



OFFICE OF THE STATE INSPECTOR GENERAL

REPORT ON AUDIT FOR THE PERIOD JULY 1, 2012 THROUGH SEPTEMBER 30, 2014

Auditor of Public Accounts
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AUDIT SUMMARY

Our audit of the Office of the State Inspector General for the audit period of July 1, 2012, through September 30, 2014, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no matters involving internal control and its operation necessary to bring to management's attention; and
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

The Office of the State Inspector General was a new agency effective July 1, 2012, and this report represents our first audit of the agency. The audit period goes through September 30, 2014, to coincide with the agency's implementation of Cardinal, the Commonwealth's new accounting system.

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AGENCY BACKGROUND AND HIGHLIGHTS

The Office of the State Inspector General's (Inspector General) mission is to promote integrity and accountability, as well as efficient and effective government, through the conduct of independent investigations, performance reviews, and other services to provide objective and useful information to the citizens of the Commonwealth and those charged with its governance.

The Inspector General was established during the 2011 Session of the General Assembly and became a separate agency effective July 1, 2012. The agency was created by consolidating positions, funding, and other assets from similar operations at various agencies, including the Department of Behavioral Health and Developmental Services (DBHDS), Department of Corrections (Corrections), Department of Juvenile Justice, Department of Transportation (Transportation), and the Department of Accounts' Division of State Internal Audit.

The Governor appoints the State Inspector General, who is responsible for the overall administration and operation of the office. Three operational divisions support the Inspector General's mission and statutory responsibilities.

Performance Review Services Division

The Performance Review Services Division conducts performance reviews of executive branch agencies to ensure that appropriations are used as intended and to evaluate the efficiency, effectiveness, and economy of agency programs and operations. This division also coordinates and oversees the executive branch internal audit programs, as well as the establishment of uniform internal audit standards across the Commonwealth's executive branch.

Behavioral Health and Developmental Services Division

The Behavioral Health and Developmental Services Division conducts annual inspections of state facilities operated by the DBHDS. This division also conducts reviews of the quality of services provided at the state operated facilities and licensed providers of behavioral health and developmental services.

Investigative and Law Enforcement Services Division

The Investigative and Law Enforcement Services Division manages complaints and ensuing investigations involving allegations of fraud, waste, abuse, program duplication, and corruption by state and non-state agency personnel. The investigative staff carry out a full range of traditional law enforcement functions. Furthermore, this division manages the Fraud, Waste, and Abuse Hotline, as well as the Fraud and Abuse Whistle Blower Protection Act Program.

The Inspector General's office is primarily funded with General Fund appropriations; however, the Inspector General also receives funding from DBHDS and Transportation to partially support the positions transferred from each respective agency. The Inspector General also collects fees from internal audit training participants. Table 1 below shows the budget and actual expenses by fund for fiscal years 2013 and 2014.

Budget and Actual Expenses by Fund

Table 1

Fund	2013			2014		
	Original Budget	Final Budget	Expenses	Original Budget	Final Budget	Expenses
General	\$ -	\$4,337,263	\$3,663,870	\$4,155,222	\$4,415,763	\$2,610,832
Special Revenue	-	590,994	218,347	125,000	283,545	172,737
Commonwealth Transportation	-	1,369,465	820,378	1,896,314	1,896,314	1,194,512
Total	\$ -	\$6,297,722	\$4,702,595	\$6,176,536	\$6,595,622	\$3,978,081

Source: Commonwealth Accounting and Reporting System

There was no original budget for the Inspector General's office for fiscal year 2013 due to the timing of the transition to a stand-alone agency. Instead, appropriations were transferred from other agencies, along with personnel, when agency operations began in July 2012. There are a number of variances in Table 1 between original budget, final budget and expenses. Many of these variances are the result of the transition to a new agency that includes filling positions, buying equipment and establishing operations. These transitional activities may result in some inconsistencies in the budget and expenses in the first few years until operations are stabilized.

Because the Inspector General is a new agency with limited administrative positions, the agency uses various central agencies for some of their administrative functions. The Inspector General has agreements in place with the Department of Accounts (includes the Payroll Service Bureau), the Department of Human Resource Management, and the Department of General Services for fiscal, payroll administration, personnel, and procurement services, respectively. In fiscal years 2013 and 2014, the Inspector General paid these agencies approximately \$80,000 annually for these services.

Table 2 shows expenses by type for each year and the first 3 months of fiscal year 2015. The most significant type of expense is personal services, which includes salary and fringe benefit expenses for approximately 40 employees.

Expenses by Type

Table 2

	2013	2014	Quarter 1, 2015
Personal services	\$3,440,436	\$3,047,349	\$882,477
Contractual services	400,506	523,142	46,572
Continuous charges	73,727	314,495	11,768
Equipment	773,104	51,558	2,205
Other	14,822	41,537	12,901
Total	\$4,702,595	\$3,978,081	\$955,923

Source: Commonwealth Accounting and Reporting System

Overall agency expenses decreased by more than \$700,000, or 15 percent, between fiscal years 2013 and 2014. This decrease was primarily due to one-time equipment purchases in fiscal year 2013 for expanded office space in the Monroe Building. In addition, fiscal year 2013 expenses included 14 Corrections staff who were temporarily assigned to the Inspector General due to some unintentional conflicts with the transfer of law enforcement authority to the new agency.

When the Inspector General was formed, law enforcement authority was created in the agency and the law enforcement authority that was previously granted to related offices at Corrections and the Department of Juvenile Justice was eliminated. The agents that remained at Corrections to conduct internal investigations were left without law enforcement authority. Therefore, until such time that Corrections could obtain law enforcement authority, it was agreed that the agents would be assigned to the Inspector General based on guidance from the Office of the Attorney General. The Corrections' agents were subsequently transferred back to Corrections at the beginning of fiscal year 2014.



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Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

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July 31, 2015

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable John C. Watkins
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Office of the State Inspector General (Inspector General)** for the audit period July 1, 2012, through September 30, 2014. 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.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in the Commonwealth Accounting and Reporting System, review the adequacy of the Inspector General's internal controls, and test compliance with applicable laws, regulations, contracts, and grant agreements.

Audit Scope and Methodology

The Inspector General'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, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Expenses, including payroll and contractual services
Small purchase charge card
Cash receipts – training fees
Capital assets

We performed audit tests to determine whether the Inspector General'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, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and observation of the Inspector General's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that the Inspector General properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Inspector General 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 necessary to be reported to management. The results of our tests of compliance with applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Exit Conference and Report Distribution

We discussed this report with management on August 11, 2015.

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

LCW/clj

AGENCY OFFICIALS

OFFICE OF THE STATE INSPECTOR GENERAL

June Jennings, State Inspector General
June 2014 – Present

Michael Morehart, State Inspector General
July 2012 – May 2014