

**DEPARTMENT OF GENERAL SERVICES
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2002**



AUDIT SUMMARY

Our audit of the Department of General Services for the year ended June 30, 2002, found:

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

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Overview

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

- Division of Engineering and Buildings
- Division of Purchases and Supply
- Division of Consolidated Laboratory Services

Administrative support for the three divisions comes from the Director's Office within General Services. These services include accounting, information systems, internal audit, purchasing, and human resources. General Services manages the Commonwealth's centralized vehicle fleet through its Office of Fleet Management Services and offers graphic design services to other agencies through its Office of Graphic Design. Both of these services fall organizationally under the Director's Office.

General Services funds these support services and their administrative costs predominately 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 reviews for compliance with all applicable building code requirements during the design and construction of state buildings. Capital Outlay Management does cost and procurement reviews of proposed state agency construction. Also, Capital Outlay Management develops and maintains the state's policies and procedures on the procurement of professional and construction services through the Commonwealth of Virginia Construction and Professional Services Manual.

The Bureau of Real Property Management administers the policies and procedures regarding the 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.

The Bureau of Facilities Management provides for the maintenance, repair, and operation of state-owned facilities in the Capitol Square Complex. The Capitol Square Complex includes approximately 40 office buildings, 20 parking facilities, and the Capitol Grounds. Facilities Management bills agencies using these facilities 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 administers ongoing capital outlay projects assigned to General Services.

Division of Purchases and Supply

Purchases and Supply establishes state policies and procedures for purchasing goods and services based on the Virginia Public Procurement Act. Further, they establish statewide goods and service contracts and assist agencies with the purchase of high-dollar goods and non-professional services. On July 1, 2002, the authority for technology procurement transferred from the Division of Purchases and Supply to the

Department of Information Technology (DIT). DIT will also assume responsibility for the processing of agency-specific technology procurements above agency-delegated procurement authority thresholds.

Purchases and Supply is working with its service provider to expand the functionality provided through its electronic procurement portal, eVA, launched March 2001. Purchases and Supply undertook eVA as a major initiative to enhance the procurement process for all state and local government organizations within the Commonwealth, as well as gather information centrally concerning the Commonwealth's buying patterns. Purchases and Supply expects to complete the remaining functionalities by June 2003. Additional information on eVA is contained in two separate reports dated May 31, 2002 and December 6, 2002.

Purchases and Supply also operates the Virginia Distribution Center, which stocks food and nonfood items for resale to state agencies, local governments, and public schools. In August 2001, General Services moved the distribution center to a new warehouse constructed just outside of Richmond.

Finally, Purchases and Supply manages the state and federal surplus property programs and delivers mail between state agencies.

Division of Consolidated Laboratory Services

Consolidated Laboratory Services provides analytical testing services to the Commonwealth. The Division examines air and water samples, infant blood samples as part of the Commonwealth's newborn screening program, and human specimens for disease control. Further, they test and analyze products, foods, and materials regulated by state and federal laws. The Division also inspects and certifies laboratories performing tests in accordance with the Safe Drinking Water Act and FDA dairy regulations. The Division also performs testing for biological and chemical terrorism.

Consolidated Laboratory Services primarily serves the Departments of Agriculture and Consumer Services, Environmental Quality, Health, Labor and Industry, Alcoholic Beverage Control, and State Police. The Division also provides services to poison control centers, hospitals, waterworks, law enforcement agencies, and others.

FINANCIAL HIGHLIGHTS

Financial Operations

Fiscal Services within the Director's Office provides accounting support for the divisions through two support teams and a separate group that manages all transaction processing. The table below reflects cash basis financial activity for fiscal year 2002. The negative fund balance at June 30, 2002 for Purchase and Supplies is due to loans payable of \$1.45 and \$7.75 million for eVA and the Virginia Distribution Center, respectively.

	Director's Office	Engineering and Buildings	Purchase and Supplies	Consolidated Laboratories	Total
Fund balance, June 30, 2001	\$ 1,790,283	\$ 8,967,681	\$ (6,318,302)	\$ 505,622	\$ 4,945,284
Transfers	561,091	(92,190)	(705,174)	1,608,932	1,372,659
General Fund appropriations	4,517,615	8,228,262	3,493,184	9,364,027	25,603,088
Billing receipts	13,658,662	26,982,098	36,573,246	4,704,241	81,918,247
Other funding sources	-	3,429,005	-	-	3,429,005
Expenses	(18,300,024)	(40,888,118)	(41,628,165)	(15,659,066)	(116,475,373)
Reverted General Funds	<u>(86,259)</u>	<u>(1)</u>	<u>(72,162)</u>	<u>(6,912)</u>	<u>(165,334)</u>
Fund balance, June 30, 2002	<u>\$ 2,141,368</u>	<u>\$ 6,626,737</u>	<u>\$ (8,657,373)</u>	<u>\$ 516,844</u>	<u>\$ 627,576</u>

(Source: Commonwealth Accounting and Reporting System)

The amount shown as Billing receipts above represents collections from agencies, localities, and other entities to pay for goods and services provided by General Services and recorded as special revenue, internal service, and enterprise funds revenue.

Fiscal Services also provides administrative support for the following agencies:

- Commonwealth Competition Council
- Commission on Local Government
- Virginia Office for Protection and Advocacy
- Department of Employment Dispute Resolution
- Virginia War Memorial Foundation
- State Board of Elections
- Virginia Public Broadcasting Board
- Human Rights Council

Budget Reductions

In fiscal year 2002, General Services reduced its General Fund appropriations by more than \$800,000 in budget reductions and productivity savings. In addition to these reductions, the General Services also reverted \$165,334 at fiscal year-end. General Services anticipates additional General Fund budget reductions for fiscal year 2003 and 2004 of \$672,929 and \$1,401,392, respectively. To absorb these reductions, General Services plans to reduce personal services through a cumulative reduction of 14 positions and one layoff. In addition, they plan to reduce laboratory equipment purchases, replace General Fund support for certain services with internal service fund billing, and reduce the level of housekeeping and repair services. For internal service funds, primarily fleet management, General Services anticipates transferring accumulated fund balances for fiscal years 2003 and 2004 of \$2,655,000 and \$2,520,000, respectively, to the General Fund. General Services will absorb the transfers by deferring fleet vehicle purchases. General Services is continuing to evaluate the impact of decreased funding and consider options such as elimination of positions and maintenance of position vacancies.

As part of General Services' plan for its General Fund appropriation reduction, General Services plans to begin charging for services it previously provided with this General Fund support. General Services will bill agencies for such services as water testing and Bureau of Capital Outlay Management reviews.

INTERNAL CONTROL AND COMPLIANCE FINDING AND RECOMMENDATION

Properly Record and Track Assets on the Fixed Asset Accounting Control System (FAACS)

The Department of General Services did not perform a fixed asset inventory in accordance with Commonwealth Accounting Policies and Procedures (CAPP) manual guidelines. Inventory documentation revealed that many assets were surplus or disposed of; however, agency personnel did not remove the items from FAACS. In addition, General Services does not have an updated policy and procedures manual. The current manual has been in draft form for two years. Failure to properly report and update fixed asset changes could result in a misstatement of the fixed asset inventory balance.

General Services needs to complete the fixed asset inventory and update FAACS when assets change locations or are surplus or disposed. Management should finalize and approved the new manual and ensure that the new manual includes all changes related to the issuance of the governmental accounting reporting standard for capital assets (GASB Statement No. 34).

February 21, 2003

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

The Honorable Kevin G. Miller
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** (the Department) for the year ended June 30, 2002. 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 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 action of the audit finding from our prior year report.

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	Capital Projects
Revenues	Payroll
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 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 controls 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 in the Commonwealth Accounting and Reporting System on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted a certain matter involving internal control and its operation that we consider to be a reportable condition. 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 the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. The reportable condition, entitled "Properly Record and Track Assets on the Fixed Asset Accounting Control System" is described in the subsection titled "Internal Control and Compliance Finding and Recommendation." We believe that the reportable condition is not a material weakness.

The results of our tests of compliance with applicable laws and regulations disclosed one instance of noncompliance that is required to be reported under Government Auditing Standards. The instance of noncompliance entitled, "Properly Record and Track Assets on the Fixed Asset Accounting Control System," is described in the subsection titled "Internal Control and Compliance Finding and Recommendation."

The Department has taken adequate corrective action with respect to the audit finding reported in the prior year.

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

EXIT CONFERENCE

We discussed this report with management at an exit conference held on March 12, 2003.

AUDITOR OF PUBLIC ACCOUNTS

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DEPARTMENT OF GENERAL SERVICES
Richmond, Virginia

D.B. Smit
Director

Joe F. Damico
Assistant Director

Bryan W. Wagner
Controller

Margaret B. Ward
Director of Management Audit
and Review Services