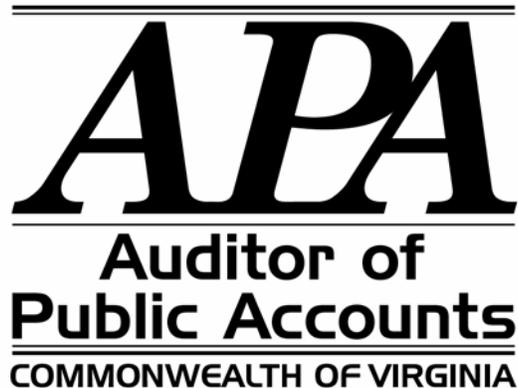


**REPORT TO THE
JOINT LEGISLATIVE AUDIT
AND REVIEW COMMISSION**

**FOR THE QUARTER
OCTOBER 1, 2005 TO DECEMBER 31, 2005**



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Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

January 7, 2004

The Honorable Lacey E. Putney, 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, 2005 through December 31, 2005.

We are listing the reports included in this quarterly report into the following categories:

- Legislative Mandated Reviews
- Audits
- Special Reviews

The section, *Legislative Mandated Reviews*, includes our final reports on both these requested projects. The section, *Audits*, includes two reports arising from our normal audit work.

The section, *Special Reviews*, includes several reports, which may be of some interest. The reports on Selected Information Systems Development Projects and Supplies and Materials and Controllable Assets, provide a status on the Commonwealth management of these items. The Public Private Education and Infrastructure Act report raises some issues the General Assembly may wish to consider. The Assistive Technology Loan Fund Authority also includes some issues that the General Assembly may wish to consider concerning the Authority's governance.

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

LEGISLATIVE MANDATED REVIEWS

FINAL DEFERRED MAINTENANCE REPORT

December 2005

The Commonwealth of Virginia has a \$1.626 billion deferred maintenance backlog for 5,269 of the 10,449 buildings inventoried in the Facility Inventory and Condition Assessment System (FICAS). As agencies assess the remaining buildings, the statewide backlog will increase. The buildings assessed and included in the next six-year capital plan are usually an agency or institution's top priority projects. However, all needs are not included in the plan. There are many buildings, new and old, not represented in the capital plan that may have unfunded needs. Therefore, we are unable to predict the extent that the deferred maintenance backlog will increase once agencies assess all buildings. Assessing the remaining buildings is critical to continuing this initiative.

FICAS demonstrates the value of having a centralized database with building condition assessment information that will provide the Governor and General Assembly, once it is fully populated, with a cost effective capital-planning tool. The Commonwealth can use this tool to ensure that available funding will provide the maximum return on our facility investments. However, costs in FICAS include construction costs up to the subcontractor level only and generally do not include design costs, general contractors' overhead, agency administration, or any special conditions required for projects. These soft costs may increase the cost by 20 to 30 percent.

According to the Appropriations Act, upon completion of the initial implementation phase of FICAS, the Auditor of Public Accounts will transfer responsibility and oversight of FICAS to the Department of General Services on or about May 1, 2006. We have concerns over whether General Services has the resources to administer FICAS and the Facility Assessment Program. Over the years, General Services has taken large budget cuts, which have prevented them from accomplishing their many responsibilities related to building maintenance and construction. To be successful, General Services needs adequate funding to administer FICAS and the Assessment Program. Without the proper personnel and resources, FICAS will fail.

In addition, to be successful, the Commonwealth must implement the recommendations from this report in conjunction with the recommendations in our interim report. Ultimately, if the Commonwealth continues to ignore the issues with the current capital outlay and maintenance processes, the deferred maintenance backlog will accelerate and no accountability will continue to exist for most agencies. We recommend that the Governor and General Assembly consider the following:

- implement the recommendations from our Interim Report on Deferred Maintenance in the Commonwealth and the Review of the Commonwealth's Capital Outlay Process;
- direct General Services and Planning and Budget to establish policies and procedures for maintaining and updating building condition information to support a statewide Facility Assessment Program;
- approve sufficient funding for General Services to establish an Assessment Program and administer FICAS;

- reorganize General Services and its divisions to ensure competent and productive leadership of FICAS and the Assessment Program;
- as an alternative to reorganizing General Services, create a new Department of Capital Asset Management to oversee the statewide assessment and capital outlay programs; and
- direct the State Council of Higher Education for Virginia to work with Planning and Budget to have one uniform and consistent reporting mechanism across all state agencies and institutions of higher education to request capital outlay.

REVIEW OF THE OPERATIONS OF THE STATE COMPTROLLER

November 2005

We have completed our final review of the operations of the State Comptroller as they relate to the Commonwealth's financial accounting and control operations practices as required by Section 1-2.2.B. of Chapter 4 of the 2004 Virginia Acts of Assembly, Special Session I. For this final report, in addition to providing our final recommendations, we are also repeating the recommendations that we made in our interim report dated November 18, 2004 and providing an update on the status of those recommendations in Chapter 4. A comprehensive report summary and recommendations begins on page 1. Our interim report is set out in chapters one through four of this report and the final review is set out in chapters 5 through 8.

There is a significant opportunity for the Comptroller's Office to improve financial management leadership, increase communication, strengthen internal controls, and create efficiency in the Commonwealth. Throughout this report, we describe areas for improvement and make specific recommendations such as increasing the use of technology, improving access to training, and consolidating of Commonwealth business functions.

The Comptroller's Office should exercise the same degree of financial management leadership and authority as a controller of a major corporation. However, in Virginia, decentralization initiatives in the early 1990s and recurring budget reductions in the Comptroller's Office had the effect of making agencies work independently, eroding the Office's financial management leadership. Expecting agencies to work differently now will not occur without resistance. The Comptroller and his staff will also need to change the way they operate in order to overcome the resistance towards central financial management leadership. The process of change begins with a sound long-term strategic plan that examines future trends and develops a business case for statewide financial management systems modernization.

We recommend the Comptroller and his staff begin a comprehensive strategic planning process that considers our recommendations made throughout this report. The plan should focus on defining a vision for the statewide financial management leadership of the Office, identifying opportunities for using best practices in our technology oriented environment, improving overall communications and coordination between the Comptroller's Office and agencies, and reducing costs by creating efficiencies. Our specific recommendations are throughout this report and, in general, support the need for significant improvement. As part of the strategic plan, the Comptroller should identify optimum employment levels and funding to achieve the desired results and seek changes to the maximum employment levels and funding to support his plan.

AUDITS

COMMONWEALTH TRANSPORTATION FUND

December 2005

The report discusses the financial activities of all agencies reporting to the Secretary of Transportation. These agencies are the Departments of Transportation, Motor Vehicles, Rail and Public Transportation (DRPT), and Aviation, the Motor Vehicle Dealer Board, and the Virginia Port Authority. In addition to this report, we have issued a separate report on DRPT entitled "Department of Rail and Public Transportation, Report on Audit, For the Year Ended 2005" and a separate financial statement report for the Port Authority .

The transportation agencies oversee land, air, and water transportation in the Commonwealth. Responsibilities include collecting revenues from taxes, licenses, and vehicle registrations to fund operations; developing and maintaining highways, ports, and airports; and assisting in the development of private and local rail and mass transportation, highways, ports, and airports.

The Commonwealth Lacks a Coordinated Transportation Plan

Overall, we found the Commonwealth lacks a statement of clear objectives regarding transportation planning. Specific objectives for improving the Commonwealth's transportation system include providing a seamless transportation network throughout the state by improving interconnections between all transportation modes. Coordination between all Transportation agencies is an integral part to the future success of the Commonwealth's Transportation system.

Additionally our audit of these agencies for the year ended June 30, 2005, found a proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System; instances of noncompliance with applicable laws and regulations tested as required and reported under Government Auditing Standards; and internal control matters that require management's attention and corrective action.

- The Department of Motor Vehicles should improve information technology security standards and guidelines
- The Department of Transportation should obtain assurance over security and information technology infrastructure.

DEPARTMENT OF RAIL AND PUBLIC TRANSPORTATION

For the year ended June 30, 2005

Our review included the following:

- review and analyze the adequacy of the Department's internal controls over its financial operations;
- review and determine the adequacy of the Department's policies and procedures used to decide which projects to fund; and
- review the Department's policies regarding grants management, capital projects, and operations.

Included in the report are several observations regarding the operations and programs administered by the Department. Overall, we concluded that the Department has adequate controls over its administration of grant allocations and review and the current project management processes provide adequate oversight and ensure compliance with applicable laws, rules, and regulations. We do have some concerns about the Department's ability to retain qualified staff to maintain the current level of project management.

We also observed that the Department currently allocates operating assistance funding to recipient public transit providers based on eligible operating expenses as the sole criteria for awarding funding. In order to set forth specific, measurable objectives for statewide mass transit, the General Assembly may wish to reconsider how they currently fund mass transit. By implementing tiered performance measures as a gauge for allocating state operating assistance for public transportation, the Commonwealth could more accurately track the progress of an integrated, statewide mass transit plan.

We found that, overall; the Commonwealth of Virginia does not have a clear statement of the objectives that the rail and public transportation programs should achieve. To date, most of the designed and implemented plans have been a response to a specific problem rather than part of an intricate statewide plan with specific and measurable objectives. Specific objectives for mass transit could include providing a seamless transportation network throughout a region by improving interconnections among all transportation modes.

SPECIAL REVIEWS

PROGRESS REPORT ON SELECTED INFORMATION SYSTEMS DEVELOPMENT PROJECTS IN THE COMMONWEALTH

September 2005

We audit a number of systems development projects on an on-going basis, as described in Appendix B of the report. The objectives of our audits are to determine that:

- the project manager complies with the Commonwealth's Project Management Standard, as issued by the Virginia Information Technologies Agency; and
- the project remains on time, within budget, and on scope.

Our reviews generally include examining documents including the project charter, project plan, communications plan, and risk mitigation strategies. We regularly attend project meetings to note any issues affecting the project and meet with the project managers to offer suggestions and recommendations based on our experience monitoring implementations throughout the Commonwealth.

Our goal is to detect problems at the earliest possible point and alert decision makers to this information, thereby reducing project failures. During our review process we also gain an understanding of the system and its controls that will allow us to plan future audit work involving that system. A detailed explanation of our review process is included later in this report in Appendix A.

The purpose of this report is to provide a progress report of selected projects we are actively auditing along with any recommendations we have to improve the project management. Specifically, this report highlights the following systems development projects:

- Virginia Election and Registration Information System (VERIS), State Board of Elections ;
- Project New Horizons, Virginia State University;
- Integrated Social Services Delivery System (ISSDS) Public Private Partnership, Department of Social Services;
- Virginia's Electronic Procurement System (eVA), Department of General Services;
- Integrated Revenue Management System (IRMS), Department of Taxation;
- Banner Longwood's Implementation Strategy for Success (BLISS), Longwood University;
- Virginia Emergency Operations Center (VEOC), Department of Emergency Management; and
- Virginia CORIS - Sentencing Module, Department of Corrections.

We have issued reports addressing all of the above projects, except for, the Virginia Emergency Operations Center at Emergency Management and the Virginia CORIS – Sentencing Module at Corrections. We have reported on the projects either thorough issuing a separate report on the system or commented on the status of the project in the agency audit report. For Emergency Management and Corrections, this report does not include recommendations, but instead describes project history, activities, and status. We verified the accuracy of this information with all of the agencies, however since there were no audit recommendations we did not conduct an exit conference or receive an agency response.

REVIEW OF THE COMMONWEALTH'S SUPPLIES AND MATERIALS AND CONTROLLABLE ASSETS

November 2005

The Commonwealth spent approximately \$1.042 billion for supplies and materials and \$904.6 million on fixed assets during fiscal year 2004.

The Commonwealth does not provide agencies and institutions with guidance to assist them in determining whether to maintain inventory records for supplies and materials purchased, and there are no policies and procedures relating to maintaining or controlling that inventory when necessary. As a result, agencies may inventory items unnecessarily or may not inventory items that they should. In addition, many agencies are developing their own policies and procedures that may not be in line with the best practices for supplies and materials management. Most agencies do not have adequate written policies and procedures for their inventory function.

The Commonwealth has adequate policies and procedures governing controllable asset management. These policies and procedures mirror that of the best practices.

To improve overall supplies and materials management, the report includes recommendations for the Department of Accounts to provide state agencies and institutions with guidance on how to determine what items to include in supplies and materials inventory. This guidance should consider the cost-benefit and risks to tracking and recording different classes of inventory. The Department of Accounts should also develop policies and procedures for supplies and materials inventory management for agencies that determine inventory records are necessary.

This review included some of the agencies that have a large amount of expenses associated with supplies and materials. We also recommended various changes in policies and procedures for the following agencies:

- Department of Alcoholic Beverage Control
- Department of Corrections
- Department of General Services (Virginia Distribution Center)
- Department of Mental Health, Mental Retardation, and Substance Abuse Services
- Department of State Police
- Virginia Correctional Enterprises
- Virginia State University

REVIEW OF THE PUBLIC PRIVATE EDUCATION AND INFRASTRUCTURE ACT

November 2005

The Public Private Education and Infrastructure Act of 2002 (PPEA) sought to speed up the process of procuring school buildings, equipment and other infrastructure for the public good. The PPEA did this by allowing private entities to propose the type of structure, financing, and possibly where to build the structure; therefore, placing the risk on the private sector for project completion. Subsequent PPEA revisions expanded the definition of infrastructure to include information technology.

The PPEA statute provides few specific requirements and allows public entities to set guidelines. The absence of specific requirements has resulted in the following questions concerning the intent of the General Assembly in enacting this legislation:

- What roles should the General Assembly have to exercise its oversight and fiscal control responsibilities?
- What constitutes a qualifying project in both scope and level of services?
- What should the public entity possess at the end of the agreement?
- What constitutes open competition?
- What analysis or review should the public entity perform and what rigor should the public entity apply?
- Should there be additional opportunities for outside competition when the public entity starts with a PPEA that begins from a conceptual proposal?

Our report provides information relative to these questions and makes recommendations that the General Assembly may wish to consider:

- Amending the statute to incorporate a means for General Assembly's involvement in the process and provides alternative methods of involvement.
- Seeking clarification of legislative intent relative to whether service only agreements, which do not result in the public entity acquiring any assets, are part of the PPEA process.
- Seeking clarification of legislative intent relative to the rigor of analysis and review required and should consider having the public entity disclose this analysis and review prior to signing a comprehensive agreement. The General Assembly may also consider requiring this information to be publicly available for some period before signing the comprehensive agreement.
- Seeking clarification of legislative intent relative to the requirement to include several decision points in which a public entity considers competition before continuing with a PPEA.

SPECIAL REVIEW OF THE ASSISTIVE TECHNOLOGY LOAN FUND AUTHORITY

December 2005

We completed a special review of questionable items at the Assistive Technology Loan Fund Authority (Authority) at the request of the Chairman and Treasurer of the Assistive Technology Loan Fund Authority (Board) and the Department of Rehabilitative Services. We believe that questionable items and other matters that came to attention during our special review do not warrant further investigation. However, we recommend, for selected questionable items, that the Authority consult legal counsel to attempt recovery of funds. We also believe that questionable items were the result of the Authority lacking governance and oversight from the Board. We found that the Board did not hold the Executive Director accountable nor demand sufficient information to manage the affairs of the Authority.

We recommend that the Authority should be an agency of the executive branch of government within the Secretary of Health and Human Resources. We also recommend that the Authority should have an annual audit requirement. We believe that both of these recommendations will provide the Authority with greater governance and oversight.

SUMMARY OF REPORTS ISSUED

SUMMARY OF REPORTS ISSUED

The following reports on audit were released by this Office during the period October 1, 2005 through December 31, 2005. Those reports which included findings in the area of internal controls or compliance are indicated by an (*) asterisk.

Executive Departments

Commerce and Trade

Tobacco Indemnification and Revitalization Commission for the year ended June 30, 2005*
Virginia Biotechnology Research Park Authority for the year ended June 30, 2005
Virginia Economic Development Partnership for the year ended June 30, 2005
Virginia Racing Commission for the fiscal year ended June 30, 2005*

Health and Human Resources

Department of Medical Assistance Services for the year ended June 30, 2005*

Independent Agencies

Lotto South-State Lottery Department Report On Applying Agreed-Upon Procedures for the period
April 1, 2004 Through March 31, 2005
Mega Millions-State Lottery Department Report On Applying Agreed-Upon Procedures for the period
April 1, 2004 Through March 31, 2005
State Lottery Department for the year ended June 30, 2005
Virginia College Savings Plan for the year ended June 30, 2005
Virginia Retirement System as of and for the years ended June 30, 2005 and 2004*

Technology

Innovative Technology Authority for the year ended June 30, 2005
Innovative Technology Authority, including its blended component unit, the Center for Innovative
Technology, for the year ended June 30, 2005

Transportation

Department of Rail and Public Transportation for the year ended June 30, 2005*
Virginia Commercial Space Flight Authority for the year ended June 30, 2005

Special Reports

Commonwealth Transportation Fund—Agencies of the Secretary of the Commonwealth*
Progress Report on Selected Information Systems Development Projects in the Commonwealth,
September 2005*
Report on Collections of Commonwealth Revenues by Local Constitutional Officers for the fiscal year
ended June 30, 2005*
Report on State and Local Communication Service Taxes and Fees for the year ended June 30, 2005
Report to the Joint Legislative Audit and Review Commission for the quarter July 1, 2005 through
September 30, 2005
Revenue Stabilization Fund Calculations for the year ended June 30, 2005*
Review of Deferred Maintenance in the Commonwealth, Final Report, December 2005*
Review of the Commonwealth's Supplies and Materials and Controllable Assets, November 2005*
Review of the Public Private Education and Infrastructure Act, November 2005*
Special Review of the Assistive Technology Loan Fund Authority, December 2005*
Virginia Circuit Courts Statewide Report for the year ended June 30, 2005*
Virginia District Courts Statewide Report for the period July 1, 2004 through June 30, 2005*

Clerks of the Circuit Courts

Cities:

City of Buena Vista Clerk of the Circuit Court for the period January 1, 2004 through September 30, 2005

Counties:

County of Arlington Clerk of the Circuit Court for the period October 1, 2004 through
September 30, 2005
County of Botetourt Clerk of the Circuit Court for the period January 1, 2004 through
September 30, 2005
County of Carroll Clerk of Circuit Court for the period April 1, 2004 through September 30, 2005
County of Essex Clerk of the Circuit Court for the period July 1, 2004 through June 30, 2005
County of Goochland Clerk of the Circuit Court for the period October 1, 2004 through
September 30, 2005
County of Nottoway Clerk of the Circuit Court for the period January 1, 2005 through August 31, 2005
County of Orange Clerk of the Circuit Court for the period April 1, 2004 through June 30, 2005
County of Shenandoah Clerk of the Circuit Court for the period October 1, 2003 through
September 30, 2005
County of Spotsylvania Clerk of the Circuit Court for the period October 1, 2004 through
September 30, 2005

General Receivers

Cities:

City of Bristol General Receiver of the Circuit Court for the period September 1, 2004 through June 30, 2005
City of Charlottesville General Receiver of the Circuit Court for the period January 15, through June 30, 2005
City of Petersburg Clerk of the Circuit Court for the period April 1, 2004 through March 31, 2005*

Counties:

County of Arlington General Receiver of the Circuit Court for the period July 1, 2004 through June 30, 2005
County of Dickenson General Receiver of the Circuit Court for the period July 1, 2004 through June 30, 2005
County of King George General Receiver of the Circuit Court for the period July 1, 2004 through June 30, 2005
County of Lee General Receiver for the period July 1, 2004 through June 30, 2005
County of Loudoun General Receiver of the Circuit Court for the period July 1, 2004 through June 30, 2005
County of Russell General Receiver of the Circuit Court for the period July 1, 2004 through June 30, 2005
County of Sussex General Receiver of the Circuit Court for the period July 1, 2004 through June 30, 2005
County of Washington General Receiver of the Circuit Court for the period September 1, 2004 through June 30, 2005
County of Wise General Receiver of the Circuit Court for the period July 1, 2004 through June 30, 2005

State Accounts

Cities:

City of Alexandria State Account for the fiscal year ended June 30, 2005
City of Chesapeake State Account for the fiscal year ended June 30, 2005
City of Colonial Heights State Account for the fiscal year ended June 30, 2005
City of Covington State Account for the fiscal year ended June 30, 2005
City of Danville State Account for the fiscal year ended June 30, 2005
City of Emporia State Account for the fiscal year ended June 30, 2005
City of Fairfax State Account for the fiscal year ended June 30, 2005
City of Falls Church State Account for the fiscal year ended June 30, 2005
City of Fredericksburg State Account for the fiscal year ended June 30, 2005
City of Lynchburg State Account for the fiscal year ended June 30, 2005
City of Manassas Park State Account for the fiscal year ended June 30, 2005
City of Petersburg State Account for the fiscal year ended June 30, 2005
City of Waynesboro State Account for the fiscal year ended June 30, 2005
City of Williamsburg State Account for the fiscal year ended June 30, 2005

Counties:

County of Albemarle State Account for the fiscal year ended June 30, 2005
County of Appomattox State Account for the fiscal year ended June 30, 2005
County of Bedford State Account for the fiscal year ended June 30, 2005
County of Buchanan State Account for the fiscal year ended June 30, 2005
County of Buckingham State Account for the fiscal year ended June 30, 2005
County of Campbell State Account for the fiscal year ended June 30, 2005
County of Charles City State Account for the fiscal year ended June 30, 2005
County of Charlotte State Account for the fiscal year ended June 30, 2005
County of Craig State Account for the fiscal year ended June 30, 2005
County of Culpeper State Account for the fiscal year ended June 30, 2005
County of Essex State Account for the fiscal year ended June 30, 2005
County of Fairfax State Account for the fiscal year ended June 30, 2005
County of Fauquier State Account for the fiscal year ended June 30, 2005
County of Franklin State Account for the fiscal year ended June 30, 2005
County of Giles State Account for the fiscal year ended June 30, 2005
County of Greensville State Account for the fiscal year ended June 30, 2005
County of Halifax State Account for the fiscal year ended June 30, 2005
County of Isle of Wight State Account for the fiscal year ended June 30, 2005
County of James City State Account for the fiscal year ended June 30, 2005
County of King George State Account for the fiscal year ended June 30, 2005
County of Loudoun State Account for the fiscal year ended June 30, 2005
County of Louisa State Account for the fiscal year ended June 30, 2005
County of Lunenburg State Account for the fiscal year ended June 30, 2005
County of Madison State Account for the fiscal year ended June 30, 2005
County of Mecklenburg State Account for the fiscal year ended June 30, 2005
County of Nelson State Account for the fiscal year ended June 30, 2005*
County of New Kent State Account for the fiscal year ended June 30, 2005
County of Northampton State Account for the fiscal year ended June 30, 2005
County of Northumberland State Account for the fiscal year ended June 30, 2005
County of Page State Account for the fiscal year ended June 30, 2005
County of Pittsylvania State Account for the fiscal year ended June 30, 2005
County of Prince Edward State Account for the fiscal year ended June 30, 2005
County of Richmond State Account for the fiscal year ended June 30, 2005
County of Stafford State Account for the fiscal year ended June 30, 2005