

**REPORT TO THE JOINT LEGISLATIVE
AUDIT AND REVIEW COMMISSION
RICHMOND, VIRGINIA**

**FOR THE QUARTER
JANUARY 1, 2000 to March 31, 2000**

***AUDITOR OF
PUBLIC
ACCOUNTS***



COMMONWEALTH OF VIRGINIA

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COMMONWEALTH OF VIRGINIA

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EXECUTIVE SUMMARY

Agencies of the Secretary of Finance

Virginia Department of Health

**Review and Analysis of Enhanced Emergency Services Revenues
and Expenses for Virginia's Local Governments**

SUMMARY OF REPORTS ISSUED

April 3, 2000

The Honorable Richard Holland, Chairman
and
Members, Joint Legislative Audit and Review Commission
General Assembly Building
Capitol Square
Richmond, Virginia 23219

This transmits our quarterly summary of reports issued for the period January 1, 2000 through March 31, 2000.

The *Executive Summary* includes reports that may be of special interest to the members of the Commission. We have included a report in the summary for the sole purpose of bringing to your attention matters of significance. These summaries do not include all findings within a report or all reports with findings.

The *Summary of Reports Issued* lists all reports released during the quarter and shows reports that have audit findings.

We will be happy to provide you, at your request, any reports in their entirety. We welcome any comments concerning this report or its contents.

Sincerely,

Walter J. Kucharski
Auditor of Public Accounts

WJK:aom

AGENCIES OF THE SECRETARY OF FINANCE

This report includes all agencies reporting to the **Secretary of Finance** as well as the Secretary's office. The agencies are the **Departments of Accounts, Planning and Budget, State Internal Auditor, Taxation, and Treasury and the Treasury Board**. The finance agencies handle the financial transactions of the Commonwealth including collecting taxes, paying bills, and distributing aid to localities. Responsibilities include forecasting and collecting revenues; managing the Commonwealth's cash, investments, and debt; and preparing and executing the Commonwealth's budget.

Our audits of these agencies found:

- internal control matters that we consider reportable conditions;
- no instances of noncompliance with laws and regulations tested required to be reported under Government Auditing Standards;
- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System; and
- adequate implementation of corrective action on prior audit findings, except for Taxation's implementation of Program Change Control Procedures.

Use the Program Change Management Process

Taxation did not follow its program change control procedures, resulting in the payment of three erroneous refunds totaling more than \$3 million. Program change is the process by which an entity changes its computer program controls so that management understands the effect of the change on controls and that the change works as designed.

Two different groups requested and received approval in 1996 and 1997 to make changes in the program controls; however, the effect of these changes made together did not undergo a complete review at the time of the changes. These changes removed certain controls in the processing of electronically filed tax returns allowing the erroneous refunds.

As noted in the 1997 and 1998 audit reports, Taxation did not properly follow its Program Change Management Process. This process, adopted in 1995, sought to improve clarity for both users and system personnel. The new procedures established steps to prioritize and evaluate requests, analyze requirements, properly document modifications, and test and implement program changes.

Once Taxation was advised of these three refunds, management immediately reestablished the controls over electronic refunds. Taxation has recovered approximately \$2.6 million to date of the erroneous refunds and continues its efforts to recover the balance. In addition, management revised the Program Change Management Process and has appropriately communicated the new process to staff.

Strengthen Controls over Estimated Payment Processing

Remittance Unit staff failed to review error reports, resulting in taxpayers not receiving credit for approximately \$2.5 million of estimated payments. On two occasions, once in October 1998 and again in October 1997, personnel failed to detect the unsuccessful transfer of individual local estimated payment vouchers to STARS. System reports identified the errors when they occurred; however, personnel did not investigate this problem until 1999 when taxpayers began complaining about not receiving credit for payments on their accounts.

Management should evaluate the Remittance Unit's training and procedures to review and correct errors to ensure their timely, accurate, and complete correction. Additionally, Taxation should continue identifying and correcting taxpayer accounts affected by these errors.

VIRGINIA DEPARTMENT OF HEALTH

OFFICE OF INFORMATION MANAGEMENT (OIM)

Prior audit reports have found problems with Health's current systems and weaknesses in the management of the Virginia Information Systems - Integrated On-line Network (VISION) and Year 2000 projects. Factors such as the turnover of leadership, poor project management, and inadequate funding have placed the successful completion of these projects at risk.

Management faces several major issues in the short term, which can affect the direction of Health's future system development efforts. On June 1, 1998, the Century Date Change Initiative Project Office (CDCI) began managing the Year 2000 project, focusing primarily on priority business and enterprise activities. Non-mission critical systems are not part of this effort; therefore, management will probably need to devote significant resources toward the Year 2000 resolution of these systems over the next year.

To resolve the Year 2000 issues with the priority business and enterprise activities, Health has relied on using consultants who, in many cases, are acting in leadership positions within the Office of Information Management. CDCI is providing contract management oversight over the consultants to ensure that they meet the deadlines for the priority business and enterprise activities conversion. Upon completion of these tasks, many of the consultants and CDCI personnel will begin work on other projects outside of Health. Management will need to replace these individuals, especially those working in either a leadership capacity or providing contract management oversight. Management needs to determine how it believes it should operate the Office of Information Management and either recruit individuals for leadership positions or continue using consultants, which requires the preparation and issuance of proposals and contracts. Regardless of the choice, management will need to reach its decision quickly and have both the appropriate resources and controls in place.

Both a short term and long term issue is the funding of Health's system development efforts. While many factors have contributed to the problems with VISION and the response to the Year 2000 issues, one of the primary factors is a lack of funding for these projects. Prior management teams have not successfully secured the funding and other resources to match Health's system development plans and objectives. Management must either find the funding for its plans or adopt plans that more realistically reflect the availability of the resources.

The above items affect several of the detailed issues within the report. How management addresses these issues will affect the future direction of Health's development efforts.

Establish Leadership within OIM

OIM still lacks leadership and proper staffing. Currently, temporary contractors placed by the Century Date Change Initiative Project Office (CDCI) hold many of the key positions, including the Director position. CDCI assumed direct oversight of the Year 2000 project on June 1, 1998. Since that time, CDCI has increased its role to ensure that the information systems of Health will function without disruption. CDCI essentially placed all of the Department's focus on Year 2000 compliance. According to CDCI, as of September 1999, Health was meeting its Year 2000 readiness goals for priority business and enterprise activities.

However, after completing the Year 2000 effort, the contractors will leave and the Health staff and its OIM department will become solely responsible for the successful completion of the remaining VISION modules and non-priority Year 2000 efforts. CDCI staff estimated the costs of completing the VISION system at \$6 million. To ensure continued success, Health needs to adequately plan for the departure of CDCI staff and contractors. Health management will need to either fill essential positions with competent personnel or continue using contractors to address the issues below.

Health has reached its Year 2000 milestones and many CDCI personnel will be leaving around January 2000. Management needs to have its solution to change in OIM leadership in place by that time. If the option elected is the continuation of consultants, management needs to replace the contract management function, which CDCI personnel are furnishing to this process. Their contract management has been a critical component of Year 2000 success to date.

Overview of VISION

VISION represents Health's 1992 redesign of its then existing plan to automate processes both in the central office and local health departments. The VISION plan sets out to place most of the initial modules in the local health departments to address patient flow, information, and billing. These modules would either replace existing systems or would make significant changes to the system.

Between the inception of VISION in 1992 and today, Health has experienced significant change in the leadership of the Office of Information Management and changed the general operating design of the system at least twice. These factors contribute to the current state of the project's implementation.

Current Status of VISION

Although OIM now estimates that the completion of VISION will cost approximately \$6 million, OIM has yet to prepare a comprehensive project budget. Since the project's inception, management has not required that OIM prepare a comprehensive budget of the project. Contributing to the lack of a comprehensive budget has been the inability of management to successfully secure funding for the project, therefore making estimating completion dates and costing difficult. Management should work with the leadership of OIM to examine available resources and within these parameters develop a comprehensive budget with realistic deliverable dates for VISION.

At its inception, VISION would have over 30 modules, but as of April 1999, VISION had only seven operating modules as shown below. Most modern computer systems have an existing useful life of three to five years before requiring significant change or replacement. Delays in the initial deployment of VISION and

changes in technology require the redesign of three of these modules to meet current user needs and the implementation of the contingency plan for one module.

- Appointment Scheduler Module (requires redesign)
- Immunization and Vaccine Inventory Module
- Billing/Accounts Receivable Module (requires redesign)
- Women's and Infant's Health Module (requires redesign) – This module includes Maternity; Resource Mothers; Baby Care; Family Planning Services; Fathers and Families and Children and Adolescents.
- Patient Related Encounter Information Module - This module includes Registration; Financial Eligibility/Insurance Coverage; Encounter; and Community Events.
- Hospital Trauma Registry
- Environmental Health (operating under contingency plan)

After redesigning the three modules above, Health's Agency Information Management Advisory Committee will reexamine the priority for working on the remaining 23 modules. The Commissioner will review the recommendations and then have OIM prepare a budget to support the plan the Commissioner adopts.

For fiscal 2001, OIM is attempting to balance its funding priorities between non-priority Year 2000 compliance issues, supporting on-going agency information management activities, and resources to continue VISION. These types of priorities will continue to affect the operations of OIM and its ability to complete VISION.

We believe management needs to continue the process of setting priorities for VISION discussed above. While OIM should develop a budget of what resources it would take to meet these priorities, it is equally important that OIM show what it can accomplish and within what timeframe work will occur considering available funding. Management can then use these documents to determine the allocation of resources.

REVIEW AND ANALYSIS OF ENHANCED EMERGENCY SERVICES REVENUES AND EXPENSES FOR VIRGINIA'S LOCAL GOVERNMENTS

We have performed an analysis of E911 revenues and expenses by locality per your request.

SUMMARY OF FINDINGS AND ISSUES

- The reporting of E911 expenses raises several issues relative to the legislative intent of the use of E911 services taxes.
 - *Was the legislative intent of the statute, Code of Virginia Section 58.1-3813, (1) to fund all E911 communication costs, (2) to fund all costs of operating a locality's communication center, or (3) to fund some portion of these costs?*
 - *If the legislative intent is to fund only E911 costs or a portion thereof, how does a locality separate or allocate these costs from other communication costs?*
 - *If a locality can use an E911 position to handle other administrative calls or duties, should E911 taxes fund those activities?*
 - *Should all localities fund E911 program director or coordinator positions if they work exclusively on E911 operations?*
- Localities use different type of funds to record E911 activity, which raises the following issues:
 - *Should localities have separate accounting over E911 revenues and expenses?*
 - *Should localities use an individual fund or budget to record these transactions?*
- In 1999, localities collected \$68,065,475 in E911 services taxes, an increase of approximately \$38,050,000 over the past six years. This increase comes from tax increases, more localities assessing the tax, and more telephone lines.
- The average E911 services tax rate has increased from \$.99 to \$1.30 over the past six years.
- As of June 1999, sixteen localities were collecting E911 services taxes but were not providing enhanced emergency telephone service. All of these localities have begun or have plans to provide enhanced services in the future.
- Fourteen localities are not collecting E911 services taxes and do not provide enhanced emergency telephone service. Two localities do not collect the tax, yet provide the enhanced service.

SUMMARY OF REPORTS ISSUED

The following reports on audit were released by this Office during the period January 1, 2000 through March 31, 2000. Those reports which included findings in the area of internal controls or compliance are indicated by an (*) asterisk.

State Agencies and Institutions

Administration

Local Government Investment Pool for the year ended June 30, 1999
Department of Personnel and Training for the year ended June 30, 1999

Commerce and Trade

Department of Business Assistance for the year ended June 30, 1999
Virginia College Building Authority for the year ended June 30, 1999
Virginia Employment Commission for the year ended June 30, 1999
Virginia Public Building Authority for the year ended June 30, 1999
Virginia Public School Authority for the year ended June 30, 1999
Virginia Small Business Financing Authority for the year ended June 30, 1999

Education

Southwest Virginia Higher Education Center for the year ended June 30, 1999

Colleges and Universities

Virginia Commonwealth University for the year ended June 30, 1999*
Virginia Commonwealth University, Intercollegiate Athletic Programs for the year ended
June 30, 1999

Finance

Agencies of the Secretary of Finance for the year ended June 30, 1999*

Health and Human Resources

Governor's Employment and Training Department for the year ended June 30, 1999
Department of Social Services for the year ended June 30, 1999*
Virginia Department of Health for the year ended June 30, 1999

Public Safety

Department of Emergency Services for the year ended June 30, 1999*

Technology

Integrated Human Resources Information System dated January 13, 2000

Transportation

Department of Aviation for the years ended June 30, 1998 and 1999
Motor Vehicle Dealer Board for the year ended June 30, 1999
Department of Rail and Public Transportation for the year ended June 30, 1999*
Department of Transportation for the year ended June 30, 1999*

Independent Agencies

State Corporation Commission for the year ended June 30, 1999
Virginia Higher Education Tuition Trust Fund for the year ended June 30, 1999

Special Reports

Review and Analysis of Enhanced Emergency Services Revenues and Expenses for Virginia's
Local Governments dated November 5, 1999*

Clerks of the Circuit Courts

Cities:

City of Portsmouth for the period April 1, 1998 through June 30, 1999
City of Roanoke for the period July 1, 1998 through September 30, 1999

Clerks of the Circuit Courts (cont.)

Counties:

County of Bath for the period April 1, 1998 through December 10, 1999
County of Charles City for the period April 1, 1998 through June 30, 1999
County of Fauquier for the period April 1, 1998 through December 31, 1999
County of Hanover for the period January 1, 1999 through December 31, 1999
County of Henry for the period July 1, 1998 through December 31, 1999
County of Nelson for the period July 1, 1998 through December 31, 1999
County of Page for the period April 1, 1998 through December 31, 1999
County of Prince William for the period April 1, 1998 through September 30, 1999
County of Scott for the period July 1, 1998 through December 31, 1999

**Commonwealth Revenues Collected by
Constitutional Officers**

Collection of Commonwealth Revenues by Constitutional Officers Statewide Report
for the year ended June 30, 1999

General Receivers

Cities:

City of Lynchburg for the year ended June 30, 1999

Counties:

County of King George for the period July 1, 1996 through June 30, 1998

Treasurers - Turnover

Counties:

County of Campbell for the period July 1, 1999 through December 31, 1999
County of Carroll for the period July 1, 1999 through December 31, 1999
County of Charlotte for the period July 1, 1999 through December 31, 1999
County of Craig for the period July 1, 1999 through December 31, 1999
County of Dickenson for the period July 1, 1999 through December 31, 1999
County of Essex for the period July 1, 1999 through December 31, 1999
County of Franklin for the period July 1, 1999 through December 31, 1999
County of Gloucester for the period July 1, 1999 through December 31, 1999

Treasurers – Turnover (cont.)

County of Henry for the period July 1, 1999 through December 23, 1999
County of Louisa for the period July 1, 1999 through December 31, 1999
County of Middlesex for the period July 1, 1999 through December 31, 1999
County of New Kent for the period July 1, 1999 through December 31, 1999
County of Patrick for the period July 1, 1999 through December 31, 1999
County of Pittsylvania for the period July 1, 1999 through December 31, 1999
County of Powhatan for the period July 1, 1999 through December 23, 1999
County of Smyth for the period July 1, 1999 through December 31, 1999