Auditor of Public Accounts
COMMONWEALTH OF VIRGINIA

Quarterly Report Summary - - April 1, 2011 to June 30, 2011

Goochland Treasurer's Office Had No Controls and County and School Board Need to Review Controls

Basic controls and operational processes common to any Treasurer's Office do not exist within this Office. We noted that the County and School Board could benefit from an overall review of internal controls, procedures for processing of transactions, and qualifications and staffing of the department supporting the fiscal operations. (page 1)

Military Affairs Needs to Review Armory Financial Management

Payroll loss highlights need to improve Armory Financial Management, especially since the Department will be getting $9.3 million for Armory repairs. (page 1)

E-911 Board May Have Cash Flow Problems and Other Issues

The Wireless E-911 Services Board awarded $15.6 million in grants for fiscal 2010 and normal fund expenses will deplete most of the Board's available cash and projected revenues over the next fiscal year. Board had $10.3 million in outstanding grant awards at fiscal year-end 2010, with only $11.3 million of cash on hand. The Board also made errors in allocating grants. (page 2)

VITA Addresses Issues Prior Findings, but Still Faces Issues

VITA has made significant progress in resolving these findings. Northrop Grumman continues to inaccurately report to VITA the inventory allocations between agencies. VITA and Northrop Grumman do not resolve those disputes timely and some took more than two years to resolve. (page 3)

Information Security Program Continues to Improve

Our semi-annual report on the Commonwealth's Information Security Program finds continued improvement. (page 4)

Reports on Performance Measures and Operations Budget

Improving performance measures and budget operations depended on implementation of the new Performance Budget System. (page 4)

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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Assets and Liabilities of Brenda Grubbs, Treasurer of the County of Goochland

During the course of our examination, we identified a number of deficiencies in internal control processes existing under the management of the outgoing Treasurer. The report includes our recommendations as they relate to internal controls within the Treasurer's Office. We discussed and provided the incoming Treasurer a listing of these Internal Control Issues when she took Office.

Although, we did not perform a comprehensive audit of the controls of the County's operations we did note that the County and School Board could benefit from an overall review of internal controls, procedures for processing of transactions, and qualifications and staffing of the department supporting the fiscal operations. While this report identifies internal control issues that the incoming treasurer will need to address, the timeliness and completeness of information to support these efforts will require both the County and School Board to determine if they are providing accurate and timely information to the Treasurer's Office and that all of the fiscal units are processing transactions in the most economic and efficient manner possible.

Overall Observation

Basic controls and operational processes common to any Treasurer's Office do not exist within this Office. Additionally, while our comments in this report deal primarily with the Treasurer's Office, the County and the School Board should review their use of their financial systems and internal control structures. As the new Treasurer implements controls and processes within the Treasurer's Office there will be opportunities to improve controls, processes and efficiencies elsewhere within the County's and School Board's operations and controls.

We have listed issues which the new Treasurer will need to address, in order of their risk to the operation of the Treasurer's Office and the County. The report includes over 20 recommendations for the Treasurer to address.

Armory Financial Management and Other Issues at the Department of Military Affairs

The Department of Military Affairs notified us on January 21, 2011 of a potential fraud involving a custodian at the National Guard Armory in Big Stone Gap, Virginia, who received payment of wages for over ten months after the closing of the armory. We found significant internal control weaknesses and a lack of financial oversight of the management of armories.

We worked with the Virginia State Police in investigating this fraud and included not only a review of the payroll issues, but examined how Military Affairs' staff oversees the fiscal operations of the armories. Generally, we found that operational personnel did not receive information that may have allowed them to detect this loss, and there are not clear lines of responsibility for who must authorize, approve and verify financial information for the armories.

Further, we believe that Military Affairs' management needs to review the information that various operating units need to share and determine if the units have the financial information they need to manage their operations. Also, when management makes decisions affecting operations, all units need to have a system of notifications and verification to ensure all affected units have received the information and can act accordingly.

Military Affairs will receive approximately $9.3 million in fiscal year 2012 for armory improvements. These funds will be a combination of bond financing, federal funds and special revenue funds. Military Affairs needs to ensure they have adequate internal controls in place to properly manage these funds. This report includes a more detailed discussion of our review of armory financial operations and our findings and recommendations. Some of the recommendations are the result of other audit work, which bears on the need for management to conduct some overall reviews of their internal control systems.

As we discussed these issues with Military Affairs staff during the course of our review, they took steps to begin addressing the issues in this report. Their response at the end of this report details their specific actions.

Wireless E-911 Service Board (Board)

The Wireless E-911 Services Board (Board) has awarded $15.6 million in grants to Virginia Public Safety Answering Points (PSAP) for fiscal year 2010 which, in combination with normal fund expenses, will deplete most of the Board's available cash and projected revenues over the next fiscal year. Our review found the Board had $10.3 million in outstanding PSAP grant awards at fiscal year-end 2010, with only $11.3 million of cash on hand. Our analysis of fiscal year 2011 revenues, expenses, and outstanding grant commitments, both actual and projected, reveal that the Board has grant commitments and uncertain vendor contingencies for the next fiscal year.

We recommend that the Board and management employ stricter cash management practices to ensure that the timing of grant payments and other expenses does not create a cash flow problem in the future. We also recommend the Board and management consider reducing the PSAP awards in upcoming years, or use other alternatives to reserve a contingency in the event the Board becomes obligated to pay for 2010 vendor services which it neglected to pay in fiscal year 2010.

We also found that management does not validate call and expense data submitted by PSAPs. This data is used to allocate available funding for PSAPs across the state. As a result, the City of Portsmouth may have received more than $900,000 in excess funding for fiscal year 2010. We also identified a number of other significant variances in call and expense data submitted by PSAPs which we found no evidence to explain.

We recommend that the Board direct management to employ formal data validation procedures to deter the potential for misstated PSAP call and expense data. The use of inaccurate PSAP data caused the Board to overpay at least one PSAP. Management must employ stricter data quality controls to ensure that this does not happen again in the future.

Virginia Information Technologies Agency (VITA)

On March 31, 2010, VITA and Northrop Grumman signed Amendment 60 to the Comprehensive Infrastructure Agreement. This amendment established the adjusted baseline quantities of statewide resource unit usage and the corresponding Northrop Grumman prices per unit of usage, otherwise known as the contract adjusted baseline. The amendment also adjusted the contractual spending cap corresponding to the adjusted baseline at $234.2 million annually for the

next nine years. However, it is possible for the Commonwealth to exceed this spending cap through the acquisition of additional services above the baseline or outside the scope of the CIA.

Our prior audits included a number of findings and recommendations concerning certain contract deliverables, inventory and billing accuracy, billing and collection procedures, and the development of a cost allocation plan which includes imputed revenues. We found during the course of our audit, that VITA has made significant progress in resolving these findings. A complete summary of prior audit findings and recommendations with a summary of the resolution of each is in Appendix A to this report.

Although VITA made significant progress on a number of our prior findings, there are certain issues which continue to linger, even after the contract rebaselining. While both Northrop Grumman and VITA have contractually agreed to the Commonwealth-wide inventory values, we found Northrop Grumman continues to inaccurately report to VITA the inventory allocations between agencies.

Also, while VITA does have a dispute resolution process to resolve these inventory discrepancies and any other billing discrepancies identified by customer agencies, we found VITA and Northrop Grumman do not resolve those disputes timely. Some disputes we found took more than two years to resolve.

We also found that an underlying risk exists in the current Cost Allocation Plan to recover IT infrastructure costs from customer agencies. An important contractual factor, known as reduced resource credits and additional resource charges, are not factors in the existing rate structure. While not an immediate threat to VITA's cash flow, not factoring these variables in could potentially lead to over or under-recovery depending upon the ebb and flow of inventory quantities across the state.

State of Information Security in the Commonwealth of Virginia – Spring 2011

Overall, agencies and institutions of higher education have adequate information security programs to safeguard confidential and mission critical data. While some agencies need to improve or update their programs to more accurately align with information security standards or to better reflect their current IT environments, only four agencies (3 percent) have inadequate programs where their programs are either out-of-date and not effective, or are missing important sections required by the information security standards.

The remaining 111 agencies (97 percent) have implemented adequate information security programs that follow industry best practices or the Commonwealth's Security Standard SEC 501. While this number by itself is encouraging, we found during the course of our audits that 43 of the 111 agencies (39 percent) need to improve certain sections of their programs in order to fully comply with current best practices and standards.

The most predominant information security issue facing the Commonwealth remains employee computer access controls, followed closely by risk management and contingency plans. Twenty-four (21 percent) of 115 agencies and institutions do not have employee computer access controls that meet the Commonwealth's standards or industry best practice. Twenty-seven (23

percent) do not have risk management or contingency plans that comply with the standards or industry best practice.

The Commonwealth is adequately reviewing and updating the Information Security Standard to ensure compliance with nationally recognized information security standards. The Secretary of Technology on April 4, 2011 approved the last revision of the Commonwealth's information security standard.

Department of Planning and Budget

Review of Agency Performance Measures

Performance management in the Commonwealth continues to evolve and there has been significant improvement in the overall completeness and accuracy of performance measures information since our first review in 2002. Overall, we have found that performance measures results reported on *Virginia Performs* are accurate and reliable, but the usefulness of the information continues to be limited.

We continue to find that citizens and others may have difficulty understanding the information because performance measure names, descriptions, and methodologies are inaccurate, inconsistent, and confusing. In addition, *Virginia Performs* does not include a link between the budget structure and amounts appropriated to the performance measures reported. The Commonwealth's current financial systems have inherent technological shortcomings that have hindered efforts to link budget and performance information.

Planning and Budget is developing and implementing a new budgeting and performance management system that will eventually replace *Virginia Performs*. In September, 2010 Planning and Budget implemented Phase I of this system which covered budget development (operating and capital), six-year financial planning, and budget execution. Phase II of the implementation process should occur in Summer 2011 and will address agency spending plans and strategic planning. This phase of the system will replace *Virginia Performs* and should provide additional functionality to help address some of the issues in this report. Phase III will include additional enhancements to the system with scheduled completion in Spring 2012.

Statewide Budget and Appropriation Processing Controls

Our review of the Statewide Budget and Appropriation Processing Controls for the year ended June 30, 2010, found that the Department of Planning and Budget's policies and procedures are adequate to ensure that:

- Planning and Budget complies with requirements in the Appropriation Act and the Code of Virginia that could materially affect the Commonwealth's annual financial statements;

- CARS properly includes the budget approved by the General Assembly;

- Planning and Budget properly approves, documents, and reconciles budget adjustments in the Form 27 Automated Transaction System (FATS) to CARS at a statewide level; and

- Appropriation controls in CARS are adequate to ensure program expenses do not exceed appropriations.

One issue that remains unaddressed from our prior reports is budget transparency issues arising from budget adjustments processed by Planning and Budget. The most significant of these issues is the significant transfers of General Funds to various non-general funds for programs like Personal Property Relief as well as higher education programs.

Planning and Budget makes these transfers to comply with various requirements in the Appropriation Act, which allow for separate monitoring and tracking of these funds; however, the current practice creates a loss of funding transparency in the accounting records. We initially reported these budget transparency issues in 2006 and we continue to believe these issues affect the ability of the user to easily relate the budget to the actions of the Commonwealth.

SUMMARY OF REPORTS ISSUED

The following reports on audit were released by this Office during the period April 1, 2011, to June 30, 2011. Those reports which included findings in the area of internal controls or compliance are indicated by an (*) asterisk.

Judicial Branch

Virginia State Bar for the year ended June 30, 2010

Administration

Department of General Services for the years ended June 30, 2009 and June 30, 2010*
Virginia War Memorial Foundation for the year ended June 30, 2010*

Commerce and Trade

Urban Public-Private Partnership Redevelopment Fund and the Virginia Removal or Rehabilitation of Derelict Structures Fund for the fiscal year ended June 30, 2010
Virginia Small Business Finance Authority for the year ended June 30, 2010

Education

Virginia Museum of Fine Arts for the year ended June 30, 2010*

Colleges and Universities

Christopher Newport University for the year ended June 30, 2010*
College of William and Mary in Virginia for the year ended June 30, 2010*
James Madison University for the year ended June 30, 2010
Longwood University for the year ended June 30, 2010*
Norfolk State University for the year ended June 30, 2010*
Radford University for the year ended June 30, 2010
Virginia Military Institute for the year ended June 30, 2010

Natural Resources

Potomac River Fisheries Commission for the year ended June 30, 2010
Rappahannock River Basin Commission for the years ended June 30, 2009 and June 30, 2010

Public Safety

Department of Corrections, Virginia Parole Board, and Virginia Correctional Enterprises for the year ended June 30, 2010*
Department of Veterans Services and the Veterans Services Foundation for the year ended June 30, 2010*

Technology

State of Information Security in the Commonwealth of Virginia – Spring 2011 as of April 30, 2011*
Virginia Information Technologies Agency, June 2011*
Wireless E-911 Services Board for the year ended June 30, 2010*

Special Reports

Goochland County—Report on Treasurer's Turnover, April 25, 2011*
Report to the Joint Legislative Audit and Review Commission for the quarter January 1, 2011 through March 31, 2011*
Review of Agency Performance Measures for the year ended June 30, 2010*
Review of Armory Financial Management and Other Issues at the Department of Military Affairs—March 15, 2011*
Review of the Budget and Appropriation Processing Control System for the year ended June 30, 2010*

Clerks of the Circuit Courts

Cities:

City of Alexandria – January 1, 2010 through March 31, 2011
City of Buena Vista – January 1, 2010 through December 31, 2010*
City of Charlottesville – January 1, 2010 through December 31, 2010*
City of Danville – January 1, 2010 through December 31, 2010*
City of Hampton – April 1, 2010 through March 31, 2011
City of Hopewell – April 1, 2010 through March 31, 2011
City of Martinsville – July 1, 2009 through December 31, 2010
City of Norfolk – January 1, 2010 through December 31, 2010
City of Salem – April 1, 2010 through March 31, 2011*

City of Virginia Beach – October 1, 2009 through December 31, 2010*

Counties:

County of Accomack – July 1, 2010 through March 31, 2011*
County of Albemarle – January 1, 2010 through December 31, 2010*
County of Arlington – January 1, 2010 through March 31, 2011*
County of Bath – January 1, 2010 through March 31, 2011*
County of Botetourt – July 1, 2009 through December 31, 2010
County of Buckingham – April 1, 2010 through March 31, 2011
County of Campbell – April 1, 2010 through March 31, 2011
County of Caroline – January 1, 2010 through March 31, 2011
County of Carroll – July 1, 2009 through December 31, 2010*
County of Charles City – October 1, 2009 through December 31, 2010*
County of Chesterfield – July 1, 2009 through March 31, 2011
County of Culpeper – April 1, 2010 through March 31, 2011
County of Dickenson – January 1, 2010 through December 31, 2010*
County of Essex – July 1, 2010 through March 31, 2011
County of Fauquier – April 1, 2010 through March 31, 2011
County of Floyd – January 1, 2010 through March 31, 2011*
County of Franklin – January 1, 2010 through March 31, 2011*
County of Giles – January 1, 2010 through December 31, 2010*
County of Gloucester – January 1, 2010 through December 31, 2010
County of Goochland – April 1, 2010 through March 31, 2011
County of Greene – January 1, 2010 through March 31, 2011
County of Hanover – July 1, 2009 through December 31, 2010*
County of Isle of Wight – January 1, 2010 through December 31, 2010*
County of King George – July 1, 2009 through December 31, 2010*
County of Lancaster – July 1, 2009 through December 31, 2010
County of Lee – April 1, 2010 through March 31, 2011
County of Lunenburg – July 1, 2009 through December 31, 2010*
County of Middlesex – January 1, 2010 through December 31, 2010
County of Montgomery – April 1, 2010 through March 31, 2011
County of Nottoway – January 1, 2010 through December 31, 2010*
County of Pittsylvania – July 1, 2009 through December 31, 2010
County of Prince William – July 1, 2009 through December 31, 2010*
County of Pulaski – January 1, 2010 through December 31, 2010*
County of Rappahannock – March 1, 2010 through March 31, 2011
County of Roanoke – July 1, 2009 through December 31, 2010*
County of Surry – January 1, 2010 through December 31, 2010
County of Sussex – January 1, 2010 through December 31, 2010*
County of Tazewell – April 1, 2010 through March 31, 2011*
County of Warren – April 1, 2010 through March 31, 2011
County of Westmoreland – January 1, 2010 through December 31, 2010*
County of Wise and City of Norton – April 1, 2010 through March 31, 2011
County of Wythe – April 1, 2010 through March 31, 2011

State Accounts

Counties:

County of Page (Turnover) – as of April 1, 2011
County of Northampton (Turnover) – as of April 30, 2011

Magistrates

Cities

City of Charlottesville – July 1, 2009 through June 30, 2010
City of Newport News (Criminal Division) – July 1, 2009 through June 30, 2010
City of Virginia Beach – July 1, 2009 through June 30, 2010

Counties

County of Buckingham – July 1, 2009 through June 30, 2010

*Denotes management control finding