

**DEPARTMENT OF
PROFESSIONAL AND OCCUPATIONAL REGULATION**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2005**



AUDIT SUMMARY

Our audit of the Department of Professional and Occupational Regulation for the year ended June 30, 2005, found:

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

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AGENCY HIGHLIGHTS

The Department of Professional and Occupational Regulation protects the citizens of the Commonwealth by regulating commercial occupations and certain professions as designated by the General Assembly. The Department's responsibilities include certification, licensing, investigation, monitoring compliance, fee collection, record maintenance, and enforcement. The Department provides centralized administrative, examination, and enforcement functions to the following 18 boards:

APELSCIDLA*	Geology
Asbestos, Lead, and Home Inspectors	Hearing Aid Specialists
Auctioneers	Opticians
Barbers and Cosmetology	Polygraph Examiners
Boxing and Wrestling Programs	Real Estate
Branch Pilots	Real Estate Appraisers
Cemeteries	Soil Scientists and Wetland Delineators
Contractors	Waste Management Facility Operators
Fair Housing	Waterworks and Wastewater Works Operators

*Architects, professional engineers, land surveyors, certified interior designers, and certified landscape architects

Changes to the board structure during the audit period include the addition of Hair Braiding, Wax Technicians, and Tattooing professions to the Barbers and Cosmetology Board as of July 1, 2004, and the consolidation of the Wetland Delineators with Soil Scientists as of July 1, 2004.

System Implementation Project

The Department is working to replace its current licensing and enforcement systems with a new product called My License Office. The Virginia Information Technologies Agency negotiated a statewide contract with the software vendor for use by Commonwealth agencies that perform licensing functions. The Department has delayed system implementation originally scheduled for September 2006, until the software vendor works to close numerous functionality gaps. These gaps include critical business rules and functions that are present in the Department's current systems but are not included in the new application. The vendor has not yet indicated when they will complete the required modifications and the new version of the software will be available. The Virginia Information Technologies Agency is assisting the Department in its negotiations with the software vendor and is also monitoring the project.

FINANCIAL INFORMATION

The Commonwealth Accounting and Reporting System includes all financial data except for the activity of two recovery funds. The Department records licensing fees and the expenses associated with regulation in its special revenue funds. The Department records the collection of monetary penalties in the state Literary Fund.

The following schedules summarize the Department's budgeted revenues and expenses compared with actual results for fiscal year 2005.

Analysis of Budgeted and Actual Appropriations and Funding Fiscal Year Ended June 30, 2005

<u>Funding Source</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Funding Received</u>
Special revenue	\$11,137,485	\$12,438,950	\$15,818,095
Federal	<u>335,000</u>	<u>355,000</u>	<u>259,455</u>
Total resources	<u>\$11,472,485</u>	<u>\$12,793,950</u>	<u>\$16,077,550</u>

The Department received more revenue than anticipated due to the significant increase in the volume of applicants and licensees in the Real Estate and Contractor Boards. The Department received less Federal funding than anticipated due to changes in a grant award and the timing of the grant payments. However, the Department used existing cash balances to fund its Federal fair housing activity. In addition to the funding indicated above, the Department collected \$459,575 in monetary penalties, which the Department deposits in the state Literary Fund.

Analysis of Budgeted and Actual Expenses Fiscal Year Ended June 30, 2005

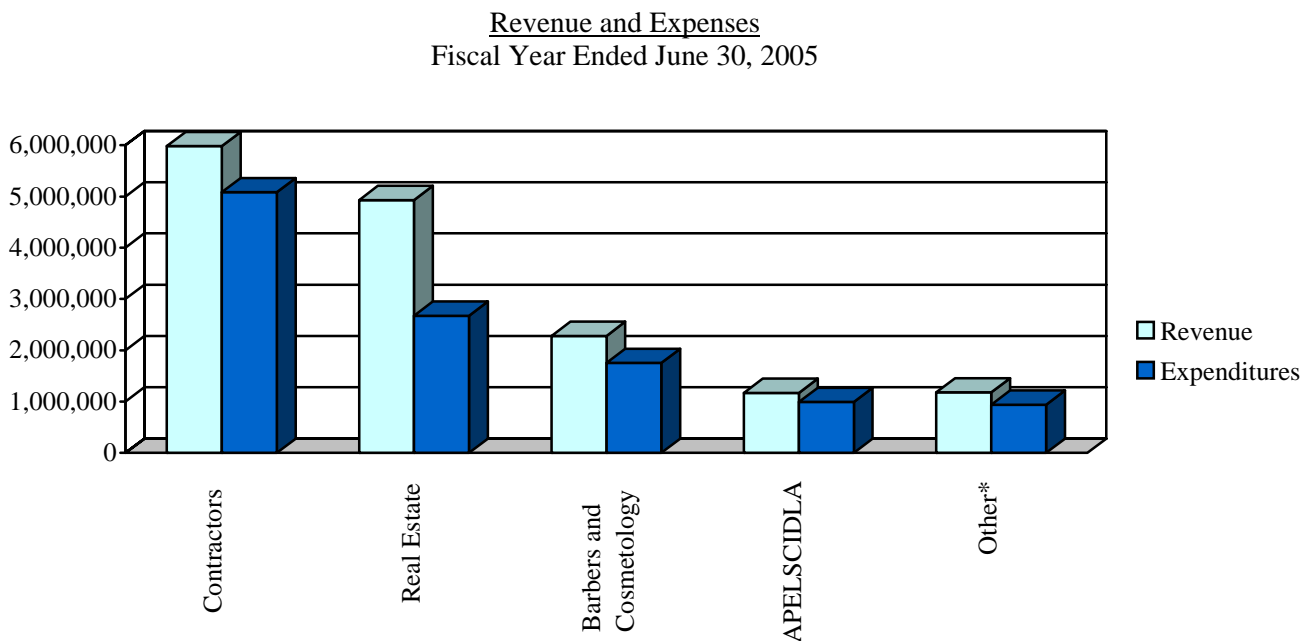
<u>Program Expenses</u>			<u>Expenses by Funding Source</u>	
<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual</u>	<u>Special Revenue</u>	<u>Federal</u>
<u>\$11,472,485</u>	<u>\$12,793,950</u>	<u>\$11,873,198</u>	<u>\$11,522,387</u>	<u>\$350,811</u>

During the year, the Department increased its expense budget in its special revenue funds primarily to fund increased activity in the Real Estate and Contractor Boards. The Department also increased its budget to pay for development costs for its new licensing system, increased health insurance costs, and contractual obligations associated with the Department's common interest management program. The Department allocates administrative expenses, legal costs, and information system costs to the various boards using a cost allocation system.

The Department's actual expenses were less than budgeted, primarily due to personnel vacancies, which the Department has filled during fiscal year 2006. The Department's payroll expenses of \$8,221,927 accounted for 69 percent of total expenses and contractual services of \$2,527,194 accounted for 21 percent of total expenses.

Board Activity

The following bar chart contains revenues and expenses for selected boards individually and the remaining boards combined for the fiscal year ended June 30, 2005.

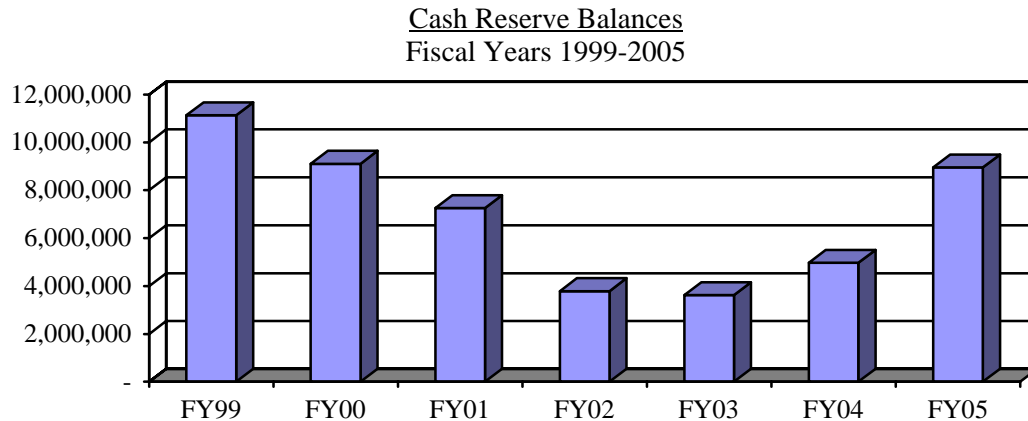


* includes the activities of the other 14 boards regulated by the Department

Each board is self-supporting through regulant-assessed fees. The Code of Virginia requires the Department to adjust fees at the end of each biennium if expenses vary more than ten percent from revenues, so that revenues are sufficient, but not excessive to cover expenses. Before fiscal year 1999, the Department had accumulated significant cash reserves as a result of low operating costs. Between fiscal years 1999 and 2003, 17 boards resolved to lower fees in order to decrease those large cash balances. By the 2002-2004 biennium, some of those boards had substantially reduced their excess cash balances and projections indicated that revenues collected from the reduced fees would not be adequate to cover future operating expenses. In order to ensure collection of sufficient revenues, six boards adopted fee increases. Fee increases became effective during the 2002-2004 biennium for the Barbers and Cosmetology and Contractors boards and during fiscal year 2005 for the APELSCIDLA, Real Estate, Soil Scientists and Wetlands Delineators, and Waterworks and Wastewater Works Operators boards.

During the past three years, many boards have experienced an unusually high increase in the volume of new applications and growth in the number of regulants, which has resulted in higher than anticipated revenue collections and an increase in cash balances. However, the Department expects expenses will increase as the Department responds to the increased regulatory and enforcement associated with this growth. The Department anticipates that the increase in expenses will offset the increase in revenues and cash balances over time, but will continue to evaluate the activity to ensure fees are appropriate.

The following summarizes the changes in cash reserves for fiscal years 1999-2005:



Recovery Funds

The Department controls two recovery funds held in the Local Government Investment Pool, a short-term investment pool managed by the State Treasurer. At June 30, 2005, the Virginia Real Estate Transaction Recovery Fund and the Virginia Contractor Transaction Recovery Fund had total cash and investment balances (including principal and accrued interest) of \$3,112,399 and \$3,409,615, respectively. The funds pay individuals who have claims against licensees who are bankrupt, cannot be located, or otherwise cannot pay a claim when found guilty in court of improper and dishonest conduct. The following chart shows claims payments from the recovery fund for fiscal years 2002-2005.

Recovery Fund Payments Fiscal Years 2002-2005

<u>Fiscal Year</u>	<u>Virginia Real Estate Transaction Recovery Fund</u>		<u>Virginia Contractor Transaction Recovery Fund</u>	
	<u>Number of Payments</u>	<u>Amount</u>	<u>Number of Payments</u>	<u>Amount</u>
2002	1	\$ 7,530	86	\$621,642
2003	2	10,388	128	818,231
2004	2	23,200	49	310,065
2005	2	34,150	85	604,996

Fair Housing Assistance Program

The Department's federal fund consists primarily of revenue and expenses from its participation in the Fair Housing Assistance Program administered by the U.S. Department of Housing and Urban Development (HUD). Pursuant to a cooperative agreement between HUD and the Department, HUD provides financial support to assist with the Department's processing of complaints alleging unlawful discrimination in housing. Additionally, HUD provides funds for training of agency staff involved with the processing of these complaints. During fiscal year 2005, the Department processed 213 complaints related to fair housing.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

May 2, 2006

The Honorable Timothy M. Kaine
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited selected financial records and operations of the **Department of Professional and Occupational Regulation** for the year ended June 30, 2005. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions on the Commonwealth Accounting and Reporting System and in the Department's internal licensing system, review the adequacy of the Department's internal controls, and test for compliance with applicable laws and regulations.

Audit Scope And Methodology

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

We gained an understanding of the overall internal controls surrounding these cycles, both automated and manual, sufficient to plan the audit. We considered materiality and control 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:

Revenues
Payroll Expenditures
Contractual Service Expenditures

Recovery Fund Accounts
Small Purchase Charge Card

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 test of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Department's operations. We reviewed the Department's

Board minutes and applicable sections of the Code of Virginia and the 2005 Virginia Acts of Assembly. We tested transactions and performed analytical procedures, including budgetary and trend analysis.

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 its internal licensing system. 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 considered necessary to be reported to management. The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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

AUDITOR OF PUBLIC ACCOUNTS

SAH/kva

DEPARTMENT OF PROFESSIONAL AND OCCUPATIONAL REGULATION

BOARD MEMBERS

Raynard Jackson
Chairman

Julie M. Clifford
Vice Chairman

Nancy Finley Barbour	Walter M. Fore, Jr.
James M. Demmel	Maxime A. Frias
Susan T. Ferguson	Ronald E. Lushbaugh

William A. Tucker

AGENCY OFFICIALS

Louise Fontaine Ware
Director

Sandra Whitley Ryals
Chief Deputy Director

Steven L. Arthur
Deputy Director for Administration and Finance

