

**DEPARTMENT OF GENERAL SERVICES
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2000**



AUDIT SUMMARY

Our audit of the Department of General Services for the year ended June 30, 2000, found:

- an internal control matter that we consider a reportable condition; however, we do not consider it to be a material weakness;
- instances of noncompliance that are required to be reported;
- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System; and
- adequate corrective action with respect to the prior year audit findings.

Our audit findings are included in the section, “Financial Highlights,” and are described in the recommendation entitled “Implement and Ensure Consistent Application of Accounting Policies Between Fiscal Services Teams.”

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January 19, 2001

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

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

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Department of General Services** for the year ended June 30, 2000. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the General Services' internal control, and test compliance with applicable laws and regulations. We also reviewed General Services' corrective actions of audit findings from prior year reports.

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

Expenditures	Accounts Payable
Revenue	Accounts Receivable
Fixed Assets	Inventory

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

General Services' management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide

reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

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

Audit Conclusions

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

We noted a certain matter involving internal control and its operation that we considered a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect General Services' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. The reportable condition entitled, "Implement and Ensure Consistent Application of Accounting Policies Between Fiscal Services Teams" is described in the section entitled, "Financial Highlights." We do not believe that the reportable condition included in this report is a material weakness.

The results of our tests of compliance with applicable laws and regulations disclosed instances of noncompliance that are required to be reported under Government Auditing Standards. Instances of noncompliance are described in the recommendation entitled, "Implement and Ensure Consistent Application of Accounting Policies Between Fiscal Services Teams," in the section titled, "Financial Highlights."

General Services has taken adequate corrective action with respect to audit findings reported in the prior year.

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

EXIT CONFERENCE

We discussed this report with management at an exit conference held on February 15, 2001.

AUDITOR OF PUBLIC ACCOUNTS

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AGENCY HIGHLIGHTS

The Department of General Services (General Services) provides support services to other agencies and local governments through its four functional divisions:

- Division of Engineering and Buildings
- Division of Purchases and Supply
- Division of Risk Management (Transferred out effective July 1, 2000)
- Division of Consolidated Laboratory Services

Administrative support for the four divisions comes from the Director's Office within the Department of General Services. These services include accounting, internal audit, information systems, purchasing, and human resources.

General Services funds these functional divisions through charges for goods and services and accounts for the transactions in Internal Service and Enterprise Funds. General Fund appropriations cover administrative and certain program activities not supported by these service fees.

DIVISION OF ENGINEERING AND BUILDINGS

Engineering and Buildings provides architectural and property management services through three bureaus: Capital Outlay Management, Real Property Management, and Facilities Management. The Bureaus perform the following services.

The Bureau of Capital Outlay Management ensures compliance with all applicable building code requirements during the design and construction of state buildings. Capital Outlay Management does building code reviews and cost and procurement reviews of proposed state agency construction and capital outlay projects. Also, Capital Outlay Management develops the state's policies and procedures on the procurement of professional and construction services and maintains the Commonwealth of Virginia Construction and Professional Services Manual.

The Bureau of Real Property Management administers the policies and procedures regarding acquisition and disposal of real property by state agencies and institutions. Real Property Management assists agencies in purchasing or leasing new facilities and in disposing of interests in state-owned properties. Real Property Management is also involved in the leasing of mineral rights and the establishment of timber management plans on state-owned properties.

The Bureau of Facilities Management provides for the maintenance, repair, and operation of state-owned facilities in the Capitol Square Complex. Facilities Management bills these agencies annually for rental costs, which covers normal expenses incurred for the maintenance and upkeep of the buildings. Facilities Management also performs maintenance and repair work for state-owned buildings not under the purview of General Services. These agencies pay General Services either annually or semi-annually for the work performed under negotiated service agreements.

Finally, Facilities Management has connected state office buildings within the Capitol complex with a fiber optic cable system called the Campus Network. This allows the high-speed exchange of data between connected agencies and provides Internet access without using independent providers. The Information Systems and Services area under the Director's Office maintains the firewall for the Campus Network. Agencies connecting to the Campus Network are responsible for securing their local area networks from the campus network.

DIVISION OF PURCHASES AND SUPPLY

Purchases and Supply establishes state policies and procedures for purchasing goods and services. They assist agencies with the purchases of high-dollar goods and non-professional services as well as establish statewide goods and service contracts. Purchase and Supply operates the Virginia Distribution Center, which stocks food and nonfood items for resale to state agencies, local governments, and public schools. In the spring of 2001, General Services plans to move the distribution center to a new warehouse constructed just outside of Richmond. Finally, Purchases and Supply manages the state and federal surplus property programs, delivers mail between state agencies, and publishes the *Virginia Business Opportunities* newsletter.

Over the past year, Purchase and Supply developed the requirements for the procurement of a electronic procurement solution for the Commonwealth. General Services awarded the contract to AMS and announced the portal name, eVA, on November 3, 2000. AMS plans to implement various procurement functionalities over the next year, beginning March 1, 2001.

DIVISION OF RISK MANAGEMENT

Risk Management provides insurance protection for employees, properties, and various participating local governments through a variety of insurance programs. These programs include property, motor vehicle, workers' compensation, public liability, employee blanket surety bond, medical malpractice, and similar liability insurance for local governments and constitutional officers. Risk Management bills state agencies, the Compensation Board, and local governments for insurance premiums to cover current and future claims.

Effective July 1, 2000, Department of General Services transferred administrative responsibility for the insurance programs under the Division of Risk Management to other agencies. Workers' Compensation Insurance went to the Department of Human Resource Management and the remaining programs went to Department of Treasury.

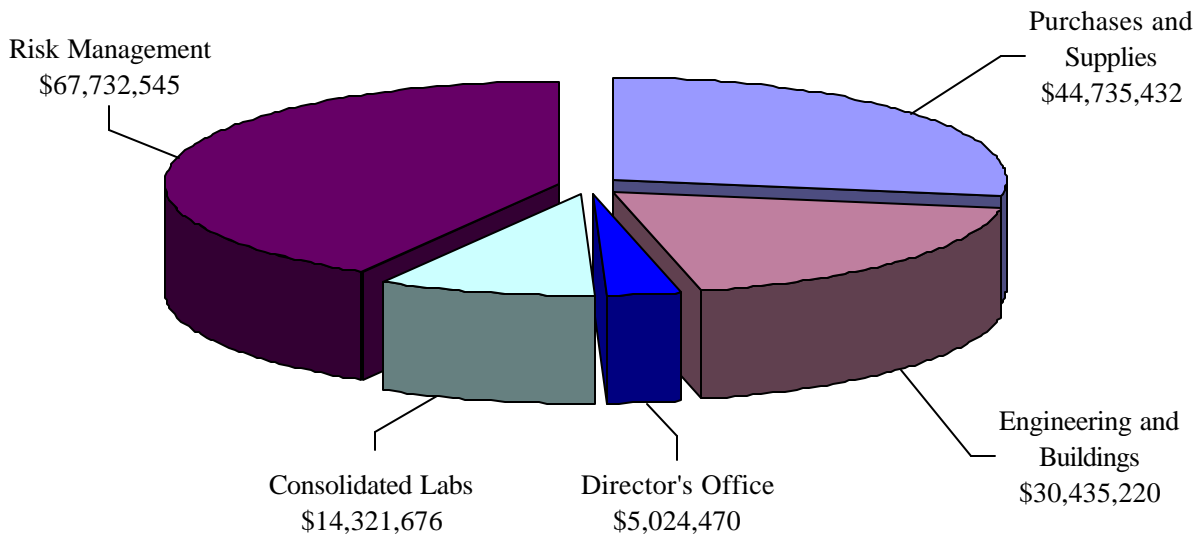
DIVISION OF CONSOLIDATED LABORATORY SERVICES

Consolidated Laboratory Services provides analytical testing services to the Commonwealth. The Division examines human specimens for disease control; and tests and analyzes products, foods, and materials regulated by state and federal laws. They also inspect and certify laboratories performing tests in accordance with the Safe Drinking Water Act and FDA dairy regulations. Consolidated Laboratory Services primarily serves the Departments of Agriculture and Consumer Services, Environmental Quality, Health, Labor and Industry, Alcoholic Beverage Control, and the State Police. The Division also provides services to poison control centers, hospitals, waterworks, law enforcement agencies, and others.

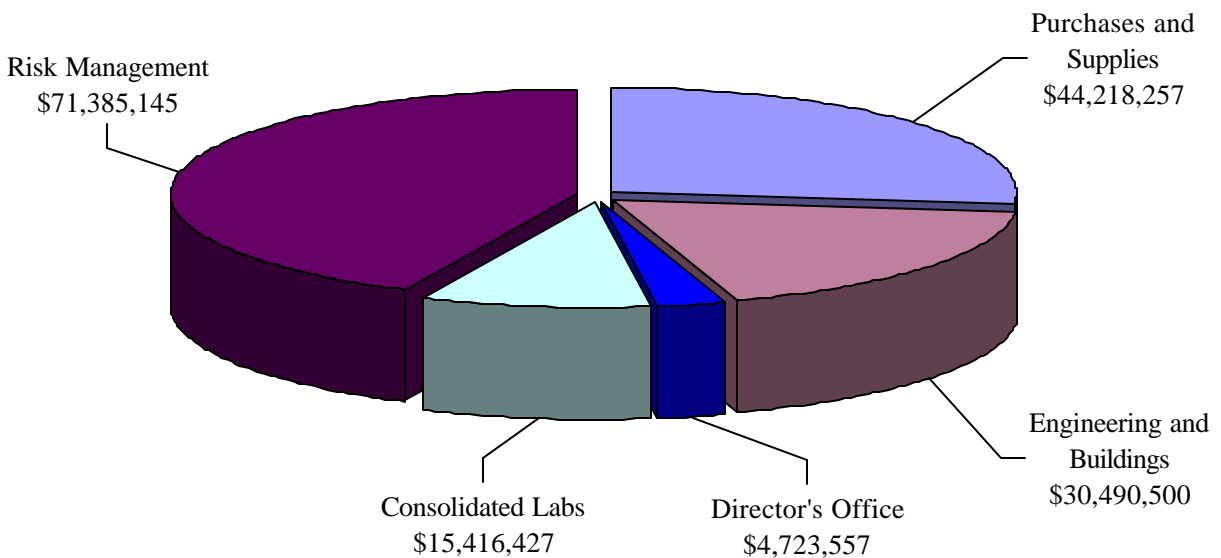
FINANCIAL HIGHLIGHTS

Fiscal Services within the Director's Office provides accounting support for the divisions through three support teams and a separate group, which manages all transaction processing. The following charts reflect cash basis revenue and expenditure activity for each of General Services' divisions and the Director's Office for fiscal year 2000.

Revenues by Functional Area



Operational Expenditures by Functional Area



In addition, two of the Fiscal Services teams provide administrative support for the following agencies:

- Virginia War Memorial Foundation
- Council on Human Rights
- Employee Relations Counselors
- Commission on Local Government
- Commonwealth Competition Council
- State Board of Elections
- Rights for Virginians with Disabilities
- Virginia Public Broadcasting Board
- Department of Technology Planning
- Virginia Information Providers Network Authority (VIPNet)

Fiscal Services assumed the administrative support for the State Board of Elections, Rights of Virginians with Disabilities, and the Virginia Public Broadcasting Board in fiscal year 2000. Effective July 1, 2000, the Department of Information Technology took over the administrative support function for the Department of Technology Planning and VIPNet.

Implement and Ensure Consistent Application of Accounting Policies Between Fiscal Services Teams

A lack of standardized procedures over certain areas or sufficient knowledge of existing policies within Fiscal Services' teams has caused inconsistencies in financial statement reporting between funds, inaccuracies in recording or reporting, and instances of non-compliance with Commonwealth accounting policies. The significance of these issues increased in some instances due to poorly organized supporting documentation or a lack of sufficient supporting documentation. We noted the following during the audit.

- The accounts receivable quarterly reports submitted to the Department of Accounts were not accurate.
- Depending on the fund, the allowance for doubtful accounts at June 30 reflected only non-state receivables over 90 to 120 days old.
- Fiscal Services did not capitalize \$415,792 of installation costs related to a fixed assets purchase during the year. GAAP and Commonwealth accounting policies define the cost of a fixed asset as including not only its purchase price or construction cost, but also ancillary charges necessary to place the asset in its intended location and condition for use.
- Fiscal Services did not reconcile its internal accounting system and the Commonwealth Accounting and Reporting System (CARS) timely for 2 out of 12 months. Finally, Fiscal Services repeatedly certified the reconciliation before completing the work for some of the funds.

General Services should ensure that all personnel involved in the accounting processes thoroughly understand its policies and procedures. Using the supervisory review process, managers should identify those individuals that need additional training or guidance. Managers should also identify areas where better documentation of the policies and procedures are necessary. These actions will allow the Fiscal Services staff to ensure consistent application and compliance with Commonwealth accounting procedures.

DEPARTMENT OF GENERAL SERVICES
Richmond, Virginia

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