

DEPARTMENT OF GENERAL SERVICES

**REPORT ON AUDIT
FOR THE TWO-YEAR PERIOD ENDED
JUNE 30, 2004**



AUDIT SUMMARY

Our audit of the Department of General Services for the two-year period ended June 30, 2004, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no matters involving internal control and its operation that we consider material weaknesses;
- no instances of noncompliance or other matters that required reporting; and
- adequate corrective action with respect to the prior year audit finding.

In addition to this report, during this period we have reviewed the Department's management of capital assets for the Commonwealth's Annual Financial Report, capital outlay, deferred maintenance, travel and procurement card procedures, fleet management oversight, electronic procurement, goods and material contracting processes, and financial and other services rendered to a group of small agencies. We have issued separate reports on all of these other issues.

- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
AGENCY HIGHLIGHTS	1-2
FINANCIAL HIGHLIGHTS	2-4
INDEPENDENT AUDITOR'S REPORT	5-6
AGENCY OFFICIALS	7

AGENCY HIGHLIGHTS

Overview

The Department of 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 Communications. 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.

Fiscal Services within the Director's Office also provides administrative support for the following agencies:

- State Board of Elections
- Virginia Office for Protection and Advocacy
- Virginia War Memorial Foundation
- Department of Employment Dispute Resolution
- Council on Human Rights

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 Bureau of Capital Outlay Management reviews for compliance with all applicable building code requirements during the design and construction of state buildings. They also perform cost and procurement reviews of proposed state agency construction. In addition, 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. We discuss the Commonwealth's capital outlay process in a separate report issued November 2004, titled "Review of the Commonwealth's Capital Outlay Process."

The Bureau of Real Property Management administers the policies and procedures regarding the acquisition and disposal of real property by state agencies and institutions. They also assist 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. They also perform 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.

Purchases and Supply maintains and manages the state web-based procurement system, eVA. Additionally, they operate the Virginia Distribution Center, which stocks food and nonfood items for resale to state agencies, local governments, and public schools. This division also 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. During fiscal years 2003 and 2004, there was an increase in federal funding for chemical terrorism response and preparedness efforts.

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

Tables 1 and 2 reflect operating funding, budget, and expense activity for fiscal years 2004 and 2003. For General Services, the Commonwealth designates some non-general funds' original budgets as sum sufficient, with the adjusted budget reflecting actual revenue collected. This results in a variance between original and adjusted budgets.

During both fiscal years, the Director's Office's non-general fund adjusted budget includes funding to purchase new vehicles; however, due to mandated transfers to the general fund, expenditures were lower than anticipated.

The variance between the Division of Purchases and Supply's non-general fund adjusted budget and actual expenses in fiscal years 2003 and 2004 is due to less than expected sales for the Virginia Distribution Center. Most notably, the Department of Corrections has decreased their purchasing through the center.

The variance between the Division of Consolidated Laboratories' original and adjusted federal budgets is due to the increase in a bio-terrorism grant to support Virginia chemical terrorism response and preparedness laboratory.

Table 1

Financial Activity for Fiscal Year 2004

	<u>Funding Sources</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>
Director's Office:				
General	\$ 3,887,075	\$ 3,577,854	\$ 3,888,308	\$ 3,887,075
Non-General	13,581,631	82,250	12,584,525	10,627,097
Division of Engineering and Buildings:				
General	2,002,238	1,626,516	2,002,530	2,002,238
Non-General	30,518,138	2,567,616	32,643,697	29,768,619
Federal	20,000	-	318,948	207,138
Division of Purchases and Supply:				
General	3,256,927	3,164,414	3,257,027	3,256,926
Non-General	30,898,860	2,670,295	59,151,936	36,147,522
Division of Consolidated Laboratories:				
General	9,418,398	9,183,452	9,418,988	9,418,397
Non-General	6,441,168	4,589,476	7,659,566	6,498,677
Federal	<u>7,209,919</u>	<u>940,521</u>	<u>8,940,521</u>	<u>6,797,298</u>
Total	<u>\$107,234,354</u>	<u>\$28,402,393</u>	<u>\$139,866,046</u>	<u>\$108,610,987</u>

Table 2

Financial Activity for Fiscal Year 2003

	<u>Funding Sources</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>
Director's Office:				
General	\$ 3,129,191	\$ 2,690,004	\$ 3,163,843	\$ 3,129,191
Non-General	13,826,998	82,250	12,484,135	9,245,199
Division of Engineering and Buildings:				
General	2,299,843	3,070,899	2,300,066	2,299,843
Non-General	25,952,901	2,657,616	29,561,782	26,568,032
Division of Purchases and Supply:				
General	3,172,786	3,333,370	3,255,000	3,172,786
Non-General	27,727,875	8,831,564	56,150,205	32,770,353
Division of Consolidated Laboratories:				
General	9,394,414	9,493,251	9,396,527	9,394,414
Non-General	6,702,785	4,288,476	7,559,566	6,191,815
Federal	<u>3,448,832</u>	<u>940,521</u>	<u>3,440,521</u>	<u>3,439,051</u>
Total	<u>\$95,655,625</u>	<u>\$35,387,951</u>	<u>\$127,311,645</u>	<u>\$96,210,684</u>

Tables 3 and 4 reflect expenditure activity for fiscal years 2004 and 2003.

Table 3

<u>Operating Expenditures by Division</u>		
	<u>2004</u>	<u>2003</u>
Director's Office	\$ 14,514,172	\$12,374,390
Division of Engineering and Buildings	31,977,995	28,867,875
Division of Purchases and Supply	39,404,448	35,943,139
Division of Consolidated Laboratories	<u>22,714,372</u>	<u>19,025,280</u>
Total	<u>\$108,610,987</u>	<u>\$96,210,684</u>

Table 4

<u>Operating Expenditures by Type</u>		
	<u>2004</u>	<u>2003</u>
Personal services	\$ 31,339,754	\$30,166,707
Contractual services	22,047,099	17,941,845
Supplies and materials	32,384,145	29,601,363
Continuous charges	13,854,365	12,439,877
Equipment	7,412,844	4,522,151
Plant and improvements	1,061,706	578,435
Other	<u>511,074</u>	<u>960,306</u>
Total	<u>\$108,610,987</u>	<u>\$96,210,684</u>

Capital Expenditures

General Services spent approximately \$32 million and \$11 million on capital projects in fiscal years 2004 and 2003, respectively. In fiscal year 2003, 62 percent of these expenditures went towards the James Madison Building Renovation. In fiscal year 2004, \$20 million in expenditures were for the Capitol Square improvements. This effort includes four major renovation and construction projects taking place within capital square: the Old State Library and Archives, the Finance Building, the Washington Building, and the Capitol Building. Bond proceeds are the primary funding source for the improvements. General Services expects to complete the Capital Square improvements by 2007 at an estimated total cost of \$190 million. General Services also plans to use a Public Private Partnership agreement to renovate the Eighth, Ninth, and Broad Street office buildings.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

April 17, 2005

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

The Honorable Lacey E. Putney
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 two year period ended June 30, 2004. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

In addition to this report during this period, we have reviewed the Department's management of capital assets for the Commonwealth's Annual Financial Report, capital outlay, deferred maintenance, travel and procurement card procedures, fleet management oversight, electronic procurement, goods and material contracting processes and financial and other services render to a group of small agencies. We have issued separate reports on all of these other issues.

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, regulations, and contract agreements. 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, regulations and contract agreements. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Expenditures
Revenues
Payroll

We gained an understanding of the overall internal controls, both automated and manual, 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.

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, regulations and contract agreements. 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 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 no matters involving internal control and its operation that we consider to be a material weakness. 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, regulations and contract agreements disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Department has taken adequate corrective action with respect to the audit finding reported in the prior year that are not repeated in this letter.

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 on May 9, 2005.

AUDITOR OF PUBLIC ACCOUNTS

JP/kva

DEPARTMENT OF GENERAL SERVICES

James T. Roberts
Director

Joe F. Damico
Assistant Director

Bryan W. Wagner
Controller

Annette B. Grier
Internal Audit Director