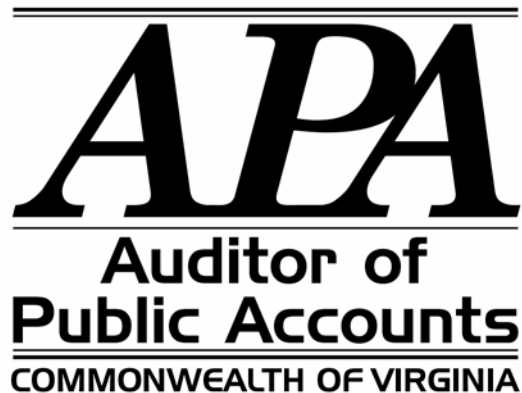


VIRGINIA INFORMATION TECHNOLOGIES AGENCY

REPORT ON AUDIT

FOR THE PERIOD

JULY 1, 2002 THROUGH JUNE 30, 2004



AUDIT SUMMARY

Our audit of the Virginia Information Technologies Agency (VITA) for the period July 1, 2002, through June 30, 2004, found:

- revenues and expenses are properly reported in the Commonwealth Accounting and Reporting System;
- compliance with all applicable laws and regulations; and,
- management has established and maintained internal controls with the exception of access controls over the PeopleSoft accounting system as described in the section of the report entitled "Internal Control Findings and Recommendation."

VITA has been subject to several other audits performed by our office over the past two years. During this audit we did not re-test activities covered in these recent audits. Below is a listing of our recent reports, and they may be accessed through our website, www.apa.virginia.gov.

Wireless E-911 Service Board, for the periods ending June 30 2003, 2004, and 2005
Virginia Information Technologies Agency, December 2004 and January 2004
Special Review of Payroll and Human Resource Systems, October 2004
Virginia Information Technologies Agency Service Organization Review, April 2004 and May 2003
Surplus Computer Equipment, October 2003

Update on 2003 Audit of VITA's Service Vendor, Virginia Interactive

Effective July 1, 2003, the Virginia Information Providers Network Authority (Authority) became a division of the Virginia Information Technologies Agency (VITA) resulting in the dissolution of the Authority's Board and the staff became VITA employees. Our last Authority audit included recommendations regarding an Authority service vendor, Virginia Interactive, LLC. Since VITA is now the contract administrator, we followed-up on our prior recommendations to determine whether Virginia Interactive has taken adequate corrective action.

Our prior report noted that Interactive does not have a revenue accounting system, as defined and required by the contract. In addition, there were no formal accounting policies and procedures adopted by Interactive management, only informal and incomplete documentation created by the Interactive accountant to describe how she performs her daily job functions. This had resulted in \$700,000 of undistributed cash at June 30, 2003, when the balance should have been minimal.

VITA and Interactive have been working to resolve the issues identified in the past and have implemented controls to monitor the cash balance; an indicator that accounting errors have occurred. Interactive has identified and provided support to properly distribute the \$700,000 and minimize the cash balance. Interactive has also worked with individual agencies to have funds for their on-line sales and activities deposited directly to their bank accounts, rather than depositing and transferring from Interactive's account. This action alone has greatly reduced Interactive's probability of future errors and also reduced their labor to track and account for these individual receipts.

We understand that VITA is currently revising their contract with Interactive. The existing contract requires Interactive to maintain an accounting system and we recommend that VITA continue to require an accounting system in the new contract along with written policies and procedures.

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AGENCY HIGHLIGHTS

The Virginia Information Technologies Agency was created effective July 1, 2003, and consolidated the former Department of Information Technology (DIT), Department of Technology Planning, and the Virginia Information Providers Network. The creation of VITA also changed the way technology development projects are prioritized, approved, and managed in the Commonwealth through the creation of an independent CIO who is hired by an Information Technology Investment Board, and the creation of a Project Management Office. All agencies and institutions of higher education must follow the Project Management regulations created by VITA.

With the creation of VITA all computer assets (hardware) transferred from executive branch agency ownership to VITA's ownership, except for institutions of higher education. In addition, staff that operated these resources transferred to become VITA employees.

VITA provides a variety of information technology services to other agencies and institutions within the Commonwealth through its various divisions. Many of the divisions continue to offer services that existed under the former DIT and a few new services since the creation of VITA.

FINANCIAL HIGHLIGHTS

VITA has continuously evolved since its creation which makes comparing one fiscal year to the next challenging and confusing. Some of the changes that have occurred include the consolidation of three agencies into one, addition of new VITA services not previously offered, transfer of agency-owned equipment and service contracts to VITA, and purchases of assets by VITA on behalf of agencies. We have described these changes in more detail in our prior reports. For these reasons, we have provided financial information and explanations for only fiscal 2004.

The following chart illustrates VITA's original budget, adjusted budget, and actual funding received for all of their funds.

Analysis of Budgeted and Actual Funding

| <u>Fund</u> | <u>Original Budget</u> | <u>Adjusted Budget</u> | <u>Actual Funding</u> |
|---------------------------|------------------------|------------------------|-----------------------|
| General | \$ 2,344,456 | \$ 7,519,795 | \$ 27,619 |
| Special revenues | 21,609 | 2,206,346 | 2,091,226 |
| Internal service | a sum sufficient | 122,642,553 | 112,709,507 |
| Dedicated special revenue | 32,018,860 | 45,665,658 | 40,123,265 |
| Federal | <u>-</u> | <u>965,000</u> | <u>-</u> |
| Total | <u>\$ 34,384,925</u> | <u>\$ 178,999,352</u> | <u>\$ 154,951,617</u> |

The majority of VITA's budget represents internal service fund fees that VITA charges to other entities for services such as telecommunication and data center computer usage. The adjusted budget figure for this fund represents an appropriation sufficient to cover all of VITA's expenditures related to providing services, including paying outside vendors such as Verizon and MCI. The actual funding for this fund represents VITA's portion of the service fee used to offset their internal operating costs, as well as \$92 million recovered from agencies to pay all outside vendors.

The increase in general fund appropriations is due primarily to a \$4.6 million appropriation increase to offset VITA start-up costs. The transfer of the general funds to the internal service fund for start-up costs explains why the actual funding appears much less than the adjusted budget.

Dedicated special revenue represents a monthly .75 cent surcharge assessed on each cell phone number and remitted monthly to VITA from cellular service providers. The Wireless E-911 Service Board uses this money to provide funding to localities and service providers for their efforts in developing an enhanced emergency communication system. We issued a separate audit report on the Wireless E-911 Service Board dated January 12, 2005.

VITA spent approximately \$157 million on programs during fiscal 2004. About 20 percent of these expenses represent payroll and benefits of employees; 45 percent represent contractual services for telecommunications, staffing services including consultants, and seat management services; and, 23 percent represents transfer payments primarily to localities and service providers for the enhanced emergency communications system, also known as Wireless E-911. The remaining 12 percent represents VITA's operating expenses such as supplies and rent. The chart below shows VITA's total expenses by program as compared to the program's original and adjusted budget.

Analysis of Budget to Actual Expenses, by Program

| <u>Program</u> | <u>Original Budget</u> | <u>Adjusted Budget</u> | <u>Actual Expenses</u> |
|--|------------------------|------------------------|------------------------|
| Automated data processing services | a sum sufficient | \$ 51,938,292 | \$ 41,765,808 |
| Telecommunication services | a sum sufficient | 73,769,261 | 66,233,686 |
| Information systems management and direction | \$ 7,630,983 | 15,537,857 | 13,321,301 |
| Emergency communication systems management | <u>26,753,942</u> | <u>37,753,942</u> | <u>35,914,201</u> |
| Total | <u>\$ 34,384,925</u> | <u>\$ 178,999,352</u> | <u>\$ 157,234,996</u> |

INTERNAL CONTROL FINDING AND RECOMMENDATION

Develop Policies and Procedures for Granting, Evaluating, and Terminating Employees in PeopleSoft

VITA has no written policies and procedures for granting user access, evaluating user roles, and terminating access in PeopleSoft. VITA should develop written policies and procedures that contain information on how to create new access to PeopleSoft, how to change or add new roles to an existing account, how to handle terminated employee accounts, and how often to review access and roles.

Policies and procedures provide needed direction on what controls management deems necessary, and therefore, what restrictions to impose for the system. Failure to implement proper policies and procedures could allow for unauthorized access, placing the integrity and completeness of the data stored on the system at risk.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

April 15, 2005

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

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

We have completed an audit of the **Virginia Information Technologies Agency (VITA)** for the period July 1, 2002, through June 30, 2004. We conducted our overall review in accordance with the standards for performance audits set forth in Government Auditing Standards, issued by the Comptroller General of the United States.

Objectives

Our objectives for the audit of VITA were to determine that:

- revenues and expenditures are properly reported in the Commonwealth Accounting and Reporting System;
- compliance with all applicable laws and regulations; and,
- management has established and maintained internal controls over the revenues and expenditures tested.

Audit Scope and Methodology

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of VITA's operations. VITA has been subject to several other audits performed by our office over the past two years; therefore, during this audit we chose not to re-test activities, such as billing, which were tested in the recent audits. Instead, we focused on those audit areas not recently tested and that were necessary to satisfy our audit objectives. We tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Revenues
Payroll
Expenses

We gained an understanding of the overall internal controls, automated and manual, sufficient to plan the audit. We considered control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether VITA'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, contracts, and grant 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 VITA properly stated, in all material respects, the revenues and expenses recorded in the Commonwealth Accounting and Reporting System. We noted one matter involving internal control and its operation that we consider to be a reportable condition relative to VITA's financial records. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect VITA's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. This reportable condition is described within the section of this report entitled "Internal Control Finding and Recommendation." We do not consider this reportable condition to be a material weakness.

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.

Exit Conference

We discussed this letter with management at an exit conference held on June 1, 2005.

AUDITOR OF PUBLIC ACCOUNTS

KKH/whb



COMMONWEALTH of VIRGINIA

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TDD VOICE- TEL. NO.
371-8076

June 1, 2005

Mr. Walter J. Kurcharski
Auditor of Public Accounts
Post Office Box 1295
Richmond, Virginia 23218

Dear Mr. Kurcharski:

Thank you for the opportunity to respond to the Auditor of Public Accounts' audit of the Virginia Information Technologies Agency for the period of July 1, 2002 through June 30, 2004.

We concur with the sole audit finding and recommendation concerning developing policies and procedures for granting, evaluating and terminating employee's access to PeopleSoft. That policy and procedure will be finalized and implemented by June 30, 2005.

As always, we appreciate the professionalism of your staff, particularly lead auditor Karen Helderman.

Sincerely,

Lemuel C. Stewart, Jr.
CIO of the Commonwealth

c: The Honorable Eugene J. Huang, Secretary of Technology
Judy Napier, Assistant Secretary of Technology
David Von Moll, Comptroller
Members, Information Technology Investment Board

JUN 6 '05 AM 11:08

VIRGINIA INFORMATION TECHNOLOGIES AGENCY
Richmond, Virginia

Lemuel C. Stewart, Jr.
Chief Information Officer

