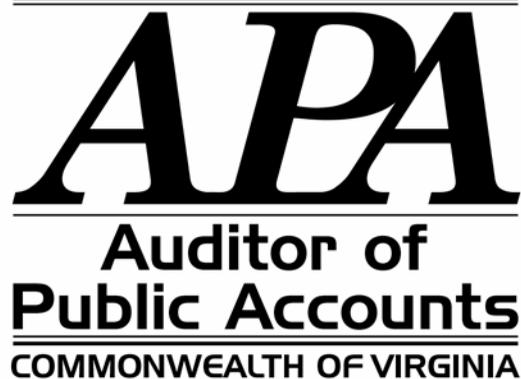


**REPORT TO THE
JOINT LEGISLATIVE AUDIT
AND REVIEW COMMISSION**

**FOR THE QUARTER
JULY 1, 2006 TO SEPTEMBER 30, 2006**



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Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

October 9, 2006

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission

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 July 1, 2006 through September 30, 2006.

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 or you can find all reports listed in this document at our website <http://www.apa.state.va.us/reports.htm>. We welcome any comments concerning this report or its contents.

Sincerely,

Walter J. Kucharski
Auditor of Public Accounts

WJK:sks

EXECUTIVE SUMMARY

DEPARTMENT OF FORENSIC SCIENCE - SPECIAL REVIEW OF STATUS OF DATA SECURITY MEASURES

Background

The Department of Forensic Science (Forensic Science) is a nationally accredited forensic laboratory system serving all state and local law enforcement agencies, medical examiners, and Commonwealth's Attorneys. Forensic Science examiners provide technical assistance and training, evaluate and analyze evidence, interpret results, and provide expert testimony related to the full spectrum of physical evidence recovered from crime scenes. Much of the information and data in the possession of Forensic Science is highly sensitive and subject to view during legal proceedings.

A comprehensive information security program provides the essential framework necessary to protect the data on information systems and the data handled by employees. Without a security program, management cannot determine the current or potential risks to their data.

Therefore, management cannot adequately prevent or minimize those risks. Given the sensitivity of some of the information maintained by many agencies, information security is critical to ensuring the confidentiality, integrity, and availability of the data.

Finding

Forensic Science does not have a complete or current information security program. Forensic Science should have a security program that includes policies and procedures that management and staff can apply to provide reasonable assurance that appropriate levels of confidentiality, integrity and availability covering data in their possession. Industry best practices, as well as state technology standards, provide that a well developed security program should include documented policies and procedures covering the following areas.

- Security Management Structure
- Information Security Responsibilities and Separation of Duties
- Information Security Officer Role
- Security Awareness Training
- Resource and Data Classifications
- Information Asset Inventory
- Risk Assessment
- Business Impact Analysis
- Business Continuity Plan
- Disaster Recovery Plan
- Incident Response Procedure
- Authorization and Authentication Controls
- Change and Configuration Management
- Monitoring and Logging

As previously discussed, a comprehensive information security program provides the essential framework to protect the data on information systems and the data handled by employees. The lack of a comprehensive information security program prevents Forensic Science's management from assessing the current or potential risks to their data, and enabling them to adequately prevent or minimize those risks. Given the sensitivity of some of the information maintained by Forensic Science, a properly implemented information security program is critical to ensuring adequate protection of their data.

Forensic Science's management realized the importance of having a security program and asked Virginia Information Technology Agency (VITA) staff to perform an information security assessment. VITA completed the review in February 2006, which assessed Forensic Science's state of security as benchmarked against industry-best practices.

Forensic Science used the review to issue a request for proposal to have a consultant develop a comprehensive information security program. Forensic Science is currently reviewing proposals from outside vendors to help complete and implement the agency's information security policy.

Forensic Science, while commended for starting to take action, should re-evaluate the risk and exposure of not having a documented information security program in place. Further, the program policies and procedures is only the initial phase of the process. Staff training and awareness, as well as monitoring and logging, are the key implementation phases of the process.

Considering the highly sensitive nature of the systems and data in Forensic Science's possession, management should determine if it has made sufficient allocations of time and resources necessary to complete a comprehensive information security program that will meet industry best practices, as well as incorporate the VITA recommendations promptly. We believe the nature of Forensic Science's operations require the review of this matter prior to the release of our final report.

LONGWOOD UNIVERSITY FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2005

Follow-Up to Interim Report on 2004 Financial Statement Audit

For the fiscal year ending June 30, 2004, we encountered problems in conducting our audit of the year end financial statements. Instead of completing the audit, we issued an interim report dated July 15, 2005, so that management could address the issues identified. The first issue to address was ensuring that daily operational functions such as revenue collection, payroll, vendor payments, and student billing were completed and properly recorded. We noted the lack of adequately documented policies and procedures for all departments, positions, and transactions.

Our interim report recognized that the Longwood University (University), like all Virginia's higher education institutions, had experienced budget cuts and reduced administrative positions to address these cuts. In addition, the University experienced staff turnover and spent excessive time finding new staff and managers. Due to the loss of key personnel and the lack of adequate procedures, the Finance department was unable to perform complete timely and accurate reconciliations of the University's accounting system to other internal University systems, all bank accounts, and the state accounting system.

In the Payroll Division, we found a lack of formal internal policies and procedures, inconsistent receipt of support for payroll changes, and a lack of support for overtime pay. We also found no formal reconciliation between the University system, the Commonwealth Integrated Personnel and Payroll System (CIPPS), and leave balances, and no reconciliation between CIPPS and the Virginia Retirement System for contributions made on behalf of the University and its employees.

Our interim report noted that the University did not maintain an accurate asset listing in the Fixed Assets Accounting and Control System. The University did not resolve discrepancies between its physical inventory and its asset listing in a timely manner. Additionally, departments did not follow inventory instructions provided by the University's Materials Management Division.

We recommended that management develop reconciliation procedures that require timely reconciliations, correction of reconciling items, and proper supervision and review of the reconciliations. We also recommended that management determine the best approach for allocating resources to documenting policies and procedures in conjunction with the implementation of the new general ledger system. Further, we recognized that management needed to consider their role in University operations, and determine what necessitates their oversight, at what level, and the intensity. Management needed to assess and monitor staff levels relative to workloads, cross-training for critical processes, and developing a monitoring mechanism for key processes. Increased oversight by management would assist the University in identifying and resolving potential operational problems before they affect the financial statement process.

In completing our audit for the years ended June 30, 2004 and 2005, we found that University management had addressed the specific findings in our interim report. The University continues to develop policies and procedures and address staffing levels and workloads in response to our recommendations. As the University implements the new financial system (BLISS project) and they find the need to change policies and procedures, management should ensure that departments properly update and document the new policies and procedures.

SCIENCE MUSEUM OF VIRGINIA FOR THE YEAR ENDED JUNE 30, 2005

During our audit of the Science Museum of Virginia for the year ended June 30, 2005, we encountered issues, which resulted in our expansion of the audit to include the fiscal year ended June 30, 2006. During our audit, it also came to our attention that the Science Museum had a cash deficit and that the State Comptroller had ceased paying the Science Museum's bills. In accordance with Chapter 951 of the 2005 Act of the Assembly Section 4-1.01 (Appropriation Act), we notified the appropriate officials of the cash deficit on June 22, 2006.

As noted in the report, the Science Museum Management accumulated sufficient resources to have cash on hand to pay the bills submitted to the State Controller for processing. However, upon further analysis, the Science Museum incurred an operating structural deficit, which has worsened over time. A number of factors have contributed to this situation and correction of operating structural deficits may require actions beyond controlling or defraying costs.

We believe our report and its findings provide Management and the Board with a point to begin addressing the issues causing the financial condition. In examining the finances of the Science Museum, we have worked with Management and staff. We elected to communicate these finding in this separate report; a second report contains some comparisons of the Science Museum's operations with other Commonwealth-supported museums issued on August 9, 2006, for the year ended June 30, 2005.

This report consists of two primary components: a discussion of the current fiscal condition and factors we believe contributed to this condition. The second component discusses some overall internal control and operational concerns and proposed recommendations to address these issues. We have elected to include a number of internal control issues since their correction can occur in a number of ways depending on how Management and the Board address the overall internal control concerns.

DEPARTMENT OF VETERANS SERVICES AND THE VETERANS SERVICES FOUNDATION FOR THE PERIOD JANUARY 1, 2005 THROUGH MARCH 31, 2006

Management has responsibility for establishing and maintaining effective internal controls. Internal control is a framework designed to provide reasonable assurance over the reliability of financial records, effectiveness, and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations.

Last year, we recommended that the Department of Veterans Services management document its policies and procedures and begin the process of establishing a base line to evaluate its internal controls. While Veterans Services did document its accounting policies and procedures, staff are not following the document, and the internal control environment remains unchanged since the last audit.

Generally, we found that management oversight, supervisory reviews, and reconciliations at Veterans Services do not achieve the objectives above and this contributed to a number of problems. We found that Veterans Services does not have adequate, documented policies and procedures and this contributed to a number of problems. Our review also found Veterans Services did not reasonably ensure conformity and adherence to state and federal laws, regulations, and contracts. Detailed in this report are several issues resulting from these lack of controls.

Much of the daily operations depend on staff who continue to operate as they did before the creation of Veterans Services. Although Veterans Services is planning to implement a new system, the internal control processes necessary to gather, review, and verify data to ensure accurate and timely information does not exist.

When management begins conducting their review of these financial management issues, they should begin with establishing a proper oversight structure. Currently the majority of executive management is located in Richmond, Virginia while the day-to-day administrative operations occur in Roanoke, Virginia. Without adequate, direct, and experienced management oversight, the issues noted in this audit report will not be resolved.

VIRGINIA CIRCUIT COURT STATEWIDE REPORT

Our statewide report on the **Virginia Circuit Court System** represents the results of audits conducted in our 2006 work plan and covers fiscal period July 1, 2005 through June 30, 2006. Our audits determined whether the Clerks of the Circuit Court have maintained accountability over collections, established internal controls, and complied with state laws and regulations. We used a risk-based audit approach for circuit courts that assessed risk for individual courts to determine the amount of testing we performed.

During this period, we conducted 100 Clerks of Circuit Court audits and noted findings in eight offices. We previously communicated findings for individual circuit court audits to the appropriate Clerks of the Circuit Court, Chief Judges, local governing bodies, and the Executive Secretary of the Supreme Court.

At the time we issue each report, the Clerk of the Circuit Court audited has the opportunity to submit their corrective action plan which would state what action the Clerk would take to remediate the finding. We include these responses in the final audit report for each court.

In accordance with the provisions of Item 66 (I) of Chapter 951 of the 2005 Acts of the Assembly and Item 64 (I) of Chapter 3 of the 2006 Acts of the Assembly, we found that the following Clerks had internal control findings repeated for two consecutive audit periods. We continue to conduct audits and provide the Compensation Board any additional clerks who have repeated findings for two consecutive audit periods.

OFFICES HAVING REPEATED FINDINGS

County of Buchanan
County of Giles
County of Greensville
City of Petersburg
County of Powhatan
County of Smyth
County of Washington

Although there are seven clerks' audits with internal control findings repeated for two consecutive audit periods, this represents a reduction in the number of clerks by 10. We believe that the actions of the General Assembly have had the intended results of correcting internal controls. We are conducting audits on two courts that have had prior findings and, if we find that they have repeated findings, we will report this information to the Compensation Board.

VIRGINIA MUSEUMS REPORT

This report contains the results of our combined audit of the following museums*:

Science Museum of Virginia	Gunston Hall
Virginia Museum of Fine Arts	Jamestown Yorktown Foundation
Frontier Culture Museum of Virginia	Virginia Museum of Natural History

* We refer to these agencies collectively throughout the report as Virginia's Museums.

Our review of Virginia's Museums found five of the six museums did not collect, by over ten percent, their projected special fund revenues. Further, by not accurately projecting special fund revenues, policy makers such as the General Assembly are assuming that the Museums have the ability to collect and support a larger portion of their operating costs than they actually collect. This over estimation of revenue collections also tends to distort the Museums' dependence on General Fund support to keep operations funded. By not including more accurate projections of special fund revenues in the budget, it appears that the Museums have greater flexibility to absorb potential changes in funding or service delivery. We believe that without greater accuracy in projecting special fund revenue collections that other Museums incur the risk of having financial difficulties similar to the Science Museum.

In addition, the lack of funding has resulted in the Museums having small administrative staffs that by their nature does not provide for a good internal control structure. The best resolution for this issue is the sharing of general operating functions such as accounting, purchasing, payroll, marketing, development, reservations, and human resources. This structure allows smaller organizations to concentrate on their

primary service delivery functions while improving internal controls like segregation of duties and minimizing operating costs. The savings gained from this sharing could improve the museums financial health and provide additional needed funding for exhibits, maintenance needs, debt, or the initiation of capital campaigns.

Historically, the Museums have been reluctant or opposed to any form of administration sharing of resources and have cited their independent boards, management structure, dispersed locations, and differing mission as reasons not to attempt this sharing. The long-term financial health of all of these entities depends on a rational approach to their common administrative and operating needs. Only the Virginia Museum of Fine Arts has the depth of financial resources for long-term sound stability, however, this assumes that the Commonwealth will contribute its current support and increase that support to maintain the new capital construction it has undertaken.

For the fourth consecutive year, the Science Museum had experienced significant financial difficulties. Despite efforts to cut personal and contractual services costs, the overall deficit reached \$777,341. In order to pay vendors on time and meet other obligations, the Science Museum incurred a cash deficit during fiscal 2006 for which it was able to accumulate sufficient cash to reserves to have a year-end positive balance.

However, for fiscal 2006 the deficit grew to approximately \$1.1million. We plan to issue a separate report discussing the financial condition of the Science Museum thorough June 30, 2006.

SUMMARY OF REPORTS ISSUED

SUMMARY OF REPORTS ISSUED

The following reports on audit were released by this Office during the period July 1, 2006 through September 30, 2006. Those reports which included findings in the area of internal controls or compliance are indicated by an (*) asterisk.

State Agencies and Institutions

Executive Departments

Office of the Governor for the year ended June 30, 2006
Office of the Lieutenant Governor for the year ended June 30, 2006

Independent Agencies

State Corporation Commission for the year ended June 30, 2005*
State Lottery Department Report on Applying Agreed Upon Procedures for the Period April 1, 2005 through March 31, 2006
Virginia Office for Protection and Advocacy for the year ended June 30, 2005*

Administration

Department of Veterans Services and the Veterans Services Foundation for the period July 1, 2003 through March 31, 2006*

Commerce and Trade

Virginia Small Business Finance Authority for the year ended June 30, 2005

Education

Science Museum of Virginia, Special Report, August 2006*
Virginia's Museums for the year ended June 30, 2005*

Colleges and Universities

Longwood University for the years ending June 30, 2005 and 2004*

Health and Human Resources

Department of Health Professions for the year ended June 30, 2005

Natural Resources

Department of Conservation and Recreation, including the Chippokes Plantation Farm Foundation and Virginia Land Conservation Foundation, for the year ended June 30, 2005*

Public Safety

Department of Juvenile Justice for the year ended June 30, 2005*
Department of Military Affairs for the year ended June 30, 2005

Special Reports

Special Review of Status of Data Security Measures, Department of Forensic Science as of
July 31, 2006*
Virginia Circuit Courts Statewide Report for the period July 1, 2005 through June 30, 2006*

Clerks of the Circuit Courts

Cities:

City of Alexandria Clerk of the Circuit Court for the period April 1, 2005 through March 31, 2006
City of Bristol Clerk of the Circuit Court for the period April 1, 2005 through March 31, 2006
City of Staunton Clerk of the Circuit Court for the period October 1, 2004 through March 31, 2006
City of Waynesboro Clerk of the Circuit Court for the period January 1, 2005 through June 30, 2006

Counties:

County of Albemarle Clerk of the Circuit Court for the period April 1, 2005 through March 31, 2006
County of Augusta Clerk of the Circuit Court for the period January 1, 2005 through March 31, 2006
County of Bedford Clerk of the Circuit Court Turnover for the period January 1, 2006 through
June 30, 2006
County of Bland Clerk of the Circuit Court for the period April 1, 2005 through March 31, 2006
County of Caroline Clerk of the Circuit Court for the period April 1, 2005 through March 31, 2006
County of Charles City Clerk of the Circuit Court for the period April 1, 2005 through March 31, 2006
County of Dickenson Clerk of the Circuit Court for the period April 1, 2005 through June 30, 2006
County of Frederick Clerk of the Circuit Court for the period October 1, 2004 through
December 31, 2005
County of Greene Clerk of the Circuit Court for the period January 1, 2005 through March 31, 2006
County of Loudoun Clerk of the Circuit Court for the period July 1, 2005 through June 30, 2006
County of Northampton Clerk of the Circuit Court for the period April 1, 2005 through March 31, 2006
County of Northumberland Clerk of the Circuit Court of the for the period April 1, 2004 through
September 30, 2005
County of Page Clerk of the Circuit Court for the period April 1, 2005 through March 31, 2006
County of Patrick Clerk of the Circuit Court for the period April 1, 2005 through March 31, 2006
County of Prince Edward Clerk of the Circuit Court for the period October 1, 2004 through June 30, 2006
County of Prince William Clerk of the Circuit Court for the period January 1, 2005 through
March, 31, 2006
County of Rappahannock Clerk of the Circuit Court for the period January 1, 2005 through June 30, 2006
County of Richmond Clerk of the Circuit Court for the period July 1, 2005 through June 30, 2006
County of Rockbridge Clerk of the Circuit Court for the period April 1, 2005 through March 31, 2006
County of York Clerk of the Circuit Court for the period July 1, 2005 through June 30, 2006

General Receivers

Cities:

City of Alexandria General Receiver of the Circuit Court, H. Carter Land, III, for the period July 1, 2004 to June 30, 2005
General Receiver of the Circuit Court of the City of Lynchburg for the period July 1, 2004 through June 30, 2005
City of Norfolk General Receiver for the period July 1, 2004 through June 30, 2005

Report of the Commonwealth collections and remittances of the Treasurer, Commissioner of the Revenue, and Sheriff for the year ended June 30, 2006

Cities:

Bedford
Bristol*
Lexington
Martinsville
Norton
Portsmouth
Richmond
Staunton
Suffolk*

Counties:

Accomack	King & Queen
Bedford	Mathews
Botetourt	Middlesex
Caroline	Nelson
Carroll	Northampton
Charlotte	Orange
Cumberland	Prince William
Franklin	Pulaski
Fluvanna	Rockingham
Frederick	Russell
Gloucester	Tazewell
Grayson	Wise
Greensville*	Wythe
Hanover	Washington*

Treasurers

Cities:

City of Falls Church State Account Turnover for the period July 1, 2005 through July 7, 2006

Counties:

County of Lancaster State Account Turnover for the period July 1, 2005 through June 30, 2006

