Auditor of Public Accounts
COMMONWEALTH OF VIRGINIA

Quarterly Report Summary

July 1, 2010 to September 30, 2010

Transportation's Asset Management System and Maintenance Funding Practices

While the Asset Management System improves identifying maintenance needs, the Central Office does not monitor how districts spend their maintenance funds and address high priority maintenance projects. The Central Office needs to improve its oversight of maintenance funding. (page 1)

Commonwealth Cell Phone Study

The Commonwealth lacks tools to effectively analyze telecommunication usage and costs and does not have comprehensive statewide policies and procedures over the management and usage of these telecommunication devices. With improved management and oversight, the Commonwealth has the potential to save hundreds of thousands of dollars in wireless expenses. (pages 1-2)

Study of Commonwealth Investment Policies

Generally, we found that the agencies and institutions of higher education had sound investment policies that complied with best practices. We found the areas of monitoring, follow-up, and periodic review of investment policies for certain institutions of higher education required strengthening. (page 3)

2010 Report to the General Assembly

This report includes the significant findings and recommendations we have issued over the past fiscal year. We have not included a copy of this report with this document, but you can find a copy at http://www.apa.state.va.us/reports/APAAnnualReport10.pdf .

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.

Auditor of Public Accounts
COMMONWEALTH OF VIRGINIA

- TABLE OF CONTENTS -

Transportation's Asset Management System and Maintenance Funding Practices	***1***
Commonwealth Cell Phone Study	***1-2***
Study of Commonwealth Investment Policies	***2-3***
SUMMARY OF REPORTS ISSUED	***4-8***

Transportation's Asset Management System and Maintenance Funding Practices

Transportation's Asset Management System (AMS) is capable of providing an accurate, independent, consistent assessment of the states infrastructure maintenance needs. The system can provide a list of assets and their corresponding needed repair. Such valuable information is available not only to high-level decision makers but also to the districts who carry out the maintenance activity. Transportation should continue to use system information to determine maintenance funding levels and distribute those funds among the districts based on needs determined by AMS. Transportation management should establish maintenance priorities that guide the districts in their use of maintenance funds to ensure that the districts' planned maintenance activities move Transportation towards meeting its performance measures and targets.

Analysis of asset condition assessments provides an accurate picture of total funds needed to meet the Commonwealth's highway system maintenance needs every year. Transportation uses average cost data from its Transport system, a database of historical infrastructure construction and maintenance cost, to determine the cost of maintenance needed based on Transportation's established performance goals. Transportation presents this information to the General Assembly to support the request for maintenance funding. Transportation submits a final decision of maintenance funding for a given year and the allocation to each of Transportation's nine districts to the Commonwealth Transportation Board for approval.

Transportation uses AMS to capture condition assessment data for 100 percent of bridges, interstate and primary pavements, 25 percent of secondary pavements, and various other assets. Once Transportation loads condition assessment data into AMS, the system uses matrices and decision trees to analyze the data and determine the required maintenance activity; (1) Do Nothing, (2) Perform Corrective Maintenance, (3) Perform Preventive Maintenance or (4) Perform Restorative Maintenance.

Each district's Pavement and Bridge Engineers receive data from AMS. Each district plans and budgets its maintenance activities. Transportation does not reconcile the AMS proposed maintenance activity to actual maintenance activities performed. The data collection process begins again, as Transportation completes condition assessments on Virginia's roadways the next year.

Commonwealth Cell Phone Study

The Commonwealth of Virginia spends over $6 million on over 11,000 wireless telecommunication devices annually. However, the Commonwealth does not have up to date and comprehensive statewide policies, procedures, and guidance over the management and usage of these telecommunication devices. With improved management and oversight, the Commonwealth has the potential to save hundreds of thousands of dollars in wireless expenses.

The Commonwealth lacks tools to analyze telecommunication usage and costs effectively. We found several areas where phone use and associated charges did not appear consistent with efficient business use and where improved practices could result in cost savings. These areas are below.

- Phones with no usage for the entire month
- Phones that went over their allotted plan minutes or have excessive roaming charges
- Phones with high cost plans

Northrop Grumman assumed responsibility for providing and maintaining statewide contracts with wireless telecommunication vendors under the partnership the Commonwealth has with Northrop Grumman. In 2008, it was determined that Northrop Grumman's pricing for new cellular contracts was higher than the existing state contracts, so VITA took back the responsibility to solicit new cellular contracts that Northrop Grumman would utilize in providing telecommunication services. VITA and Northrop Grumman are in the process of transitioning all state agencies from the old statewide cellular contracts to the new statewide cellular contracts. However, VITA has no strategic plan or documented policies or procedures to complete the transition or to ensure Northrop Grumman is fulfilling this responsibility.

We recommend the following:

- VITA and the Department of Accounts should work together to update, enhance, and expand the current statewide guidelines for cellular telephones so they address all telecommunication devices. The guidelines should address areas of assigning, evaluating need, safeguarding, monitoring, and using telecommunication devices.

- VITA should develop and document a strategic plan for centralizing telecommunication management and develop a performance plan to ensure that Northrop Grumman fulfills its telecommunication responsibilities.

- VITA should research and develop effective tools that agencies can use to evaluate usage and costs and make informed decisions.

- Agencies need to determine the most cost effective telecommunication plan combinations for the agency as a whole and the users individually. VITA should provide guidance to agencies to assist with identifying cost effective solutions.

Commonwealth Investment Policies

Generally, we found that the agencies and institutions of higher education had sound investment policies that complied with best practices. Our comparison of investment policies of those agencies and institutions having investments to determine if they followed best practices is found in Appendix A. This shows the details of our review for state agencies and institutions of higher education.

State Agencies

Department of Treasury General Account and Local Government Investment Pool
Virginia College Savings Plan
Virginia Retirement System
Virginia State Lottery Department

Institutions Of Higher Education

The College of William and Mary in Virginia
James Madison University
Old Dominion University
University of Virginia
Virginia Commonwealth University
Virginia Military Institute
Virginia Polytechnic Institute and State University
Virginia State University

The underlying need for an adequate investment policy is to serve as a contractual agreement between the entity and its internal and external investment managers. Because of this, entities need to ensure that the investment policies are current, reviewed at least annually, and meet best practice standards. Appropriate current investment policies can help ensure there is no question as to what investment transactions and activities meet the entity's objectives and policies.

Equally important, entities must ensure that investment managers comply with policies in place by enacting adequate policies to monitor investment activity. Completion and adherence to these recommendations will serve as a means to protect the entities and the Commonwealth from risks associated with investment activity.

We found the areas of monitoring, follow-up, and periodic review of investment policies for certain institutions of higher education required strengthening. This improvement is especially important where the institutions of higher education use an outside investment manager.

1. Certain institutions of higher education should update their investment policies to include best practice standards and periodically review their policies for possible improvements;

2. Investment policies should include the best practices standards in sufficient detail to allow external and internal investment managers to easily understand and follow the best practices; and

3. Senior management of institutions of higher education should annually complete a formal review of investment policies, to ensure that policies are in compliance with the entity's investment objectives, identified risks, economic factors, and other factors that may affect investments.

SUMMARY OF REPORTS ISSUED

The following reports on audit were released by this Office during the period July 1, 2010, to September 30, 2010. Those reports which included findings in the area of internal controls or compliance are indicated by an (*) asterisk.

Independent Agencies

Virginia Lottery Department "Mega Millions" Report on Applying Agreed-Upon Procedures for the period April 1, 2009 through March 31, 2010
Virginia Lottery Department "Win for Life" Report on Applying Agreed-Upon Procedures for the period April 1, 2009 through March 31, 2010

Executive Departments

Governor's Cabinet Secretaries for the year ended June 30, 2010
Office of the Governor for the year ended June 30, 2010
Office of the Lieutenant Governor for the year ended June 30, 2010

Administration

Division of Selected Agency Support Services for the year ended June 30, 2010*

Commerce and Trade

Virginia Small Business Financing Authority for the year ended June 30, 2009*

Education

Southwest Virginia Higher Education Center for the two-year period ended June 30, 2009

Colleges and Universities

New College Institute for the year ended June 30, 2009
Norfolk State University for the year ended June 30, 2009*
Virginia Community College System for the year ended June 30, 2009*
Virginia State University for the year ended June 30, 2009*

Natural Resources

Department of Conservation and Recreation, Virginia Land Conservation Foundation, and the Chippokes Plantation Farm Foundation for the years ended June 30, 2008 and June 30, 2009*

Public Safety

Department of Forensic Science for the period July 1, 2008 through June 30, 2009*

Special Reports

Auditor of Public Accounts—2010 Report to the General Assembly
Commonwealth Cell Phone Study, July 2010*
Report to the Joint Legislative Audit and Review Commission for the quarter April 1, 2010 through June 30, 2010*
Review of Transportation's Asset Management System and Maintenance Fund Practices, July 2010*
Study of Commonwealth Investment Policies, August 2010*

Clerks of the Circuit Courts

Cities:
City of Colonial Heights – April 1, 2009 through March 31, 2010
City of Portsmouth – July 1, 2009 through June 30, 2010*
City of Salem – April 1, 2009 through March 31, 2010*
City of Waynesboro – April 1, 2009 through March 31, 2010

Counties:
County of Accomack – July 1, 2009 through June 30, 2010*
County of Albemarle – January 1, 2009 through December 31, 2010*
County of Alleghany – April 1, 2009 through June 30, 2010
County of Amelia – April 1, 2009 through March 31, 2010
County of Augusta – April 1, 2010 through June 30, 2010*
County of Brunswick – April 1, 2009 through March 31, 2010
County of Buchanan – July 1, 2009 through June 30, 2010
County of Buckingham – April 1, 2009 through March 31, 2010
County of Campbell (Turnover) – April 1, 2010 through June 30, 2010
County of Charlotte – April 1, 2010 through June 30, 2010*
County of Cumberland – April 1, 2009 through March 31, 2010
County of Essex – July 1, 2009 through June 30, 2010
County of Fauquier – April 1, 2009 through March 31, 2010*
County of Fluvanna – January 1, 2009 through December 31, 2009

County of Greensville – April 1, 2009 through March 31, 2010*
County of James City/City of Williamsburg – April 1, 2009 through March 31, 2010*
County of King and Queen – April 1, 2009 through March 31, 2010
County of King William – April 1, 2009 through March 31, 2010*
County of Lee – April 1, 2009 through March 31, 2010*
County of Montgomery – April 1, 2009 through March 31, 2010*
County of Northampton – April 1, 2009 through March 31, 2010
County of Prince George – April 1, 2009 through March 31, 2010*
County of Rockbridge – April 1, 2009 through March 31, 2010
County of Rockingham – January 1, 2009 through March 31, 2010*
County of Shenandoah – April 1, 2009 through March 31, 2010*
County of Smyth – April 1, 2010 through June 30, 2010*
County of Spotsylvania – April 1, 2009 through March 31, 2010
County of Stafford – April 1, 2009 through March 31, 2010
County of Warren – April 1, 2009 through March 31, 2010*
County of Wise – April 1, 2009 through March 31, 2010*
County of York/City of Poquoson – April 1, 2009 through March 31, 2010

State Accounts

Cities:

City of Bedford
City of Chesapeake
City of Colonial Heights
City of Danville
City of Emporia
City of Franklin
City of Hampton
City of Hopewell
City of Lexington
City of Manassas Park
City of Martinsville*
City of Norton
City of Petersburg
City of Poquoson
City of Radford
City of Virginia Beach
City of Waynesboro
City of Winchester

Counties:

County of Accomack
County of Albemarle
County of Alleghany
County of Amelia
County of Appomattox*
County of Arlington
County of Augusta*
County of Bath
County of Bland
County of Botetourt
County of Buchanan
County of Buckingham
County of Carroll
County of Charles City
County of Chesterfield
County of Craig
County of Culpeper
County of Dinwiddie
County of Essex
County of Floyd
County of Fluvanna
County of Frederick
County of Giles
County of Gloucester
County of Goochland*
County of Grayson
County of Greensville
County of Greensville (Turnover)
County of Halifax
County of Hanover
County of Henrico
County of Henry
County of Highland
County of Isle of Wight
County of King George
County of King William
County of Lancaster
County of Lee
County of Loudoun
County of Mathews
County of Mecklenburg
County of Montgomery*
County of Northampton
County of Northumberland

County of Nottoway
County of Orange
County of Page
County of Patrick
County of Prince Edward
County of Prince George
County of Prince William
County of Pulaski
County of Rappahannock*
County of Smyth
County of Tazewell
County of Washington
County of Westmoreland
County of Wise*
County of Wythe
County of York

Magistrates

Counties:

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

*Denotes management control finding