



Quarterly Report Summary

January 1, 2010 to March 31, 2010

Modernize Financial Systems and Processes

The Commonwealth's financial systems for paying vendors, payroll, budgeting, and general accounting hinder efficiency in processing transactions and receiving timely information. While development is underway to improve these systems, the Commonwealth remains at risk that they could fail. (pages 1-2)

Deferred Maintenance Management Data Lags

The Commonwealth purchased an automated system to manage its deferred maintenance costs and needs. While the number of buildings in the system has increased, there has been a decline in agencies and institution keeping the information up to date. Maintaining this deferred maintenance information is key to the Commonwealth controlling this backlog. (page 2)

Agencies Continue to Improve Controls and Processes

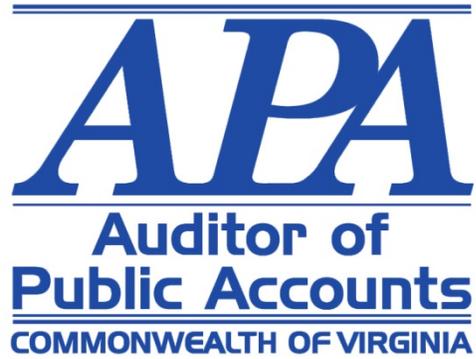
Assistive Technology Loan Fund Authority and Department of Emergency Management continue to improve their controls and processes after having received critical audit reports in the past. (page 3)

Virginia War Memorial Foundation

We continue to report on the developing financial difficulties of the Virginia War Memorial Foundation. The issues included inconsistencies in budgeting its funds, a lack of internal controls over managing public funds, and a lack of internal policies and procedures concerning financial management. The Board and management have not adequately addressed any of these issues. (pages 3-5)

During this quarter, we also issued reports covering the Secretaries of Finance, Health and Human Resources, and Transportation and their agencies.

We will be happy to provide you any reports in their entirety, or you can find all reports listed in this document at our website <http://www.apa.virginia.gov/reports.cfm>. We welcome any comments concerning this report or its contents.



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Agencies under the Secretary of Finance

This report summarizes our fiscal year 2009 audit results for the five agencies under the Secretary of Finance and arises from our work on the Comprehensive Annual Financial Report.

We have included three risk alerts, which are beyond the corrective action of management and require the action of either another agency, outside party, or a change in the method by which the Commonwealth conducts its operations to improve efficiency, reduce risk, and enhance its operations.

- ***Modernize Financial Systems and Processes (Status of Prior Year Risk Alert)***

In April 2008, Transportation obtained approval from the Information Technology Investment Board to begin a project (the Cardinal Project) to develop a new financial management system while also providing a base enterprise application for the Commonwealth, which will eventually replace the Commonwealth Accounting and Reporting System. In August 2009, Transportation awarded Accenture a multi-year contract which includes the purchase of software licenses, as well as, implementation services to configure the software properly and provide project management support. The first implementation phase in July 2011 will provide Transportation's financial system. Phase two of the implementation will provide the Commonwealth's base financial system for Accounts by July 2012.

- ***Security Risks Associated with Information Technology Infrastructure***

The Commonwealth has moved the information technology infrastructure supporting Accounts' databases to the Virginia Information Technologies Agency, who has an Information Technology Infrastructure Partnership with Northrop Grumman. Although Accounts is not responsible for correcting security vulnerabilities we found during our review it should document and implement compensating controls for instances where the Partnership is unable to address issues in a timely manner. Accounts also needs to obtain a responsibility matrix that identifies the duties of each entity so that it can properly manage its risk and monitor corrective action.

- ***Improve Service Agency Arrangements***

Many Commonwealth agencies with limited resources use the fiscal and administrative support functions of larger agencies to supplement their operations. Accounts' Payroll Service Bureau is an example of a service arrangement the Commonwealth is currently using to process payroll transactions for agencies with limited resources. We believe the Bureau could improve the service they provide to agencies by entering into a memorandum of understanding with all participating agencies and directing the flow of information between the participating agency and the Bureau and any other service providers the agency uses.

The report also includes other internal control and compliance findings and recommendations.

Follow Up on Deferred Maintenance in the Commonwealth

Our audit of the Facility Inventory Condition Assessment System at the Department of General Services found:

- The Commonwealth's recorded deferred maintenance has increased by \$1.85 billion since the 2005 "Review of Deferred Maintenance in the Commonwealth – Final Report." In addition, agencies and institutions have recorded 871 more buildings into the Facility Inventory and Condition Assessment System (FICAS).
- Forty percent of the agencies and institutions with data currently in FICAS are not using the system as required and 44 percent are not updating data in the system due to budget restraints or lack of interest.
- The Departments of General Services and Planning and Budget are working together to make FICAS an integral part of the capital budgeting process.

We have the following recommendations for our audit of the Facility Inventory Condition Assessment System:

- Planning and Budget and General Services should continue their collaborative effort to ensure that FICAS information remains a part of the capital budget decision process, especially as Planning and Budget works to acquire a new budgeting system.
- Agencies and institutions should use the FICAS system as required by the General Assembly within current budget restraints.
- The General Assembly should consider funding the license fees for agencies and institutions use of FICAS.
- General Services should continue its efforts to ensure that all state agencies, including those not using the system, are aware of the existence of FICAS, the requirements to use it, and the support available for users.
- The State Council of Higher Education for Virginia should update their Facility Condition Reporting Guidelines so that the Council only accepts facility condition information from FICAS to ensure consistency and comparability of data between institutions.

Assistive Technology Loan Fund Authority

Update on Prior Year Findings and Future Issues

In response to our audits, the Board of Directors (Board) and management have worked together to develop a Business Plan that attempts to address operations and financial sustainability. Our review of the Authority's business plan determined that this document does significantly address many of our concerns from last year.

Although the business plan provides the Board and management with a general direction, the business plan does not adequately address operations and financial sustainability to ensure that the Authority can continue to provide services in the future. Therefore, we have suggested that the Board and management continue to refine the plan to address this issue of sustainability.

The Authority has taken the appropriate steps to report the Authority's funds to the Department of Treasury as public funds, which is now being included in the total public deposits in accordance with the Virginia Security for Public Deposits Act.

Department of Emergency Management

Properly Report Expenses on Quarterly Federal Reports

During our 2007 audit, we found that Emergency Management's accounting records did not support the amounts reported as state matching funds on the quarterly financial status reports submitted to the U.S. Department of Homeland Security for the Public Assistance Grant. During our follow-up review for fiscal 2008, Emergency Management staff did correct the reports and were reporting the proper current state match for the Public Assistance Grant. However, Emergency Management did not have written policies and procedures for preparing the quarterly financial status reports, and did not report correct amounts for the State Homeland Security Grant Program.

Throughout the course of the test work for the 2009 audit, we found that staff had created policies and procedures to follow for the preparation of the quarterly federal reports for the Hazard Mitigation and Homeland Security Grant Programs. Emergency Management also worked with their contacts at Homeland Security to correct the incorrect amounts previously reported. Emergency Management should continue to follow their established policies and procedures for federal reporting, moving forward to ensure the accurate submission of their financial status.

Virginia War Memorial Foundation

BACKGROUND

Over the past several years, this Office has reported on the developing financial difficulties of the Virginia War Memorial Foundation (War Memorial). The issues that we have reported in recent reports included inconsistencies in budgeting its funds, a lack of internal controls over managing public funds, and a lack of internal policies and procedures concerning financial management. Additionally, the relationship of the War Memorial to both the Commonwealth and

the Virginia War Memorial Educational Foundation (Foundation) is poorly defined and does not serve the best interest of either the War Memorial or the Commonwealth. We do not believe that the Board and management have adequately addressed any of these issues. In several cases, management has implemented policies that are in conflict with their initial corrective action plan submitted to this Office and the Board.

The Code of Virginia gives the War Memorial Board of Trustees (Board) certain specific duties and responsibilities and clearly states that the War Memorial is a part of the Executive Branch of government. The Board has delegated many matters to management. However, the Boards' lack of written policies and procedures coupled with a lack of formal oversight has not provided management clear objectives to guide the overall direction of the War Memorial. The Board and the Executive Director must work together to ensure that the War Memorial complies with the general provisions of the Appropriation Act, the Code of Virginia, and other central agency oversight requirements.

The War Memorial depends on the Commonwealth for resources for its operations. After the completion of the planned expansion, the War Memorial's dependence on funding from the Commonwealth will grow. The Executive Director envisions increasing the staff and operating cost of the War Memorial, however, with the current constraints on the Commonwealth's General Fund, the expansion of these resources is uncertain.

As an example, the Department of General Services is foregoing the collecting of the rent of approximately \$30,000 it would typically charge for the utilities, care, maintenance, and security of the War Memorial. With the opening of the expansion, General Services believes this rental charge will be approximately \$270,000 and the War Memorial does not have a secure funding source for this rent.

The War Memorial has accepted gifts of historical artifacts, which further commits the Commonwealth to the cost of maintaining and preserving these materials, without the Commonwealth's required approval to accept such materials. The War Memorial does not currently have funding to properly display or even store these artifacts; and therefore has had to rely on other state agencies to store these materials. The acceptance of gifts which commit the future resources of the Commonwealth requires the approval of the Governor as a mechanism of ensuring sufficient future resources to properly maintain and preserve these gifts.

RECOMMENDATIONS

- The War Memorial must reexamine its operations in light of available funding. The War Memorial cannot continue to commit future resources of the Commonwealth without ensuring that adequate funding is available for operations.
- We recommend that the Secretary of Public Safety and the War Memorial's Board should work together to review the operational and financial direction of the War Memorial. This review should include an operating direction for the War Memorial including its placement and oversight within the Executive Branch of government. The review should

clarify the duties and responsibilities of the Board, Executive Director, and the Secretary of Public Safety providing oversight and resources to aid in the proper management of the War Memorial.

- We have previously recommended that the Department of Veterans Services provide financial management oversight. While Department of Veterans Services' staff have made numerous attempts to assist War Memorial management, these offers of assistance have gone unanswered. The review mentioned above should provide a framework for assistance and cooperation between the War Memorial and Veterans Services. Additionally, the review should formalize the relationship of the War Memorial to the War Memorial Educational Foundation.

The report contains several more specific issues we found during the current audit, which in many cases are repeated issues from prior audits.

SUMMARY OF REPORTS ISSUED

The following reports on audit were released by this Office during the period January 1, 2010, to March 31, 2010. Those reports which included findings in the area of internal controls or compliance are indicated by an (*) asterisk.

Independent Agencies

Virginia College Savings Plan for the year ended June 30, 2009

Administration

Virginia War Memorial Foundation for the year ended June 30, 2009*

Commerce and Trade

The Virginia Board of Accountancy for the year ended June 30, 2009

Colleges and Universities

College of William and Mary in Virginia Intercollegiate Athletics Programs for the year ended June 30, 2009

George Mason University Intercollegiate Athletics Programs for the year ended June 30, 2009

Old Dominion University for the year ended June 30, 2009

Virginia Commonwealth University for the year ended June 30, 2009

Virginia Commonwealth University Intercollegiate Athletics Programs for the year ended June 30, 2009

Virginia Military Institute Intercollegiate Athletics Programs for the year ended June 30, 2009

Finance

Agencies of the Secretary of Finance for the year ended June 30, 2009*

Health and Human Resources

Agencies of the Secretary of Health and Human Resources for the year ended June 30, 2009*

The Assistive Technology Loan Fund Authority for the year ended June 30, 2009*

Natural Resources

Department of Historic Resources for the years ended June 30, 2008 and 2009

Rappahannock River Basin Commission for the year ended June 30, 2009

Public Safety

Department of Fire Programs for the year ended June 30, 2009*
Virginia Department of Emergency Management for the year ended June 30, 2009

Technology

Wireless E-911 Services Board for the year ended June 30, 2009*

Transportation

Agencies of the Secretary of Transportation for the year ended June 30, 2009*

Special Reports

Commonwealth of Virginia Single Audit Report for the year ended June 30, 2009*
Follow Up on Deferred Maintenance in the Commonwealth, December 2009*
Report to the Joint Legislative Audit and Review Commission for the quarter October 1, 2009 through December 31, 2009*
Urban Public-Private Partnership Redevelopment Fund and the Virginia Removal or Rehabilitation of Derelict Structures Fund for the year ended June 30, 2009

Clerks of the Circuit Courts

Cities:

City of Fredericksburg – April 1, 2008 through June 30, 2009*
City of Lynchburg (Turnover) – September 1, 2008 through December 31, 2009
City of Martinsville – July 1, 2008 through June 30, 2009*
City of Suffolk – July 1, 2008 through June 30, 2009
City of Virginia Beach – October 1, 2008 through September 30, 2009*

Counties:

County of Charles City – July 1, 2008 through June 30, 2009*
County of Craig – July 1, 2008 through June 30, 2009*
County of Floyd – January 1, 2009 through December 31, 2009
County of Gloucester – October 1, 2008 through December 31, 2009
County of Isle of Wight – July 1, 2008 through June 30, 2009
County of King George – July 1, 2008 through June 30, 2009*
County of Orange – July 1, 2008 through June 30, 2009
County of Prince William – April 1, 2008 through June 30, 2009*
County of Smyth (Turnover) – August 14, 2009 through January 31, 2010

State Account Turnovers

Cities:

City of Bristol (Turnover) as of December 30, 2009
City of Petersburg (Turnover) as of December 31, 2009
City of Poquoson (Turnover) as of December 30, 2009
City of Waynesboro (Turnover) as of December 31, 2009

Counties:

County of Amherst (Turnover) as of December 30, 2009
County of Lunenburg (Turnover) as of February 12, 2010

General Receivers

Counties

County of Loudoun – July 1, 2008 through June 30, 2009*
County of King George – July 1, 2008 through June 30, 2009*

Magistrates

Cities:

City of Emporia - July 1, 2008 through June 30, 2009
City of Hopewell – July 1, 2008 through June 30, 2009
City of Richmond (Criminal) – July 1, 2008 through June 30, 2009
City of Roanoke – July 1, 2008 through June 30, 2009
City of Virginia Beach - July 1, 2008 through June 30, 2009

Counties

County of Augusta – July 1, 2008 through June 30, 2009*
County of Brunswick - July 1, 2008 through June 30, 2009
County of Buchanan – July 1, 2008 through June 30, 2009
County of Cumberland – July 1, 2008 through June 30, 2009
County of Dickenson – July 1, 2008 through June 30, 2009
County of Essex – July 1, 2008 through June 30, 2009
County of Fairfax – July 1, 2008 through June 30, 2009
County of Franklin – July 1, 2008 through June 30, 2009
County of Frederick – July 1, 2008 through June 30, 2009*
County of Gloucester – July 1, 2008 through June 30, 2009
County of Hanover – July 1, 2008 through June 30, 2009
County of Henrico – July 1, 2008 through June 30, 2009
County of James City/City of Williamsburg - July 1, 2008 through June 30, 2009
County of King William – July 1, 2008 through June 30, 2009
County of Loudoun – July 1, 2008 through June 30, 2009
County of Lunenburg - July 1, 2008 through June 30, 2009
County of Montgomery – July 1, 2008 through June 30, 2009
County of Pittsylvania - July 1, 2008 through June 30, 2009

County of Prince William – July 1, 2008 through June 30, 2009*
County of Richmond – July 1, 2008 through June 30, 2009
County of Roanoke – July 1, 2008 through June 30, 2009
County of Scott - July 1, 2008 through June 30, 2009
County of Surry – July 1, 2008 through June 30, 2009
County of Washington – July 1, 2008 through June 30, 2009*
County of Westmoreland – July 1, 2008 through June 30, 2009
County of York – July 1, 2008 through June 30, 2009

*Denotes management control finding