

AGENCIES SERVING VIRGINIANS WITH DISABILITIES

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



AUDIT SUMMARY

This is a report of the Agencies Serving Virginians with Disabilities. These agencies include the following:

- Department of Rehabilitative Services (including the Woodrow Wilson Rehabilitation Center)
- Department for the Blind and Vision Impaired (including the Virginia Industries for the Blind and Virginia Rehabilitation Center for the Blind and Vision Impaired)
- Department for the Deaf and Hard-of-Hearing
- Virginia Board for People with Disabilities

Our audit of the Agencies Serving Virginians with Disabilities for the year ended June 30, 2004, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- weaknesses in internal controls that we consider reportable conditions; and
- no instance of non-compliance or other matters required to be reported under Government Auditing Standards.

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DISABILITY SERVICE AGENCIES

The Agencies Serving Virginians with Disabilities (the Agencies) provide a number of services to Virginia residents who are disabled. The Agencies are comprised of the following: the Department of Rehabilitative Services (including the Woodrow Wilson Rehabilitation Center), the Department for the Blind and Vision Impaired (including the Virginia Industries for the Blind and Virginia Rehabilitation Center for the Blind and Vision Impaired), the Department for the Deaf and Hard-of-Hearing, and the Virginia Board for People with Disabilities. In fiscal years 2003 and 2004, the Disability Service Agencies spent a total of \$181,596,999 and \$186,761,608, respectively.

The Agencies agreed to combine their resources and reduce administrative overhead cost by having the Department of Rehabilitative Services operate a service bureau. The Service Bureau provides services to each disability agency under a memorandum of understanding. Typically, services include payroll, human resources, procurement, internal audit, fiscal, budget, and information technology.

AGENCY OPERATIONS

DEPARTMENT OF REHABILITATIVE SERVICES

Program Operations

The Department of Rehabilitative Services (DRS) helps Virginians with physical, mental, and emotional disabilities become employable, self-supporting, and independent. DRS uses the definition of “disabled” found in the *Americans with Disabilities Act*, which defines a disability as a physical or mental impairment that substantially limits one or more of the major life activities of an individual.

DRS consists of the following primary divisions: Vocational Rehabilitation Services, the Community Rehabilitation Program, Disability Determination Services, and Agency Support Activities. In fiscal years 2003 and 2004, these divisions spent over \$119 million and \$122 million, respectively.

Financial Information

Table 1 summarizes DRS’s budgeted revenues for operating funds compared with actual results for fiscal years 2003 and 2004. The \$5 million difference between budget and actual for special revenue in fiscal years 2003 and 2004 funds is from DRS not having appropriations reduced to reflect the reduction that occurred in their indirect cost recovery rate and subsequent indirect cost revenue. Management is confident that DRS’s special revenue appropriations will be reduced in the 2007-2008 biennium.

Table 1

	<u>Revenues</u>			
	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual</u>	<u>Difference</u>
FY 2004:				
General Fund	\$ 23,793,034	\$ 27,044,660	\$ 27,044,660	\$ -
Special Revenue	9,272,041	11,596,219	6,553,815	(5,042,404)
Federal Trust	<u>90,302,555</u>	<u>93,691,454</u>	<u>89,369,893</u>	(4,321,561)
Total	<u>\$123,367,630</u>	<u>\$132,332,333</u>	<u>\$122,968,368</u>	

FY 2003:

General Fund	\$ 27,631,299	\$ 25,828,751	\$ 25,828,751	\$ -
Special Revenue	6,723,378	13,679,760	8,635,806	(5,043,954)
Federal Trust	<u>90,118,119</u>	<u>90,118,119</u>	<u>84,428,580</u>	(5,689,539)
Total	<u>\$124,472,796</u>	<u>\$129,626,630</u>	<u>\$118,893,137</u>	

Source: Commonwealth Accounting and Reporting System (CARS) 1491D1 and 402 reports

Table 2 summarizes DRS's total expenses incurred for fiscal years 2003 and 2004. Transfer payments represent 40 percent of DRS's expenses and they go to both state and non-state entities, such as disability service boards and community service boards.

Table 2

	<u>Expenses</u>	
	<u>2004</u>	<u>2003</u>
Personal services	\$ 40,971,859	\$ 38,689,557
Contractual services	18,781,936	20,517,494
Supplies and materials	1,200,921	1,352,294
Transfer payments to Woodrow Wilson	13,759,252	15,363,505
Other transfer payments	41,175,833	37,458,046
Rent and other continuous charges	4,931,573	4,785,029
Property and improvements	885	1,398
Equipment	1,567,362	1,473,841
Plant and improvements	<u>187,836</u>	<u>273,604</u>
Total	<u>\$122,577,457</u>	<u>\$119,914,768</u>

Source: CARS

Woodrow Wilson Rehabilitation Center

DRS transferred \$15.3 million and \$13.7 million to the Woodrow Wilson Rehabilitation Center (WWRC) in fiscal years 2003 and 2004, respectively. The fiscal year 2004 transfers from DRS represent 57 percent of WWRC's total revenues. WWRC also receives third party medical reimbursements from insurers, such as Medicare, Medicaid, and private insurance carriers, and private funds and student financial aid assistance.

WWRC is one of nine comprehensive rehabilitation facilities in the country and primarily serves individuals with multiple service needs. WWRC operates a Vocational Rehabilitation Program, a Post Secondary Education Transition Program, and a Comprehensive Outpatient Rehabilitation Program. DRS refers about 75 percent of WWRC's clients. In fiscal year 2004, WWRC served 2,731 clients.

Financial Information

Table 3 summarizes WWRC's budgeted revenues for operating funds compared with actual results for fiscal years 2003 and 2004.

Table 3

	<u>Revenues</u>			
	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual</u>	<u>Difference</u>
FY 2004:				
General Fund	\$ 5,094,126	\$ 5,675,677	\$ 5,675,677	\$ -
Special Revenue, DRS Support Payments	13,759,252	13,759,252	13,759,252	-
Special Revenue, Other	5,230,324	5,230,324	3,243,032	(1,987,292)
Federal Trust	<u>400,007</u>	<u>400,007</u>	<u>348,630</u>	(51,377)
Total	<u>\$24,483,709</u>	<u>\$25,065,260</u>	<u>\$23,941,049</u>	
FY 2003:				
General Fund	\$ 5,560,557	\$ 5,570,901	\$ 5,570,901	\$ -
Special Revenue, DRS Support Payments	15,363,505	15,363,505	15,363,505	-
Special Revenue, Other	3,626,071	3,727,850	3,629,990	(97,860)
Federal Trust	<u>400,007</u>	<u>400,007</u>	<u>286,537</u>	(113,470)
Total	<u>\$24,950,140</u>	<u>\$25,062,263</u>	<u>\$25,932,515</u>	

Source: CARS download of transactions and CARS reports 1419D1 and 402

Table 4 summarizes WWRC's total expenses incurred for fiscal years 2003 and 2004. In fiscal years 2003 and 2004, personal services comprised 63 percent and 69 percent of the WWRC's total expenses, respectively.

Table 4

	<u>Expenses</u>	
	<u>2004</u>	<u>2003</u>
Personal services	\$15,930,682	\$16,723,276
Contractual services	4,515,220	6,155,808
Supplies and materials	1,717,937	1,937,888
Transfer payments	63,394	50,554
Continuous charges	923,025	935,550
Equipment	96,192	697,759
Plant and improvements	<u>-</u>	<u>256,213</u>
Total	<u>\$23,246,450</u>	<u>\$26,757,048</u>

Source: CARS

DEPARTMENT FOR THE BLIND AND VISION IMPAIRED

Program Operations

The Department for the Blind and Vision Impaired (DBVI) enables blind, deaf-blind, and visually impaired individuals to achieve their maximum level of employment, education, and personal independence. DBVI provides vocational training and placement services, daily living skills instruction, orientation and mobility services, counseling, Braille, and training in the use of various types of adaptive equipment. DBVI works cooperatively with the Department of Education and the public school systems to assist in the education of blind, deaf-blind, or visually impaired students. DBVI provides these services and devices through a variety of entities such as Vocational Rehabilitation, Rehabilitation Teaching and Independent

Living, Educational Services, Virginia Industries for the Blind, Library and Resource Center, Randolph Sheppard Vending Program, and Virginia Rehabilitation Center for the Blind and Vision Impaired.

The Library and Resource Center (the Center) loans Braille textbooks to approximately 100 school-aged children every school year. The Center's management estimates that the students or schools return only 75 percent of the materials loaned out in a given year. To increase their return rate the Center will start charging localities \$200 for each volume of Braille materials not returned beginning with volumes borrowed during the current 2004 - 2005 school year. Management expected that the fees collected from localities will exceed the Center's replacement cost because on average Braille textbooks cost \$22 per volume to produce in-house and \$44 per volume to purchased from vendors.

Financial Information

Table 5 summarizes DBVI's budgeted revenues for operating funds compared with actual results for fiscal years 2003 and 2004.

Table 5

	<u>Revenues</u>			
	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual</u>	<u>Difference</u>
FY 2004:				
General Fund	\$ 5,759,359	\$ 5,372,886	\$ 5,372,886	\$ -
Special Revenue	660,980	1,374,534	1,064,307	(310,227)
Enterprise	14,000,000	21,602,555	21,258,349	(344,206)
Trust and Agency	42,000	130,500	133,000	2,500
Federal Trust	<u>7,097,600</u>	<u>7,840,836</u>	<u>7,445,912</u>	(394,924)
Total	<u>\$27,559,939</u>	<u>\$36,321,311</u>	<u>\$35,334,008</u>	
FY 2003:				
General Fund	\$ 6,985,275	\$ 5,331,907	\$ 5,331,907	\$ -
Special Revenue	736,130	1,474,857	789,359	(685,498)
Enterprise	13,000,000	16,227,555	15,011,803	(1,215,752)
Trust and Agency	42,000	374,500	70,700	(303,800)
Federal Trust	<u>7,097,600</u>	<u>8,096,200</u>	<u>7,464,353</u>	(631,847)
Total	<u>\$27,861,005</u>	<u>\$31,505,019</u>	<u>\$28,713,507</u>	

Source: CARS 1419D1 and 402 reports

Table 6 summarizes DBVI's total expenses incurred for fiscal years 2003 and 2004. The Department's two largest expenses are supplies and materials (44 percent) and personal services (31 percent). The \$4,545,817 increase in supplies and materials from fiscal year 2003 to 2004 is primarily due to the increased production and sales to the federal government at the Virginia Industries for the Blind.

Table 6

	<u>Expenses</u>	
	<u>2004</u>	<u>2003</u>
Personal services	\$10,876,393	\$10,588,460
Contractual services	2,390,039	2,468,023
Supplies and materials	15,478,162	10,932,345
Transfer payments	3,313,186	3,264,346
Continuous charges	964,244	828,046
Equipment	1,875,229	1,612,356
Plant and improvements	<u>635,721</u>	<u>274,840</u>
Total	<u>\$35,532,974</u>	<u>\$29,968,416</u>

Source: CARS

Virginia Industries for the Blind

The Virginia Industries for the Blind (VIB), the business enterprise division of the DBVI, works in conjunction with the Division for Services at DBVI and the Virginia Rehabilitation Center for the Blind and Vision Impaired to provide employment, training, and other vocational services to blind individuals across the Commonwealth. Services provided by VIB include: Vocational evaluation, work adjustment, on-the-job training, skill enhancement and cross-training and placement counseling, and a summer work program.

VIB is a self-supporting division that manufactures and sells items to military bases and government offices. VIB has manufacturing locations in Charlottesville and Richmond. Products manufactured by VIB include mattresses, writing instruments, mop heads and handles, and physical fitness uniforms. VIB also has 14 satellite operations across Virginia with ten self-service supply stores serving military and other federal organizations. Additionally, VIB provides staffing for administrative office services. In fiscal year 2004, VIB had sales of \$21 million.

Virginia Rehabilitation Center for the Blind and Vision Impaired

The Virginia Rehabilitation Center for the Blind and Vision Impaired (the Center) is a sub-agency of DBVI that provides comprehensive adjustment services to severely visually impaired Virginians. The Center provides a program of evaluation, adjustment, and prevocational training, which enables students to learn skills necessary for greater independence and efficiency and safety on the job, at home, and in social settings. The Center provides specialized training and evaluation in computer technology, Braille technology, and customer service representative training. The Center has cooperative programs with other community agencies to meet the needs of students in evaluation and training. The average length of stay at the Center is three to four months.

Financial Information

Table 7 summarizes the Center's budgeted revenues for operating funds compared with actual results for fiscal years 2003 and 2004.

Table 7

	<u>Revenues</u>			
	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual</u>	<u>Difference</u>
FY 2004:				
General Fund	\$ 191,465	\$ 194,445	\$ 194,445	\$ -
Special Revenue	54,000	64,000	54,750	(9,250)
Federal Trust	-	33,255	33,255	-
Trust and Agency	<u>1,672,699</u>	<u>1,702,699</u>	<u>1,675,818</u>	(26,881)
Total	<u>\$1,918,164</u>	<u>\$1,994,399</u>	<u>\$1,958,268</u>	
FY 2003:				
General Fund	\$ 234,368	\$ 190,876	\$ 190,876	\$ -
Special Revenue	54,000	54,000	51,610	(2,390)
Federal Trust	<u>1,672,699</u>	<u>1,672,699</u>	<u>1,595,462</u>	(77,237)
Total	<u>\$1,961,067</u>	<u>\$1,917,575</u>	<u>\$1,837,948</u>	

Source: CARS 1419D1 and 402 reports

Table 8 summarizes the Center's total expenses incurred for fiscal years 2003 and 2004. Personal services comprised 75 percent and 72 percent of the Center's total expenses in fiscal years 2003 and 2004, respectively.

Table 8

	<u>Expenses</u>	
	<u>2004</u>	<u>2003</u>
Personal services	\$1,409,791	\$1,355,422
Contractual services	282,514	248,969
Supplies and materials	75,149	66,214
Transfer payments	11,584	2,331
Continuous charges	119,711	135,505
Equipment	16,482	4,442
Plant and improvements	<u>33,255</u>	<u>-</u>
Total	<u>\$1,948,486</u>	<u>\$1,812,883</u>

Source: CARS

DEPARTMENT FOR THE DEAF AND HARD-OF-HEARING

Program Operations

The Virginia Department for the Deaf and Hard-of-Hearing (VDDHH) works to reduce communication barriers between individuals who are deaf or hard-of-hearing, their families, and the professionals who serve them. All VDDHH programs deal with communication, both as a service (through interpreters, technology, and other modes) and as a means of sharing information for public awareness (through training and education). VDDHH administers programs through the following divisions: Telecommunications Relay Services; Interpreter Services Requests; Quality Assurance Screening; Technology Assistance Program; and Outreach, Information, and Referral. During fiscal year 2004, these

divisions provided 1,760,997 units of service to deaf and hard-of-hearing individuals with a direct cost of \$1.3 million.

Financial Information

Table 9 summarizes the VDDHH's budgeted revenues for operating funds compared with actual results for fiscal years 2003 and 2004.

Table 9

	<u>Revenues</u>			
	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual</u>	<u>Difference</u>
FY 2004:				
General Fund	\$1,177,466	\$1,189,360	\$1,189,360	\$ -
Special Revenue	<u>137,387</u>	<u>454,387</u>	<u>405,231</u>	(49,156)
Total	<u>\$1,314,853</u>	<u>\$1,643,747</u>	<u>\$1,594,591</u>	
FY 2003:				
General Fund	\$1,442,429	\$1,188,590	\$1,188,590	\$ -
Special Revenue	<u>137,387</u>	<u>475,387</u>	<u>546,760</u>	71,373
Total	<u>\$1,579,816</u>	<u>\$1,663,977</u>	<u>\$1,735,350</u>	

Source: CARS 1419D1 and 402 reports

Table 10 summarizes VDDHH's total expenses incurred for fiscal years 2003 and 2004. VDDHH began making transfer payments in fiscal year 2004 to entities that operate the Outreach Centers and provide services to the deaf and hard-of-hearing.

Table 10

	<u>Expenses</u>	
	<u>2004</u>	<u>2003</u>
Personal services	\$ 585,231	\$ 590,423
Contractual services	454,921	841,376
Supplies and materials	2,853	4,319
Transfer payments	341,390	-
Continuous charges	116,252	99,386
Equipment	<u>142,212</u>	<u>127,746</u>
Total	<u>\$1,642,859</u>	<u>\$1,663,250</u>

Source: CARS

VIRGINIA BOARD FOR PEOPLE WITH DISABILITIES

Program Operations

The Virginia Board for People with Disabilities (the Board) serves as the Developmental Disabilities Planning Council for addressing the needs of people with developmental disabilities as established under the federal *Developmental Disabilities Assistance and Bill of Rights Act* and the state *Virginians with Disabilities Act*. The Board advises the Secretary of Health and Human Resources and the Governor on issues related to people with disabilities in Virginia.

Major activities of the Board include:

- Partners in Policy Making Program - provides leadership training, resource development, and advocacy skill workshops to people with developmental disabilities and parents of young children with developmental disabilities.
- Youth Leadership Forum - seeks to empower young people with disabilities to further develop their leadership skills. Rising high school juniors and seniors serve as delegates from communities throughout Virginia by participating in a wide range of activities and learning experiences during a four-day Youth Leadership Forum.
- James C. Wheat Award - recognizes individuals for outstanding service to Virginians with disabilities.
- Disability Policy Fellowship - promotes scholarly research and work by offering a graduate or doctoral student an opportunity to engage in the practice of public policy and administration and develop skills in a variety of areas.
- Developmental Disabilities Competitive Grant Program - provides federal funds to initiate major disability service innovations.

Financial Information

Table 11 summarizes the Board's budgeted revenues for operating funds compared with actual results for fiscal years 2003 and 2004.

Table 11

	<u>Revenues</u>			
	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual</u>	<u>Difference</u>
FY 2004:				
General Fund	\$ 118,575	\$ 123,353	\$ 123,353	\$ -
Special Revenue	<u>1,537,827</u>	<u>1,730,327</u>	<u>1,695,820</u>	(34,507)
Total	<u>\$1,656,402</u>	<u>\$1,853,680</u>	<u>\$1,819,173</u>	
FY 2003:				
General Fund	\$142,049	\$ 118,287	\$ 118,287	\$ -
Special Revenue	<u>1,537,827</u>	<u>1,537,827</u>	<u>1,391,681</u>	(146,146)
Total	<u>\$1,679,876</u>	<u>\$1,656,114</u>	<u>\$1,509,968</u>	

Sources: CARS 1419D1 and 402 reports

Table 12 summarizes the Board's total expenses incurred for fiscal years 2003 and 2004. Transfer payments represent 40 percent of the Board's expenses, which represent payments to sub-recipients under the Developmental Disabilities Competitive Grant Program.

Table 12

	<u>Expenses</u>	
	<u>2004</u>	<u>2003</u>
Personal services	\$ 524,814	\$ 443,841
Contractual services	385,234	361,855
Supplies and materials	19,963	16,259
Transfer payments	732,125	530,091
Continuous charges	114,967	88,129
Equipment	<u>36,278</u>	<u>40,459</u>
Total	<u>\$1,813,381</u>	<u>\$1,480,634</u>

Source: CARS

INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Enforce Separation of Duties within Accounting Systems

Four employees have “enter, update, and release” transaction capabilities both within the internal System and CARS that could allow them to make disbursements or execute other transactions and make their detection extremely difficult. The Department of Rehabilitative Services (DRS) uses the Multi-Agency Accounting System (System) and the Commonwealth Accounting and Reporting System (CARS) to process all of its revenue and disbursement activities, including payment to vendors.

Without proper separation of duties in both systems, DRS incurs the risk of not discovering inaccurate or false information within their accounting system and CARS. Additionally, this combination of capabilities increases dramatically as employees could circumvent DRS policies to their advantage and use their access rights in both systems to create and hide fraudulent activities.

DRS should reduce the number of employees with all of these capabilities or institute procedures with the internal auditor to extract transactions for employees with this capability and review the transactions for appropriateness. During these reviews, the internal auditor should recommend mechanisms that will reduce the risk of an employee updating and releasing inaccurate or fraudulent information into the accounting systems without detection by either limiting the number personnel with the capability or consider reallocation duties among personnel with this capability.

Improve System Access Control

Nine terminated employees still had access to two of the Commonwealth’s systems, CARS and CIPPS and four also had access to the agency’s internal accounting system. The Agencies do not have clear procedures for notifying system security officers of employee position transfers and terminations.

Unreasonable access to financial systems weakens internal controls. Without a comprehensive system of internal controls, the Agencies increase the risk of inaccurate or unreliable financial data and the possibility of fraud. The security officers should periodically review system access to ensure reasonableness. Additionally, the Agencies should establish formal procedures for notifying system security officers of position transfers and terminations, so that access can be properly modified or deleted.

Improve Asset Controls

The Department for the Blind and Vision Impaired (DBVI) and DRS did not work together to establish per unit costs for calculating their \$12.2 million library inventory balance reported in the Comprehensive Annual Financial Report (CAFR) for fiscal year 2004. Additionally, DBVI did not properly capitalize \$4 million in plant renovations on the Commonwealth’s Fixed Asset and Accounting System (FAACS). Both of these errors misstated information in the Commonwealth’s annual financial report.

Currently, DBVI has a memorandum of understanding with DRS to perform services for DBVI including inventory management and financial reporting. Therefore, both DRS and DBVI share the responsibility for the controlling, accounting, and reporting DBVI’s assets. DBVI and DRS should work together to establish policies and procedures over the controlling, accounting, and reporting of the DBVI’s assets. Additionally, the departments should determine the validity of the year-end library inventory balance and properly capitalize the renovations in FAACS. If either agency has any questions, they should contact the State Comptroller’s Office since they are reporting this information for his annual financial report.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

April 21, 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 ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE

We have audited selected financial records and operations of the **Agencies Serving Virginians with Disabilities** (the Agencies) for the year ended June 30, 2004:

- Department of Rehabilitative Services (including the Woodrow Wilson Rehabilitation Center)
- Department for the Blind and Vision Impaired (including the Virginia Industries for the Blind and Virginia Rehabilitation Center for the Blind and Vision Impaired)
- Department for the Deaf and Hard-of-Hearing
- Virginia Board for People with Disabilities

We conducted our audit in accordance with the standards for performance audits set forth in Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives, Scope, and Methodology

Our audit's primary objective was to review the significant cycles for the Agencies' activities as reported in the Commonwealth Accounting and Reporting System (CARS). In support of this objective, we evaluated the accuracy of recording financial transactions in CARS, reviewed the adequacy of the Agencies' internal control, and tested for compliance with applicable laws and regulations.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Agencies' 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 and regulations.

Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Revenues	Inventory
Expenditures	Capital Assets

We gained an understanding of the overall internal controls, 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. We performed audit tests to determine whether the Agencies' 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 and regulations. 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 Conclusion

We found that the Agencies properly stated, in all material respects, the selected financial records in the Commonwealth Accounting and Reporting System listed in the scope section of this report.

We noted certain matters involving internal control and its operation that we consider to be reportable conditions. 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 the Agencies' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. These reportable conditions entitled, "Physically Enforce Separation of Duties within Accounting Systems," "Improve System Access Controls," and "Improve Assets Controls" are described in the section entitled, "Internal Control Findings and Recommendations." We believe that none of the reportable conditions are material weaknesses.

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 9, 2005.

AUDITOR OF PUBLIC ACCOUNTS

GDS/kva



COMMONWEALTH of VIRGINIA

James A. Rothrock, M.S., L.P.C.
COMMISSIONER

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June 15, 2005

Mr. Walter J. Kucharski
Auditor of Public Accounts
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Dear Mr. Kucharski:

The Agencies Serving Virginians with Disabilities appreciates the opportunity to respond to the findings and recommendations contained in your audit report of the Agencies' financial activities administered by the Department of Rehabilitative Services (DRS) for the fiscal years ended June 30, 2003 and June 30, 2004.

Presented below are the responses to the internal control findings specific to the Department of Rehabilitative Services' accounting, information, and asset control systems.

DRS's Response to Enforce Separation of Duties within Accounting Systems

While the Department of Rehabilitative Services had procedures in place that prohibited individuals with "release" responsibility from keying transactions, we recognize the risk potential and have taken corrective action. In response to this finding, accounting system edits have been put in place that prevent any employee with transaction release capability to enter or update data in the Multi-Agency Accounting System. We feel this action fully addresses and corrects the APA finding.

DRS's Response to Improve System Access Control

The DRS Fiscal Director and the IS Security Officer are in the process of drafting a formal policy and procedure regarding the notification to security officers (system and building security officers) of terminated staff on the day of or before the actual termination. Under the current policy, The DRS IS Security Officer receives a list of employee terminations from the Human Resources Department monthly and

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terminates network access for those individuals. It must be noted that while internal logons for the nine employees were still technically active, the network account for these individuals had, in fact, been terminated; therefore, none of the individuals had actual access to the internal accounting system or CARS/CIPPS through the Agency firewall. The Agency recognizes that the periodic review of CARS and CIPPS access was not done on a timely enough basis and procedures will be implemented to correct this situation.

Until the policy and procedures are approved and implemented, security officers will perform regular reviews of system access in order to identify terminated employees. The DRS Fiscal Liaison currently receives an updated listing of terminated employees from IS staff person on a monthly basis; however, the distribution will be increased to a weekly basis. DRS will also develop a policy and procedure whereby the Human Resource Department along with responsible Management staff will have the responsibility of notifying DRS Fiscal of the terminated status of employees. In addition to receiving a semi annual list of CARS and FINDS users from DOA, DRS shall make an additional request on a quarterly basis.

DRS's Response to Improve Asset Controls

DRS concurs that DRS and DBVI did not work together to establish per unit costs for calculating the DBVI \$12.2 million library inventory reported in the Comprehensive Annual Financial Report (CAFR) for fiscal year 2004. DRS has contacted all Disability Service Agencies that maintain an inventory and performed a review of those agencies inventory processes to include the values assigned to inventories. Specifically, DRS is working with the DBVI Library Resource Center Director in developing a procedure to assign a reasonable value to the inventory. DRS has identified a contact person at DOA to assist in the review of the inventory valuation process by DBVI.

In addition, DRS has contacted all responsible DSA staff and requested written documentation of the inventory processes along with valuation methodologies. DRS will review all inventory amounts and documentation, submitted for inclusion in the CAFR by the Disability Service Agencies (DSA), for reasonableness and accuracy prior to submission of said items to the Comptroller for inclusion in the CAFR. The DRS Fiscal Department, under the terms of the existing MOU, will work together with DBVI to establish policies and procedures over the controlling, accounting and reporting of the DBVI's assets.

DRS concurs that \$4 million in plant renovations for the Department for the Blind and Vision Impaired were not properly capitalized and recorded in the

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Commonwealth's Fixed Asset and Accounting System (FAACS). Policy and procedures for reporting and recording these assets do exist and reside on the Disability Service Agencies intranet site. The policy states that FAACS information should be provided to the DRS Fixed Asset Coordinator by the responsible Disability Service Agency's staff making purchases over \$5,000. The Department of Rehabilitative Services now recognizes the need to provide DSA staff with more information on the Commonwealth's FAACS policies and what constitutes a reportable fixed asset. The DRS FAACS Coordinator will send out written material and the DSA policy and procedures will be revised to specifically address construction projects and land acquisition as a part of the FAACS capitalization process. To further assure compliance with this policy, DRS shall implement a procedure whereby the FAACS coordinator will be responsible for scheduling a periodic inquiry with Disability Service Agency staff regarding capital projects status. Additionally, DRS will work with DBVI in updating the FAACS system with the Capital project expenditures related to the \$4 million plant renovation. DRS Financial Reporting Unit will record an adjustment to the DBVI Depreciable Capital Assets amount reported on the FY 2004 Statement of Net Assets and the Total Net Assets- Ending balance.

Very Truly Yours,



Philip W. Benton
DSA Financial Services Director

cc: James A. Rothrock, M.S., L.P.C., Commissioner, DRS
Joseph A. Bowman, Commissioner, DBVI
Heidi L. Lawyer, Director, VBPD
Ronald L. Lanier, Director, VDDHH
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AGENCIES SERVING VIRGINIANS WITH DISABILITIES

James Rothrock, Commissioner
Department of Rehabilitative Services

Ronald Lanier, Director
Department for the Deaf and Hard-of-Hearing

Joseph Bowman, Commissioner
Department for the Blind and Vision Impaired

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