Virginia Information Technologies Agency has issued new statewide guidelines and policies for surplus computer equipment data removal. We have found that agencies have adopted these guidelines, and we are testing their implementation on each agency audit.

Network Vulnerability Assessment and Penetration Testing Services (page 24)

The agencies have implemented corrective actions to reduce these risks.

Statewide Court Issues (page 25)

As a result of the issues raised in this report, the Appropriation Act Chapter 4 of the 2004 Acts of the Assembly includes language requiring Circuit Court Clerks to implement recommendations of this Office within one year of their publication.

Statewide Review of Agency-Owned Vehicles (page 27)

We have been contacted by two members of the House of Delegates, who have stated that they are planning to introduce amendments to the Budget Bill. The amendments would require the Secretaries of Administration and Transportation, the Director of General Services, and the Commissioner of Transportation to set statewide fleet management policies

and procedures, and work with the Chief Information Officer to acquire or develop a system to support fleet management.

The second amendment would be an addition to the General Provisions of the Appropriation Act. This change would set the operating criteria for all vehicle fleets. General Provisions would affect all fleets receiving an appropriation and would become a condition under which they would operate.

Department of Transportation (page 27)

Transportation has begun implementing the systems and controls necessary to address all of our recommendations. Considering the amount of work and the significance of the findings, it will take Transportation several years to make all of the changes. We will report on their progress on these matters in future reports. Our current audit shows that they have started the process.

Department of Accounts in Support of the Comprehensive Annual Financial Report for the Commonwealth of Virginia (page 30)

The Appropriation Act Chapter 4 of the 2004 Acts of the Assembly includes language requiring this Office to conduct a two-year study of the duties and responsibilities of the State Comptroller. This Office has filed a study plan and will make an interim report to the Committees of House Appropriation and Finance and Senate Finance by December 1, 2004.

Interrelated Activities (page 34); Department of Social Services (page 34); and Department of Medical Assistance Services (page 35)

The Department of Medical Assistance Services is examining alternative methods to verify accuracy; however, they have made only minimal progress on addressing the fundamental issues. The Department of Social Services has also made only minimal progress on addressing the fundamental issues. We are currently conducting these audits and will address their progress in those reports.

Department of Minority Business Enterprise (page 39)

We have made a similar finding to last year to have the Department have another agency provide administrative and accounting services. We believe the Secretary of Commerce and Trade or the Governor rather than the agency head needs to conduct the review and decide this matter.

Analysis of Budgeted and Actual Revenue by Funding Source			
<u>Funding source</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Revenue</u>
General Fund appropriations	\$8,962,339	\$8,269,540	\$ -
Special revenue	<u>708,958</u>	<u>699,486</u>	<u>749,401</u>
Total revenues	<u>\$9,671,297</u>	<u>\$8,969,026</u>	<u>\$ 749,401</u>

Appropriation Adjustments	
General Fund	\$8,962,339
Required adjustments	107,201
Budget reduction	<u>(800,000)</u>
Adjusted General Fund appropriation	<u>8,269,540</u>
Special fund	708,958
Required adjustments	<u>(9,472)</u>
Adjusted special fund appropriation	<u>699,486</u>
Total appropriations	<u>\$8,969,026</u>

Revenues	
Circuit Courts	\$ 265,695
Center for Innovative Technology	<u>28,236</u>
General Fund total	<u>\$ 293,931</u>

Analysis of Budget vs. Actual Expenses by Funding Source			
<u>Funding source</u>	<u>Adjusted Budget</u>	<u>Expenses</u>	<u>Variance</u>
General Fund appropriations	\$8,269,540	\$6,904,836	\$1,364,704
Special revenue	<u>699,486</u>	<u>705,413</u>	<u>(5,927)</u>
Total	<u>\$8,969,026</u>	<u>\$7,610,249</u>	<u>\$1,358,777</u>

The Auditor of Public Accounts serves as the General Assembly's auditor and, as such, attempts to accomplish the following mission with his staff: to serve Virginia's citizens by promoting sound financial management and accountability for public funds.

We accomplish this mission by providing accurate and objective information and unbiased recommendations on financial management issues to the General Assembly and other decision makers based on the results of audits and analyses.

Statutory Duties And Responsibilities

The Code of Virginia requires the Auditor of Public Accounts to perform the following duties and responsibilities. The Auditor accomplishes these functions with the assistance of staff provided through an appropriation by the General Assembly.

- Audit all the accounts of every state department, officer, board, commission, institution or other agency handling any state funds.
- Conduct special reviews, studies, or audits as requested by the General Assembly through joint resolutions or appropriation language.
- Upon discovery of any unauthorized, illegal, irregular, or unsafe handling or expenditure of state funds, or it comes to his attention that any unauthorized, illegal, or unsafe handling or expenditure of state funds is contemplated but not consummated, he shall promptly report the facts to the Governor, the Joint Legislative Audit and Review Commission, and the Comptroller. In case there is any irregularity in the accounts of the Comptroller, the Auditor shall report it to the Governor and to the General Assembly.
- The Auditor and the Superintendent of State Police shall receive and review reports suggesting a reasonable possibility that a fraudulent transaction has occurred involving funds or property under the control of any state department, court, officer, board, commission, institution or other agency of the Commonwealth, including local constitutional officers and appointed officials exercising the powers of elected constitutional officers, as to which one or more officers or employees of state or local government may be party. In the event that the Auditor or the Superintendent determines to conduct an investigation, he shall notify the other of the commencement of the investigation as soon as practicable, unless the information involves the Auditor or the Superintendent.
- As part of his normal oversight responsibilities, incorporate into his audit procedures and processes a review process to ensure that the Commonwealth's Personal Property Tax Relief Act payments are consistent with the provisions of the Code of Virginia.
- When called upon by the Governor, examine the accounts of any institution or state officer.
- Upon written request of any member of the General Assembly, furnish the requested information and provide technical assistance upon any matter requested by such member.

OUR MISSION is to serve Virginia's citizens by promoting sound financial management and accountability for public funds. We accomplish this mission by providing accurate and objective information and unbiased recommendations on financial management issues to the General Assembly and other decision makers based on the results of financial audits and analyses.

- Comply with the provisions of the federal Single Audit Act and audit the accounts pertaining to federal funds received by state departments, officers, boards, commissions, institutions, or other agencies.
- At least once every two years or when the Governor directs, audit all accounts and records of every city and county official and agency in the Commonwealth that handles state funds.
- Under the direction of the Joint Legislative Audit and Review Commission, devise a modern, effective and uniform system of bookkeeping and accounting for the use of all county, city, and town officials and agencies handling the revenues of the Commonwealth or of any political subdivision thereof. The Auditor of Public Accounts may approve any existing system.
- When requested by the governing body of any local government, make and establish a system of bookkeeping and accounting for such unit, which shall conform to generally accepted accounting principles.
- Make and establish a uniform system of fiscal reporting for the treasurers or other chief financial officers, clerks of the courts and school divisions of all counties and cities, and all towns having a population of 3,500 or over and all towns constituting a separate school division regardless of population.
- Prepare and publish annually a Comparative report of local government revenues and expenditures showing in detail the total and per capita revenues and expenditures of all localities for the preceding fiscal year.
- In the event a locality fails to obtain the annual audit, the Auditor of Public Accounts may undertake the audit or may employ the services of certified public accountants and charge the full cost of such services to the locality. However, no part of the cost and expense of such audit shall be paid by any locality whose governing body has its accounts audited for the fiscal years in question as prescribed above and furnishes the Auditor of Public Accounts with a copy of such audit.

The Code of Virginia further requires the Auditor to serve as an ex officio member of the Compensation Board, the Joint Legislative Audit and Review Commission and the Debt Capacity Advisory Committee.

Management Responsibilities

The Auditor serves as the chief administrative officer, overseeing the administrative functions such as personnel, accounting, budgeting, staffing, training and other areas.

Audit organizations that perform work under the federal Single Audit Act and that have their work recognized by Bond Rating Agencies and other regulatory bodies and by users of financial information, must maintain a system of quality control. The system of quality control must undergo an external review at least once every three years. The Auditor must ensure that this quality control system exists, and that all staff maintain their qualifications to meet these standards.

Other Responsibilities

The Auditor serves as a member of a number of advisory boards and committees that provide guidance on various aspects of state government operation.

Upon request, the Auditor will provide public information about the office and our duties and responsibilities.

July 2003

State Departments, Divisions, Commissions, Agencies, etc.

Virginia Board of Accountancy for the year ended June 30, 2002
Virginia Community College System for the year ended June 30, 2002*

Colleges and Universities

Norfolk State University for the year ended June 30, 2002*
Norfolk State University, Intercollegiate Athletic Programs for the year ended June 30, 2002

Special Reports

Report to the Legislative Audit and Review Commission for the quarter April 1, 2003 to June 30, 2003

August 2003

Colleges and Universities

James Madison University for the year ended June 30, 2002*
James Madison University, Intercollegiate Athletic Programs for the year ended June 30, 2002
Old Dominion University, Intercollegiate Athletic Programs for the year ended June 30, 2002

Special Report

Department of Information Technology, Service Organization Review, Report on Policies and Procedures
Placed in Operation and Tests of Operating Effectiveness as of May 30, 2003*

September 2003

State Departments, Divisions, Commissions, Agencies, etc.

Division of Selected Agency Support Services for the year ended June 30, 2003
Governor's Cabinet Secretaries for the year ended June 30, 2003
Office of the Governor for the year ended June 30, 2003
Office of the Lieutenant Governor for the year ended June 30, 2003

October 2003

State Departments, Divisions, Commissions, Agencies, etc.

Department of Alcoholic Beverage Control for the year ended June 30, 2003
Office of the Attorney General for the year ended June 30, 2003
Virginia Racing Commission for the year ended June 30, 2003

Special Report

Auditor of Public Accounts Annual Report, 2003
Commonwealth Competition Council, dated October 2003*
Report to the Joint Legislative Audit and Review Commission for the quarter
July 1, 2003 to September 30, 2003
Special Review – Surplus Computer Equipment Data Removal, dated October 2003*

November 2003

State Departments, Divisions, Commissions, Agencies, etc.

Collection of Commonwealth Revenues by Local Constitutional Officers,
Statewide Report for the year ended June 30, 2003*
Department of Minority Business Enterprise for the period July 1, 2002 through June 30, 2003*
General Assembly and Legislative Agencies and Commissions of the Commonwealth
of Virginia, Cash Basis Financial Report for the fiscal year ended June 30, 2003
Revenue Stabilization Fund dated November 25, 2003
State Lottery Department (Lotto South), Report on Applying Agreed-Upon Procedures for
the period April 1, 2002 through March 31, 2003
State Lottery Department (Mega Millions), Report on Applying Agreed-Upon Procedures for
the period April 1, 2002 through March 31, 2003
Tobacco Indemnification and Community Revitalization Commission for the year ended June 30, 2003
Virginia Biotechnology Research Park Authority for the year ended June 30, 2003
Virginia Commercial Space Flight Authority, Annual Financial Report for the year ended June 30, 2003
Virginia Lottery, Annual Financial Report June 30, 2003
Virginia Public Broadcasting Board for the year ended June 30, 2003
Virginia Retirement System for the year ended June 30, 2003*

Colleges and Universities

Virginia Polytechnic Institute and State University for the year ended June 30, 2003
Virginia Polytechnic Institute and State University, Intercollegiate Athletic Programs
for the year ended June 30, 2003

Special Report

Department of Motor Vehicles, Cost Analysis dated October 2003*
Spend Analysis and Procurement Consulting Services dated November 2003*
Virginia Commonwealth University, Office of the President dated November 10, 2003*

December 2003

State Departments, Divisions, Commissions, Agencies, etc.

Department of Motor Vehicles for the year ended June 30, 2003*
Office of Comprehensive Services for At-Risk Youth and Families for the year ended June 30, 2003
Virginia Circuit Courts Statewide Report during the period ending June 30, 2003*
Virginia College Savings Plan for the year ended June 30, 2003
Virginia College Savings Plan, Annual Report for the period ended June 30, 2003
Virginia District Courts Statewide Report during the period ending June 30, 2003*
Virginia Port Authority for the year ended June 30, 2003*
Virginia Tourism Authority, Annual Financial Statements for the year ended June 30, 2003

Special Report

State Travel Charge Card Program dated November 2003*

January 2004

State Departments, Divisions, Commissions, Agencies, etc.

Local Government Investment Pool for the year ended June 30, 2003
Innovation Technology Authority for the year ended June 30, 2003
Innovation Technology Authority, including its blended component unit (the Center for Innovative Technology), for the year ended June 30, 2003

Colleges and Universities

Central Virginia Community College for the year ended June 30, 2003
University of Virginia for the year ended June 30, 2003
University of Virginia, Intercollegiate Athletic Programs for the year ended June 30, 2003
University of Virginia Medical Center for the years ended June 30, 2003 and 2002
Virginia Commonwealth University for the year ended June 30, 2003*
Virginia Commonwealth University, Intercollegiate Athletic Programs for the year ended June 30, 2003

Special Report

Report to the Joint Legislative Audit and Review Commission for the quarter October 1, 2003 through December 31, 2003
Review of Performance Measures for the fiscal year ended June 30, 2003*
Spend Analysis and Procurement Consulting Services dated January 2004*
Virginia Information Technologies Agency dated January 2004*

February 2004

State Departments, Divisions, Commissions, Agencies, etc.

Department of Accounts for the year ended June 30, 2003*
Department of Education Including Direct Aid to Public Education, the Virginia Schools for the Deaf and Blind, and the Virginia Schools for the Deaf and Blind Foundation for the year ended June 30, 2003
Department of Medical Assistance Services for the year ended June 30, 2003*

Department of Mental Health, Mental Retardation, and Substance Abuse Services
for the year ended June 30, 2003
Department of Social Services for the year ended June 30, 2003*
Department of Taxation for the year ended June 30, 2003*
Department of Transportation for the year ended June 30, 2003*
Virginia College Building Authority for the year ended June 30, 2003
Virginia Public Building Authority for the year ended June 30, 2003
Virginia Public School Authority for the year ended June 30, 2003
Virginia Removal or Rehabilitation of Derelict Structures Fund for the year ended June 30, 2003

Colleges and Universities

Blue Ridge Community College for the year ended June 30, 2003
Dabney S. Lancaster Community College for the year ended June 30, 2003

Special Report

Summary Report of Local Government Audit Findings: Enhanced 911 Special
Tax Funds dated February 2, 2004*

March 2004

State Departments, Divisions, Commissions, Agencies, etc.

Department of Environmental Quality for the year ended June 30, 2003*
Department of Treasury for the year ended June 30, 2003*
Virginia Department of Health for the year ended June 30, 2003*
Virginia Employment Commission for the year ended June 30, 2003*
Virginia Tobacco Settlement Foundation for the year ended June 30, 2003
Wireless E-911 Services Board for the year ended June 30, 2003

Colleges and Universities

WNSB-FM Radio Station (A Public Telecommunications Entity Licensed to
Norfolk State University) for the year ended June 30, 2003

Special Report

Department of Medical Assistance Services-Network Vulnerability Assessment
and Penetration Test Report dated March 2004*

April 2004

State Departments, Divisions, Commissions, Agencies, etc.

Virginia Information Providers Network Authority for the year ended June 30, 2003*
Virginia War Memorial Foundation for the year ended June 30, 2003
Department of Corrections and Virginia Parole Board for the year ended June 30, 2003*

Special Report

Commonwealth of Virginia Single Audit Report for the year ended June 30, 2003*
Report to the Joint Legislative Audit and Review Commission for the quarter January 1, 2004
through March 31, 2004
Secretary of Public Safety Budget Analysis for the year ended June 30, 2003
Small Purchase Charge Card Program, Follow-up Report dated April 2, 2004*
Potomac River Fisheries Commission for the year ended June 30, 2003

May 2004

State Departments, Divisions, Commissions, Agencies, etc.

Department of Conservation and Recreation for the year ended June 30, 2003
Virginia Commission for the Arts for the year ended June 30, 2003
Virginia Small Business Finance Authority for the year ended June 30, 2003
Virginia Correctional Enterprises, Department of Corrections for the period January 1, 2003
through June 30, 2003*

Colleges and Universities

Mary Washington College for the year ended June 30, 2003*

June 2004

State Departments, Divisions, Commissions, Agencies, etc.

Southwest Virginia Higher Education Center for the year ended June 30, 2003

Colleges and Universities

James Madison University for the year ended June 30, 2003
James Madison University Intercollegiate Athletic Programs for the year ended June 30, 2003
Longwood University for the year ended June 30, 2003
Old Dominion University for the year ended June 30, 2003
Virginia State University for the year ended June 30, 2003*
College of William and Mary in Virginia for the year ended June 30, 2003
Radford University for the year ended June 30, 2003
Radford University Intercollegiate Athletic Programs for the year ended June 30, 2003*
Virginia Community College System for the year ended June 30, 2003*
Virginia Military Institute for the year ended June 30, 2003
Virginia Military Institute Intercollegiate Athletic Programs for the year ended June 30, 2003

Special Report

Statewide Review of Agency-Owned Vehicles dated June 2004*

* Denotes audits with one or more findings

The following lists show those courts audited during the period July 1, 2002 through June 30, 2003.

Circuit Courts

Accomack	Halifax	Powhatan
Alexandria	Hampton	Prince Edward
Amelia	Hanover	Prince George
Bath	Henrico	Prince William
Bedford County	Henry	Pulaski
Bland	Highland	Radford
Botetourt	Hopewell	Richmond City-John Marshall
Bristol	Isle of Wight	Richmond City-Manchester
Brunswick	James City/Williamsburg	Richmond County
Buchanan	King & Queen	Roanoke City
Buena Vista	King George	Roanoke County
Caroline	King William	Rockbridge
Carroll	Lancaster	Rockingham
Charles City	Lee	Russell
Charlotte	Loudoun	Salem
Charlottesville	Louisa	Scott
Chesapeake	Madison	Shenandoah
Clarke	Martinsville	Smyth
Colonial Heights	Mathews	Stafford
Craig	Mecklenburg	Suffolk
Culpeper	Middlesex	Surry
Danville	Montgomery	Sussex
Dickenson	New Kent	Tazewell
Dinwiddie	Newport News	Virginia Beach
Essex	Norfolk	Warren
Fauquier	Northampton	Washington
Floyd	Northumberland	Waynesboro
Fluvanna	Nottoway	Westmoreland
Franklin County	Orange	Winchester
Fredericksburg	Patrick	Wise & Norton
Giles	Petersburg	Wythe
Gloucester	Pittsylvania	York
Grayson	Portsmouth	

General Receivers

Arlington	Fairfax County	Sussex
Bristol	King George	Washington
Buchanan	Lee	Wise and Norton
Dickenson	Norfolk	Russell

General District, Juvenile and Domestic Relations, and Combined General District Courts

<u>General District Courts</u>	<u>Juvenile and Domestic Relations Courts</u>	<u>Combined General District Courts</u>
Accomack	Accomack	Alleghany
Albemarle	Albemarle	Bland
Augusta	Alexandria	Brunswick
Bristol	Bristol	Buchanan
Caroline	Caroline	Buena Vista
Charlottesville	Chesapeake	Charles City
Chesapeake	Danville	Charlottesville
Chesterfield	Fairfax County	Colonial Heights
Clarke	Fauquier	Craig
Danville	Franklin County	Culpeper
Fairfax County	Fredericksburg	Cumberland
Fauquier	Halifax	Dickenson
Franklin County	Hampton	Dinwiddie
Frederick	Hanover	Emporia
Fredericksburg	Henrico	Falls Church
Gloucester	Henry	Floyd
Halifax	Isle of Wight	Fluvanna
Hampton	James City/Williamsburg	Franklin City
Hanover	King & Queen	Galax
Henrico	King William	Giles
Henry	Mathews	Goochland
Isle of Wight	Mecklenburg	Grayson
James City/Williamsburg	Newport News	Greene
King & Queen	Norfolk	Greensville
King William	Northampton	Hopewell
Martinsville	Northumberland	King George
Mathews	Patrick	Louisa
Mecklenburg	Petersburg	Lynchburg
Montgomery Blacksburg	Pittsylvania	Orange
Montgomery Christiansburg	Portsmouth	Powhatan
New Kent	Prince William	Prince Ed
Newport News Civil	Richmond City	Prince George
Newport News Crim	Roanoke City	Radford
Norfolk Civil	Roanoke County	Salem
Norfolk Criminal	Rockingham	Scott
Norfolk Traffic	Spotsylvania	Shenandoah
Northampton	Stafford	Southampton
Northumberland	Suffolk	Surry

General District, Juvenile and Domestic Relations, and Combined General District Courts, cont.

General
District Courts

Page
Patrick
Petersburg
Pittsylvania
Portsmouth
Prince William
Pulaski
Richmond City Man
Richmond City Traf
Roanoke City
Roanoke County
Rockingham
Spotsylvania
Stafford
Suffolk
Virginia Beach
Washington
Waynesboro
Winchester
Wise and Norton
York

Juvenile and Domestic
Relations Courts

Tazewell
Virginia Beach
Washington
Waynesboro
Wythe
York

Combined General
District Courts

Sussex

Visiting Address

Auditor of Public Accounts
The James Monroe Building
101 North 14th Street
8th floor
Richmond, VA 23219

Mailing Address

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

Telephone

Voice: (804) 225-3350
Fax: (804) 225-3357

Website

www.apa.virginia.gov