



Quarterly Report Summary

April 1, 2009 to June 30, 2009

State Police's Statewide Agencies Radio System (STARS) Project

The State Police need to address the future funding necessary to complete this project, including its future operation and maintenance requirements. Until the STARS project team can “lock down” all tower sites, the project schedule is on a day for day delay, which could cause a delay of 140 days as of the end of February 2009 and potential shortfall in project funding. (page 1)

Virginia War Memorial Foundation

Our audit has concluded that current spending patterns for both fiscal 2009 and 2010 will result in the Foundation incurring a deficit unless the Foundation takes action to correct this situation. Based on historical spending patterns, we expect the Foundation to have a deficit of about \$58,000 at June 30, 2009 and \$55,000 for fiscal year 2010. As of June 30, 2009, the Governor's Office authorized a Deficit Loan of \$60,000 for the Foundation. (pages 1-3)

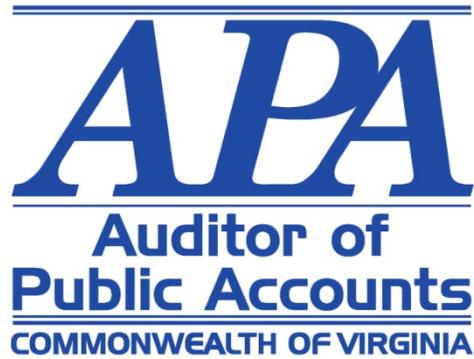
Statewide Budget and Appropriation Processing Controls and Statewide Review of Agency Performance Measures

The State Budget and Performance Measures Process continues to have budget transparency issues that prevent the average citizen from understanding and following the Commonwealth's use of resources. (pages 3-5)

Other Items

The Virginia BioTechnology Research Partnership Authority does not have adequate staff to meet its required financial reporting deadlines and we did not have the information to issue the report until May 2009. We found adequate controls over Information Technology Project Management for Tier III Higher Education Institutions and Independent Agencies. (pages 5-6)

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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State Police's Statewide Agencies Radio System (STARS) Project

We completed our second interim review of the State Police Project Management Team's oversight and administration of the Statewide Agencies Radio System (STARS) Project. The STARS project includes a \$338 million agreement with Motorola to design and install a new state of the art telecommunications and radio system for the Virginia State Police and 20 other agencies of the Commonwealth. Our office monitors the status of major Commonwealth projects such as the Statewide Agency Radio System to help identify and prevent failures related to project management in order to minimize loss to the Commonwealth.

The State Police have completed all of our recommendations from our prior review to the extent possible, but we have concerns about the future funding of this project, including its future operation and maintenance requirements. Until the STARS project team can "lock down" all tower sites, the project schedule is on a day for day delay. This situation has caused a delay of 140 days as of the end of February 2009.

Based upon estimates by STARS management and our estimate of the continued overhead charge for Motorola each day they remain on the project, we calculate a residual bond proceed balance of \$3.7 million upon the completion of the project. This estimate assumes that there will be no further change-orders, delays, or increased construction or engineering costs. Further, with no source for funding the continued operability of the completed system, State Police risks not being able to operate its new radio system properly after installation.

We recommend throughout the report that STARS management:

- Develop a complete cost of maintaining the system after project acceptance and identify a method of financing or providing the necessary maintenance to ensure future system operability.
- Improve the controls for paying the project consultant to ensure that State Police receives complete and appropriate documentation supporting the billings prior to making payment.
- Continue to follow best practices in the execution, control, and close-out of the project in order to ensure the quality of the final system.

Virginia War Memorial Foundation (Foundation)

for the fiscal year ended June 30, 2008

Projected Deficits for Fiscal Years 2009 and 2010

Our audit has concluded that current spending patterns for both fiscal 2009 and 2010 will result in the Foundation incurring a deficit unless the Foundation takes action to correct this situation. Based on historical spending patterns, we expect the Foundation to have a deficit of about \$58,000 at June 30, 2009.

In addition to the projected deficit for June 30, 2009, we have analyzed the proposed budget for fiscal 2010 and project a deficit of about \$55,500. This analysis uses current staffing levels, authorized salaries, and a projection of other expenses based on historical spending patterns. The Foundation has some alternatives for dealing with the projected deficits.

Addressing the Deficit

The Foundation plans to take the following actions to address the deficit for fiscal 2009.

1. Request that the Department of Planning and Budget increase the Foundation spending limit by \$60,000.
2. Request the transfer of the funds remaining at the Department of General Services after meeting all contract commitments for long-term projects to the Foundation's operating appropriation.
3. Use the Foundation's privately raised funds to make up any other shortfall.

As of January 31, 2009, the Foundation has \$43,697 in its outside accounts. Since much of the action in this plan depends on the approval and actions of the Department of Planning and Budget, we are only providing this data for informational purposes; however, with approval of the plan, sufficient funds would be available to address a significant portion of the Foundation's deficit for the next two years.

As of June 30, 2009

The Foundation received a deficit loan from the Governor's Office for \$60,000, which the Department of Planning and Budget will help the Foundation repay using the unspent funds held by the Department of General Services. The Foundation will need to address the funding issues for fiscal 2010.

INTERNAL CONTROL MATTERS

As part of our audit, we have reviewed the controls surrounding the issues above, general operations, and other matters. In conjunction with this document, we have the following suggestions and findings, which we believe the Board needs to address. We also discussed some of these matters with General Services and Veterans Services.

Our prior year audit report included findings and recommendations that highlighted the potential for many of the issues discussed in this report. We strongly recommend that the Board reconsider its decision not to transfer all of the accounting and control over the Foundation's accounts to Veterans Services. Further, we recommend that the Board, independent of the Executive Director, discuss with Veterans Services' management its expectation of the controls that Veterans Services should exercise on their behalf.

Observation

We believe this year's audit work reaffirms our prior year findings and further supports our recommendations. At the conclusion of the prior audit, we believed that the Foundation's staff would use up their discretionary funds by early calendar 2009; currently the Foundation could exhaust their discretionary accounts to offset their deficit sometime in the second quarter of calendar 2009. We continue to support moving all financial activity to Veterans Services.

Additionally, we issued the following findings and our report includes the details associated with these findings *Adopt a Formal Budget Development and Execution Process*, *The Board Should Have an Understanding with the Foundation's Service Providers*, and *Develop a Policy to Address Unused Funds from Long-Term Projects*.

Statewide Budget and Appropriation Processing Controls for the year ended June 30, 2008

Our review of Statewide Budget and Appropriation Processing Controls for the year ended June 30, 2008 found:

- Planning and Budget is in compliance with requirements in the Act and the Code of Virginia and Budget adjustments are properly approved, documented, and reconciled to Commonwealth Accounting and Reporting System (CARS).
- Appropriation controls in CARS are adequate to ensure program expenses do not exceed appropriations.

Our review also disclosed several budget transparency issues that affect the ability of the user to easily relate the budget to the actions of the Commonwealth. This report as well as our two previous reports discusses various budget transparency issues that make understanding the budget process difficult. Current accounting, budgeting, and procedural processes obscure the easy comparison of budgeted to actual activity. As the legislature and administration continue to explore making information on government activities more accessible to the public, they will need to address these issues.

The most significant budget transparency issue is the transfer of General Funds to various non-general funds that occurs after the budget's approval. These transfers affect programs such as Personal Property Tax Relief and higher education operations, and result in a loss of transparency of over \$3 billion in general funds. These transfers occur to comply with various requirements in the Appropriation Act which are intended to allow for separate monitoring and tracking of these funds; however, the current practice adopted by Planning and Budget and Accounts creates a disconnect between the budgeting and accounting for these programs.

Another budget transparency issue is an inadequate reporting process for administrative changes made to the budget after the General Assembly's approval. The current process does not provide adequate information to the General Assembly or the public of changes made to the budget during any fiscal year. Administrative adjustments can significantly alter the approved budget, and improved reporting of these changes to the General Assembly and public would enhance the transparency of the budgeting process.

We again offer the following recommendations for consideration to address some of the budget transparency issues caused by current practices.

- Accounts should consider adding a sub-fund of the General Fund in the Commonwealth Accounting and Reporting System to account for the Personal Property Tax Relief Program. The creation of a sub-fund for this program would improve the budget transparency of close to \$1 billion in General Funds. Another alternative would be making the payments from the General Fund.
- The Commonwealth should re-examine the practice of transferring General Funds budgeted for colleges and universities to higher education funds and similar transactions to other funds. This practice originated 20 years ago to accommodate certain accounting system technology; however, this practice may no longer be necessary given the capabilities of modern financial systems at the higher education institutions and other funds. The elimination of this practice would improve the budget transparency of \$1.7 billion in General Funds.
- As part of the new performance budget system, Planning and Budget should consider an improved reporting mechanism for administrative adjustments processed during a year.

Statewide Review of Agency Performance Measures for fiscal year 2008

This report summarizes our review of the executive branch agency performance measures and provides recommendations based on our observations. Section 30-133 of the Code of Virginia requires the Auditor of Public Accounts to conduct an annual audit of performance measures and to review the related management systems used to accumulate and report the results. Section 2.2-1501 of the Code of Virginia requires the Department of Planning and Budget (Planning and Budget) to develop, coordinate, and implement a performance management system. Planning and Budget is also required to ensure that the information is useful for managing and improving the efficiency and effectiveness of state government operations, and is available to citizens and public officials.

Virginia Performs is the Commonwealth's Internet site for performance information maintained by Planning and Budget. The website includes statewide performance measures, as well as agency specific measures and strategic planning information. Planning and Budget maintains the

website, but relies on agencies to input their own information. Our review focused on agency performance measures reported on for 12 selected agencies. We selected these agencies either due to the significance of their budget or their role as a central agency.

We reviewed all key performance measures at the individual agencies that maintain the information. Key performance measures are measures designated by the Governor as critical to the central operational purpose of each agency. We reviewed a total of 59 key performance measures to determine if the performance measure information was accurate, reliable, and understandable. Overall, we found the performance measures results for fiscal year 2008 were accurate and reliable; however, we continue to find that citizens may have difficulty with the usefulness of the information because measure names, descriptions, and methodologies are incomplete and confusing.

Performance management in the Commonwealth is an evolving process and *Virginia Performs* has undergone significant improvement in the overall completeness and accuracy of reported information since our first review. Our report contains the following recommendations to further improve the performance measurement information on *Virginia Performs*:

- As with our previous reports, *Virginia Performs* does not include a link between the budget structure and amounts appropriated to the performance measures on *Virginia Performs*. Without this linkage, it is very difficult to use the performance measures information to evaluate how well the Commonwealth is using budget resources. To achieve this linkage will involve a significant collaborative effort between the executive and legislative branches that develops a budget with performance measures and in turn reports on the results of performance outcomes within the budget execution process. As the Commonwealth moves forward with its enterprise wide systems initiatives, addressing the issue of linkage will require the participation and agreement of the executive and legislative branches as to how the budget will measure and report this performance.
- Individual agencies ultimately have responsibility for the information on *Virginia Performs*, but Planning and Budget maintains a central role in the dissemination of the performance measure information. Planning and Budget's oversight role requires a more clear definition of responsibilities in this shared process with the individual agencies. Specific issues that require clarification are Planning and Budget's role in reviewing the information on *Virginia Performs* and the level of guidance they should provide to agencies.

Virginia BioTechnology Research Partnership Authority
for the year ended June 30, 2008

Improve Fiscal Operations

The Authority did not complete its financial statements until May 2009, resulting in it missing its November 1 deadline for issuance of its financial statements due to the absence of its sole financial reporting employee. The 2005 Acts of Assembly, Chapter 788, Section 17.C. states that,

“The Authority shall submit an annual report to the Governor and General Assembly on or before November 1 of each year. Such report shall contain the audited annual financial statements of the Authority for the year ending the preceding June 30.”

Previously, the Authority had two employees working in the accounting area, and fiscal constraints resulted in the loss of one of these employees. However, the remaining individual, prior to being absent due to illness, was having difficulty keeping up with both her day-to-day job functions and the year end reporting process.

Although we did not encounter other problems, the lack of staff, separation of financial transaction processing duties, and other related matters place the Authority at high risk that further loss of personnel or other demands could significantly affect management’s ability to provide sound financial information and properly and accurately process accounting transactions. Management should ensure that there is sufficient staff to do the work and that staff are properly cross-trained, so that the absence of one individual does not prevent the Authority from meeting its statutory deadline.

Information Technology Project Management for Tier III Higher Education Institutions and Independent Agencies

Our audit of the Information Technology Project Management for Tier III Higher Education Institutions and Independent Agencies found:

- All Tier III institutions have developed and adopted IT project management policies and procedures as mandated by the *Restructured Higher Education Financial and Administrative Operations Act of 2005*; however, the College of William and Mary should apply its policies and procedures institution-wide.
- Although some independent agencies have developed IT project management policies and procedures that are in alignment with industry best practices, we recommend the State Lottery Department, Virginia Worker’s Compensation Commission and the Virginia College Savings Plan formally adopt such policies and procedures.
- Virginia Tech, Virginia Commonwealth University, the University of Virginia, the Virginia Retirement System, and the State Corporation Commission have developed adequate IT project management policies and procedures, and are properly following their policies and procedures on current projects.

SUMMARY OF REPORTS ISSUED

The following reports on audit were released by this Office during the period April 1, 2009, to June 30, 2009. Those reports which included findings in the area of internal controls or compliance are indicated by an (*) asterisk.

Judicial Branch

Indigent Defense Commission for the year ended June 30, 2008*
Office of the Executive Secretary of the Supreme Court Of Virginia, Clerk of the Supreme Court, Clerk of the Court of Appeals, and the Judicial Inquiry and Review Commission for the year ended June 30, 2008*

Independent Agencies

Virginia Office for Protection and Advocacy for the period July 1, 2006 through June 30, 2008*

State Agencies and Institutions

Executive Departments

Administration

Department of General Services for the year ended June 30, 2008*
Department of Human Resource Management for the year ended June 30, 2008*
State Board of Elections for the year ended June 30, 2008*
Virginia War Memorial Foundation for the year ended June 30, 2008*

Agriculture and Forestry

Department of Forestry for the two-year period ended June 30, 2008*
Virginia Department of Agriculture and Consumer Services, and the Virginia Agricultural Council for the year ended June 30, 2008*

Commerce and Trade

Department of Business Assistance for the fiscal year ended June 30, 2008*
Department of Mines, Minerals, and Energy for the two-year period ended June 30, 2008*
Urban Private Partnership Redevelopment Fund and the Virginia Removal or Rehabilitation of Derelict Structures Fund for the year ended June 30, 2008
Virginia BioTechnology Research Park Authority for the year ended June 30, 2008*

Virginia National Defense Industrial Authority for the fiscal year ended June 30, 2008
Virginia Small Business Financing Authority, Loan, and Loan Guaranty Funds for the year
ended June 30, 2008
Virginia Tourism Authority for the fiscal year ended June 30, 2008

Education

State Council of Higher Education for Virginia for the year ended June 30, 2008*
Southern Virginia Higher Education Center for the fiscal years ended June 30, 2007 and 2008

Colleges and Universities

Christopher Newport University for the year ended June 30, 2008*
George Mason University for the fiscal year ended June 30, 2008
James Madison University for the fiscal year ended June 30, 2008*
Longwood University for the year ended June 30, 2008*
Norfolk State University for the fiscal year ended June 30, 2008*
Old Dominion University for the year ended June 30, 2008*
Radford University for the fiscal year ended June 30, 2008*
University of Mary Washington for the year ended June 30, 2008*
Virginia Military Institute for the fiscal year ended June 30, 2008*
Virginia State University for the year ended June 30, 2008*

Health and Human Resources

Commonwealth Health Research Board for the two-year period ended June 30, 2008

Natural Resources

Virginia Marine Resources Commission for the two-year period ended June 30, 2008
Potomac River Fisheries Commission for the year ended June 30, 2008

Public Safety

Department of Correctional Education for the two-year period ended June 30, 2008*
Department of Corrections, Virginia Parole Board, and Virginia Correctional Enterprises for the
year ended June 30, 2008*
Department of Fire Programs for the two-year period ended June 30, 2008*
Department of Juvenile Justice for the years ended June 30, 2007 and June 30, 2008*
Department of Veterans Services and the Veterans Services Foundation for the year ended
June 30, 2008*

Special Reports

Accounts Receivable Review as of June 30, 2008*

Information Technology Project Management for Tier III Higher Education Institutions and Independent Agencies as of April 2009*

Interim Review of State Police's Statewide Agencies Radio System (STARS) Project, April 2009*

Report to the Joint Legislative Audit and Review Commission for the quarter January 1, 2009 through March 31, 2009*

Review of Agency Performance Measures for the year ended June 30, 2008*

Review of the Budget and Appropriation Processing Control System for the year ended June 30, 2008*

Review of One Card Programs at Virginia's State-Supported Universities, June 2009*

Clerks of the Circuit Courts

Cities:

City of Charlottesville – January 1, 2007 through December 31, 2008*

City of Norfolk - October 1, 2007 through December 31, 2008

City of Petersburg – October 1, 2007 through December 31, 2008*

City of Poquoson - October 1, 2007 through March 31, 2009

City of Roanoke - January 1, 2008 through December 31, 2008

Counties:

County of Albemarle – June 1, 2007 through December 31, 2008*

County of Alleghany – January 1, 2008 through March 31, 2009

County of Bland - January 1, 2008 through March 31, 2009

County of Clarke – April 1, 2007 through December 31, 2008*

County of Culpeper - January 1, 2007 through December 31, 2008

County of Cumberland - January 1, 2008 through March 31, 2009

County of Fluvanna – October 1, 2007 through December 31, 2008

County of Gloucester -- January 1, 2007 to September 30, 2008*

County of Greene – April 6, 2006 through December 31, 2008*

County of Halifax - January 1, 2008 through December 31, 2008

County of Highland - April 1, 2007 through December 31, 2008

County of King & Queen - April 1, 2008 through March 31, 2009

County of Lancaster – January 1, 2008 through December 31, 2008

County of Lee - January 1, 2008 through March 31, 2009

County of Mecklenburg – January 1, 2008 through December 31, 2008

County of New Kent – July 1, 2007 through December 31, 2008

County of Page - June 1, 2007 through December 31, 2008

County of Patrick - January 1, 2008 through March 31, 2009

County of Prince George - January 1, 2008 through March 31, 2009

County of Pulaski – January 1, 2008 through December 31, 2008*

County of Richmond – January 1, 2008 through December 31, 2008

County of Scott – October 1, 2007 through December 31, 2008*
County of Southampton - December 1, 2007 through March 31, 2009
County of Sussex – April 1, 2007 through September 30, 2008*
County of Tazewell - January 1, 2008 through March 31, 2009
County of York - October 1, 2007 through March 31, 2009

State Accounts

Counties:

County of Russell (Turnover) – April 30, 2009

*Denotes management control finding