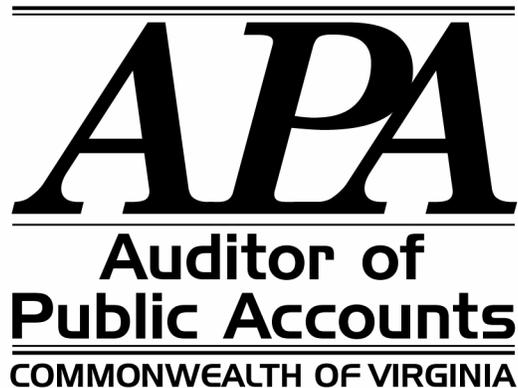


**REPORT TO THE  
JOINT LEGISLATIVE AUDIT  
AND REVIEW COMMISSION**

**FOR THE QUARTER  
OCTOBER 1, 2003 TO DECEMBER 31, 2003**



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January 12, 2004

The Honorable Kevin G. Miller, Chairman  
and  
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 October 1, 2003 through December 31, 2003.

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:aom

# **EXECUTIVE SUMMARY**

## **DEPARTMENT OF GENERAL SERVICES SPEND ANALYSIS AND PROCUREMENT CONSULTING SERVICES**

General Services contracted with Silver Oak Solutions, Inc. (Silver Oak), for spend analysis and procurement consulting services. These services include analyzing the Commonwealth's purchasing data, developing an alternative procurement strategy to obtain better pricing and training contracting officers on the process.

### Financing Arrangements

During the eleventh month of the project, and almost four months after our initial request, General Services did not provide a financing plan. Because General Services did not provide the financing plan until the exit conference, we had no opportunity to review and incorporate the information into our report. As a result, we are unable to determine if the financing plan addresses the following issues; collection of rebate, incentive and surcharge payments, Silver Oak contract costs, or the financial impact on agencies and institutions.

The contract value including the three subsequent amendments is a not-to-exceed price of \$4,746,993. The contract guarantees estimated cost reductions at least two times the contract fees, or Silver Oak will reimburse the Commonwealth the amount necessary to make up the difference. As of August 30, 2003, General Services has paid Silver Oak a total of \$2,247,303 using \$610,031 in general funds and \$1,637,272 from nongeneral funds earmarked for the development and implementation of eVA. Of the total paid to Silver Oak, \$1,947,192 was for Phase 1 and \$300,111 for Phase 2.

As part of the procurement strategy, Silver Oak identified commodities that had the greatest potential for price reduction and suggested procuring these commodities using competitive negotiation. Historically, General Services and VITA procured statewide contracts for these commodities using competitive sealed bidding.

### Other Issues

In performing our review, we have identified several key issues.

- With the new commodity contracts, General Services has estimated \$25 million in cost reduction through lower pricing. Since the new commodity contracts are optional, realized annual cost reduction may be much less than estimated. However, the possibility exists that the Department of Planning and Budget, the Governor, or the General Assembly may reduce agency budgets based on the estimated cost reduction calculation of \$25 million.
- By using competitive negotiation instead of competitive bidding, Silver Oak is using purchasing techniques that previous administrations did not consider preferred. While we noted some benefits, this approach also creates some shifts in procurement policy that General Services and others will need to monitor.

The new commodity contracts achieve lower pricing by means of reduced item pricing, discounts, rebates, and incentive payments. However, a system that generates a substantial portion of its cost reduction

from rebates and incentive payments is highly dependent on a system that can monitor spending activity. A final issue is making sure that in the long-term, General Services can support that the process has generated a low cost for goods and services purchased by the Commonwealth. Maintaining this information is essential for both future contracts, and more importantly, monitoring contract compliance with the current vendor.

## **DEPARTMENT OF MINORITY BUSINESS ENTERPRISE**

This report includes a finding “Consolidate Fiscal and Procurement Operations With Another Agency” that recommends that the Department consider using one of state’s service bureaus or use a larger agency to provide these services. The Department does not concur with this recommendation, however, we believe that in the long-term this recommendation provides improved internal controls and trained staff to the Department and Commonwealth.

## **DEPARTMENT OF MOTOR VEHICLES**

### CURRENT FISCAL OPERATIONS

#### Cash Flow

As reported in prior audit reports, Motor Vehicles continues to experience cash flow difficulties, which required management to request and receive a Treasury Loan of \$6 million for the fiscal year ended June 30, 2003. Additionally, management is projecting that Motor Vehicles will need to increase this loan to \$7.5 million to meet its obligations by the close of fiscal year 2004.

#### Controlling Costs

Historically, Motor Vehicles requests and receives additional appropriations when fees collected exceed forecasted amounts. However, due to the budgetary issues throughout the Commonwealth, Motor Vehicles was required to reduce their operating budget for fiscal year 2003 and transfer the anticipated savings to the General Fund of the Commonwealth. Motor Vehicles did not achieve the required savings and therefore, needed the Treasury Loan noted above meet their obligations.

Fundamental to controlling costs is having a mechanism to set the cost of the level of service and performance the Governor and General Assembly expect of Motor Vehicles. This expectation deals not only with cost and service, but also considers and includes productivity measures. Until such guidance is available to Motor Vehicles, the solution to the Department’s cash flow problems will continue to appear only in terms of closed offices and longer lines.

## **DEPARTMENT OF MOTOR VEHICLES COST ANALYSIS SPECIAL REPORT**

The cost model calculated the average cost of an original driver license issued at a customer service center to be \$30.51. However, this cost varied significantly by specific customer service center. For example, the average cost of an original driver license issued in the Emporia customer service center is \$95.26, while the same license cost \$22.82 in the Tyson’s Corner customer service center.

The way a driver gets a license also significantly affects the cost. For example, a driver license renewal performed at a customer service center cost an average of \$12.63 versus \$3.18 if completed over the Internet or \$7.05 through the mail. The Commonwealth collects an average of \$20.00 for each of these services.

The cost model illustrates the need for a balance between revenue collections and customer service. The Department of Motor Vehicles' management and decision makers must determine whether the current level of service is worth the cost to the taxpayer.

On-going cash flow issues at the Department of Motor Vehicles (Motor Vehicles) led the General Assembly to request the Auditor of Public Accounts to develop a cost accounting model designed to accurately and completely document the true total costs, both direct and indirect, of the activities and services provided by Motor Vehicles.

To develop this model, we reviewed processes related to funding and financing sources, expense budget development, cash flow and revenue forecasting, accumulation and assignment of costs, development of the strategic plan, and automated information systems. After a detailed analysis, we found Motor Vehicles does not have a systematic way to identify or collect the costs of products and services, and therefore cannot reasonably determine their annual budgetary requirements. Motor Vehicles has an inconsistent coding structure to capture revenues and expenses, the coding inconsistencies make it difficult to extract and analyze this information.

When pricing products or determining its level of service, Motor Vehicles must have a per-unit cost that includes all of the services it must or plans to provide. The cost model developed in this report identifies the per-unit cost for the various driver and vehicle products and delivery methods.

The revenues retained by Motor Vehicles for a functional area does not always cover the expenses. Driver Services, Vehicle Services, and Transportation Safety Services incur expenses in excess of their retained revenues. Conversely, Records Management and Motor Carrier Services functions are significant contributors to the operations of Motor Vehicles. The primary sources of revenues in both of these areas are not a direct result of the expenses incurred through Motor Vehicles' operations. Record Management generates its revenues from the sale of information to various sources, primarily insurance carriers. The records are a by-product of the information systems that Motor Vehicles maintains to track driver and vehicle information.

Motor Vehicles' management must also develop productivity measures and use these measures as an effective tool to staff customer service centers and other operations. This will allow Motor Vehicles to achieve the desired level of service. Without effective performance measures for productivity, a reviewer cannot reach the conclusion that Motor Vehicles needs to retain a greater portion of revenue or that the General Assembly needs to raise a fee simply to cover Motor Vehicles' costs.

## **SPECIAL REVIEW – SURPLUS COMPUTER EQUIPMENT DATA REMOVAL**

We found sensitive information such as vaccination records, personnel records, credit card numbers, and more on computer equipment ready for auction by the Commonwealth. The Commonwealth regularly sells off old used computer equipment or, in some cases, has private vendors dispose of the computer

equipment. The Commonwealth does not have a policy or standard to erase the hard drives before disposing of used equipment.

Our audit included a review of the Commonwealth's policies and the procedures to implement these policies by reviewing seven agencies and one institution of higher education. In addition we tested several computers and hard drives that were ready for sale or transfer to determine if personnel had followed the proper procedures for data removal. We found severe weaknesses that could lead to sensitive data being released or having already been released.

Our review of laptop and desktop computers ready for auction found that they contained the following information.

- Vaccination information;
- Women Infant and Children (WIC) personal information;
- Personnel evaluations of individuals;
- Personnel records of grievances of individuals;
- Scholastic evaluations of individually identifiable students; and
- Personal credit card number of a Dean of a college.

Our recommendations include the following.

- Agency personnel should immediately inspect all computer technology slated for sale or transfer to determine that personnel have removed all data from devices in such a manner that will prevent ready reading or reading by using utility software.
- The Virginia Information Technologies Agency (VITA) should create a policy and procedure which defines the responsibility for the removal of data before sale or transfer of surplus equipment.
- VITA should create a data removal or disk cleaning standard for all agencies and institutions. These standards should make use of disk cleansing utilities or require the destruction of hard drives. Mere formatting of hard drives is insufficient in most cases.
- The Chief Information Officer or designated Information Security Officer of each agency should create an audit function to randomly test equipment that is ready for public auction or transfer.

## **STATEWIDE REPORT ON THE VIRGINIA CIRCUIT COURT SYSTEM**

During our audits of Clerks of Circuit Courts for the work plan fiscal year 2003, we identified the following six findings that we consider statewide issues that are common to several circuit courts:

- Properly Reconcile Bank Account
- Improve Receipting Procedures and Safeguard Assets
- Properly Manage Accounts Receivable
- Properly Assess and Record Court Fees and Costs
- Improve Trust Fund Management
- Properly Monitor and Disburse Liabilities

Statewide issues are those internal control findings or compliance issues that require that the Executive Secretary of the Supreme Court, as the circuit court administrator, consider issuing new guidelines or providing training to help specific clerks' offices improve. In addition, the Executive Secretary should consider including these issues when conducting statewide training for all clerks' offices.

## **STATEWIDE REPORT ON THE VIRGINIA DISTRICT COURT SYSTEM**

In our audits of the District Courts completed in our fiscal 2003 work plan and cover fiscal periods through June 30, 2003, we identified the following three findings that we consider statewide issues that are common to several district courts.

- Properly Reconcile Bank Account
- Improve Receipting, Deposit, and Cashier Procedures
- Properly Assess and Record Court Fees and Costs

Statewide issues are those internal control findings or compliance issues that require that the Executive Secretary of the Supreme Court, as the district court administrator, consider issuing new guidelines or providing training to help specific courts improve. In addition, the Executive Secretary should consider including these issues when conducting statewide training for all district courts.

## **VIRGINIA COLLEGE SAVINGS PLAN**

Last year's audit contained the following three findings:

- Transitioning Board Governance
- Improve Timeliness of Financial Reporting
- Develop Operating Policies and Procedures Manual

During the past year, the Plan has made substantial progress towards addressing these issues. Although minor issues remain, we are not reissuing these findings. We would like to commend the management and staff of the Plan for their efforts, and we are especially pleased with the progress made by the Board of Directors and encourage them to complete the work on developing and implementing their governance documents.

# **SUMMARY OF REPORTS ISSUED**

## **SUMMARY OF REPORTS ISSUED**

The following reports on audit were released by this Office during the period October 1, 2003 through December 31, 2003. Those reports which included findings in the area of internal controls or compliance are indicated by an (\*) asterisk.

### **State Agencies and Institutions**

#### **Judicial Branch**

Virginia Circuit Courts Statewide Report during the period ending June 30, 2003\*  
Virginia District Courts Statewide Report during the period ending June 30, 2003\*

### **Executive Departments**

#### **Executive Offices**

General Assembly and Legislative Agencies and Commissions of the Commonwealth of Virginia, Cash Basis Financial Report for the fiscal year ended June 30, 2003  
Office of the Attorney General for the year ended June 30, 2003

### **Commerce and Trade**

Department of Minority Business Enterprise for the period July 1, 2002 through June 30, 2003\*  
Virginia Commercial Space Flight Authority, Annual Financial Report for the year ended June 30, 2003  
Virginia Racing Commission for the year ended June 30, 2003  
Virginia Tourism Authority, Annual Financial Statements for the year ended June 30, 2003

### **Education**

Virginia Biotechnology Research Park Authority for the year ended June 30, 2003  
Virginia College Savings Plan for the year ended June 30, 2003  
Virginia College Savings Plan, Annual Report for the period ended June 30, 2003

### **Colleges and Universities**

Virginia Polytechnic Institute and State University for the year ended June 30, 2003  
Virginia Polytechnic Institute and State University, Intercollegiate Athletic Programs for the year ended June 30, 2003

## **Finance**

Revenue Stabilization Fund dated November 25, 2003

## **Health and Human Resources**

Office of Comprehensive Services for At-Risk Youth and Families for the year ended June 30, 2003

Tobacco Indemnification and Community Revitalization Commission for the year ended June 30, 2003

## **Public Safety**

Department of Alcoholic Beverage Control for the year ended June 30, 2003

## **Transportation**

Department of Motor Vehicles for the year ended June 30, 2003\*

Virginia Port Authority for the year ended June 30, 2003\*

## **Independent Agencies**

State Lottery Department (Lotto South), Report on Applying Agreed-Upon Procedures for the period April 1, 2002 through March 31, 2003

State Lottery Department (Mega Millions), Report on Applying Agreed-Upon Procedures for the period April 1, 2002 through March 31, 2003

Virginia Lottery, Annual Financial Report June 30, 2003

Virginia Public Broadcasting Board for the year ended June 30, 2003

Virginia Retirement System for the year ended June 30, 2003\*

## **Special Reports**

Auditor of Public Accounts Annual Report, 2003

Commonwealth Competition Council, dated October 2003\*

Department of Motor Vehicles, Cost Analysis dated October 2003\*

Report to the Joint Legislative Audit and Review Commission for the quarter July 1, 2003 to September 30, 2003

Spend Analysis and Procurement Consulting Services dated November 2003\*

Special Review – Surplus Computer Equipment Data Removal, dated October 2003\*

State Travel Charge Card Program dated November 2003\*

Virginia Commonwealth University, Office of the President dated November 10, 2003\*

## **Clerks of the Circuit Courts**

### **Cities:**

City of Fredericksburg for the period July 1, 2002 through September 30, 2003  
City of Radford for the period July 1, 2002 through June 30, 2003  
City of Richmond-John Marshall for the period January 1, 2002 through June 30, 2003  
City of Richmond-Manchester for the period January 1, 2002 through June 30, 2003

### **Counties:**

County of Craig for the period October 1, 2002 through September 30, 2003  
County of Floyd for the period July 1, 2002 through June 30, 2003  
County of King and Queen for the period October 1, 2002 through September 30, 2003  
County of Pulaski for the period July 1, 2002 through June 30, 2003\*  
County of Sussex for the period October 1, 2002 through September 30, 2003\*

## **Commonwealth Revenues Collected by Constitutional Officers**

Collection of Commonwealth Revenues by Local Constitutional Officers,  
Statewide Report for the year ended June 30, 2003\*

## **General Receivers**

### **Cities:**

City of Bristol for the period July 1, 2002 through June 30, 2003  
City of Norfolk for the period July 1, 2002 through June 30, 2003

### **Counties:**

County of Buchanan for the period July 1, 2002 through June 30, 2003  
County of Dickenson for the period July 1, 2002 through June 30, 2003  
County of King George for the period July 1, 2002 through June 30, 2003  
County of Lee for the period July 1, 2002 through June 30, 2003  
County of Russell for the period July 1, 2002 through June 30, 2003  
County of Washington for the period July 1, 2002 through June 30, 2003  
County of Wise and County of Norton for the period July 1, 2002 through June 30, 2003

