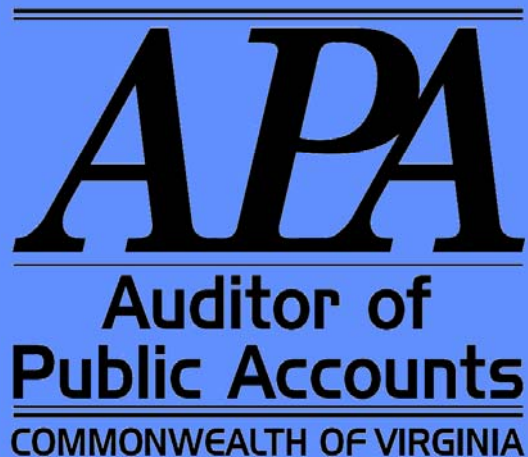


# **REVIEW OF SERVICE AGENCY ARRANGEMENTS**

**OCTOBER 2009**



## Executive Summary

Historically, Commonwealth agencies have remained autonomous from other organizations in all operational aspects, whether in the delivery of core mission services or administrative functions. Agency accountability for their performance and comfort with the quality of the managerial data available to them has driven the desire for autonomy.

Not all agencies are internally equipped with sufficient resources, knowledge, or guidance to independently maintain adequate internal controls using this autonomously driven organizational model. In fact, many agencies have such limited resources that the loss of one person can compromise the institutional knowledge and internal control environment needed to process key transactions and fulfill administrative responsibilities.

The Auditor of Public Accounts has consistently recommended that agencies with limited resources use the fiscal and administrative support functions of larger agencies to supplement their operations. This type of arrangement can allow such agencies to concentrate on providing core mission services and effectively minimize resources dedicated to administrative functions, while enhancing their internal control over these functions.

We have evaluated 60 executive branch agencies, with less than 350 full-time positions, and identified ten with the strongest potential for compromise of their internal controls. We believe they would benefit from the implementation of a shared service center, supported by a comprehensive memorandum of understanding. Key to this comprehensive memorandum will be the expansion of the substance of the relationship between the service provider and the agency to transfer more responsibility for internal controls to the service provider.

Finally, when implementing the service centers, the need of each Secretariat should be the focus of the arrangement, meaning each Secretary should work with their agencies to determine which service solution will maximize the available resources and improve each agency's internal controls. By addressing these issues in a consolidated manner, the likelihood for success will increase and result in strengthened internal controls.

## - TABLE OF CONTENTS -

	<u>Page</u>
EXECUTIVE SUMMARY	
INTRODUCTION	
Objectives	1
Scope and Methodology	1-2
BACKGROUND	2-5
Challenges Faced by Smaller Organizations	3
The Population Identified	3-4
Other Characteristics of Smaller Organizations	4-5
Where to Go from Here?	5
POSSIBLE SOLUTIONS	5-11
Shared Service Center Solution	6
Existing Shared Service Centers	6-8
Single Service Solution	8-9
Existing Single Service Providers	9-11
CONCLUSIONS	11-12
RECOMMENDATIONS	
Focus on Opportunities for Shared Service Centers	13
Develop More Comprehensive Memorandums of Understanding	14
TRANSMITTAL LETTER	15-16
APPENDIX A – ADEQUACY OF FISCAL AND ADMINISITRATIVE FUNCTIONS BY AGENCY, BY SECRETARIAT	17-21
APPENDIX B – CURRENT SERVICE ARRANGEMENTS BY AGENCY, BY FUNCTION	22-26

## INTRODUCTION

Historically, Commonwealth agencies have remained autonomous from other organizations in all operational aspects, whether in the delivery of core mission services or administrative functions. Agency accountability for their performance and comfort with the quality of the managerial data available to them has driven the desire for autonomy.

Further, previous centralized support services have not consistently provided the right level of service, in a timely manner, to meet the agency's business needs. The difficulty in obtaining quality information and services has driven the creation of redundant fiscal and administrative support functions within each agency. However, many of these redundant fiscal and administrative support functions may not fully meet the agency's business needs or provide adequate controls over the agency's resources.

Not all agencies are internally equipped with sufficient resources, knowledge, or guidance to independently maintain adequate internal controls using this autonomously driven organizational model. In fact, many agencies have such limited resources that the loss of one person can compromise the institutional knowledge and internal control environment needed to process key transactions and fulfill administrative responsibilities.

The Auditor of Public Accounts has consistently recommended that agencies with limited resources use the fiscal and administrative support functions of larger agencies to supplement their operations. This type of arrangement can allow such agencies to concentrate on providing core mission services and effectively minimize resources dedicated to administrative functions, while enhancing their internal control over these functions.

### *Objectives*

Our review evaluated the adequacy of resources and internal controls relating to fiscal and administrative support functions within certain agencies to address the following objectives:

1. Identify model fiscal and administrative support service solutions for consideration by management.
2. Determine which agencies would benefit from the centralization of fiscal and administrative support functions.
3. Evaluate existing Memorandums of Understanding between agencies and those providing fiscal and administrative services to ensure they sufficiently document the internal controls and roles and responsibilities of each party.

### *Scope and Methodology*

We limited our review to the following fiscal and administrative support functions:

- Accounting, which includes cash collections, accounts payable and payment

- Procurement and contracting
- Human resources
- Payroll
- Information technology

While individually specialized in nature, these functions are similar at each agency. We reviewed industry best practices for internal controls over these functions. We researched inside and outside the Commonwealth for model shared service arrangements.

We identified executive branch agencies with less than 350 full-time equivalent staff, excluding any independent agencies or institutions of higher education. For each agency identified, we reviewed recent audit reports, identified key internal controls, and interviewed audit staff to evaluate the adequacy and effectiveness of each agency's fiscal and administrative support functions.

For those agencies with outsourced fiscal and administrative support functions, we reviewed their memorandums of understanding to determine the extent of the responsibilities and services addressed, the nature of the internal controls provided through these arrangements and their potential effectiveness as designed.

## BACKGROUND

Most agencies provide their fiscal and administrative support services internally. Therefore, within each agency's organizational structure you will see positions dedicated to accounting, procurement, human resources, payroll, and information technology. Aspects of each of these

administrative functions are complex, requiring a detailed understanding of federal and state policies and procedures as well as accounting rules and regulations to ensure the proper execution of individual transactions.

**Figure 1 - Typical Organizational Structure**

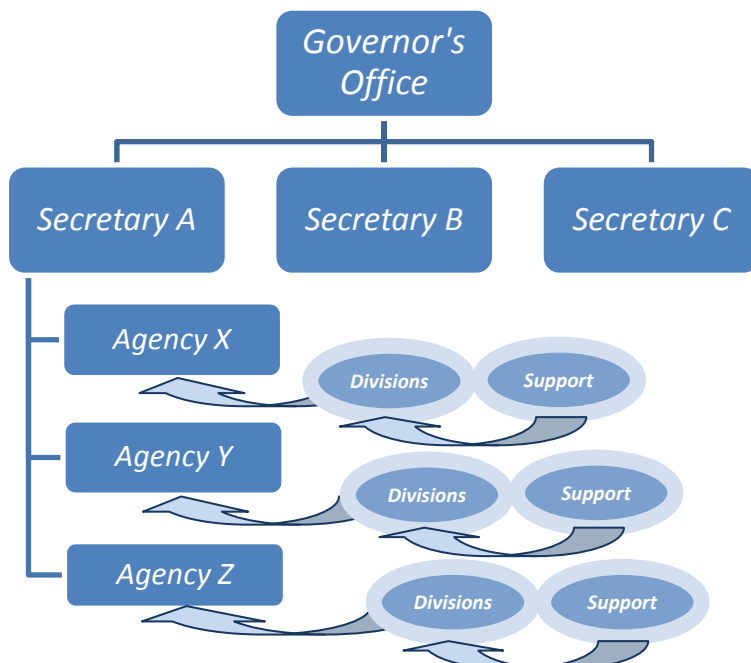


Figure 1 reflects the typical organizational structure within agencies today, where a separate division provides fiscal and administrative support for each agency. This structure exists across all Secretariats and, as the figure demonstrates, is quite repetitive. Effectively managing this structure to provide sufficient internal controls is challenging for smaller agencies with limited staffing resources.

## Challenges Faced by Smaller Organizations

Most organizations strive to dedicate the majority of their funding and staffing resources to the delivery of their core mission services. However, they cannot deliver services without the support of key fiscal and administrative functions.

Due to their limited resources, smaller agencies often cannot fully exercise the following critical controls to minimize the risk of misappropriation of the Commonwealth's assets:

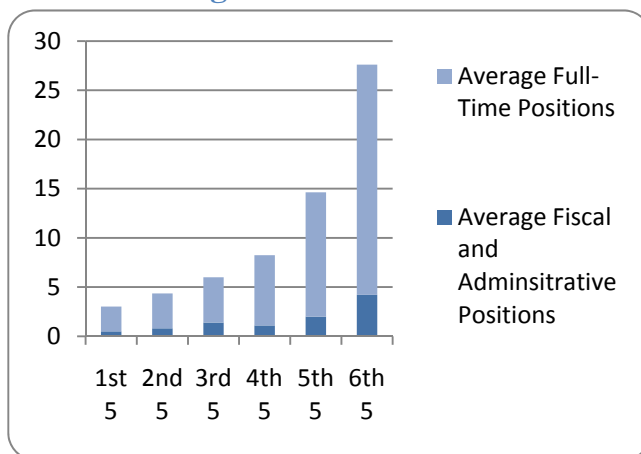
- Dedicate adequate resources to execute key fiscal and administrative functions with appropriately segregated roles.
- Develop fully documented desktop procedures to facilitate performance of key controls as well as compliance related procedures.
- Provide adequate or fully fund training and cross-training plans.
- Provide sufficient back-up staff to enable key functions to continue should personnel have extended absences or leave the agency.

For example, without ongoing training, the expertise required to efficiently and effectively perform the administrative function may not exist or be severely limited in certain areas. The lack of expertise or policies and procedures to support a particular function can lead to unintended consequences, whereby inappropriate activities may go undetected, creating areas of non-compliance and facilitating fraudulent behavior.

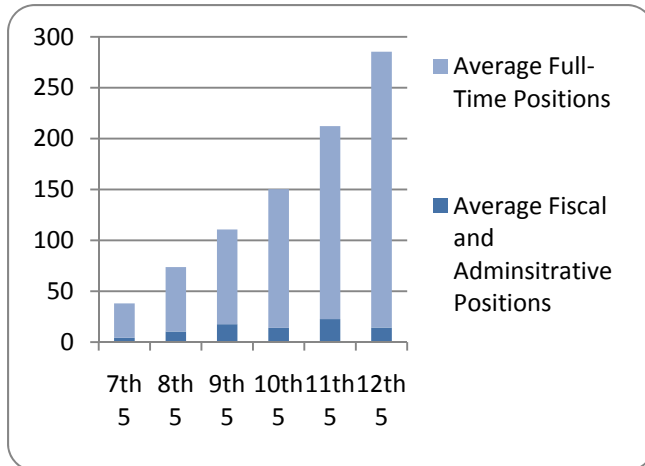
## The Population Identified

For the purposes of our review, we identified 60 executive branch organizations with 350 full-time equivalent positions or less. The figures to the right and below plot the average number of full-time positions within each agency against the average number of positions dedicated to fiscal and administrative functions in groups of five, from the smallest to largest agencies within our population. The majority of these agencies, 70 percent, have less than 100 full-time positions, while being supported by an average of 3.3 fiscal and administrative support positions.

Average Number of Positions



### Average Number of Positions, cont'd.



The loss of these positions affects the agency's ability to execute key controls merely due to the size of the organization.

### Other Characteristics of Smaller Organizations

Frequently individuals performing administrative tasks for smaller agencies are also performing programmatic tasks. For example at the State Board of Elections, the Business Manager, who is responsible for reviewing and releasing vouchers for payment, is also responsible for facilitating the election process. The dual functions of this position make it difficult for the Business Manager to effectively carryout the responsibilities for either role during critical periods in the election cycle.

Some functions, such as human resources and procurement activities, while important to an agency's operations, occur infrequently. Yet, these functions require significant awareness of state and federal rules and regulations to be compliant. Consequently, without sufficient resources for ongoing training or fully developed administrative procedures, the agency struggles to maintain adequate knowledge of these rules and regulations and increases the risk that unintentional errors may occur.

To illustrate this reality, one needs only to review the quality of administrative support activities surrounding information technology. Our 2006 and 2008 "*Statewide Review of Information Security in the Commonwealth of Virginia*" reports revealed that the majority of the smaller agencies do not have the resources, expertise, or funding to develop and implement adequate information security programs that protect their critical and sensitive data.

Some agencies may argue that the transfer of most, if not all, information technology staff from individual agencies to the Virginia Information Technologies Agency (VITA) in recent years resulted in the security report's observations. However, closer examination of the smaller agencies reveals most had limited resources dedicated to this function prior to VITA's creation. Consequently, they were already operating with inadequate staffing to ensure the quality of the information technology assets and security activities available to them.

While the quality of the infrastructure supporting smaller agencies has improved with the transfer to VITA, responsibility for the information security program remains with the agency. The development and maintenance of such a program requires expertise and significant training. In reality, it is not feasible for smaller agencies to train one of their own staff members to perform this duty.

Further impacting smaller agencies are the capabilities of the enterprise-wide fiscal and administrative applications available to them. Most of these applications cannot provide managerial information quickly enough to support day-to-day business decisions. For small agencies with limited budgets, reviewing actual activity against available funds in near real time is critical; yet, the Commonwealth's current financial application cannot provide that information until midway through the following month.

This fact forces agencies to develop internal monitoring mechanisms. Larger agencies have the resources to implement their own applications, which provide the fiscal and administrative data within the time frame and at the level of detail they need to support their business operations. Smaller agencies have to develop internal monitoring mechanisms as well, which are more labor intensive, less robust, and may not help the agency. Further, when agencies do not develop such tools, they place themselves at risk for unintended overages.

### *Where to go from here?*

When considering the inherent characteristics of the population under review, the question is "What is feasible?" "How can an agency provide quality fiscal and administrative support functions to their business units with such limited resources?"

## **POSSIBLE SOLUTIONS**

Analysis of these questions leads to several possible solutions, which can facilitate the effective and efficient execution of these functions while providing sufficient internal controls. These solutions focus on the use of service arrangements done by a single back office service provider addressing all fiscal and administrative support functions or a combination of separate service agencies providing support for specific functions, such as payroll, human resources and procurement.

Key to successfully executing a service arrangement is the development of a comprehensive memorandum of understanding between the parties. Such agreements explicitly lay out the services, including internal control and service level expectations,

### **Service Arrangement Objectives**

- Increase quality and consistency of fiscal and administrative related information for better decision-making.
- Increase the overall efficiency of fiscal and administrative support service delivery.
- Leverage the knowledge, skills, and abilities of the service center personnel to increase the quality of internal controls.



communication channels, and each party's roles and responsibilities. The more thought and consideration given to the express needs of the organization and which needs the service provider can provide results in a more effective arrangement.

The following sections discuss in greater detail the methods available to realize these service arrangements, highlighting the strengths and weaknesses of each solution as well as observations concerning service agency arrangements in place today.

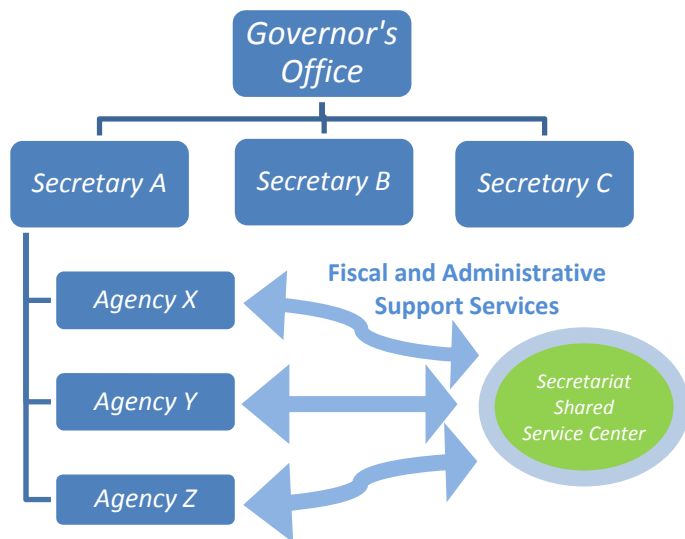
### Service Arrangement Objectives

- Facilitate effective knowledge transfer among personnel within the service center and between the agency and service provider; and
- Promote cross-training to ensure sufficient back-up for critical roles.

## Shared Service Center Solution

The following exhibit reflects a comprehensive solution, whereby multiple related agencies are supported by a single back office service provider.

**Figure 2 – Shared Service Center Solution**



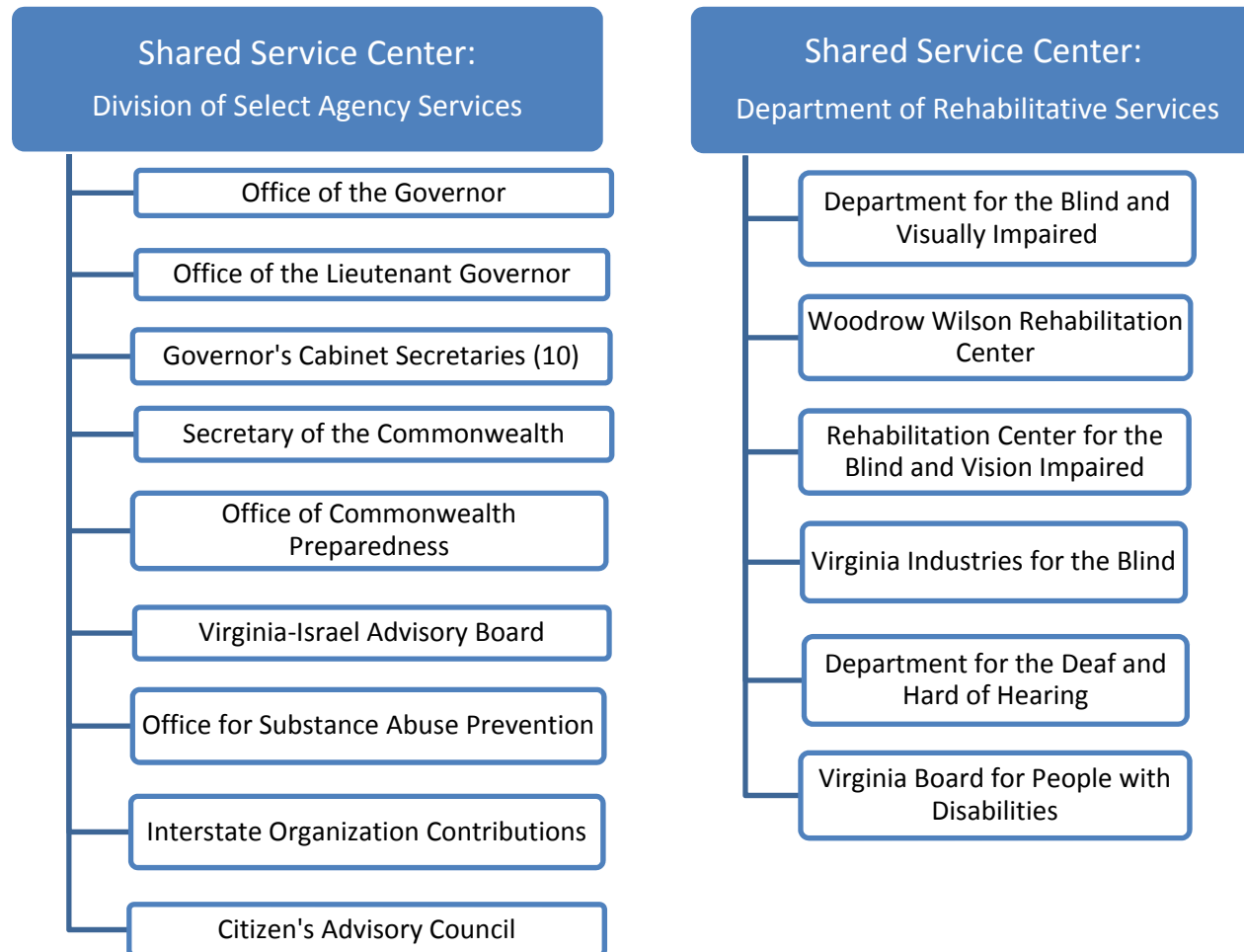
The Shared Service Center model provides a method for sharing responsibilities, resources, information and ideas for fiscal and administrative support services. This structure allows the service center to standardize repetitive processes among similarly focused agencies, such as those found in a secretarial area.

The Shared Service Center ensures its staff has adequate training with sufficient policies and procedures to execute the various fiscal and administrative functions. This allows the individual agency to focus more of their time on their core mission services.

Further, within the Shared Service Center, related support services, such as human resources and payroll, are co-located, improving communication between all functions. At the same time, this structure gives the Shared Service Center the flexibility to respond more comprehensively to individual agency priorities.

## Existing Shared Service Centers

Several such service centers exist today within the executive branch agencies and highlight the potential benefit from such arrangements. Figure 3 below reflects two such service centers and the agencies they support. These service centers exist within the Commonwealth's organizational structure, in this case, the Executive Offices and the Health and Human Resource Secretariat.



Each shared service center supports organizations with related operational missions. Consequently the nature of the transactions and support services needed to sustain their operations are similar, allowing the Service Center to maximize the knowledge, skills, and abilities of their personnel to meet the individual needs of the agencies they service.

For example, the disability service agencies supported by the Department of Rehabilitative Services provide out-reach programs to support citizens with various disabilities within the Commonwealth. The majority of these programs have a combination of state and federal funding, with explicit compliance requirements mandated by these funding sources. While the exact program offered may differ, the nature of the compliance requirements is similar and the business needs required to fulfill those requirements are similar. The Department of Rehabilitative Services has been able to leverage this fact to implement standardized processes to meet each organizations fiscal and administrative needs as well as case and financial management applications to support their various business processes.

Likewise, the Division of Select Agency Services assists agencies that report directly to the Governor. The agencies supported have limited personnel, often with ten staff or less, and

exclusively use the Commonwealth's enterprise applications to fulfill their operational needs. Consequently the nature of their fiscal and administrative support activities is repetitive and closely aligned.

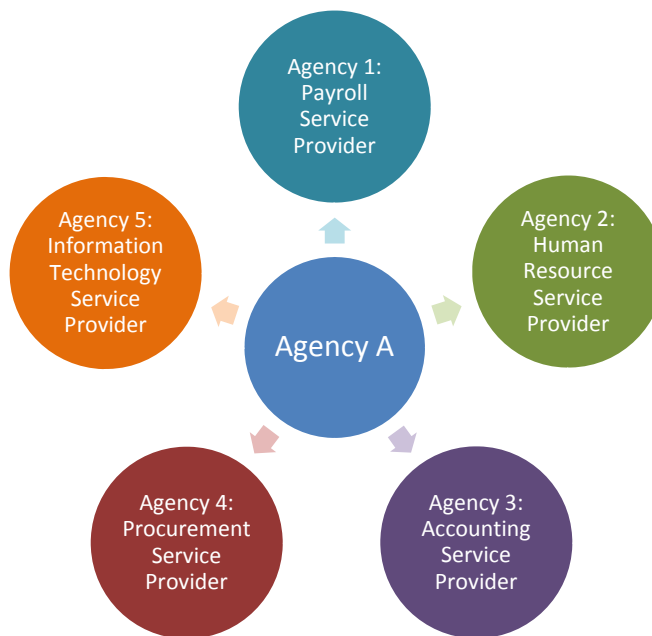
In each of these examples the service provider and service recipients have worked together to develop key control points, identified which organization is responsible for what control, and enabled the service provider to take responsibility for key controls. It is the recognition and definition of these key areas and acceptance of responsibility for internal control by both parties that makes these relationships successful.

### *Single Service Solution*

An alternative solution is the use of a service agency that focuses on supporting one specific fiscal or administrative function. This model allows organizations to outsource specific areas of needed assistance while retaining autonomy over other areas. As reflected below, an agency using this model develops and manages relationships with one or more service providers.

Like the shared service center model, a single service provider can be engaged to provide expertise, oversight, and direction over an area that agency management does not have the necessary technical expertise or sufficient knowledge or understanding of Commonwealth policies and procedures. Conceptually, the service provider will have sufficient staff and resources with the necessary knowledge and skills to provide internal controls and facilitate the agency's management oversight of fiscal and administrative data.

**Figure 4 - Single Service Solution**



While this model allows the agency receiving the services to leverage the knowledge, skills, and abilities of the service provider, it can also introduce additional complexities. As reflected in Figure 4, the agency now has five relationships to manage in order to fulfill its business needs. Due to the related nature of some of these fiscal and administrative functions, the agency must act as liaison between multiple service providers in order to ensure the integrity of their fiscal and administrative data. This is neither efficient nor effective.

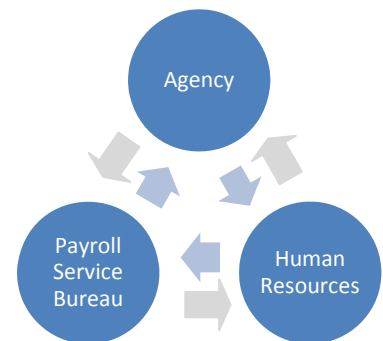
For example, an agency may outsource their human resources function to the Department of Human Resource Management (Human Resources) and also outsource their payroll function to the Department of Accounts' Payroll Service Bureau (Payroll Service Bureau), but retain the fiscal processing responsibilities internally. The agency communicates with both service providers; however, the service providers may not be communicating with each other.



Taken further, Human Resources might assist with recruitment activities from the initial position advertisement to the final selection process, reducing the time required by the agency to perform these activities and ensuring they occur within Commonwealth guidelines. After filling the position, the Payroll Service Bureau must receive the information to establish the new employee on the payroll system.

With this scenario, Human Resources provides the new hire information to the agency, and the agency then sends it to the Payroll Service Bureau. Therefore, these arrangements are not providing a cohesive process or effectively addressing the operational needs of an agency's fiscal and administrative functions.

The flow of information outlined above, in many cases, has lead to a breakdown of internal controls within the agencies receiving services due to ineffective communication among the agencies. A more efficient and effective model would involve communication channels between all three entities as reflected to the right.



This would require coordinated planning among all of the parties to ensure sufficient monitoring and control points. However, once established this model would allow all three entities to act as one, much like what a shared service center model or a single entity with sufficient resources provides. While this model exists in limited instances, it is not uniformly applied to agencies using both of these services.

### Existing Single Service Providers

Department of Human Resource Management	<ul style="list-style-type: none"> <li>• Human Resource Acquisition and Separation Services</li> </ul>
Department of Accounts	<ul style="list-style-type: none"> <li>• Payroll Services</li> <li>• Fiscal Services</li> <li>• Information Security Program Consulting</li> </ul>
Department of General Services	<ul style="list-style-type: none"> <li>• Fiscal Services</li> </ul>
Department of Motor Vehicles	<ul style="list-style-type: none"> <li>• Fiscal Services</li> </ul>

Several agencies currently use one or more of the service providers shown to the left to fulfill aspects of their fiscal and administrative support needs. However, they realize varying degrees of value through these arrangements. This is primarily because the participating agencies have not executed a sufficiently detailed memorandum of understanding.

For example, the Department of Accounts' Payroll Service Bureau processes payroll transactions for approximately 50 agencies. For some agencies, they requested these services and others had these services mandated by the Appropriation Act. In either case, there is a basic document acknowledging the relationship and some of

the processes supported. It provides little additional information and does not address internal controls nor does it identify each entity's responsibilities.

Consequently, the agency receiving Payroll Service Bureau services may believe a greater level of control exists than is actually available. However, those controls actually do not exist because the Payroll Service Bureau was not providing them. It should be noted that the Payroll Service Bureau recently undertook a data integrity project to ensure the data passing between the human resource system and the payroll system is complete and accurate for the agencies they service. This initiative was self imposed and many agencies may have assumed completeness and accuracy checks like this were occurring automatically.

The data integrity project demonstrates the benefit agencies can have through access to a service provider. However, without thoughtful consideration of what services an agency needs and documentation of performance expectations, it is challenging for the Payroll Service Bureau to function as more than a data entry clerk since they have no express authority to impact the payroll function beyond just that.

Many state agencies use this model for other services and likely face a similar false belief that internal controls exist due to their poorly executed service agreements. Most of the memorandums of understanding reviewed provided minimal information regarding quantitative administrative controls, such as segregation of duties, authorization responsibility, coding verification, and compliance rules and regulations consultation. The qualitative controls that provide more value to the agency are not part of most agreements, such as basic monitoring of budget and actual performance or designated authority and accepted responsibility to question or reject transactions to prevent the agency from having an inappropriate transaction.

Where informal arrangements are in place to provide services, neither the service provider nor the agencies have a clear understanding of their roles and responsibilities. The service agency provides no oversight or internal controls for the smaller agency. They are acting simply as a processor and do not assume responsibility for internal controls.

Further, in cases where the service agency may provide guidance, they do not have any management review or authority over the administrative functions they are providing or the transactions they are processing. For example, the Department of Human Resource Management can provide guidance to the agency on the required hiring rules and regulations. However, since the agency management retains ultimate control over human resource functions, management may choose not to adhere to state policies and procedures unintentionally because they do not fully understand the process. This places the Department of Human Resource Management in an awkward position and may impede their willingness to offer their services in the future due to the legal ramifications associated with hiring and separation actions.

In an effort to address the resource issues faced by smaller organizations, the General Assembly recently directed the Department of Accounts to provide information security consulting services to small to medium sized agencies. Specifically, the Department of Accounts is working with these agencies to develop information technology security programs to comply with

Commonwealth standards because they do not have sufficient resources or expertise to do this internally.

Although this is a step toward helping to strengthen internal controls for smaller agencies, it does not go far enough. While they may develop the policies and procedures necessary to create a comprehensive program in compliance with Commonwealth standards, smaller agencies still do not have the expertise or resources actually to implement the program. To fully realize the intended goal of the General Assembly's action, the agency must work toward entering a secondary service agreement with an agency that possesses the resources and necessary knowledge base to provide information technology support services to execute the new program.

## CONCLUSIONS

Overall, we found that many of the smaller agencies using these service arrangements do not have the expertise to adequately make administrative decisions and do not have a clear understanding of the level of services they are currently receiving. They have correctly identified their weakness and sought out support services, but they did not work with the service provider to establish a comprehensive and cohesive service arrangement. Therefore, they are no better off than they were before the arrangement. This situation weakens the Commonwealth's overall control structure and increases the risk that agencies will not comply with applicable state policies and procedures.

Therefore, the Auditor of Public Accounts continues to advocate that agencies, which do not have sufficient resources or expertise, use larger agencies or shared service centers for fiscal and administrative support functions. However, as demonstrated above, the Commonwealth has made insufficient progress to address prior recommendations in this area made to individual agencies.

While 40 of the 60 agencies evaluated as a part of this review currently utilize another agency to perform some or all of their administrative functions, these agencies have had moderate and in some instances mediocre success enhancing their internal control objectives through these relationships. This is primarily due to the fact that many of the service providers are not delivering sufficient oversight or assistance. While most are providing additional staff to facilitate the execution of a transaction, they are not addressing the qualitative controls that should result from the additional resources and their expertise.

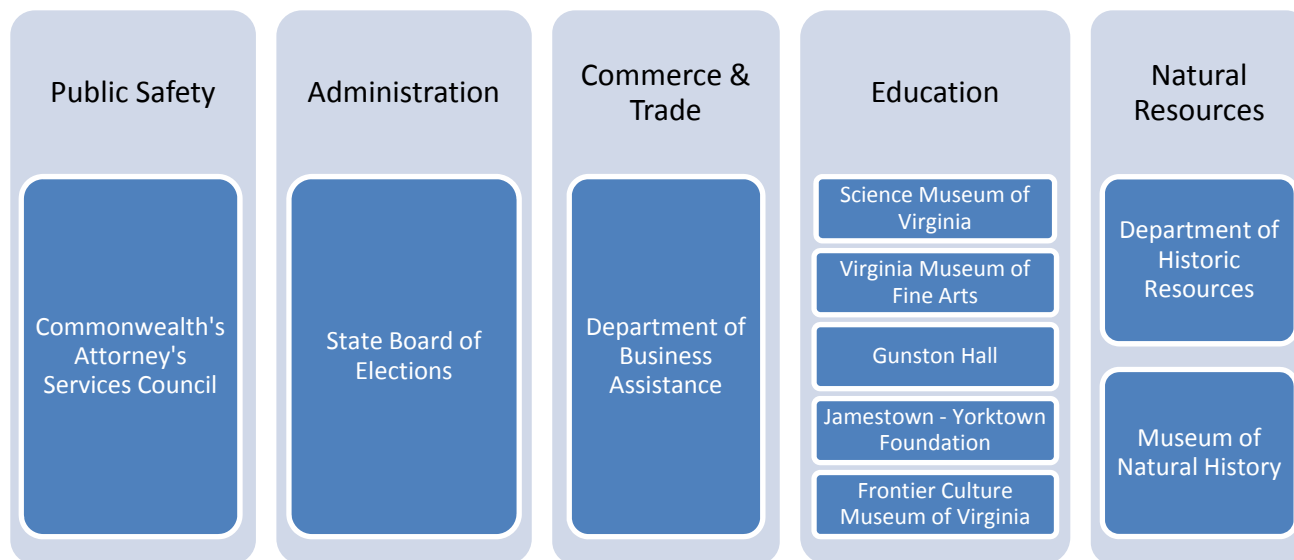
On the other hand, agencies who currently retain their fiscal and administrative services but have limited resources continue to place themselves at greater risk for unintentional misappropriation of the Commonwealth's assets. While they may not have previously experienced break downs in their internal control structure, they are inherently subject to greater internal control risks due to their limited resources. The added burdens placed on them in an ever-tightening budgetary period add to this risk.

Based on the results of our review, we have identified the following agencies with the strongest potential for compromise of their internal controls. We believe they would benefit from

the implementation of a shared service center arrangement supported by a comprehensive memorandum of understanding.

## Agencies Identified for Analysis and Action by Secretariat

Figure 5



These ten agencies demonstrated areas of weakness within several of their fiscal or administrative functions. These weaknesses are largely due to the restrictions placed on them by their limited resources, but may also exist where they have poorly executed an existing service arrangement.

While our recommendations focus on the above agencies due to the nature of their operations, there are other entities within each secretariat which would benefit from the recommendations below. These include agencies which exist solely to distribute funds to other entities, such as the Compensation Board or the Virginia Commission for the Arts. It also includes agencies which already use the services of one or more services providers, but would benefit from re-evaluating and enhancing these relationships, such as, but not limited to, the Council on Human Rights or the Virginia Racing Commission.

Appendix A, which summarizes the fiscal and administrative support functions by agency, highlights this fact. Further as the Commonwealth continues to modernize its enterprise-wide applications, better enabling managerial data delivery on time and real-time, the Commonwealth could expand these concepts into larger organizations.

Finally, when implementing any service arrangement model, the needs of each Secretariat should be the focus of the arrangement. Meaning each Secretary should work with their agencies to determine which solution will maximize the available resources and improve each agency's internal controls. By addressing these issues in a consolidated manner, the likelihood for success will increase and result in strengthened internal controls.



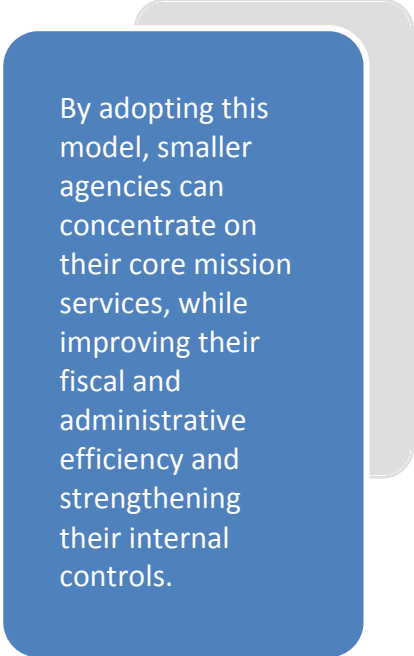
## RECOMMENDATIONS

### *Focus on Opportunities for Shared Service Centers*

We recommend the use of shared service center arrangements, where agencies outsource their entire fiscal and administrative function, rather than outsourcing each function to a separate agency. This structure allows for a more cohesive administrative process, which mirrors the true operations of a fiscal and administrative support unit found within larger agencies. Outsourcing pieces of the fiscal and administrative functions introduces unnecessary complexities and adds to the administrative responsibilities of the agency receiving services when they are already operating at a knowledge or staffing deficit.

To realize this model, we recommend that the Secretaries designate an agency within their Secretariat to provide all fiscal and administrative support services to agencies requiring assistance, similar to the Health and Human Services Secretariat arrangement with the Department of Rehabilitative Services or by the Division of Select Agency Services under the Secretary of Administration. By adopting this model, the smaller agency can concentrate on their core mission services, while improving their fiscal and administrative efficiency and strengthening their internal controls.

Consolidating all administrative functions in this manner more effectively realizes the goals of a service arrangement previously mentioned and highlighted below.



By adopting this model, smaller agencies can concentrate on their core mission services, while improving their fiscal and administrative efficiency and strengthening their internal controls.

- Increasing the quality and consistency of fiscal and administrative information for better decision-making and improved management of state operations
- Increasing the overall efficiency of the delivery of fiscal and administrative support services
- Promoting cross-training to ensure sufficient back-up for critical roles
- Facilitating effective knowledge transfer among fiscal and administrative personnel within the service center and between the agency and the service provider
- Increasing the quality of internal control over fiscal and administrative functions by leveraging the knowledge, skills, and abilities of the service center personnel

We do not believe the Commonwealth will realize any savings in either personnel or cost as a result of adopting this model, as the agencies in question are currently using minimal resources with marginal results. However, such a change to these organizations will impact the quality of internal control over the Commonwealth's assets and enhance the quality of the data available to management to support business decisions.



## *Develop More Comprehensive Memorandums of Understanding*

Although some agencies successfully use these arrangements, most of the memorandums of understanding (memorandum) lack enough detail to ensure sufficient internal controls exist. Therefore, no matter whether the Commonwealth implements the service model recommended above, there is a clear need for improvements to the memorandums governing these relationships.

Service agencies should be empowered to provide oversight, direction, and expertise to the agencies they serve, helping to monitor and control fiscal and administrative data, not just process paper.

This requires a well executed Memorandum of Understanding to be fully realized.

The key to a comprehensive memorandum is expanding the substance of the relationship between the service provider and the agency to transfer more responsibility for internal controls to the service provider.

A well structured memorandum clearly defines each agency's role in the arrangement explicitly addressing the following:

- The fiscal and administrative support functions;
- The processes to execute those functions;
- The communication channels between the agency, the service provider, and any other parties;
- The internal controls expected; and
- Most importantly, the roles and responsibilities of the participants, including any sharing of costs for the services.

The memorandum should also identify who has responsibility for policy and procedure development, implementation, maintenance, and compliance.

Service providers should have the power to give oversight, direction, and expertise to the agencies they serve, helping to monitor and control data, not just process paper. Agencies are engaging them because they have the expertise to provide oversight, including the knowledge to analyze, report, and advise on the administrative support functions. Using their services allows for greater assurance of compliance with state and federal rules and regulations. Agencies are executing the service arrangements to leverage these skills and the memorandum should realize this goal.

The Secretaries should work with their agencies to strengthen existing and develop any new memorandums. Work already underway to support the Commonwealth's Agency Risk Management and Internal Control Standard's program (ARMICS) should help the agencies define their key areas of risk and desired internal controls. This information should also identify which fiscal and administrative areas would benefit most from a service arrangement.



# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

**Auditor of Public Accounts  
P.O. Box 1295  
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October 28, 2009

The Honorable Timothy M. Kaine  
Governor of Virginia

The Honorable M. Kirkland Cox  
Chairman, Joint Legislative Audit  
and Review Commission

We have examined the fiscal and administrative support functions of 60 executive branch agencies and are pleased to submit our report entitled “**Review of Service Agency Arrangements**”. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Commonwealth’s agencies predominantly perform their fiscal and administrative support functions using internal resources. We found that many of these agencies would benefit from the use of enhanced service arrangements where smaller agencies leverage the resources, knowledge, and skills of larger organizations to improve their internal controls and expand their access to decision making data. Our report includes recommendations to implement shared service center arrangements on a secretariat basis and to enhance any memorandums of understanding supporting service arrangements.

While our recommendations focus on certain agencies due to their more critical issues, there are other entities within each secretariat which would benefit from the recommendations included within our review. Appendix A, which summarizes the fiscal and administrative support functions by agency, and Appendix B, which summarizes existing service arrangements, highlight this fact. Further, as the Commonwealth continues to modernize its enterprise-wide applications, better enabling managerial data delivery on time and real-time, the Commonwealth could expand these concepts into larger organizations.

The organizations highlighted within the review, who can realize immediate benefits from implementing these recommendations, have received similar recommendations in the past and responded accordingly within their individual audit reports. This review consolidates those individual recommendations to draw greater attention to them and the need for action by the Commonwealth.

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.

AUDITOR OF PUBLIC ACCOUNTS

JBS/clj

## Appendix A:

## Adequacy of Fiscal and Administrative Functions - by Agency, by Secretariat

This appendix reflects the agencies reviewed and our rating of the quality of their internal controls over their fiscal and administrative functions. The ratings legend is below.

Rating:	Description:
<b>A</b>	Adequate internal controls are provided for the functional area.
<b>M</b>	Minimum internal controls are provided for the functional area. Potential exists for controls to be compromised without being detected due to the likelihood of conflicting duties from other functional areas being assigned to the same individual.
<b>SP</b>	A service provider is supporting the agency's execution of their control environment.

We have highlighted agencies with ratings of "Minimum" in two or more internally supported functional areas within the report as requiring immediate attention. However, other agencies listed below would also benefit from implementation of these recommendations.

### Administration Secretariat

Agency Name	Functional Area				
	Accounting	Procurement	Human Resources	Payroll	Information Systems Security
Compensation Board	M	M	SP - M	SP - M	M
Council on Human Rights	SP - M	SP - M	SP - M	SP - M	M
Department of Employment Dispute Resolution	SP - M	SP - M	SP - M	SP - M	M
Department of Human Resource Management	A	A	A	SP - M	M
Department of Minority Business Enterprise	SP - M	SP - M	SP - M	SP - M	M
State Board of Elections	M	M	SP - M	SP - M	M

### Agriculture and Forestry Secretariat

Agency Name	Functional Area				
	Accounting	Procurement	Human Resources	Payroll	Information Systems Security
Department of Forestry	A	A	A	A	M

## Appendix A

### Commerce and Trade Secretariat

Agency Name	Functional Area				
	Accounting	Procurement	Human Resources	Payroll	Information Systems Security
Board of Accountancy	SP - M	SP - M	SP - M	SP - M	A
Department of Business Assistance	M	M	SP - M	SP - M	M
Department of Housing & Community Development	A	A	A	SP - M	M
Department of Labor & Industry	A	A	A	SP - M	A
Department of Mines, Minerals & Energy	A	A	A	SP - M	A
Department of Professional & Occupational Regulation	A	A	A	SP - M	M
Virginia Racing Commission	SP - M	SP - M	SP - M	SP - M	M

### Education Secretariat

Agency Name	Functional Area				
	Accounting	Procurement	Human Resources	Payroll	Information Systems Security
Frontier Culture Museum of Virginia	M	M	M	SP - M	M
Gunston Hall	M	M	M	SP - M	M
Jamestown-Yorktown Foundation	M	M	M	M	M
The Library of Virginia	A	A	A	SP - M	A
The Science Museum of Virginia	M	M	SP - M	SP - M	M
Virginia Commission for the Arts	M	M	SP - M	SP - M	A
Virginia Museum Of Fine Arts	M	M	M	SP - M	M

## Appendix A

### Finance Secretariat

Agency Name	Functional Area				
	Accounting	Procurement	Human Resources	Payroll	Information Systems Security
Department of Accounts	A	A	A	A	A
Department of Planning & Budget	SP - M	A	SP - M	SP - M	M
Department of the Treasury	A	A	A	SP - M	M

### Health and Human Resources Secretariat

Agency Name	Functional Area				
	Accounting	Procurement	Human Resources	Payroll	Information Systems Security
Department for the Aging	M	M	SP - M	SP - M	M
Department for the Deaf & Hard-Of-Hearing	SP - A	SP - A	SP - A	SP - A	SP - A
Department of Health Professions	A	A	A	SP - M	A
Virginia Board for People with Disabilities	SP - A	SP - A	SP - A	SP - A	SP - A
Virginia Department for the Blind and Vision Impaired	SP - A	SP - A	SP - A	SP - A	SP - A
Virginia Rehabilitation Center for the Blind and Vision Impaired	SP - A	SP - A	SP - A	SP - A	SP - A
Woodrow Wilson Rehabilitation Center	SP - A	SP - A	SP - A	SP - A	SP - A

### Natural Resources Secretariat

Agency Name	Functional Area				
	Accounting	Procurement	Human Resources	Payroll	Information Systems Security
Department of Historic Resources	M	M	M	SP - M	M
Marine Resources Commission	A	A	A	M	A
Virginia Museum of Natural History	M	M	M	M	M

## Appendix A

### Public Safety Secretariat

Agency Name	Functional Area				
	Accounting	Procurement	Human Resources	Payroll	Information Systems Security
Commonwealth's Attorneys' Services Council	M	M	M	SP - M	M
Department of Criminal Justice Services	A	A	A	SP - M	M
Department of Emergency Management	M	A	A	SP - M	A
Department of Fire Programs	A	A	SP - M	SP - M	M
Department of Forensic Science	A	A	A	SP - M	A
Department of Military Affairs	A	A	A	SP - M	SP - A
Department of Veterans Services	A	A	A	A	M
Virginia Correctional Enterprises	M	A	A	SP - A	A

### Transportation Secretariat

Agency Name	Functional Area				
	Accounting	Procurement	Human Resources	Payroll	Information Systems Security
Department of Aviation	A	A	A	SP - M	M
Department of Rail & Public Transportation	A	A	SP - M	SP - M	M

Executive Offices

Agency Name	Functional Area				
	Accounting	Procurement	Human Resources	Payroll	Information Systems Security
Attorney General & Department of Law	A	A	A	A	A
Office for Substance Abuse Prevention	SP - A	SP - A	SP - A	SP - A	M
Office of Commonwealth Preparedness	SP - A	SP - A	SP - A	SP - A	M
Office of the Governor	SP - A	SP - A	SP - A	SP - A	M
Office of the Lieutenant Governor	SP - A	SP - A	SP - A	SP - A	M
Secretary of Administration	SP - A	SP - A	SP - A	SP - A	M
Secretary of Agriculture and Forestry	SP - A	SP - A	SP - A	SP - A	M
Secretary of Commerce & Trade	SP - A	SP - A	SP - A	SP - A	M
Secretary of Education	SP - A	SP - A	SP - A	SP - A	M
Secretary of Finance	SP - A	SP - A	SP - A	SP - A	M
Secretary of Health & Human Resources	SP - A	SP - A	SP - A	SP - A	M
Secretary of Natural Resources	SP - A	SP - A	SP - A	SP - A	M
Secretary of Public Safety	SP - A	SP - A	SP - A	SP - A	M
Secretary of Technology	SP - A	SP - A	SP - A	SP - A	M
Secretary of the Commonwealth	SP - A	SP - A	SP - A	SP - A	M
Secretary of Transportation	SP - A	SP - A	SP - A	SP - A	M



## Appendix B:

## Current Service Arrangements by Agency by Function

The table below highlights information about the agencies covered by our review and their current service providers in our review. The table further reflects which function service providers are supplying using the legend below:

### Functional Legend:

Fiscal	Fiscal (Revenues, Expenditures)
Proc	Procurement
HR	Human Resources
Pay	Payroll
ISS	Information System Security
ISSP	Information System Security Program Consulting

We strongly encourage each agency to work with their respective Secretary, evaluating the nature of their relationship with their service provider and the adequacy of any memorandums of understanding in place to support those relationships.

### Administration Secretariat

Agency Name	Service Provider				
	Department of Accounts			Department of Human Resource Management	Department of General Services
	Internal	Payroll Service Bureau	Information Technology Security Assistance Team		
Compensation Board		Pay		HR	
Council on Human Rights		Pay		HR	Fiscal, Proc
Department of Employment Dispute Resolution		Pay	ISSP	HR	Fiscal, Proc
Department of Human Resource Management		Pay			
Department of Minority Business Enterprise		Pay	ISSP	HR	Fiscal, Proc
State Board of Elections		Pay	ISSP	HR	

Commerce and Trade Secretariat

Agency Name	Service Provider			
	Department of Accounts			Department of Human Resource Management
	Internal	Payroll Service Bureau	Information Technology Security Assistance Team	
Board of Accountancy	Fiscal, Proc	Pay	ISSP	HR
Department of Business Assistance		Pay	ISSP	HR
Department of Housing & Community Development		Pay		
Department of Labor & Industry		Pay		
Department of Mines, Minerals & Energy		Pay		
Department of Professional & Occupational Regulation		Pay		
Virginia Racing Commission	Fiscal	Pay	ISSP	HR

Education Secretariat

Agency Name	Service Provider			
	Department of Accounts			Department of Human Resource Management
	Internal	Payroll Service Bureau	Information Technology Security Assistance Team	
Frontier Culture Museum of Virginia		Pay		
Gunston Hall		Pay		
The Library of Virginia		Pay		
The Science Museum of Virginia		Pay	ISSP	HR
Virginia Commission for the Arts		Pay		HR
Virginia Museum of Fine Arts		Pay		

Finance Secretariat

Agency Name	Service Provider			
	Department of Accounts			Department of Human Resource Management
	Internal	Payroll Service Bureau	Information Technology Security Assistance Team	
Department of Planning & Budget	Fiscal, Pay		ISSP	HR
Department of the Treasury	Pay			

Health and Human Resources Secretariat

Agency Name	Service Provider			
	Department of Accounts		Department of Human Resource Management	Department of Rehabilitative Services
	Payroll Service Bureau	Information Technology Security Assistance Team		
Department for the Aging	Pay	ISSP	HR	
Department for the Deaf & Hard-of-Hearing				Fiscal, Proc, HR, Pay, ISS
Department of Health Professions	Pay			
Virginia Board for People with Disabilities				Fiscal, Proc, HR, Pay, ISS
Virginia Department for the Blind and Vision Impaired				Fiscal, Proc, HR, Pay, ISS
Virginia Rehabilitation Center for the Blind and Vision Impaired				Fiscal, Proc, HR, Pay, ISS
Woodrow Wilson Rehabilitation Center				Fiscal, Proc, HR, Pay, ISS

Natural Resources Secretariat

Agency Name	Service Provider	
	Department of Accounts	
	Payroll Service Bureau	Information Technology Security Assistance Team
Department of Historic Resources	Pay	ISSP
Virginia Museum of Natural History	Pay	ISSP

Public Safety Secretariat

Agency Name	Service Provider			
	Department of Accounts		Department of Human Resource Management	Department of Corrections
	Payroll Service Bureau	Information Technology Security Assistance Team		
Commonwealth's Attorneys' Services Council	Pay			
Department of Criminal Justice Services	Pay			
Department of Emergency Management	Pay			
Department of Fire Programs	Pay	ISSP	HR	
Department of Forensic Science	Pay			
Department of Military Affairs	Pay			
Virginia Correctional Enterprises				Pay

Transportation Secretariat

Agency Name	Service Provider	
	Department of Accounts	Department of Human Resource Management
	Payroll Service Bureau	
Department of Aviation	Pay	
Department of Rail & Public Transportation	Pay	HR

Executive Offices

Agency Name	Service Provider
	Division of Select Agencies Support Services
Office for Substance Abuse Prevention	Fiscal, Proc, HR, Pay
Office of Commonwealth Preparedness	Fiscal, Proc, HR, Pay
Office of the Governor	Fiscal, Proc, HR, Pay
Office of the Lieutenant Governor	Fiscal, Proc, HR, Pay
Secretary of Administration	Fiscal, Proc, HR, Pay
Secretary of Agriculture & Forestry	Fiscal, Proc, HR, Pay
Secretary of Commerce & Trade	Fiscal, Proc, HR, Pay
Secretary of Education	Fiscal, Proc, HR, Pay
Secretary of Finance	Fiscal, Proc, HR, Pay
Secretary of Health & Human Resources	Fiscal, Proc, HR, Pay
Secretary of Natural Resources	Fiscal, Proc, HR, Pay
Secretary of Public Safety	Fiscal, Proc, HR, Pay
Secretary of Technology	Fiscal, Proc, HR, Pay
Secretary of the Commonwealth	Fiscal, Proc, HR, Pay
Secretary of Transportation	Fiscal, Proc, HR, Pay