



Quarterly Report Summary - - July 1, 2011 to September 30, 2011

The Commonwealth Should Consider Revising the Methods of Funding the Court System

The Commonwealth's funding of its Court System is a complicated maze of state and local tax revenues and fines and costs with little connection to service delivery. Similarly, the division of responsibility for expenses between the Commonwealth and localities comes more from historical tradition than from funding sources or accountability. During this quarter we have issued two reports showing how the Court System receives funding. (pages 1 and 2)

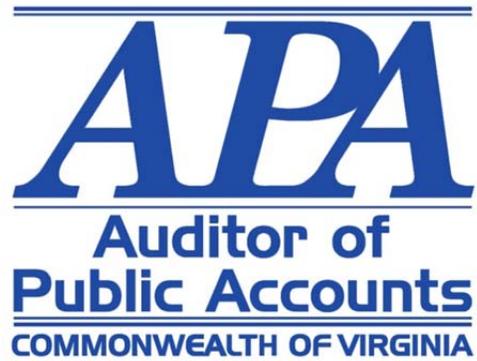
Conclusion of the Goochland Treasurer's Office Investigation

We found the Treasurer embezzled \$180,470.48 from March 4, 2009 through February 2, 2011. The Treasurer embezzled the majority of those funds in the six month period from August 5, 2010 to February 2, 2011 and wired the funds an individual outside of the United States in Lagos, Nigeria. (page 2)

School for the Deaf and Blind Needs to Develop and Maintain Its Procedures

As a small and new agency, the School needs to develop and maintain an information security programs and its general procedures. The smaller number of staff makes the loss of any individual difficult to keep operating and train new staff. (page 3)

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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Local Ordinances and the Funding of Courts

The Commonwealth's funding of its Court System is a complicated maze of state and local tax revenues and fines and costs with little connection to service delivery. Similarly, the division of responsibility for expenses between the Commonwealth and localities comes more from historical tradition than from funding sources or accountability.

In the fiscal year ended June 30, 2010, Virginia's Courts collected \$95 million of fines and costs related to local ordinances that parallel state statutes. When localities adopt ordinances that parallel state statutes and citizens pay fines and costs, localities deposit these collections in their general funds without any commitment to fund education, as with the Commonwealth's Literary Fund, or their share of court operations.

The General Assembly may wish to address the following funding issues.

1. Should counties and cities continue to have the authority to adopt ordinances that parallel state statutes and retain the fines, fees, and costs; and if so, should this process restrict funding to either education or the court system?
2. Counties and cities provide court facilities and, in some cases, staffing beyond that funded by the Commonwealth. Should the Commonwealth and locality share the cost of these expenses? If so, how should they share them?
3. Since the District Court reorganization eliminated town courts, why do towns continue to have the ability to assess and collect fines and fees?
4. Since Circuit Court Clerks receive funding from the General Fund of the Commonwealth, should the Compensation Board continue to calculate excess fees and share this funding with the locality?
5. Should the Commonwealth continue to fund a portion of the Circuit Court Clerk functions for the recordation of land records; if so, what services should this funding cover?
6. Should the Clerks of the Circuit Courts continue to receive a commission for simply depositing the Commonwealth and individual locality's collections with the appropriate Treasurer?

If the Commonwealth alters the funding for court services in the Circuit Court Clerk's office, should the administrative responsibility for this funding move from the Compensation Board to the Supreme Court?

Commonwealth of Virginia Court System

The Commonwealth of Virginia Court System netted the Commonwealth approximately \$329 million and its localities approximately \$83.7 million in fiscal year 2010, which is a decrease of three percent and 12 percent respectively over fiscal year 2009. This report provides a comprehensive overview of the fiscal operations of the Commonwealth's Circuit and District Courts. We have compiled this information from various sources to show both the Courts' collections and their general operating expenses.

Both the Circuit and District Courts collect fines, fees, and costs for the adjudication of cases which come before the courts. In addition, the Circuit Courts record and maintain numerous official documents and, in connection with these duties, collect fees, taxes, and other funds for deposit in both the Commonwealth's and locality's treasuries. The Courts also hold funds for others and amounts pending the adjudication of cases; this report does not include these amounts.

As a follow-up to our report from September 2009, the General Assembly during the 2010 session included in the Appropriation Act the requirement for District Courts to deposit all state collections directly into the treasury. The Office of the Executive Secretary of the Supreme Court of Virginia implemented this recommendation effective April 2010.

We have repeated two recommendations in this report. These recommendations include:

The Compensation Board's allocation of excess fees; and

Consistent accounting and reporting of all transactions affecting both Circuit and District Court operations.

Report on Investigation of Goochland County Treasurer's Office

On February 3, 2011, the Goochland County Sheriff arrested former County Treasurer, Brenda Grubbs for attempted embezzlement. After her arrest, she effectively resigned on February 11, 2011. On February 4, 2011, we began an investigation of the financial transactions conducted within the Treasurer's Office during the two year period preceding her arrest.

We conducted a number of procedures based on a risk assessment of possible vulnerabilities in the Treasurer's processes where the opportunities to embezzle funds existed. We focused on the Treasurer's access to cash and checks intended for County accounts. Our review included the following:

Our investigation found the Treasurer embezzled \$180,470.48 from March 4, 2009 through February 2, 2011. The Treasurer embezzled the majority of those funds in the six month period from August 5, 2010 to February 2, 2011 with only four transactions totaling \$9,751.48 occurring prior to August 2010. The following explains the methods by which the Treasurer embezzled those funds.

Counter Withdrawals

The former Treasurer embezzled the majority of funds from the county using direct counter withdrawals from a checking account from June 2010 through January 2011. A direct counter withdrawal is a process by which the Treasurer makes a check payable to herself or the County and presents the check at a bank teller's window to obtain an amount of cash.

The Treasurer originally established this checking account to segregate cash from the operating fund in order to purchase Certificates of Deposit for investment, which otherwise would have been a legitimate business practice. However, since the Treasurer had complete control over this account, including responsibility for ensuring its reconciliation to the accounting system; she was able to use the account for the embezzlement.

We found a total of 33 counter withdrawals between June 23, 2010 and January 28, 2011 totaling \$143,349. We also found two instances in March and May of 2009 where the Treasurer withdrew funds directly from the County's operating checking account, for a total of \$6,708.25. The Treasurer embezzled a total of \$150,057.25 of County funds by directly withdrawing cash at the local bank branch office.

Deposit Tampering

We found eight deposits between September 2010 and February 2011 that the former Treasurer tampered with before making the deposit to the bank, embezzling \$27,170. In each case, a Deputy Treasurer prepared the daily deposit and the deposit slip. The former Treasurer removed some amount of the cash from the deposit and changed the deposit slip to reflect a reduced amount on the deposit.

Disposition of Funds

During the course of our investigation we observed evidence and were aware of evidence obtained by law enforcement that the former Treasurer wired funds in excess of the amounts embezzled beginning in February 2010 and through January 2011 to an individual outside of the United States in Lagos, Nigeria. As such, any attempt to recover these funds may require additional resources and Federal law enforcement assistance.

Virginia School for the Deaf and Blind

RISK ALERTS

During the course of our audit, we encountered issues that are beyond the corrective action of management and require the action of either the School for the Deaf and Blind Board, another agency or outside party, or a change in the method by which the Commonwealth conducts its operations. The following issues represent such a risk to the Board and the Commonwealth.

Develop and Implement an Information Security Program

Virginia School for the Deaf and Blind (the School) does not have most of the fundamental information necessary to comply with the requirements in the Commonwealth's Security Standard to develop and implement an information security program that provides assurance over data confidentiality, integrity, and availability. Inadequate IT security policies place the School and its IT systems and data at risk for loss of confidentiality, integrity, and availability.

As a small agency, the School has limited staff and expertise available to develop an adequate Information Technology Security Program. The School's management should consider contacting the Department of Accounts (Accounts) to determine if Accounts new program to assist small agencies with the development of their information security programs can accommodate the School.

Maintaining Internal Controls, Current Policies and Procedures, and Compliance Issues

Like a number of agencies, the School has reduced administrative and support staff to meet many of the budget reductions over the past several years. These reductions have significantly reduced the School's ability to deal with the loss of key personnel and maintain adequate internal controls to meet best practices to safeguard Commonwealth assets. A review of administrative support indicates that the School has reached a point that loss of a key fiscal person or the retirement of an individual could temporarily compromise the internal control within the fiscal operations.

The School and the Board of Visitors will need to determine if the risk of continuing to operate as a solely independent agency without outsourcing administrative functions can occur and still comply with these additional external requirements. Further, several points within this report refer to the need to document policies and procedures, financial as well as those addressed in the other compliance matters.

The Board of Visitors and management need to weigh the risk associated with operating with limited staff without well documented and current policies and procedures. Further, this risk assessment should consider the consequences of non-compliance with both state and federal laws and regulations, which encompass both financial and data security issues.

SUMMARY OF REPORTS ISSUED

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

Judicial Branch

Virginia's Judicial System for the year ended June 30, 2010*

Independent Agencies

State Lottery Department "Mega Millions"—Report on Applying Agreed-Upon Procedures for the period April 1, 2010 through March 31, 2011

State Lottery Department "Power Ball"—Report on Applying Agreed-Upon Procedures for the period January 31, 2010 through March 31, 2011

State Lottery Department "Power Play"—Report on Applying Agreed-Upon Procedures for the period January 31, 2010 through March 31, 2011

State Lottery Department "Win for Life"—Report on Applying Agreed-Upon Procedures for the period April 1, 2010 through March 31, 2011

Education

Virginia School for the Deaf and Blind and the Virginia School for the Deaf and Blind Foundation for the year ended June 30, 2010*

Colleges and Universities

University of Mary Washington for the year ended June 30, 2010

Virginia Community College System for the year ended June 30, 2010*

Virginia State University for the year ended June 30, 2010*

Health and Human Resources

Assistive Technology Loan Fund Authority for fiscal years ended June 30, 2010 and June 30, 2011*

Natural Resources

Department of Game and Inland Fisheries for the year ended June 30, 2010*

Special Reports

Auditor of Public Accounts – 2011 Report to the General Assembly*
Commonwealth of Virginia Court Operations for the year ended June 30, 2010*
County of Goochland Report on Investigation of Treasurer’s Office—August 25, 2011*
Local Ordinances and the Funding of Courts – September 2011*
Report to the Joint Legislative Audit and Review Commission for the quarter April 1, 2011 through June 30, 2011*

Clerks of the Circuit Courts

Cities:

City of Bristol – April 1, 2010 through June 30, 2011*
City of Colonial Heights – April 1, 2010 through March 31, 2011
City of Fredericksburg – July 1, 2009 through March 31, 2011*
City of Hopewell (Turnover) – April 1, 2011 through July 31, 2011
City of Newport News – April 1, 2010 through March 31, 2011
City of Portsmouth – July 1, 2010 through March 31, 2011*
City of Staunton – July 1, 2009 through December 31, 2010*
City of Waynesboro – April 1, 2010 through March 31, 2011*
City of Winchester – January 1, 2010 through March 31, 2011

Counties:

County of Amelia – April 1, 2010 through March 31, 2011
County of Augusta – July 1, 2010 through June 30, 2011*
County of Bedford – April 1, 2010 through June 30, 2011
County of Bland – April 1, 2010 through June 30, 2011
County of Brunswick - April 1, 2010 through March 31, 2011
County of Clarke - April 1, 2010 through March 31, 2011
County of Fluvanna - January 1, 2010 through March 31, 2011
County of Frederick – January 1, 2010 through March 31, 2011
County of Greenville – April 1, 2010 through March 31, 2011*
County of Henrico – January 1, 2010 through March 31, 2011
County of James City/City of Williamsburg – April 1, 2010 through March 31, 2011*
County of King and Queen – April 1, 2010 to June 30, 2011
County of Loudoun – April 1, 2009 through December 31, 2010*
County of Louisa – July 1, 2009 through December 31, 2010*
County of Mathews – April 1, 2010 through March 31, 2011
County of Mecklenburg – April 1, 2010 through March 31, 2011
County of New Kent – January 1, 2009 through June 30, 2011
County of Northampton – April 1, 2010 through March 31, 2011
County of Northumberland – January 1, 2010 through March 31, 2011*
County of Orange – January 1, 2010 through March 31, 2011

County of Page – April 1, 2010 through March 31, 2011
County of Powhatan – July 1, 2009 through December 31, 2010*
County of Rockingham – April 1, 2010 through March 31, 2011*
County of Russell – January 1, 2010 through March 31, 2011*
County of Scott – March 1, 2010 through March 31, 2011*
County of Smyth – April 1, 2010 through June 30, 2011
County of Southampton - April 1, 2010 through March 31, 2011
County of Spotsylvania – April 1, 2010 through March 31, 2011
County of York / City of Poquoson – April 1, 2010 through June 30, 2011*

State Accounts

Cities:

City of Buena Vista – for the year ended June 30, 2011
City of Chesapeake – for the year ended June 30, 2011
City of Colonial Heights – for the year ended June 30, 2011
City of Emporia – for the year ended June 30, 2011
City of Franklin – for the year ended June 30, 2011
City of Lexington – for the year ended June 30, 2011
City of Norton – for the year ended June 30, 2011
City of Waynesboro – for the year ended June 30, 2011*

Counties:

County of Albemarle (Turnover) – June 10, 2011
County of Amelia – for the year ended June 30, 2011
County of Arlington – for the year ended June 30, 2011
County of Augusta – for the year ended June 30, 2011
County of Bland – for the year ended June 30, 2011
County of Brunswick – for the year ended June 30, 2011
County of Carroll – for the year ended June 30, 2011
County of Clarke – for the year ended June 30, 2011
County of Dinwiddie – for the year ended June 30, 2011
County of Frederick – for the year ended June 30, 2011
County of Gloucester – for the year ended June 30, 2011
County of Goochland – for the year ended June 30, 2011
County of Grayson – for the year ended June 30, 2011
County of Greenville – for the year ended June 30, 2011
County of Hanover – for the year ended June 30, 2011
County of Highland – for the year ended June 30, 2011
County of Isle of Wight – for the year ended June 30, 2011
County of Lancaster – for the year ended June 30, 2011
County of Lunenburg – for the year ended June 30, 2011*
County of Mathews – for the year ended June 30, 2011
County of Mecklenburg – for the year ended June 30, 2011

County of Nottoway – for the year ended June 30, 2011
County of Prince William – for the year ended June 30, 2011
County of Russell – for the year ended June 30, 2011
County of Shenandoah – for the year ended June 30, 2011
County of Southampton – for the year ended June 30, 2011
County of Tazewell – for the year ended June 30, 2011
County of Wythe – for the year ended June 30, 2011

*Denotes management control finding