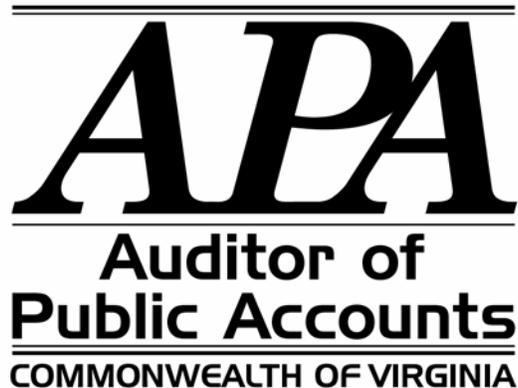


**REPORT TO THE  
JOINT LEGISLATIVE AUDIT  
AND REVIEW COMMISSION**

**FOR THE QUARTER  
OCTOBER 1, 2006 TO DECEMBER 31, 2006**



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# Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

January 5, 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 October 1, 2006 through December 31, 2006. The three reports included in this quarterly summary all deal with statewide issues. These policies issues include **Information Security, Institutions of Higher Education Management of Debt and Development of Systems by Circuit Court.**

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**

## **Review of Information Security in the Commonwealth of Virginia**

The information security programs in the agencies and institutions of the Commonwealth are generally inadequate and do not address the business needs to adequately control information as well as risks associated with not controlling information. The Commonwealth, however, has several agencies and institutions, such as the Departments of Taxation and General Services and the three largest institutions of higher education, University of Virginia, Virginia Commonwealth University, and Virginia Polytechnic Institute and State University, which provide working models of the best practices of information security programs.

All state agencies and institutions have some type of security over their information technology infrastructure and systems. The security, in most cases, provides coverage over information existing within the agency. Further, almost all agencies and institutions have at least some plan to recover from a disaster; however, this plan does not always extend to how and under what circumstances.

The Auditor of Public Accounts has been conducting security reviews of financial system for over a decade and reporting our findings. This review's results are consistent with our previously reported findings. With the exception of smaller agencies without financial systems, we have previously issued or commented on all the agencies with either no or inadequate information security programs.

In reviewing the results, the reason for inadequate information security programs in the larger agencies, when considering either number of employees or agency budget, appears to center around the resolution of who has responsibility for the infrastructure between the Virginia Information Technologies Agency (VITA) and the agency. The large institutions of higher education with inadequate programs typically do not have the managerial placement of the program at the appropriate level for the organization, although this does occur in other agencies.

Overall, the Commonwealth's standards address most of the components found in the best practices. The difference between the Commonwealth's standards and the best practices, to the most part, occurs within the processes of the components.

We believe the large agencies and institutions can address our recommendations without significant operational changes. However, the Commonwealth will need to develop and implement a process to provide information security programs for smaller agencies and institutions.

Finally, the General Assembly may wish to amend the Code of Virginia to provide for the audit of information security programs, rather than focusing on databases and data communications. The current statute does not address the real risk to the Commonwealth.

## **Review of Debt at State Supported Institutions of Higher Education**

Virginia's institutions of higher education have developed unique and independent financial operating models. These institutions also have a widely varying level of fiscal sophistication and financial management. As we have reviewed the debt capacity of various institutions, it is clear that one model, even general in nature, would not provide an effective tool for either the Commonwealth or the individual institutions.

We believe that all institutions should develop and have a debt capacity model to guide their issuance of debt. These models should equally consider both the debt service cost associated with the debt, but more importantly, the effect that debt service can have on mandatory fees and other costs to the students. Historically, Virginia's approach to reviewing debt issuance in many cases only focuses on the project's ability to generate sufficient revenue to pay debt service on the bonds or whether debt service costs will remain below a certain percentage of expenses. These approaches both fail to consider the cost to the student if the project becomes part of the comprehensive cost of attendance or tuition and fees.

The Commonwealth needs to evaluate these various debt capacity models to determine the extent institutions are affecting the Commonwealth's debt capacity and bond rating. Although, the institutions have received exemptions from certain state regulations or laws, their actions continue to have a direct effect on the Commonwealth. The financial market analysts do not separate the actions of the institutions of higher education from the Commonwealth's overall financial status and bond rating. The use of joint ventures with other organizations also will have an impact on the Commonwealth in the financial markets, if they believe that the Commonwealth will assume a guarantor role in these arrangements.

### **Recommendations**

1. Each institution should develop and use a debt capacity model approved by the institution's Board of Visitors and compliant with the guidelines of the Secretary of Finance and the State Council of Higher Education.
2. The debt capacity model should include a component, which considers the effect of debt service on the cost of attendance.
3. The General Assembly may wish to have the Debt Capacity Advisory Council review the institutions' debt capacity models and periodically report on how the institutions are using them and their results.

## **Virginia Circuit Court Systems**

An enterprise approach to the development of Circuit Court administrative systems does not exist. No group or agency has the statutory authority to ensure both enterprise-wide data exchange standards and the collaboration of system development efforts among the individual courts. The need to maximize the use of funds is essential since Circuit Court Clerks have significant resources available to begin implementing systems to manage various administrative functions.

Although the Virginia Constitution makes the Chief Justice of the Supreme Court the administrative head of the judicial system, he does not have the statutory authority to coordinate and oversee the development of administrative systems with the Circuit Courts. Additionally, the current statutes are silent as to whether for administrative purposes the individual circuit courts comprise a Circuit Court system which would then allow for the development of an enterprise system. If the Circuit Courts do represent an enterprise, then there is the opportunity to provide uniform system development and data exchange standards.

To maximize the use of available resources, eliminate potential duplication of efforts and system development and improve the oversight of funding usage, a summary of some of our recommendations is below.

- The General Assembly may wish to develop a strategic direction for the use of Technology Trust Funds for systems other than remote land records so the Commonwealth will receive the maximum benefit from the use of these funds.
- General Assembly may wish to clarify the judicial system as a statewide enterprise to help provide direction to future systems and exchange of information.
- The General Assembly may wish to clarify the role of the Supreme Court in the development and implementation of system development and data exchange standards.
- The General Assembly may wish to give the Supreme Court systems development authority over circuit court systems. This authority could allow the Supreme Court to require circuit courts to receive the Supreme Court's approval throughout predefined phases of the implementation process. We recommend the first approval point come after the circuit court produces documentation showing the need for a new system. The second approval point would come when the circuit court is ready to select a vendor to enter a detailed design phase, which is when they would review the system capabilities, ensure that the court would be able to use the system, and prove that it meets defined data standards. The final approval would come prior to implementing the system, proving the vendor has met requirements set forth in the documentation/contract.

There are other recommendations in our report.

# **SUMMARY OF REPORTS ISSUED**

## **SUMMARY OF REPORTS ISSUED**

The following reports on audit were released by this Office during the period October 1, 2006 through December 31, 2006. Those reports which included findings in the area of internal controls or compliance are indicated by an (\*) asterisk.

### **State Agencies and Institutions**

Division of Selected Agency Support Services for the year ended June 30, 2006  
Virginia Biotechnology Research Partnership Authority for the year ended June 30, 2006  
Virginia Commercial Space Flight Authority for the year ended June 30, 2006  
Virginia Economic Development Partnership Report for the year ended June 30, 2006

### **Executive Departments**

Office of the Attorney General and the Department of Law for the year ended June 30, 2006\*

### **Independent Agencies**

Virginia Retirement System for the year ended June 30, 2006\*

### **Commerce and Trade**

Tobacco Indemnification and Community Revitalization Commission for the year ended June 30, 2006  
Virginia Racing Commission for the year ended June 30, 2006\*  
Virginia Tourism Authority Financial Statements for the year ended June 30, 2006

### **Education**

Department of Education Including Direct Aid to Public Education and Virginia Schools for Deaf And Blind for the year ended June 30, 2006\*

### **Health and Human Resources**

Virginia Tobacco Settlement Foundation for the year ended June 30, 2006  
Office of Comprehensive Services for At-Risk Youth and Families for the year ended June 30, 2006

### **Public Safety**

Department of Alcoholic Beverage Control for the year ended June 30, 2006\*

## **Technology**

Innovative Technology Authority, including its blended component unit, the Center for Innovative Technology, for the year ended June 30, 2006

## **Transportation**

Virginia Port Authority for the year ended June 30, 2006\*

## **Special Reports**

Federal Land Payments for the period October 1, 2005 through September 30, 2006  
General Assembly and Legislative Agencies and Commissions of the Commonwealth of Virginia,  
Financial Report, for the year ended June 30, 2006  
Report of State and Local Communication Service Taxes and Fees for the year Ended June 30, 2006  
Revenue Stabilization Fund Calculations for year ended June 30, 2006\*  
Review of Debt at State Supported Institutions of Higher Education as of November 21, 2006\*  
Review of Information Security in the Commonwealth of Virginia Report on Audit as of  
December 1, 2006\*  
Virginia Circuit Court Systems dated September 27, 2006\*

## **Clerks of the Circuit Courts**

### **Cities:**

City of Salem Clerk of the Circuit Court for the period January 1, 2005 through June 30, 2006\*  
City of Colonial Heights Clerk of the Circuit Court for the period for the period July 1, 2005 through  
September 30, 2006

### **Counties:**

County of Campbell Clerk of the Circuit Court for the period January 1, 2005 through June 30, 2006  
County of Nottoway Clerk of the Circuit Court for the period January 1, 2005 through  
September 30, 2006  
County of Fluvanna Clerk of the Circuit Court for the period July 1, 2005 through September 30, 2006  
County of Halifax Clerk of the Circuit Court for the period April 1, 2005 through September 30, 2006

## **General Receivers**

County of Loudon General Receiver for the period July 1, 2005 through June 30, 2006

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

Albemarle	Prince Edward
Alleghany	Prince George
Augusta	Rappahannock
Alexandria	Roanoke City
Appomattox	Roanoke County
Bath	Rockbridge
Brunswick	Smyth
Buckingham	Southampton
Buchanan	Spotsylvania
Campbell	Surry
Charles City	Sussex
Charlottesville	Virginia Beach
Chesapeake	Warren
Colonial Heights	Williamsburg*
Covington	Winchester
Craig	
Culpeper	
Emporia	
Essex	
Fairfax City	
Fairfax County	
Franklin City	
Giles	
Halifax	
Harrisonburg	
Isle of Wight	
James City County	
King George	
Lee*	
Loudoun	
Louisa	
Lunenburg	
Lynchburg	
Madison	
Manassas Park	
Montgomery*	
New Kent	
Newport News*	
Norfolk	
Northumberland	
Nottoway	
Page	
Patrick	
Petersburg	
Poquoson	
Powhatan	