



Quarterly Report Summary

October 1, 2009 to December 31, 2009

Analysis of Commonwealth Audit Resources and Inspector General Functions

Inspector general functions serve an important oversight role within government; however, policy makers, when creating these offices, have created duplicated audit responsibilities. The Commonwealth has existing resources and capacity to conduct investigations of fraud, waste, and abuse; reviews of accountability; and reviews of programs and operations related to economy and efficiency. (page 1)

Enterprise Data Standards Progress Report

As of October 15, 2009, more than one year after required by the Appropriations Act, there are no adopted new data standards for any business area. Virginia's data standards are nearly 30 years old and come from our existing statewide systems installed when the cost of data storage was expensive. (page 2)

Commonwealth Information Security Semi Annual Update

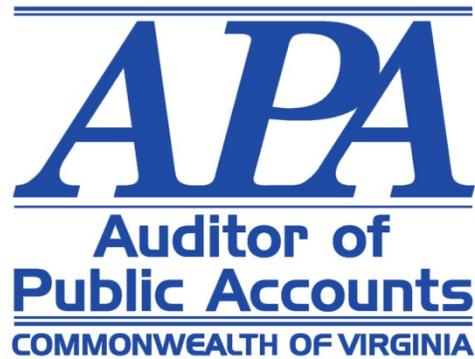
While the overall assessment indicates that the Commonwealth is moving towards a more stable and mature information security program, small agencies (less than 100 positions) continue to receive poor marks. (pages 2-3)

State Police Statewide Agencies Radio System Project(STARS)

State Police issued six change orders, which significantly alter the scope of the project from the original proposal and reduce the completion estimates by \$18 million. Some of the changes relate to the use of new technologies, other changes shift work from the vendors to State Police personnel and others eliminate planned functions of the radio and data network. (pages 3-4)

In addition to the reports above, this Summary includes several addition reports: *Review of Service Agency Arrangements*, *Student Housing at Virginia's State-supported Universities*, *Compensation Board* and *Virginia Commercial Space Flight Authority*. These reports cover some special matters or internal control issues.

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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Analysis of Commonwealth Audit Resources and Inspector General Functions

- ★ Inspector general functions serve an important oversight role within government; however, policy makers, when creating these offices, have created duplicated audit responsibilities.
- ★ Inspector general offices concentrate on investigating complaints and do not work on issues of accountability; fraud, waste, and abuse prevention; and program and operational reviews.
- ★ The Commonwealth has existing resources and capacity to conduct investigations of fraud, waste, and abuse; reviews of accountability; and reviews of programs and operations related to economy and efficiency. Demands of the current workload can at times exceed current resources and, in some cases, there is a need to coordinate efforts of the various groups.
- ★ The Inspectors General in Virginia's Departments of Transportation, Corrections, and Juvenile Justices serve as model organizations for the creation of this function in the Commonwealth. These organizations avoid the duplication of audit efforts, provide a balance in program delivery, and have appropriate reporting oversight in their respective departments.

Should policy makers wish to create an inspector general function, this report reviews the issues that warrant consideration in creating these organizations. Inspector general functions appear most effective when they work within agencies and institutions and are part of the organizational structure. However, not every agency or institution needs an inspector general function; therefore, the recommendation is that large organizations within a cabinet secretariat could provide resources for the smaller agencies through the Cabinet Secretary.

Inspector general functions should report at least annually on their work to the General Assembly. Further, the General Assembly should maintain oversight of the inspector general function by having either the Auditor of Public Accounts or Joint Legislative Audit and Review Commission review their operations.

Improvements to the State Employee Fraud, Waste, and Abuse Hotline could occur by expanding and coordinating the activities of the hotline. Outsourcing the call center could expand the availability of the hotline. Further, a coordinating group from the Legislative, Executive, and Judicial branches, rather than the State Internal Auditor, could help expand the hotline to all of state government and not just the executive branch.

Additional details for all of the above issues are included in the report. The report also includes other recommendations that are not part of this summary.

Enterprise Data Standards Progress Report

As of October 15, 2009, more than one year after required by the Appropriations Act, there are no adopted new data standards for any business area. The Appropriations Act (Act), Chapter 879 contained language requiring that by October 1, 2008 the Departments of General Services, Treasury, Human Resource Management, Planning and Budget, and Accounts provide the Department of Transportation and Chief Applications Officer (CAO) with the data standards for specific areas necessary to conduct business. This deadline was set in order to have defined data standards available for the new financial management and performance budgeting systems when they needed them.

Virginia currently has some data standards, but the standards are nearly 30 years old and come from our existing statewide systems, which the Commonwealth installed when the cost of data storage was expensive. As the Commonwealth has matured and the need for information has grown, the current data has remained relatively the same.

To compensate for these data limitations, state agencies have frequently purchased their own commercially available systems to provide more robust data. In addition, data among the agencies is not consistent because there are no data standards beyond the basic information required in the old systems. Even if the agencies could provide central entities such as the State Comptroller and Planning and Budget with more detailed or timely information, the central systems cannot store the additional data elements.

The Departments of Transportation and Planning and Budget are implementing new enterprise financial management and performance budgeting systems to replace the current systems. Given price reductions in data storage and improvements in technology and applications, now is the time to improve existing data standards for accounting and budgeting so the new applications work together and meet the Commonwealth's data needs.

Commonwealth Information Security Implementation Semi-Annual Update

The Commonwealth's agencies and institutions of higher education continue to strengthen their individual information security programs. Our office performed security audits at 54 agencies during the period December 1, 2008 through September 30, 2009.

While the overall assessment indicates that the Commonwealth is moving towards a more stable and mature information security program, small agencies (less than 100 positions) continue to receive poor marks. Out of 13 small agencies included in this report, eight (62 percent) do not have the essential information security program components that enables the agency to successfully follow a robust program that is built on standards and best practices.

In contrast, 39 (95 percent) of the 41 medium and large agencies and institutions included in this review have the essential components in their programs and comply with the standards and best practices.

Overall, 44 small, medium, and large agencies have either complete or partially complete programs. Thirty-six (82 percent) of the 44 agencies and institutions have complete programs and are successfully following their programs and training their employees. Ten agencies have basically no programs, since they are missing essential standards or best practice components and are not training employees or keep their programs updated.

A common weakness we have found during our audits is that agencies have not put forth the necessary effort and resources to build a security program that uses a risk management approach to identify the fundamental safeguards that is right for their business environment. Without using a risk management approach, agencies will risk having too little (or too much) security controls. The result is a program that either does not sufficiently protect data or costs too much.

The Commonwealth has hired two Information Security Officers to establish a program and provide expertise and training for small agencies. Recently, they completed updating the security programs and provide training for several small agencies. We will start reviewing these programs during our upcoming audits.

Lastly, we expect to issue the next semi-annual report in April 2010; covering agencies audited during the six-month period October 1, 2009 through March 31, 2010 (see Appendix B of the report).

Virginia State Police Statewide Agencies Radio System Project

Estimates of the cost to complete the implementation of STARS in June, 2009 exceeded the total funds available for the project. As a result, State Police issued six change orders, which significantly alter the scope of the project from the original proposal and reduce the completion estimates by \$18 million. Some of the changes relate to the use of new technologies, other changes shift work from the vendors to State Police personnel and others eliminate planned functions of the radio and data network.

The Commonwealth issued a total of \$361.2 million in bonds and provided operating funding of \$21.8 million from the General Fund to pay for and implement STARS. STARS includes a \$321.7 million agreement with Motorola to design and install a new state of the art telecommunications and radio system for the Virginia State Police and 20 other agencies of the Commonwealth. In addition to Motorola, there are contracts with other vendors for a range of other services for the project.

Change Orders include the following items.

- Eliminate 41 proposed towers and associated equipment and labor from the system design – reducing the contract by \$15.7 million.
- Remove the original legacy interoperability solution for localities, reducing the contract by \$6.5 million.
- Extend the official project schedule completion date to December 23, 2010, increasing the contract by \$6 million.

- Replace existing and future Motorola laptop equipment with new or upgraded equipment as well as a three year warranty extension on all laptops – at no cost to State Police.
- Transfer of responsibility for installing 468 control stations from Motorola to State Police, reducing the contract by \$873 thousand, but State Police pay the cost of the work from their operations.
- Transfer construction of two towers to T-Mobile, but allow them to use existing STARS microwave paths, reducing the contract by \$1.1 million.
- Changes to the Department of Corrections’ radio equipment, reducing the contract by \$13 thousand.

Several of these changes introduce new risks to the project.

- The State Police removal of the interoperability component will require 49 localities to find other funding sources to achieve interoperability with the STARS network; however this funding source is currently unknown.
- If Motorola cannot begin construction on five sites pending final approval before March, 2010, the project could go beyond December, 2010
- Reliance on T-Mobile to construct two towers at the current stage in the project increases the risk of potential further delays.

Finally, State Police recently submitted a budget request to the Department of Planning and Budget for the continued maintenance of the system over fiscal years 2011 through 2016. State Police requested over \$61 million of General Funds over the next six years, or a little more than \$10 million per year, to fund ongoing maintenance and operations of the system. However, we have not had the opportunity to review the development of these budget requests. The Governor and Legislature may also wish to consider allowing State Police to recoup a pro rata share of maintenance costs from the twenty other user-agencies.

Review of Service Agency Arrangements

Historically, Commonwealth agencies have remained autonomous from other organizations in all operational aspects, whether in the delivery of core mission services or administrative functions. Agency accountability for their performance and comfort with the quality of the managerial data available to them has driven the desire for autonomy.

Not all agencies are internally equipped with sufficient resources, knowledge, or guidance to independently maintain adequate internal controls using this autonomously driven organizational model. In fact, many agencies have such limited resources that the loss of one person can compromise the institutional knowledge and internal control environment needed to process key transactions and fulfill administrative responsibilities.

The Auditor of Public Accounts has consistently recommended that agencies with limited resources use the fiscal and administrative support functions of larger agencies to supplement their operations. This type of arrangement can allow such agencies to concentrate on providing core mission services and effectively minimize resources dedicated to administrative functions, while enhancing their internal control over these functions.

We have evaluated 60 executive branch agencies with less than 350 full-time positions, and identified ten with the strongest potential for compromise of their internal controls. We believe they would benefit from the implementation of a shared service center, supported by a comprehensive memorandum of understanding. Key to this comprehensive memorandum will be the expansion of the substance of the relationship between the service provider and the agency to transfer more responsibility for internal controls to the service provider.

Finally, when implementing the service centers, the need of each Secretariat should be the focus of the arrangement, meaning each Secretary should work with their agencies to determine which service solution will maximize the available resources and improve each agency's internal controls. By addressing these issues in a consolidated manner, the likelihood for success will increase and result in strengthened internal controls.

Student Housing at Virginia's State-supported Universities

Each of Virginia's 14 state-supported universities, as well as Richard Bland College and the University of Virginia's College at Wise, has on-campus student housing. Since 2000, full-time enrollment at Virginia's state-supported universities has increased 23 percent. Increases in enrollment that increased the first year students who are required to live on-campus, improvements in on-campus housing, and changes in mandatory on-campus housing requirements have increased demand for on-campus housing.

Virginia's state-supported universities have different policies as to whether students must live on-campus based on each university's goals for their on-campus housing programs. While ten universities, along with the University of Virginia's College at Wise, require students to live in on-campus housing their first year; only Virginia Military Institute, Radford University, Christopher Newport University, and Longwood University require students to live in on-campus housing beyond their first year.

Since 2000, nearly all of the universities have increased on-campus housing, but only about half of the universities have increased on-campus housing at a rate faster than their full-time enrollment growth. Several urban universities, including Christopher Newport University, Virginia Commonwealth University, George Mason University, Old Dominion University, and Norfolk State University, have increased their on-campus housing and their percentage of students who live on-campus as they have broadened from being principally commuter universities to become regional universities.

Nearly all universities plan to add on-campus housing to meet this increased demand. The ability of Virginia's state-supported universities to work with their foundations and other third parties to create financing options allows the universities to expand their on-campus housing. The university's foundations have been able to leverage their assets and borrow funds without increasing the direct debt on the university's financial statements. However, this has not been without on-going obligations for the universities in the form of operating lease arrangements and commitments to fill foundation-owned facilities first.

In the second phase of this project, we will review the impact of the growth of on-campus housing and mandatory on-campus residence requirements on the students, on the cost of attendance, and on the community housing markets. We will also review the impact of the shift in funding sources on both the universities and their foundations. Additionally, we will review the universities' relationships with off-campus housing providers and how universities work to meet the needs of students who live in the local community.

Compensation Board

RISK ALERT

During the course of completing the Compensation Board audit for the statewide single audit of federal funds, we encountered an issue that may require the action of other agencies, the Departments of Accounts and Criminal Justice Services. This matter represents a risk of potential questioned federal grant costs to the Commonwealth.

Establish Process to Manage Federal Funds

In the past, the Compensation Board primarily received General Fund appropriations to pay for their programs. However, during fiscal year 2009, the Board received approximately \$109 million in one-time federal stimulus funds that it subsequently passed through to the local sheriff's offices and regional jails.

During fiscal year 2010, the Board will receive new federal stimulus funds, the Byrne Justice Assistance Grant (JAG) Program, and pass these funds to localities under a separate grant award. The federal funds for fiscal 2010 have significantly different recordkeeping and other requirements from the federal funds spent in fiscal 2009.

The federal grants place a significant additional administrative burden on agencies that receive those funds, especially if the agency passes the funding on to localities. Among other functions, federal grants require additional cash management, subrecipient monitoring, and reporting processes.

Until fiscal year 2009, the Compensation Board had no prior experience with federal grants. As a result, the Compensation Board has not previously established federal grants management functions and may not have the expertise or resources to appropriately manage federal funds.

This lack of grant management processes poses a significant risk to the Commonwealth and could result in severe penalties for non-compliance with federal laws. Given our experience this year, we are informing the State Comptroller and the Director of Criminal Justice Services that without assistance from other Commonwealth agencies, the Compensation Board may not fully comply with federal laws and regulations, which can result in federal questioned costs.

Virginia Commercial Space Flight Authority

Risk Alert

The Virginia Commercial Space Flight Authority does not have dedicated staff or resources to support its program operations. As the program has grown, so has the need for additional program resources. Without additional resources, there is an increased risk of a program failure, since there are insufficient resources to make sure contractors and others properly deliver the services necessary to achieve the program. Until there is active and continuous use of the Authority's Mid-Atlantic Regional Spaceport (MARS) facility at Wallops Island creating a substantial revenue stream to support operations, the Authority does not have adequate program resources necessary to grow and develop this commercial space flight program.

SUMMARY OF REPORTS ISSUED

The following reports on audit were released by this Office during the period October 1, 2009, to December 31, 2009. 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 Board of Bar Examiners for the year ended June 30, 2009*

Virginia State Bar for the year ended June 30, 2009

Independent Agencies

A. L. Philpott Manufacturing Extension Partnership for the years ended June 30, 2008 and June 30, 2009
Internal Control Report on Audit for Local Government Investment Pool, Virginia College Building Authority, Virginia Public Building Authority, and Virginia Public School Authority for the year ended June 30, 2009

State Corporation Commission for the two-year period ended June 30, 2009*

State Lottery Department for the year ended June 30, 2009

Virginia BioTechnology Research Partnership Authority for the year ended June 30, 2009*

Virginia Retirement System for the year ended June 30, 2009*

Virginia Workers' Compensation Commission for the years ended June 30, 2008 and June 30, 2009*

Executive Departments

Office of the Attorney General and the Department of Law for the period ended June 30, 2009

Administration

Compensation Board for the year ended June 30, 2009*

Commerce and Trade

Department of Housing and Community Development for the year ended June 30, 2009*

Department of Labor and Industry for the years ended June 30, 2008 and June 30, 2009

Department of Professional and Occupational Regulation for the years ended June 30, 2008 and 2009*

Tobacco Indemnification and Community Revitalization Commission for the year ended June 30, 2009

Virginia Economic Development Partnership for the year ended June 30, 2009

Virginia Employment Commission for the year ended June 30, 2009*

Virginia Racing Commission for the year ended June 30, 2009

Virginia Commercial Space Flight Authority for the year ended June 30, 2009

Education

Department of Education including Direct Aid to Public Education and Virginia Schools for Deaf and Blind for the year ended June 30, 2009*

Colleges and Universities

James Madison University Intercollegiate Athletics Program for the year ended June 30, 2009
Longwood University Intercollegiate Athletics Program for the year ended June 30, 2009
Norfolk State University Intercollegiate Athletics Program for the year ended June 30, 2009
Old Dominion University Intercollegiate Athletics Program for the year ended June 30, 2009
Radford University Intercollegiate Athletics Program for the year ended June 30, 2009
University of Virginia for the year ended June 30, 2009*
University of Virginia Intercollegiate Athletics Programs for the year ended June 30, 2009
Virginia Polytechnic Institute and State University for the year ended June 30, 2009
Virginia Polytechnic Institute and State University Intercollegiate Athletic Programs for the year ended June 30, 2009

Health and Human Resources

Office of Comprehensive Services for At-Risk Youth and Families for the year ended June 30, 2009
Virginia Tobacco Settlement Foundation for the year ended June 30, 2009

Natural Resources

Department of Game and Inland Fisheries for the period April 1, 2008 through June 30, 2009*

Public Safety

Department of Alcoholic Beverage Control for the year ended June 30, 2009*

Technology

Innovative Technology Authority, including its Blended Component Unit, Center for Innovative Technology for the year ended June 30, 2009

Transportation

Virginia Port Authority for the year ended June 30, 2009

Special Reports

Analysis of Commonwealth Audit Resources and Inspector General Functions, October 2009*
Commonwealth Information Security Implementation – Semi-Annual Update, November 2009*
Enterprise Data Standards Progress Report, October 2009*
General Assembly, Legislative Agencies, and Commissions of the Commonwealth of Virginia Financial Report for the fiscal year ended June 30, 2009
Interim Review of STARS (Statewide Agency Radio Station) Project, November 2009*
Report on Collections of Commonwealth Revenues by Local Constitutional Officers for the year ended June 30, 2009*
Report to the Joint Legislative Audit and Review Commission for the quarter July 1, 2009 to September 30, 2009*
Revenue Stabilization Fund Calculations for the year ended June 30, 2009
Review of Budget and Appropriation Processing Controls for the year ended June 30, 2009*
Review of Compliance with the Federal Payments in Lieu of Taxes Act
Review of Service Agency Arrangements, October 2009*
Single Audit Interim Communication for ARRA Programs – Compensation Board, December 1, 2009
Single Audit Interim Communication for ARRA Programs – Department of Housing and Community Development, December 1, 2009
Student Housing at Virginia’s State-Supported Universities, November 2009*

Clerks of the Circuit Courts

Counties:

County of Appomattox - Turnover – July 1, 2009 through August 31, 2009
County of Botetourt – July 1, 2008 through June 30, 2009
County of Hanover for the year ended June 30, 2009
County of Louisa for the year ended June 30, 2009*
County of Lunenburg – July 1, 2008 through June 30, 2009
County of Pittsylvania – April 1, 2008 through June 30, 2009*
County of Smyth Turnover – April 1, 2009 through August 13, 2009
County of Washington – July 1, 2008 through June 30, 2009*

State Accounts

Cities: (for the year ended June 30, 2009)

City of Alexandria*
City of Bedford
City of Buena Vista
City of Chesapeake
City of Colonial Heights*
City of Danville
City of Emporia
City of Fairfax
City of Falls Church*
City of Hampton
City of Norfolk
City of Petersburg*

City of Richmond
City of Salem*
City of Staunton
City of Virginia Beach

Counties: (for the year ended June 30, 2009)

County of Albemarle
County of Amelia
County of Arlington
County of Augusta*
County of Campbell
County of Caroline
County of Charles City
County of Chesterfield
County of Clarke*
County of Culpeper*
County of Dinwiddie
County of Fairfax
County of Fauquier*
County of Franklin*
County of Frederick*
County of Goochland*
County of Greene
County of Greenville
County of Henrico
County of Lancaster*
County of Lee
County of Loudoun
County of Madison
County of New Kent
County of Page
County of Powhatan*
County of Prince Edward*
County of Rappahannock*
County of Rockbridge
County of Rockingham
County of Southampton
County of Spotsylvania
County of Stafford
County of Surry
County of Sussex

State Account Turnover

County of Russell Turnover as November 30, 2009

General Receivers

Cities:

City of Alexandria for the year ended June 30, 2009
City of Bristol for the year ended June 30, 2009
City of Charlottesville for the year ended June 30, 2009
City of Lynchburg for the year ended June 30, 2009

Counties:

County of Arlington for the year ended June 30, 2009
County of Buchanan for the year ended June 30, 2009
County of Lee for the year ended June 30, 2009
County of Russell for the year ended June 30, 2009
County of Sussex for the year ended June 30, 2009
County of Washington for the year ended June 30, 2009
County of Wise/City of Norton for the year ended June 30, 2009

Magistrates

Cities:

City of Alexandria - July 1, 2008 through June 30, 2009
City of Chesapeake - July 1, 2008 through June 30, 2009
City of Hampton - July 1, 2008 through June 30, 2009
City of Lynchburg – July 1, 2008 through June 30, 2009*
City of Suffolk - July 1, 2008 through June 30, 2009

Counties:

County of Accomack – July 1, 2008 through June 30, 2009
County of Alleghany - July 1, 2008 through June 30, 2009
County of Amherst – July 1, 2008 through June 30, 2009*
County of Appomattox - July 1, 2008 through June 30, 2009
County of Bath - July 1, 2008 through June 30, 2009
County of Botetourt – July 1, 2008 through June 30, 2009
County of Carroll - July 1, 2008 through June 30, 2009
County of Charlotte – July 1, 2008 through June 30, 2009
County of Dinwiddie - July 1, 2008 through June 30, 2009
County of Lee – July 1, 2008 through June 30, 2009
County of Pulaski - July 1, 2008 through June 30, 2009
County of Sussex – July 1, 2008 through June 30, 2009
County of Wise/City of Norton – July 1, 2008 through June 30, 2009

*Denotes management control finding