

**DEPARTMENT OF PROFESSIONAL AND
OCCUPATIONAL REGULATION
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEARS ENDED
JUNE 30, 1999 AND JUNE 30, 2000**



AUDIT SUMMARY

Our audit of the **Department of Professional and Occupational Regulation** for the years ended June 30, 1999 and June 30, 2000, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System and internal accounting systems of the Department of Professional and Occupational Regulation;
- no matters involving internal control and its operation that we consider material weaknesses; and
- no instances of noncompliance that are required to be reported.

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April 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 Professional and Occupational Regulation** for the years ended June 30, 1999 and June 30, 2000. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objective, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System and in the Department's accounting records, review the adequacy of the Department's internal control, and test compliance with applicable laws and regulations. We also reviewed the Department's 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 the Department's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Expenditures
Revenues

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

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

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

Audit Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and in the Department's accounting records. The Department 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, except for the information for the Recovery Trust Funds, which came from the Department's accounting records.

We noted no matters involving internal control and its operation that we consider to be material weaknesses. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to financial operations may occur and not be detected promptly by employees in the normal course of performing their duties.

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

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 June 4, 2001.

AUDITOR OF PUBLIC ACCOUNTS

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AGENCY HIGHLIGHTS

The Department of Professional and Occupational Regulation regulates occupations and professions to protect the health, safety, and welfare of the public. The Department's responsibilities include certification, licensing, investigation, monitoring compliance, fee collection, record maintenance, and enforcement. Eighteen regulatory boards oversee the activities of the professions and occupations listed below. The Department provides centralized administrative, examination, and enforcement functions to the various Boards.

Accountancy	Geology
APELSCIDLA*	Hearing Aid Specialists
Asbestos and Lead	Opticians
Auctioneers	Polygraph Examiners
Barbers and Cosmetology	Professional Soil Scientists
Boxing and Wrestling Programs	Real Estate
Branch Pilots	Real Estate Appraisers
Cemeteries	Water Works and Wastewater Works Operators
Contractors	Waste Management Facility Operators

*Architects, Professional Engineers, Land Surveyors, Certified Interior Designers, and Landscape Architects

Each regulatory board is self-supporting through the fees assessed regulants. Direct expenses are charged to the boards, while a percentage of the Department's administrative expenses are allocated to each board based on defined criteria, such as number of regulants. The Department records board financial activity in the special revenue fund on the Commonwealth Accounting and Reporting System (CARS), except for the activity of two trust funds. The Department also records federal grant activity in the special revenue fund.

The following summarizes the Department's financial activity for fiscal years 1999 and 2000.

Board	-----FY1999-----				
	Total Revenue	Direct Expenditures	Indirect Expenditures	Total Expenditures	Net Revenue (Loss)
APELSCIDLA	\$ 591,951	\$ 367,157	\$ 737,519	\$ 766,810	(\$ 174,859)
Accountancy	391,244	44,990	404,691	449,681	(58,437)
Barber & Cosmetology	892,805	101,414	1,171,324	1,159,583	(266,778)
Real Estate Program	1,820,313	414,255	1,608,282	2,022,537	(202,224)
Contractors	3,025,704	660,374	2,248,250	2,908,624	117,080
Other *	2,641,885	205,903	1,004,713	1,661,637	980,248
Total	\$ 9,363,902	\$ 1,794,093	\$ 7,174,779	\$ 8,968,872	\$ 395,030

* Other includes activities of the other 13 boards regulated by the Department and the Literary Fund.

Board	-----FY2000-----				
	Total Revenue	Direct Expenditures	Indirect Expenditures	Total Expenditures	Net Revenue (Loss)
APELSCIDLA	\$ 556,470	\$ 367,391	\$ 777,895	\$ 794,903	(\$ 238,433)
Accountancy	384,581	71,049	445,660	516,709	(132,128)
Barber & Cosmetology	895,881	94,106	1,153,990	1,140,639	(244,758)
Real Estate Program	1,582,455	537,901	1,630,113	2,168,014	(585,559)
Contractors	2,436,339	749,145	2,363,340	3,112,485	(676,146)
Other *	2,084,367	255,768	1,213,317	1,926,925	157,442
Total	\$ 7,940,093	\$ 2,075,360	\$ 7,584,315	\$ 9,659,675	(\$1,719,582)

* Other includes activities of the other 13 boards regulated by the Department and the Literary Fund.

The department performed an analysis of fees resulting in a reduction of fees for seventeen boards effective fiscal year 1999. For fiscal year 2000, expenditures exceeded revenues causing the department to place operational reliance on its reserve balances. Reserve balances were \$11,132,640 in fiscal year 1999 and \$11,124,199 in fiscal year 2000.

The Department's biggest expenditure is payroll. Payroll costs of \$6,143,418 accounted for 63 percent of total expenditures.

All fines and penalties assessed regulants directly into the Literary Fund. The Department collected nearly \$500,000 in fines and penalties for the 1998-2000 biennium.

Trust Funds Financial Highlights

The Virginia Real Estate Transaction Recovery Act Fund and the Virginia Contractor Transaction Recovery Act Fund are accounted separately from CARS. These trust funds provide funds to pay claims against bankrupt licensees. During the biennium, the Contractor Trust Fund paid \$819,281 on 120 claims with an ending fund balance of \$1,900,242 and the Real Estate Trust Fund made 19 payments totaling \$295,957 with an ending fund balance of \$2,442,676. Claims expenses are the majority of the trust fund expenditures.

DEPARTMENT OF PROFESSIONAL AND OCCUPATIONAL REGULATION
Richmond, Virginia

BOARD MEMBERS

Morris A. Nunes, Chair

Delceno C. Miles, Vice Chair

Richard A. Campana	Thomas J. Meany, Jr.
Susan T. Ferguson	Dona Huang
Raynard Jackson	Zack T. Perdue, Jr.

Leroy O. Pfeiffer, Sr.

AGENCY OFFICIALS

Jack E. Kotvas, Director

Douglas W. McCartney, Chief Deputy Director

James L. Guffey, Deputy Director for Enforcement

Steven L. Arthur, Deputy Director for Administration and Finance