



Quarterly Report Summary

October 1, 2010 to December 31, 2010

Information Security Continues to Improve in the Commonwealth

Our annual review of the Commonwealth's agencies' and institutions' information security programs shows continuing progress, and that vigilance is also required. (page 1)

Comprehensive Services Program for At Risk Youth in Pittsylvania County Owes the Commonwealth

A special review at the request of the Office of Comprehensive Services Program for At-Risk Youth found that Pittsylvania County may owe the Commonwealth \$7.7 million for ineligible costs charged to the program. We found the need for improvements both in the Pittsylvania program and the statewide oversight. (pages 1-2)

VEC Needs to Review Benefit Payment Verification

By disallowing telephone job searches in its requirements, VEC has a 14.6 percent overpayment rate. Excluding this requirement, overpayments are less than the national average or the regional amount. (page 3)

Commonwealth Challenge Program

The Commonwealth Challenge Program operated by the Department of Military Affairs enrolled ineligible students in the program placing \$2.5 million at risk. Additionally, we investigated a mishandling of funds in the program of \$120,000. (pages 3-4)

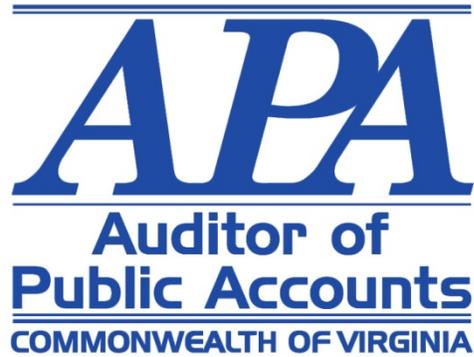
Oil and Gas Board Improve Escrow Accounting

Our special review found that the Oil and Gas Board are improving escrow accounting and additional changes will further improve these operations. (page 4)

Other Reports Recommend Opportunities for Savings

Included are two special reports on *Accounts Receivables* and *Disbursement Processing*, both of which include opportunities for the Commonwealth to save some administrative cost. (pages 6-8)

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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2010 State of Information Security in the Commonwealth of Virginia

The report provides a statewide perspective of information security program compliance across 114 agencies and institutions. This is the first report since our 2006 report, “*A Review of Information Security in the Commonwealth of Virginia*” that includes all 114 agencies in one report.

Overall, the Commonwealth’s agencies and institutions of higher education continue their efforts to strengthen their information security programs while coping with the challenges of budget and staff reductions, and IT Infrastructure transformation activities.

Six (five percent) of 114 agencies and institutions do not have an adequate information security program. Their weaknesses range from not having complete policies and procedures that employees can follow to safeguard mission critical and confidential data, to not providing adequate security awareness training. In general, small agencies with 100 or less employees have more compliance weaknesses to address than medium to large agencies or institutions of higher education.

The most predominant information security issue in the Commonwealth is employee computer access controls, followed closely by risk management and contingency plans. Twenty-eight (25 percent) out of 114 agencies and institutions do not have employee computer access controls that are compliant with the Commonwealth’s standards or industry best practice. Twenty-seven (24 percent) do not have compliant risk management and contingency plans.

Findings

It is critical that agencies and institutions put forth the necessary effort and resources to build a risk management approach to identify the fundamental safeguards that are right for their business environment. Without using a risk management approach, agencies and institutions 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.

Lastly, during our information security reviews this past year, we continue to see that some agencies elect to maintain, at their own expense, local server rooms for the IT Partnership’s servers. Without an adequate analysis of the costs involved to maintain physical and environmental security standards, room access administration, electricity, etc., agencies are not able to evaluate the true cost of keeping the IT Partnership’s servers locally in the agency’s building. The Virginia Information Technologies Agency is developing a process and template to assist in determining this cost and the template will be available in February 2011.

Review of the Comprehensive Services Act for At-Risk Youth and Families Program in Pittsylvania County

Our audit found the inappropriate use of state funds and a significant lack of internal controls over the Comprehensive Services Act in Pittsylvania County. Specifically we found the following issues.

- Pittsylvania County may owe the Commonwealth \$7.7 million because they received reimbursement for ineligible students and services under the CSA program.

- Overall, Pittsylvania County does not have adequate policies, procedures, and controls over the CSA program. There is also a lack of communication and coordination between the School Board Office, the Community and Policy Management Board, and the CSA Coordinator.
- Pittsylvania County Schools and Pittsylvania County's Social Services Department do not have proper policies, procedures, and controls in place to properly contract with CSA service providers. They spent \$14.5 million and \$165,000, respectively, without written agreements with the service providers.
- Although Pittsylvania County's CSA expenses are inappropriate, the data reported to the Department of Education related to student counts for CSA are appropriate.
- The complexity of the CSA program increases the risk of misuse.

The Auditor of Public Accounts performed a review of the Comprehensive Services Act (CSA) program in Pittsylvania County at the request of the Office of Comprehensive Services and the Department of Education.

We recommend the following actions be taken:

- The Pittsylvania County Administrator should work with the Office of Comprehensive Services to determine how to return the \$7.7 million in state funds to the Commonwealth.
- Pittsylvania County School Board and the Board of Supervisors should conduct internal reviews of their respective operations and implement appropriate internal controls to oversee their portion of the CSA program.
- Pittsylvania County School Board Office should work with the Community and Policy Management Board and the CSA Coordinator to develop and implement adequate policies, procedures, and controls over the fiscal and administrative aspects of the CSA program, including proper controls over the procurement and contracting for services.
- The Office of Comprehensive Services, in collaboration with the Departments of Education, Social Services, and Medical Assistance Services, should provide background and guidance to the CPA firms with the audit specifications that will assist the firms in understanding the program. In addition, during the annual update of the audit specifications, OCS should develop "hot topics" or "current issues" surrounding the program and service eligibility that the local CPA firms should be aware of during their audit work.

Review of Overpayments - Virginia Employment Commission

The U.S. Department of Labor estimated the Employment Commission unemployment benefit overpayment rate at 14.6 percent for calendar year 2009. Over 2/3 of these estimated overpayments result from questions about the adequacy of the claimant's work search. While the calculation is accurate based on the Employment Commission's requirements, the work search criteria may be outdated, and the systems and funding to improve accuracy may not be available.

The U.S. Department of Labor, for the same period, also calculated an operational overpayment rate of 3.32 percent for Virginia that was lower than all but one of the surrounding states. The operational rate excludes requirements that are not consistent among states to allow for better comparability. This operational rate indicates that Virginia is detecting and pursuing overpayments at a rate better than most of its peers.

Reducing overpayments will require a combination of new systems, personnel, and more timely and accurate information from both claimants and employers. Limitations on funding, repayment of the Trust Fund loan to the federal government, and not adversely increasing administrative costs for employers will all significantly affect the Employment Commission's ability to address overpayments.

This report has a number of recommendations including the potential financial and procedural implications that these recommendations will have on the Employment Commission, employers, and claimants. Because the General Assembly has set the repayment of the federal loan for unemployment benefits as a priority, addressing those recommendations will be difficult.

Department of Military Affairs

Our audit found the following.

- The high rate of ineligible participants and other issues in the Virginia Commonwealth Challenge Program place the federal funding of this program of \$2,560,525 for fiscal year 2010 at risk;
- Matters involving internal control and its operations requiring management's attention;
- Instances of noncompliance with applicable laws and regulations or other matters; and

During the course of our audit, we received an inquiry concerning a situation involving the potential mishandling of public funds by an employee at the Virginia Commonwealth Challenge Program (Challenge Program), housed at Camp Pendleton in Virginia Beach. As part of a State Police investigation, we reviewed transactions over a three year period and found approximately \$120,000 in questionable transactions involving a combination of state, federal, and private funds. The loss of funds was the result of a lack of internal controls, inadequate supervisory oversight, and a lack of segregation of duties. The Challenge Program employee had complete access to the petty

cash account as well as some other private funds with no effective supervisory oversight. As a result, the employee had the opportunity to write checks, make deposits, and control the bank account, until Military Affairs' management reassigned these responsibilities.

Additionally, we found the Challenge Program admitted students to the program who were ineligible to participate. Federal regulations state that only students who are dropouts can participate in the program. In our sample of 40 students, we found 34 students or 85 percent were still attending school when they were accepted into the program. The number of ineligible students and the matter discussed above place all of the federal program costs of \$2,560,525 for fiscal year 2010 at risk.

Review of the Virginia Gas and Oil Board Escrow Accounts Policies and Procedures

We completed our review of the Virginia Gas and Oil Board's policies and procedures over the management of escrow funds arising from the pooling of coal-bed methane gas. We conducted this review to determine if the Virginia Gas and Oil Board follows best practices in the management of escrow accounts as compared to their current policies and procedures.

We recommend the Board do the following.

- Obtain Deposit and Revenue Details for Escrow Accounts to gather key information from all Gas Companies on a recurring basis so the Board can perform reasonableness tests of amounts received.
- Develop Data Standards for the electronic receipt of information from the Gas Companies and the transfer of information from the custodian's system. Having information provided electronically will eliminate staff time for data entry and increase their ability to analyze the information.
- Set Time Frames for Escrow Deposits that establish an allowable timeframe for a deposit into an escrow account after the sale of gas.
- Periodically Review the Escrow Accounts by testing the balances of escrow accounts and the management of the funds.
- Document Policies and Procedures for the management of escrow accounts and include these documents in the periodic review mentioned above.

Commonwealth Data Point Review of Transparency Best Practices

Overall, Commonwealth Data Point contains a majority of the best practices that we identified during our review, and incorporates additional features beyond existing best practices.

Government Technology's Digital States Survey in 2010 ranked Virginia as second best in the United States for state government technology practices. This Survey cited Commonwealth Data Point as a major reason for the ranking. Contributing to this ranking was the website's ability to

track government credit card transactions, population levels in prisons and schools, and government work force levels.

Our review identified three basic categories for grouping transparency best practices. These categories are Comprehensiveness, Accessibility, and Search-ability. Each of these categories includes detailed recommendations or already existing transparency initiatives found in a majority of state database websites. We did not include practices that appeared to be specific to a particular state or do not exist across the board in our sources.

Commonwealth Data Point does not include salary information, copies of contracts, performance measures reporting, and tax subsidy data. Best practices would dictate that this information be included; however, these features are currently impractical either because the Commonwealth's legacy accounting system would not support them or legislative changes would be necessary to provide the information.

Student Housing at Virginia's State-supported Universities – Phase Two

Observations

- Only Longwood and Radford constitute a significant enough student population to affect the overall housing market in their surrounding communities. Decisions concerning on-campus residency by these two institutions could impact these housing markets. However, based on existing plans, unless both of these institutions significantly change their on-campus residency requirements, increase student populations, or experience some other loss of housing, the surrounding housing market is stable.
- A number of factors affect the demand for on-campus housing other than a university's residency requirement. While the residency requirement is a significant cause for the need of on-campus housing, the quality and quantity of surrounding housing units, ease of access to campus and commercial outlets, student safety, and university-provided resident student programs also have a significant impact on the demand for on-campus housing.

University housing officials have also informed us that there is a growing demand by both students and parents for on-campus housing. Much of this growing demand is the result of concerns over student safety and ability of students to participate in programs specifically designed for students in on-campus housing.

- All of Virginia's state-supported universities prepare master plans of their campus and other facilities and on-going capital plans. Both of these plans are public documents that the Boards of Visitors have discussed and included opportunities for public comment. The documents contain the university's plans for student housing, including the residency requirements, number of housing units, anticipated funding sources and revenues, and needs for available space.

- The Commonwealth provides private organizations a number of ways to assist institutions in meeting their on-campus housing needs. The Public-Private Education Facilities and Infrastructure Act of 2002 is just one of the mechanisms that allow private organizations to participate in the construction and operation of university controlled student housing.

Recommendation

- If the General Assembly wishes to increase its participation on how institutions set their on-campus residency requirement and how private organizations could help fund these facilities, we would recommend that the General Assembly amend the Code of Virginia concerning universities' six-year capital outlay plans. The General Assembly could require universities to submit all construction or acquisition plans for facilities, including those auxiliary enterprise facilities not requiring Commonwealth resources or university commitments. Additionally, the General Assembly may wish to require that universities allow for more community participation in the development of their master building plans. Universities could also be required to make both their six-year capital outlay plans and their master building plans available for public review on their websites.

Review of the Commonwealth of Virginia's Accounts Receivable

We have completed our final review of the Commonwealth of Virginia's accounts receivable. The final review addresses receivables reported as of June 30, 2009, and June 30, 2010, and the best practices used to collect those receivables. This report does not include amounts due to the Department of Taxation and unpaid fines and costs owed to the Virginia Courts or the processes used to collect those receivables.

During the fiscal year, the Commonwealth of Virginia had account receivables of over \$1 billion, excluding unpaid taxes to the Department of Taxation and unpaid fines and costs due the Virginia Courts. The Commonwealth is not able to extend credit only to creditworthy citizens by performing credit checks and establishing an individual's credit worthiness prior to providing services. In many cases, the Commonwealth is required to provide services to indigent individuals who otherwise cannot afford services.

We identified six general best practices that agencies could utilize in order to better manage their receivables. Generally, we found that the agencies reviewed have implemented the identified best practices. However, we identified some opportunities for the Commonwealth to improve the administration of accounts receivables.

The Commonwealth should evaluate the current collection process including looking for ways to share resources and information and ensuring they are adequately using the resources available to them such as private collection agencies, the Division of Debt Collection, and the debt set-off program. Additionally, the Commonwealth should determine if it is cost efficient to have multiple collection service contracts or whether state agencies should operate from one contract. Agencies having an accounts receivable administration process should have individuals properly trained in the Commonwealth's policies and procedures and updated on industry best practices. Lastly, the Comptroller should determine if the Treasury Offset Program would be beneficial for the

Commonwealth. This would require a joint effort between the Comptroller and the Department of Taxation since there would be costs associated with implementing and participating in the program.

Our interim accounts receivable report issued in May 2009 is available on our website at www.apa.virginia.gov. The interim report identifies that, of the agencies reviewed, most amounts due and collected by the Commonwealth are part of agencies' and institutions' normal operations and will not provide the General Fund of Commonwealth substantial resources. The report also recommends several changes which would enhance a reader's understanding of the amounts due and the ability to monitor the collections of the various agencies and institutions involved in the generation and collection of these receivables.

Study of State Disbursement Processes

The Commonwealth of Virginia uses various methods to disburse funds for purchases, payroll, retirement benefits, unemployment benefits, social service benefits and other expenses related to the operations of state agencies. Most disbursements occur through either traditional paper checks or an electronic disbursement method, which can include Electronic Data Interchange (EDI), Automated Clearinghouse (ACH), or wire transfers. The Commonwealth also utilizes a charge card program designed to provide state agencies and institutions the opportunity to streamline payment for small dollar goods and services.

Each disbursement method has different processing costs as well as different qualitative risk factors. There are also other disbursement methods the Commonwealth uses that include an EPPI debit MasterCard and an EBT card, however, these disbursement methods occur less frequently and are not part of this report. This report will provide an overview of the volume of transactions and costs associated with the most commonly used disbursement methods utilized by the Commonwealth and Decentralized Institutions of Higher Education.

Agencies and institutions have decreased the volume of checks written over the past several years. However, our report identifies a number of opportunities for agencies to further reduce administrative costs associated with check-writing through the use of various electronic disbursement methods.

We identify over \$100,000 in potential annual cost savings through implementing recommendations to further promote e-commerce. Our estimates of cost savings use solely variable costs and do not consider reductions in fixed costs as we could not estimate at what reduced transaction volume a reduction in fixed costs, such as a full-time equivalent employee, could occur. Therefore we consider our estimates conservative and achievable through implementation of recommendations in this report. We also identify more than \$900,000 of annual costs related to checks issued by the Department of Taxation due to circumstances that may be outside of their control which may warrant further review.

Our recommendations center on reducing the number of physical checks issued by the Treasury in lieu of payments by Electronic Data Interchange, Automated Clearing House, or charge card. In instances where payments are less than \$5,000, the recommendations envision using the charge card, with the expectation that agencies have sufficient monitoring controls in place to reduce

the risk of fraud, waste, or abuse. Generally when the Commonwealth makes frequent payments to a person or business that would otherwise be paid by check; the Commonwealth should require the payee to register with its Electronic Data Interchange in order to receive payment.

Generally, agencies need to exercise sound judgment in determining the methods to pay employees, vendors, and other third parties. There are a number of opportunities remaining to reduce disbursement costs with increased use of e-commerce. Agencies may realize those benefits through exercising sound judgment and the Department of Accounts may realize those benefits with increased enforcement of existing policies.

SUMMARY OF REPORTS ISSUED

The following reports on audit were released by this Office during the period October 1, 2010, to December 31, 2010. Those reports which included findings in the area of internal controls or compliance are indicated by an (*) asterisk.

Independent Agencies

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, 2010
Virginia College Savings Plan for the year ended June 30, 2010
Virginia Retirement System for the year ended June 30, 2010*
Virginia State Lottery Department for the year ended June 30, 2010*

Executive Departments

Office of the Attorney General and the Department of Law for the year ended June 30, 2010*

Administration

Compensation Board for the year ended June 30, 2010

Commerce and Trade

Department of Business Assistance for the years ended June 30, 2009 and June 30, 2010*
Virginia Biotechnology Research Partnership Authority for the year ended June 30, 2010*
Virginia Commercial Space Flight Authority for the year ended June 30, 2010
Virginia Economic Development Partnership for the year ended June 30, 2010
Virginia Employment Commission for the year ended June 30, 2010*
Virginia Racing Commission for the year ended June 30, 2010
Virginia Tobacco Indemnification and Community Revitalization Commission for the year ended June 30, 2010

Education

Department of Education Including Direct Aid to Public Education for the year ended June 30, 2010

Colleges and Universities

University of Virginia for the year ended June 30, 2010

Health and Human Resources

Office of Comprehensive Services for At-Risk Youth and Families for the year ended June 30, 2010*

Virginia Foundation for Healthy Youth for the year ended June 30, 2010

Public Safety

Department of Alcoholic Beverage Control for the year ended June 30, 2010*

Department of Military Affairs for the three-year period ending June 30, 2010*

Technology

Innovative and Entrepreneurship Investment Authority, including its Blended Component Unit, Center for Innovative Technology for the year ended June 30, 2010

Transportation

Virginia Port Authority for the year ended June 30, 2010*

Special Reports

2010 State of Information Security in the Commonwealth—as of October 31, 2010*

Accounts Receivable Review – November 2010*

Commonwealth Data Point Transparency Best Practices – December 1, 2010

General Assembly, Legislative Agencies, and Commissions of the Commonwealth of Virginia
Financial Report for the fiscal year ended June 30, 2010

Report on Collections of Commonwealth Revenues by Local Constitutional Officers for the year ended June 30, 2010*

Report to the Joint Legislative Audit and Review Commission for the quarter July 1, 2010
Through September 30, 2010*

Revenue Stabilization Fund Calculations for the year ended June 30, 2010*

Review of Compliance with the Federal Payments in Lieu of Taxes Act for the period
October 1, 2009 through September 30, 2010

Review of the Comprehensive Services Act for At-Risk Youth and Families Program in
Pittsylvania County – November 2010*

Review of the Virginia Gas and Oil Board – November 2010*

Review of Unemployment Benefit Overpayments—Virginia Employment Commission, November 2010*
Single Audit Interim Communication for ARRA Programs – Department of Rehabilitative Services, December 1, 2010*
Student Housing at Virginia’s State-supported Universities (Phase Two), December 2010*
Study of State Disbursement Processes – November 2010*

Clerks of the Circuit Courts

Cities:

City of Lynchburg (Turnover) – January 1, 2010 through November 3, 2010

Counties:

County of Craig (Turnover) – January 1, 2010 through November 12, 2010

State Accounts (for the year ended June 30, 2010)

Cities:

City of Alexandria
City of Bristol*
City of Buena Vista
City of Charlottesville
City of Covington*
City of Fairfax
City of Falls Church*
City of Fredericksburg
City of Harrisonburg*
City of Lynchburg*
City of Newport News*
City of Norfolk
City of Portsmouth
City of Richmond*
City of Roanoke*
City of Salem*
City of Staunton*
City of Suffolk
City of Williamsburg

Counties:

County of Amherst*
County of Bedford

County of Brunswick
County of Campbell*
County of Caroline
County of Charlotte
County of Clarke*
County of Cumberland
County of Dickenson*
County of Fairfax
County of Fauquier
County of Franklin*
County of Greene
County of Greene (Turnover)
County of Greenville (Turnover – November 12, 2010)
County of James City*
County of King and Queen*
County of Louisa*
County of Lunenburg
County of Lunenburg (Turnover – November 16, 2010)
County of Madison
County of Middlesex
County of Nelson
County of New Kent*
County of Pittsylvania
County of Powhatan
County of Richmond
County of Roanoke*
County of Rockbridge*
County of Rockingham*
County of Russell*
County of Scott
County of Shenandoah
County of Southampton
County of Spotsylvania
County of Stafford
County of Surry
County of Sussex
County of Warren

General Receivers

Cities:

City of Bristol – for the year ended June 30, 2010
City of Lynchburg – for the year ended June 30, 2010

Counties:

County of Arlington for the year ended June 30, 2010
County of Buchanan - for the year ended June 30, 2010
County of Lee – for the year ended June 30, 2010
County of Loudoun - for the year ended June 30, 2010
County of Russell – for the year ended June 30, 2010
County of Sussex – for the year ended June 30, 2010
County of Washington for the year ended June 30, 2010

Magistrates

Cities:

City of Alexandria – July 1, 2009 through June 30, 2010
City of Chesapeake – July 1, 2009 through June 30, 2010
City of Hampton - July 1, 2009 through June 30, 2010
City of Lynchburg – July 1, 2009 through June 30, 2010*
City of Suffolk – July 1, 2009 through June 30, 2010

Counties:

County of Accomack – July 1, 2009 through June 30, 2010
County of Amherst – July 1, 2009 through June 30, 2010
County of Appomattox – July 1, 2009 through June 30, 2010
County of Bedford – July 1, 2009 through June 30, 2010
County of Buchanan – July 1, 2009 through June 30, 2010
County of Campbell - July 1, 2009 through June 30, 2010
County of Campbell – July 1, 2009 through June 30, 2010
County of Dickenson – July 1, 2009 through June 30, 2010
County of Franklin – July 1, 2009 through June 30, 2010*
County of Halifax – July 1, 2009 through June 30, 2010
County of Henry – July 1, 2009 through June 30, 2010
County of New Kent – July 1, 2009 through June 30, 2010
County of Patrick – July 1, 2009 through June 30, 2010
County of Prince Edward – July 1, 2009 through June 30, 2010
County of Pulaski – July 1, 2009 through June 30, 2010
County of Roanoke – July 1, 2009 through June 30, 2010
County of Russell – July 1, 2009 through June 30, 2010
County of Wise – July 1, 2009 through June 30, 2010
County of Wythe – July 1, 2009 through June 30, 2010*

*Denotes management control finding