APA

Auditor of Public Accounts

COMMONWEALTH OF VIRGINIA

REPORT TO THE GENERAL ASSEMBLY

2006

IMPROVING ACCOUNTABILITY AND CREATING CHANGE

During the past year, the Auditor of Public Accounts issued over 389 reports of which 81 contained findings and recommendations for improving accountability, internal controls and financial management. The findings and recommendations have dealt with issues as simple as issuing receipts in courts, to the overall governance of major state agencies and institutions.

Some of these recommendations have resulted in major changes to the Commonwealth's overall financial and operational management and in significant changes within the agencies and institutions cited. Several of the recommendations have also resulted in changes to agency oversight and legislation.

Audits on the Department of Game and Inland Fisheries and Assistive Technology Loan Authority resulted in legislation that altered the governance structure of these agencies. Work on the Public Private Education and Infrastructure Act and the Virginia Information Technology Agency (VITA) agreements under this Act resulted in legislation to provide greater General Assembly oversight of this process. While the legislation did not pass, the Appropriation Act does include language that sets out some expectations of the legislature relative to these agreements.

We have also taken a proactive approach to monitoring agencies and institutions while they develop and implement information systems. During the past year, we began issuing a Progress Report on Selected Information Systems Development Projects, which we plan to issue semi-annually in addition to our individual annual audit report or reports on system progress.

This Progress Report has helped our reviews of VITA by focusing on the need to improve in the oversight of systems development. Additionally, reviews of VITA over the past two years have resulted in organizational changes within the agency and assisted the oversight board, the Information Technology Investment Board, to refine their focus on providing overall Commonwealth direction for technology.

Our audits, such as the Department of Minority Business Enterprises and the Attorney General's Office, have provided management with ways to improve accountability and enhance internal controls. These audits offered suggestions to provide management with improved tools to oversee operations and better ways of conducting business by shifting and outsourcing administrative functions.

Both our system reviews and general audits require a long-term commitment to work with agencies to improve their operations. We have issued several reports this year on Deferred Maintenance and the Departments of Veterans Services and State Police, and the State Comptroller's operations that will require a long-term commitment by both the agency and the Commonwealth to improve operations. This commitment will require not only a change in operational processing and staffing but points out the Commonwealth's need for a modern enterprise-wide financial and information system.

Following the Table of Contents are highlights from the reports discussed above and others that have improved accountability and created change. We have provided a summary overview of the reports and the findings and the way in which the agency or others have used the reports to change the agency.

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Mission

The APA serves Virginia's citizens and decision-makers by providing unbiased, accurate information and sound recommendations to improve accountability and financial management of public funds.

Audits Addressing Governance

Department of Game and Inland Fisheries
(A component of the Secretary of Natural Resources audit report)
April 2005

Our report on the agencies of the Secretary of Natural Resources included recommendations specific to the Department of Game and Inland Fisheries (Game). That same month the State Internal Auditor released a report on his investigation into state employee fraud, waste, and abuse hotline allegations. The investigation examined allegations of improper spending, human resource management, and other matters. Our report focused on Board governance and Game's policies and included the following recommendations for both the Board and Game management:

- Clarify duties and responsibilities of the Board, Game Director, and Secretary for following state guidelines
- Define the role of the Chairman
- Establish official duty guidance
- Perform a top-down review of existing policies and procedures
- Establish criteria for official duties
- Follow state guidelines
- Develop standards and norms for purchases and supported programs

The recommendations resulted from a lack of uniform decision-making that was a consequence of Game's and the Board's failure to develop and follow written policies and procedures. Also, the Board had not clearly defined the scope of their responsibilities in the active management of Game. While Game had some internal controls over transaction processing, a comprehensive internal control framework was not in place and overall, there was a significant lack of documented policies and procedures at all levels of the organization, including senior management and the Board.

RESULTS

Our report and the State Internal Auditor's investigation resulted in the introduction of bills during the 2006 General Assembly session to create reform at Game. The bill that passed delineates the Board Chairman duties, requires the Game Board to develop a governance manual, requires the annual election of a new Board Chair and Vice-Chair, requires the Auditor of Public Accounts to audit Game annually, and requires the General Assembly to confirm and re-confirm the Game Director every four years.

We completed a follow-up audit at Game and issued our report in June 2006. The audit focused on the findings and recommendations made in our prior audit and those in the State Internal Auditor's report. Overall, we found that Game and the Board have been active in implementing policies, procedures, and internal controls and they appear adequate. We will continue to perform annual audits as required by the 2006 legislation.

Assistive Technology Loan Fund Authority
December 2005

We released a special review of questionable items at the Assistive Technology Loan Fund Authority (Authority). We conducted the review at the request of the Chairman and Treasurer of the Assistive Technology Loan Fund Authority (Board) and the Department of Rehabilitative Services (Department). We believe that the questionable items and other matters that came to our 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.

The Authority was an independent organization, which solely relied on the Board exercising its responsibility of oversight if the Authority was to have any type of review. Since becoming independent of the Department, the Authority has had no external review of its operations nor had it met its legal and statutory responsibility of having an audit of its federal grants or its reports to the General Assembly.

The Department, as an agent for the federal granting agency, required and forced the Authority to have an audit for fiscal years 2003 and 2004. This audit found numerous problems, the most serious of which are part of our report.

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.

RESULTS

Upon completion of this report, the General Assembly passed legislation to make the Authority an executive branch agency and mandate an annual audit.

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.

Our report highlighted that the existing PPEA statute provides few specific requirements and allows public entities to set guidelines. We believe the statute and related guidelines need change and our report recommended that the General Assembly consider:

- Amending the statute to incorporate a means for General Assembly's involvement in the process and providing 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 the analysis and review required and 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.

RESULTS

Our report persuaded several legislators to introduce bills during the 2006 General Assembly session to revise existing PPEA statutes. Late in the session, the bills merged with language prevailing to create a legislative commission to review and advise the General Assembly regarding public-private partnership proposals. The bill succeeded through various subcommittees, raising legislative awareness of issues with the existing PPEA statute and processes, but it eventually failed in the last day of the 2006 session. We hope to see the bill's reintroduction in the 2007 Session.

The General Assembly also considered two significant PPEA projects during the 2006 session. First, the Virginia Information Technologies Agency (VITA) asked for legislative approval of a PPEA deal with Northrop Grumman to outsource most Commonwealth information technology services. Since this ten-year renewable agreement results in lease arrangements that affect the Commonwealth's debt capacity, the General Assembly had to approve the leases for the project to move forward.

Second, the Governor's budget asked for about $30 million to replace existing Commonwealth administrative systems under an Enterprise Applications PPEA with a vendor, CGI-AMS. The Governor would use this money to pay CGI-AMS to create a project management office and develop system requirements, among other things.

RESULTS

We believe our audit report drew legislative attention to these PPEA's and resulted in their active involvement in understanding the purpose and scope of these arrangements, in analyzing the impact on the Commonwealth's debt capacity and future budget flexibility, and in amending the Governor's budget request and how the Enterprise Applications project will be administered in the future.

Systems Development and Governance

Progress Report on Selected Information Systems Development Projects
September 2005 and June 2006

In September 2005 and again in June 2006, we issued a progress report on selected information technology projects throughout the Commonwealth. Although we issue many individual audit reports throughout the year which contain information and recommendations regarding systems development projects, we believe a single, periodic report that contains information about all projects we are following is both informative and useful.

The APA's Information Systems Development Team consists of a group of auditors who specialize in project management best practices. Our specialists audit a number of systems development projects on an on-going basis to determine that the project manager complies with the Commonwealth's Project Management Standards, as issued by the Virginia Information Technologies Agency; and that 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.

RESULTS

We have received a positive response to our progress report as a valuable management tool, particularly from VITA's Project Management Division (PMD) and the Information Technology Investment Board (ITIB). For the PMD and ITIB, who must evaluate projects and consider suspending or terminating those that are in trouble, the report serves as an additional independent opinion when compared to agency self-reported data, results of independent verification and validation audits hired by the agency, and PMD's understanding of the project. Following the release of our first report in September 2005, the ITIB commented on its usefulness and requested that the APA and PMD compare notes and provide the APA's comments regarding projects as part of the Board update.

Virginia Information Technologies Agency

Various Reports

Since its creation in July 2003, we have actively followed the Virginia Information Technologies Agency (VITA) and issued audit reports with recommendations directed to the Chief Information Officer (CIO), the Information Technology Investment Board (ITIB), and VITA management. Due to the significant transition and transformation efforts required in the process of consolidating information technology responsibility and oversight, our reports are tools that VITA and the ITIB use to help measure and evaluate their success and consider where more work is required.

RESULTS

Our reports and one-on-one meetings with VITA management have addressed many areas, but most important is our advice and words of caution in the areas of ITIB governance and strategic planning, information security, and project management oversight. These areas required attention and change for VITA and the ITIB to meet its statutory goals and we believe they are implementing changes as a result of our recommendations.

ITIB Governance and Strategic Planning

ITIB governance involves how the ITIB operates to fulfill its statutory responsibilities. Over the years, we have identified areas where the ITIB needed to improve their governance. In the early years, we noted that the ITIB Chairman was also acting as the CIO and the Secretary of Technology. The ITIB Chairman had developed a working relationship with VITA management and staff and was solely responsible for directing their work. We advised the ITIB that the entire Board needed to foster a working relationship with VITA

management and staff and be involved in setting VITA's agenda. We believed VITA needed to understand that they answered to the ITIB, not just its Chairman. Not long after providing this advice, the ITIB hired a full-time CIO who engaged the ITIB and used them to help set VITA's direction.

In several reports, we have also recommended that the ITIB and CIO develop a Commonwealth IT Strategic Plan. We believed this plan would facilitate ITIB governance by clearly communicating the ITIB's plans for the Commonwealth and define VITA and Commonwealth goals and priorities. The ITIB and CIO agreed that a Commonwealth IT Strategic Plan was a priority and they approved it in early 2006.

Most recently, we have advised the ITIB to separate VITA's customer service and enforcement roles since it is difficult for VITA to fulfill both responsibilities. The ITIB must take more responsibility for directing VITA's enforcement staff, particularly in the area of project management, since they directly support the ITIB's statutory responsibilities. The ITIB must ensure VITA divisions involved in enforcement understand their role and that it is acceptable for them to conflict with the customer service orientation of other divisions.

RESULTS

The Board has structured itself in a manner that does provide appropriate overall guidance and direction. The Board has also recently formed a subcommittee to address the Executive Evaluation and Governance over VITA's future direction.

Information Security

When VITA assumed IT operations from individual agencies in 2003, they became responsible for hardware such as desktops and servers, for network components such as routers, firewalls and switches, and for mainframe computing. Although the individual agencies continue to have a responsibility relative to defining and communicating the security needed to protect their information, VITA also has a responsibility to establish the minimum acceptable security settings for the hardware they control. Then, if agencies require a more or less rigid standard, the agency should make a request in writing to VITA that they can accept or deny.

Despite our repeated efforts to affect change, the process described above does not yet fully exist at VITA. With VITA having controlled the hardware and staff that manage that equipment for more than two years now, we would have expected more progress than they have achieved. We have issued several reports, going back to the beginning of VITA, advising them to understand and document agency security needs and establish minimum security settings and standards for VITA and the agencies to follow. Recently they just started collecting security needs through the use of a security template, and they must continue with this effort until standards are set. Currently, the Commonwealth is at significant risk since VITA is managing hardware according to security settings used by agencies before VITA's creation. Since agencies did not have the Commonwealth perspective provided now by VITA, their security settings may not be adequate to protect the Commonwealth at large.

RESULTS

VITA has recently appointed a new Chief Security Officer and issued new Commonwealth Security Standards. VITA is working with both the agencies and Northrop Grumman to establish a clearer understanding of how agencies share responsibilities for security. Also, the Board has directed VITA staff and Northrop Grumman personnel to make security one of their priorities.

Project Management Oversight

The Project Management Division (PMD) has issued standards and templates for agencies to follow and use when developing projects and we have reviewed and provided comments on the draft documents. Overall, these standards and templates are well written and useful. The PMD also prepares project ranking and status reports for the ITIB and we review and comment on these reports before the staff make their final report to the ITIB. Over the years, we have identified and communicated inaccuracies in these reports, primarily due to agencies failure to include projects they are working on or to properly report their development status. As a result of our knowledge of projects and their status, the ITIB has told PMD to meet with us before each ITIB meeting so that our information can be included in the status report.

PMD has focused most of their efforts on developing standards, creating reports for the ITIB, and developing internal procedures, rather than having an active presence on projects. VITA statutes envisioned their active involvement and we have advised VITA that this is an area they need to improve.

RESULTS

Our advice hit home for the ITIB who asked PMD to be more hands-on with projects. The ITIB realized that relying on agency self-reported data may not identify troubled projects that they need to suspend or terminate; a statutory responsibility of the ITIB and the CIO. They needed PMD to be a reliable source of information. Recently PMD has hired more staff and they are attending more project meetings. This has increased PMD's visibility at agencies and they have a better working knowledge of projects and where they stand.

Interim Report on Virginia State University's Project New Horizons
August 2005

We reported on Virginia State University's Banner system implementation, Project New Horizons. Early in the project, the University struggled to meet the project schedule and the Commonwealth of Virginia's Chief Information Officer suspended the project. In April 2005, VITA reactivated the project and our work consisted of management inquiries, examination of project documentation, and attendance at oversight committee meetings following its reactivation.

We reported that the University had started executing work without an approved project plan and were not monitoring actual progress against a plan. In addition, the project was not on time as some key deliverables were at least two months behind schedule. University staffing shortages and the lack of accountability for completing work were the primary causes for the project delays and we expressed concern that continuing to miss deliverable deadlines and staffing shortages would impact the University's ability to meet their July 1, 2006 implementation schedule, resulting in increased costs.

RESULTS

Following our report the University began to address the areas of concern. Regarding their staffing shortages, the University changed from a decentralized project team to a concentrated core team approach to complete the work, increasing project productivity. The University also discontinued the consulting services of Collegis and contracted with SCT. One of the most significant improvements included the hiring of a full-time Chief Information Officer (CIO) with experience implementing higher education systems. We believe their response to our report, particularly in the areas of project staffing and project oversight, will contribute to a successful implementation as they implement additional modules.

Department of Social Services' Public-Private Partnership
August 2005

As of August 2005, the Department of Social Services was pursuing a $128 million dollar public-private partnership to develop an integrated system for the delivery of their services. However, we had concerns that they did not have an adequate strategic plan that supported how they needed to operate in the future and that they should re-sequence the partnership initiative to wait until they completed the strategic plan.

We had addressed deficiencies in their strategic plan in prior audit reports and had historically been critical of their ability to successfully design and develop new systems. In addition, the Joint Legislative Audit and Review Commission (JLARC) was close to finalizing a report on their review of Social Services and planned to issue their report and recommendations in October 2005. We believed JLARC's in-depth analysis would support significant changes that Social Services needed to contemplate. Finally, Social Services was performing business process re-engineering simultaneously with the public-private partnership. We believed they should complete their re-engineering efforts first, so they could adequately describe to vendors how they planned to work in the future. Otherwise, we believed the public-private partnership vendors would not have sufficient information to develop sound detailed plans or would be constantly reacting to changes in processes.

Our report recommended that Social Services finish their strategic planning process to include: analyzing and defining their role in the social service delivery process; determining how they should work and be structured; analyzing redundant eligibility processes and duplicate information; and defining their new organization. We further suggested that they consider JLARC's report, which raised further concerns about Social Services' ability to adequately plan and manage a large scale systems effort.

RESULTS

In response to our report, Social Services decided to postpone their public-private partnership initiative until they completed their business process re-engineering effort. To date they have not reinstated the public-private partnership initiative and have instead focused on implementing incremental changes identified during their re-engineering effort.

Organization Structure and Internal Controls

Department of Minority Business Enterprise
May 2006

Our audit continued to find many of the same problems with internal control and compliance during fiscal year 2005 that we discussed in prior reports. We did not repeat most of the findings because, as of July 1, 2005, the Department of Housing and Community Development (Housing) assumed responsibility for the fiscal and human resource functions of the Department. We have noted improvements in the Department's fiscal operations since Housing took on these responsibilities.

The internal control weaknesses over the Department's fiscal and procurement operations included in our last report continued to exist until July 1, 2005. Significant changes in the internal control environment continue to occur with personnel changes made in the Department during January 2006.

The Department and Housing need to address several areas to correct the remaining internal control weaknesses. The Department and Housing should update the Memorandum of Agreement to indicate that Housing should ensure that all transactions comply with the Department's policies and procedures before processing the transactions. The agreement should clearly indicate how Housing will communicate

exceptions to the policies and procedures and if the parties cannot resolve the issue, how Housing will document the exception.

The current agreement indicates that Housing will update the Department's accounting policies and procedures; however, Housing has not completed this task. Further, the Department should develop policies regarding discretionary promotional expenses, have them approved by the Secretary of Administration, and provide them to Housing to ensure they have appropriate guidance for exercising oversight over expenses.

The current agreement indicates that Housing will "provide procurement services, as may be requested" by the Department. As we continue to note internal control and compliance problems with regard to the Department's procurement process, we recommend the Department and Housing change the agreement to indicate that Housing will provide oversight to the Department's procurement process to ensure the Department has followed all Commonwealth procurement guidelines.

RESULTS

In response to our report, the Department and Housing continue to develop and refine their memorandum of agreement to address the issues in our report.

Attorney General's Office and the Division of Debt Collection
September 2005

Our report provided the Attorney General the opportunity to not only improve the internal controls and procedures in the Division of Debt Collections (Division), but the chance to strengthen the Division's financial management processes. We recommended that management review current staffing and skill levels to determine whether the Division has the appropriate number of financial management and information system staff and types of skills necessary to perform their responsibilities. Options for management would include hiring additional staff, contracting for financial management and information system staff, or working with Office management to utilize staff and skills already in place at the Office.

Our report indicated that the Attorney General had the opportunity to fund these enhancements from the Division's operations, which retained a percentage of its collections. The Appropriation Act allows the Division to retain 30 percent of collections, not to exceed $1.8 million in any fiscal year. Over the last several years, the Division has retained fees in excess of their operating expenses, resulting in an accumulated cash balance in their operating fund that totals $2.6 million. This amount equates to two year's worth of operating expenses based on 2004 and 2005 actual expenses.

The report also included several recommendations for the Division to improve its relationship with customer agencies. One recommendation was to transfer the agency share of collections in a timelier manner. Another recommendation was for the Division to provide periodic account summaries to customer agencies.

We also made some recommendations to use best practices for an organization managing and collecting accounts receivable. These practices included monitoring the number, dollar values, and ages of outstanding accounts. Further practices discussed enhancing the Division's computer application information and security.

RESULTS

We met with the new Attorney General and his staff in January 2006. The Attorney General and his staff have begun implementing all of the recommendations in this report.

Long-term Operational and Systems Considerations

Deferred Maintenance
December 2005

We issued our final report on Deferred Maintenance in the Commonwealth, which was the completion of this audit's second phase. The first phase of the review included significant recommendations to reengineer the current capital outlay and maintenance processes in the Commonwealth. We also identified the means to adequately determine the deferred maintenance costs in the Commonwealth.

The second phase included oversight of the collection, analysis, and prioritization of the building assessment data needed to audit deferred maintenance costs. It also included the acquisition of software to develop and implement a facility inventory and condition assessment system throughout all state agencies and institutions to gather information on the maintenance and capital renewal needs of all Commonwealth-owned buildings. The system is Vanderweil Facility Advisors' Facility Inventory and Condition Assessment System (FICAS).

FICAS is a centralized database with building condition assessment information that will provide the Governor and General Assembly, once fully implemented, 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.

RESULTS AND PENDING ISSUES

We transferred responsibility and oversight of FICAS to the Department of General Services on July 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. Currently, the Appropriation Act does include funding for both the system and personnel; however, if the proper personnel and resources do not continue, FICAS will fail.

The Commonwealth of Virginia has a $1.626 billion deferred maintenance backlog based on assessments of 5,269 of the 10,449 buildings inventoried in FICAS. As agencies assess the remaining buildings, the statewide backlog will increase. The buildings assessed were those buildings included in the next six year capital plan and 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.

During the 2006 Regular and Special Sessions of the General Assembly, the Senate Finance Committee proposed a budget amendment to create a pilot funding program at six agencies and institutions of higher education to demonstrate how the Commonwealth could use FICAS along with strategic capital planning to reduce the deferred maintenance backlog. However, this pilot program did not make it through to the final budget.

To be successful in reducing and preventing deferred maintenance in the future, the Commonwealth must consider implementing the recommendations from the Deferred Maintenance final 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;

- 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.

PENDING ISSUES

If the Commonwealth intends to address the issue of deferred maintenance, policymakers need to either attempt some form of funding experimentation, such as the program proposed by the Senate Finance Committee, or develop a systematic method of addressing the issue using alternative funding scenarios that FICAS can model. The continued administration of FICAS and condition assessments of Commonwealth-owned buildings, along with a revamped capital outlay planning and budgeting process, is the key to reducing deferred maintenance and preventing it from occurring in the future.

Veterans Services and the Veterans Services Foundation
June 2006

Our 2005 report recommended that the Department of Veterans Services management document its policies and procedures and begin the process of establishing a baseline to evaluate its internal controls. While Veterans Services did document its accounting policies and procedures, staff are not following the document, and the internal control environment remains unchanged since the last audit.

Generally, we found that management oversight, supervisory reviews, and reconciliations at Veterans Services do not achieve the objectives above and this contributed to a number of problems. We found that Veterans Services did not follow its documented policies and procedures. Our review also found Veterans Services did not reasonably ensure conformity and adherence to state and federal laws, regulations, and contracts. Detailed in this report are several issues resulting from these lack of controls.

Much of the daily operations depend on staff who continue to operate as they did before the creation of Veterans Services. Although Veterans Services is planning to implement a new system, the internal control processes necessary to gather, review, and verify data to ensure accurate and timely information do not exist.

When management begins conducting their review of these financial management issues, they should begin with establishing a proper oversight structure. Currently, the majority of executive management is located in

Richmond, Virginia while the day-to-day administrative operations occur in Roanoke, Virginia. Without adequate, direct, and experienced management oversight, the issues noted in this audit report will not be resolved.

RESULTS AND PENDING ISSUES

Management is continuing the implementation of its new accounting system and has undertaken a restructuring of its fiscal operations. Additionally, understanding the need to have these changes in place to meet the opening of the new Veteran Services care center in Richmond, management is also making sure that this transition will occur as quickly as possible. However, considering the scope to change, this process will take several years to complete.

Department of State Police
April 2006

Effect of Budget Reductions

In an effort to minimize the impact of the budget cutbacks that occurred during fiscal years 2002 to 2004, while maintaining the ability to respond to terrorist and other security threats, State Police's management decided to absorb the budget reductions in their administrative functions. These reductions placed additional strains on an already existing antiquated accounting and internal control structure, heavily dependent on old automated systems supported by manual processes.

The budget reductions have also highlighted several personnel issues that contribute to the strain on the accounting and internal control structure. State Police administrative staff, while very dedicated, is an aging work force with a number of key personnel, in both position and knowledge, approaching retirement. Further, administrative positions within the organization offer limited opportunities for advancement to either sworn or civilian personnel.

Processing and Staffing Issues

The above factors contribute to several concurrent problems facing the management of the State Police.

- Recruiting and filling administrative positions is difficult due to the lack of advancement opportunities, the screening process, and tight labor market for qualified staff.

- Antiquated systems, coupled with equally antiquated processes, require significant management oversight; therefore, these resources are spending time performing duties in order to keep the work flowing.

- Personnel generally resist change, and with the dependence on key administrative employees close to retirement and the lack of documented procedures, making and successfully implementing change is difficult.

Finally, there is an inherent conflict within the State Police as in most organizations, including the Auditor's Office, where the organization's management comes from and represents the organization's primary mission. Management of the State Police comes from the law enforcement portion of the organization and not the administrative. This organizational reality can contribute to organizational problems when both activities do not fully appreciate the duties and importance of each other's function.

Changing Processes

This situation provides both challenges and opportunities to the management of the State Police and will require some longer term solutions and significant changes in processes and procedures to effectively address many of the technical and policy issues that this report addresses. New automated systems can overcome many of the issues in this report, providing that State Police change their processes and procedures.

New systems to achieve efficiency and effectiveness require their users to change their processes and procedures. These changes are, in some cases, rather dramatic and may completely alter who has responsibilities for initiating, approving, and completing transactions. These changes will, in all likelihood, also require a re-examination of the relationship, duties, and responsibilities of administration and law enforcement.

Several findings within this report relate to the system of internal controls where the control objectives, when compared to the process, indicate a clear need for process changes as well as enhanced automation. As an example, the State Police have entered into the business of billing for their services. This change in business operations requires a re-examination of timekeeping, assignment monitoring, and oversight of payroll and within this process the change of accumulating, verifying, billing, and collecting revenue.

An Example of the Challenges of Process Change

The State Police have an adequate system for determining who was at work and for how long. However, this system and the processes surrounding it are totally inadequate for billing and tracking reimbursable hours. The current process is primarily a time and attendance reporting system for payroll.

Attorneys, accountants, and others, who render services and bill for hours worked, have systems that merge time and attendance, and provide all of the related oversight, such as monitoring, billing and the collection process in one system. Since these groups also bill and collect for expenses, many of the fees include travel, out of pocket, overhead and other direct charges to their customers.

Some of the more sophisticated systems integrate and pull information from the personnel system so that the time documents not only create bills, but the system pays the employees, tracks their time and reimburses their travel costs. Some of these systems alter the process so thoroughly that the entire process is electronic and occurs in a highly secure environment from any internet access point.

These systems are available from numerous vendors, including the solution the State Police is currently exploring with its e-business implementation of Oracle Financials. However, all of the solutions require the users to change and alter their current processes to match or adjust to the systems processing and handling of data. Finally, the cost of these systems increases dramatically as users change the system rather than adapting the process to the system.

Using a modern system to accumulate and bill for time worked will affect change in the processes and systems for personnel, payroll, and time-keeping; expand system access to all personnel; and create the need for new policies and procedures. These changes move the process from paper to electronic review and approval, and finally, require the re-examination of basic control objectives, not from the aspect of adapting what we have, but determining what we want to achieve.

In essence, the tasks become determining and seeing if the new system and processes will properly pay the staff, meet all the appropriate federal and state personnel and payroll requirements, maximize the billings, reduce administrative processing time, and maintain an environment of strong internal controls. In order to achieve these goals, the agency must change its processes to efficiently and effectively match the system workflow.

Planning and System Development

The issue of process change, we believe, is a root concern with our previous findings on system development and planning. Not recognizing the complexity of the process, technology and organizational issues have hindered the State Police's ability to implement and plan systems. We also believe this issue is part of the reason that development efforts were internal rather than using a purchased system.

Further complicating planning and system development is a lack of consistent funding to undertake some programs. This lack of funding has also caused the State Police to look internally to find solutions, which has not always produced a workable answer. In addition to the funding issue, there has been a focus on seeking a solution that adds automation to speed up the process rather than fix the process.

Focusing system planning and development efforts to patchwork process solutions will, in the long run, only create additional layers of control and complexity. As an example, the State Police management is looking at an e-Business solution for some of the issues related to voucher processing, general ledger control and reporting. While this choice of products will provide many opportunities for improving the operations, funding limitations will restrict its use to headquarters.

The products selected have the capability of addressing, not only the voucher processing general ledger control and reporting, but could also address other system opportunities for fleet management, inventory, time and attendance and time billing. However, for the products to achieve their potential, the State Police would, at a minimum, need to put the products in all of its divisions, and in many cases, make the products available to all personnel at some level.

This implementation would substantially increase the cost, but the long-term opportunities for increased staff efficiency and availability could be significant. Also using the state initiative for an enterprise application, coupled with the re-engineering process, could present an opportunity to achieve this change with lower cost to the State Police.

Finally, building on the state initiative for an enterprise application would minimize the long-term cost to the State Police by reducing the need for costly interfaces and redundancy of data entry. Continuing to patch work solutions will only continue to highlight the lack of staff and increase long-term costs.

Conclusions and Recommendations

We believe the changes discussed above will be profound and require an extensive realignment of administrative and law enforcement interactions. The State Police may need to seek outside expertise on how to achieve these changes; this would be someone with knowledge of how both parts of the organization function, but with an identified bias to help management address these changes.

Finally, the use of someone independent of the organization will give management the opportunity to look at its administrative and law enforcement support functions and separate the activities that are truly unique to only the Virginia State Police from those used by other organizations, both law enforcement and civilian. Instead of attempting to do everything in-house or spending time and resources making changes to systems rather than processes, management can use what is widely available to the Commonwealth and other organizations and therefore use its limited resources on its truly unique processes.

We believe that management does face difficult challenges in managing the State Police. These challenges are more complex and difficult, because of the system and personnel issues noted above. However, not making some of these longer-term changes will lead to more of the accounting and internal control issues included in this report.

RESULTS AND PENDING ISSUES

The State Police are continuing their implementation of the financial system. However, they have not yet begun a complete review of their processes.

Review of the Financial Accounting and Control Operations of the State Comptroller
October 2005

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 the 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 that 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.

Improve New Systems and Information Planning

The Governor, Chief Information Officer (CIO), and the Information Technology Investment Board have received public/private partnership proposals (PPEA) from vendors to re-engineer state processes and develop an enterprise resource system that could replace all current statewide systems and some agency-based systems. This or any similar PPEA, if accepted, would impact systems currently maintained by the Comptroller.

Traditionally, in accordance with VITA requirements, the Comptroller would identify system needs such as replacing CARS, in his IT Strategic Plan approved by VITA. VITA would then prioritize the Comptroller's system needs against other Commonwealth agencies and the priority report would receive the Information Technology Investment Board (ITIB) approval and then go to the General Assembly and Governor. However, in the case of the Comptroller, there was no request to replace administrative systems in his 2004-2006 IT Strategic Plan, no preliminary business case, and no ITIB ranking or approval. We obtained and reviewed the Comptroller's 2006-2008 Strategic Plan, and found that although it does not request that his systems be replaced, it does recognize that the Comptroller will be directly involved in all stages of the PPEA.

Despite the lack of these plans, the Governor's Chief of Staff named an Enterprise Application PPEA team that worked with the PPEA vendors, IBM and CGI-AMS, to develop and administer a 700 question survey to state entities. The team selected 46 entities that they believe represented a good cross-section of state activities and functions. The process, known as Due Diligence, provided the Enterprise Applications PPEA vendors with an understanding of how agencies operate, what systems they use to support these functions, ways that processes could improve, and ways they work well.

The survey appears thorough and gives a good high level picture of the current state of operations. It identifies areas where processes can improve and identifies solutions that agencies have already implemented to address weaknesses in the central accounting systems. However, without a long-term strategic plan for the Commonwealth's financial management, we believe it is difficult for anyone to assess what the Commonwealth must do to achieve any improvement. Instead, the Commonwealth is allowing two vendors to submit proposals without having a strategic vision to compare them to.

After the Secretaries of Finance and Administration and the Comptroller recommended accepting one of these PPEA vendor's proposals, and the CIO and the Information Technologies Infrastructure Board approved the planning, the Governor signed a comprehensive agreement in early November 2005. A comprehensive agreement is essentially a contract between the Commonwealth and a vendor to perform work or provide goods. An Enterprise Application comprehensive agreement may significantly change the way the Commonwealth manages its financial business and may outsource functions.

Based on our discussions with the Comptroller, we understand that the final comprehensive agreement envisions various phases of work and includes a strategic planning component. We reviewed drafts of the various phases, however, none of the phases clearly set out a strategic planning phase. We believe there is a need for a strategic planning phase to address important decisions such as whether the Commonwealth will operate centralized or decentralized accounting and how electronic workflow would occur, to name a few.

Recommendations

We initially recommended in our preliminary report and continue to recommend that the Governor and Commonwealth Chief Information Officer (CIO) form a workgroup with the Comptroller to develop a long-term strategic plan for the Commonwealth's financial management needs, including modern accounting systems. As part of the initial work phase of the Enterprise Application project this plan must become an essential element to monitor performance of any PPEA comprehensive agreement.

Regrettably, in an ideal world, we would have preferred that this workgroup complete its plan before the Commonwealth finalizes any Enterprise Application public-private partnership so that the Comptroller and CIO can compare the vendor final proposals to the vision set by the Commonwealth. Without a long-term strategic plan the Commonwealth is at risk of spending funds to develop a system that does not support what we need or how we want to do business.

Although the final decision to sign a comprehensive agreement may be outside of the Comptroller's control, we recommend that as a member of the PPEA team, the Comptroller work to ensure that strategic planning is clearly defined in the agreement as the phase one milestone. The strategic plan is critical because it sets the framework for how the Commonwealth will operate and sets the guiding principles for all other phases.

Going forward, it is important that the Comptroller maintain an up-to-date strategic plan that links information technology needs to his business needs. Having such a plan will allow the Comptroller to make sound business decisions based on whether or not a product or service fulfills an identified business need.

RESULTS AND PENDING ISSUES

The Appropriation Act for the 2007 – 2008 biennium includes funding to begin the process of an Enterprise system application. The plans envision that this process will occur over several years and in various phases. The speed with which the implementation will occur depends on a number of key decisions during the early phases of the project.

A separate project office and project manager reporting directly to the Governor will lead this project and project plans are subject to the Information Technology Investment Board approval. The State Comptroller must continue to assert himself into the process, but at the same time understand that an enterprise system has group ownership.

The Comptroller has begun reorganizing his operations to place a new emphasis on outreach and training within the agencies. There is also an understanding with the advent of the undertaking of the enterprise system project for a need to review the financial statement preparation and other processes of his operations.

INFORMATION SYSTEMS DEVELOPMENT

Each year the Commonwealth invests a significant amount of money on system development projects. Some of these projects come to successful completion in terms of functionality and budget, while others encounter cost overruns, unfulfilled functionality requirements, or project failure. A major goal of our early involvement in projects is determining if and when a project is not progressing as planned. We then have the opportunity to alert any chief parties of the impending issues, thereby mitigating the potential for failure at the earliest point possible. We view our involvement as one of early detection and prevention, and work with the project manager, agency management, and VITA's Project Management Division to foster a collaborative relationship.

Fiscal 2006 Projects

The following list highlights those major projects we believe require diligent attention to ensure success and minimize risk to the Commonwealth. As each project is in a different phase of development, we have provided a brief description of the project and the nature of our involvement.

Virginia Information Technologies Agency - This work will include continuing to follow VITA's strategic planning process, project management oversight, and security standards. Our work this year will focus on VITA's transformation from an IT service provider to a group that analyzes information and makes IT investment decisions that focus on the Commonwealth's interests, rather than individual agency desires. With IT operations now outsourced to Northrop Grumman, VITA's role has changed significantly. With this role change they must also change their mindset from one of customer service to one of serving the Information Technology Investment Board and the Chief Information Officer in setting IT investment priorities.

Enterprise Applications - We continue to follow the replacement of central accounting and administrative systems to include CARS, CIPPS, FAACS, BES, and Probud. During the past year we assisted the legislature in drafting Appropriation Act language regarding this public-private partnership and are following activities of the Enterprise Applications Board.

State Board of Elections - Federal money continues to be available under the Help America Vote Act (HAVA) to pay for the $12 million VERIS system. Initially the funding was contingent upon implementing the system by January 1, 2006 and we previously issued a report expressing concerns about meeting this deadline. Since our earlier report the State Board of Elections has received information from the US Department of Justice to indicate that the funds remain available and that Virginia should continue to work towards implementing VERIS. To date the project is more than 9 months behind the original deadline and we continue to monitor the project until its implementation.

Higher Education System Implementations – Virginia higher education institutions generally choose either the SCT Banner or PeopleSoft/Oracle products to modernize their administrative systems. Although institutions may select the same product, each has implemented the system independently, often duplicating efforts such as defining their chart of accounts. We continue to follow the implementation of the Banner administrative system at Virginia Commonwealth University, Virginia State University, and Longwood University, as well as a new PeopleSoft student information system at the University of Virginia and the Virginia Community College System. We will also continue our involvement in the University of Virginia Medical Center's implementation of a new medical records and administrative system known as CareCast. Sometime during 2007

Radford University expects to select a new administrative application product. We are currently following their selection process and will also monitor its implementation.

Objectives of the Information Systems Development Team

- To ensure all systems developed will process financial information accurately and efficiently, and create a usable audit trail.
- To ensure all planned systems include safeguards (called controls) that will promote accuracy, dependability, and security.
- To ensure projects are progressing on schedule, within budget, toward success.

Ongoing Activities

In addition to those projects noted above, we regularly attend project management meetings and review project documents for the following major projects.

- Department of Emergency Management, Statewide Alert Network
- Department of Motor Vehicles, Integrated Systems Re-design
- Department of State Police, Records Management, Wanted, and Mugshot Systems
- Department of Rehabilitative Services, Integrated Case Management System
- Department of Forestry, Integrated Forest Resources Information System
- Jamestown-Yorktown Foundation, Ticket System
- Department of Corrections, Offender Management System
- Virginia Employment Commission, Accounting and Unemployment Insurance Systems
- Virginia Retirement System, Retirement Information Management System replacement
- Department of Health, new WIC and two WebVision Modules, Electronic Medical Records
- Department of Mental Health, Mental Retardation and Substance Abuse Services, Electronic Medical Records
- Department of Transportation, FMSII Upgrade, Roadway Network, Violation Enforcement, and Fleet Equipment Management Systems
- Supreme Court, Financial Management, Case Management, and Imaging System replacement

Working with Others

The Information Systems Development team works with other specialty teams within the Auditor of Public Accounts to understand and audit systems development projects. For example, during the last fiscal year, we worked closely with the Information Systems Security team during our review of VITA and our Judicial team during our review of Court systems. These internal working relationships are vital to our success by ensuring our audits draw upon the appropriate internal skills sets.

The Information Systems Development team works closely with many agencies to help mitigate system development failures. If we note concerns, we first contact the project manager and agency head for resolution. If we do not receive adequate corrective response, we escalate the issue to the responsible Secretary and VITA's Project Management Division. We view our involvement as one of early detection and prevention and work with the project manager, agency management, and VITA's Project Management Division to foster a positive working relationship.

The Information Systems Development team has identified several organizations within state government with whom we can collaborate to help ensure projects are progressing on time, within budget and satisfying all defined project deliverables; and that there is adequate protection from loss of the Commonwealth's interests.

We work closely with VITA's Project Management Division to share our work and avoid duplicating efforts. Historically, the Project Management Division has had limited resources to assign to monitor projects and instead relied on agency self-reporting. We informally communicate with the Division when we find concerns that bring the self-reported information into question. When appropriate, we also suggest their involvement in suspending a project. In order to keep the Information Technology Investment Board aware of issues affecting projects they have approved, we provide the Board with our Systems Development Progress Report as well as any other reports that we believe are relevant. We also assist VITA's Security Division by providing input on policy development and communicate concerns over governance decisions.

We have fostered a close working relationship with the Joint Legislative Audit and Review Commission (JLARC) as it relates to VITA and other major systems development projects. We provide them information as requested and also review and comment on documents related to items such as VITA's rate approval requests. We actively monitor the activities of organizations impacting systems development at the statewide level, such as public-private partnership arrangements. We regularly attend meetings of the Information Technology Investment Board, Commission on Technology and Science, and the Joint Commission on Technology and Science and their sub-committees. We provide them with information and review and comment on documents, as requested.

INFORMATION SYSTEMS SECURITY

Security of information gathered by and given to the Commonwealth is essential to prevent both intentional and unintended misuse of this data. Making sure that the Commonwealth has and uses the appropriate safeguards is the function of this Team.

Fiscal 2006 Accomplishments

VIRGINIA INFORMATION TECHNOLOGIES AGENCY

During 2006 we conducted two audits of the Virginia Information Technologies Agency (VITA). The first review assessed VITA's internal security and how it was addressing the assumption of the information infrastructure of the Commonwealth. The second review also addressed governance and other matters. Below is the portion of the second audit that reviewed the implementation of the statutory responsibilities as they address security.

Internal Security Assessment

Virginia Information Technologies Agency (VITA) has consolidated information technology efforts in the Commonwealth. One of VITA's main responsibilities is operation of information technology infrastructure for executive branch agencies and the Commonwealth's enterprise systems. Technology infrastructure includes hardware and its associated operating system and resides at VITA's data center and at customer agency locations.

VITA operates the Commonwealth's computer data center and the Infrastructure of the Commonwealth's enterprise systems. This report reviews VITA's policies and procedures placed in operation as of July 15, 2005.

We found VITA has not yet developed or implemented policies, procedures, or standards for information systems infrastructure. VITA has not reviewed or approved these agencies' policies, procedures, and standards, and therefore, does not know if they are sufficient to provide proper security. VITA lacks documentation of policies, procedures, and standards for routers and firewalls located at the data center. VITA updated its Risk Assessment and Business Impact Analysis in June. These documents identify critical and confidential resources and their associated risks, but do not reflect VITA's responsibility for infrastructure outside of the data center. Without these documents, VITA cannot ensure controls are in place to reduce identified risks and cannot ensure that the business recovery plan is sufficient to restore critical operations.

Implementation of Statutory Security Responsibilities

Our audit test work focused on the legislative intent behind the Code of Virginia sections applicable to VITA Security as well as provided a review of security over critical infrastructure and operating systems operated by VITA for certain Commonwealth agencies and the IT governance role of VITA. We approached our audit by reviewing applicable sections of the Code of Virginia, interviewing security and customer services employees, and examining standards and documents to gain an understanding of policies, procedures, and operating activities over VITA's security functions. We also reviewed planning activities to determine VITA's readiness to transfer operational security functions to Northrop Grumman.

With the creation of VITA as an agency, VITA assumed responsibility for IT operations, including ownership of all IT assets and management of the operations of all IT infrastructure components, such as desktops, servers, mainframes, and routers, for customer agencies that VITA serves. Under an agreement, Northrop Grumman will take responsibility for IT operations, own all IT assets as refreshed over the next three years, and manage the operations of all IT infrastructure components, such as desktops, servers, mainframes, and routers for customer agencies that VITA serves.

While we believe this arrangement can be successful, it is critical that VITA improve their IT security governance role. Starting July 1, 2006, VITA must give Northrop Grumman clear direction regarding needed security controls over VITA IT infrastructure, which Northrop Grumman must implement as part of operations. If VITA does not provide adequate information, there is a risk that the controls that Northrop Grumman implements will not provide adequate security to protect VITA IT infrastructure.

We continue to have concerns about VITA's ability to identify and meet the security needs for their IT infrastructure as they continue to operate in an agency-focused rather than Commonwealth-focused approach to security. Additionally, we found that VITA has yet to meet their security responsibilities as outlined in the Code of Virginia.

We are concerned because Security Services does not have a written, detailed plan that outlines all their initiatives, priorities, deadlines, and responsible parties. As a result, Security Services is at risk of working on initiatives that do not support their business objectives. In addition, Security Services may perform work that is unnecessary while not addressing other important needs.

Security Services has struggled to finalize security standards timely. For example, Security Services has been working for over a year to create a revised Commonwealth of Virginia security standard that improves upon the roles and responsibilities of the existing Commonwealth of Virginia security standard, COV ITRM SEC 2001-01.1. We reviewed and participated in meetings with VITA and other agencies to discuss their first draft of the revised standard. Generally, the participants agreed that the first draft was inflexible, overwhelming, and needed significant revisions. Security Services has continued to revise the draft, taking it through several iterations. They expect to issue a final standard by July 2006.

VITA continues to make efforts to bring its operational areas into compliance with security best practices and standards but it has failed to adequately develop, distribute, and enforce uniform procedures to protect the technology infrastructure owned by VITA.

VITA does not have a comprehensive and adequate plan of action to restore VITA's critical IT infrastructure should a natural or man-made disaster occur affecting the Commonwealth. We found that VITA has a formal plan for the infrastructure components within the Richmond Plaza data center but our audits of various agencies have found that many agency plans are outdated or incomplete. Since VITA is now responsible for the infrastructure components of the agencies it serves, including those in the Richmond Plaza data center, they need to develop a comprehensive plan.

Agency Security Findings

In addition to addressing security policies for the Commonwealth, we have also begun addressing the interaction of VITA and individual agencies. Below is a finding on the Department of Health, but we have issued similar points on a number of major agencies.

DEPARTMENT OF HEALTH

State policy makes the State Health Commissioner responsible for the security and safeguarding of all of Health's databases, information, and information technology assets. Over the past two years, the Commonwealth has moved the information technology infrastructure supporting these databases and

information to the Virginia Information Technologies Agency (VITA). As part of this transfer, Health also transferred many of the staff, who had the expertise to advise the Commissioner on these matters.

In addition to responsibilities under state policy, Health must also comply with the Health Insurance Portability and Accountability Act (HIPAA) and Homeland Security. HIPAA mandates actions and protections that anyone obtaining and maintaining medical information must take to safeguard and secure the data. In addition, Homeland Security has additional layers of security for data protection.

We believe that Health cannot solely ensure that their data has the proper level of security to protect it from unauthorized changes, disclosure, or loss. Since VITA has assumed responsibility for the information technology infrastructure, the Commissioner must have VITA provide assurance that their infrastructure would provide the safeguards to protect the databases and information under not only state policy, but HIPAA and Homeland Security requirements.

The Commissioner needs to evaluate Health's capabilities for determining the level of assurance needed from VITA. Since Health retains ownership and maintains the application systems and databases that gather information, the Commissioner's internal staff has full responsibility for access controls to these systems. If these systems operate in a shared environment, the provider of the services would need to inform the Commissioner of the adequacy of those controls. This shared environment is the same as the mainframe data center operation that VITA and its predecessors offered. However, for the transmission of information to and from the database, the Commissioner must address whether Health has the expertise to assess this issue. Inherent within this question is whether Health has the resources to maintain the level of expertise capable of adapting to the changing infrastructure environment. There are two potential approaches to this issue. The first assumes Health has the expertise and the resources to understand the changing infrastructure and can, therefore, specifically address all security needs. The second approach only requires that Health explain, in detail, the security needs for each of its systems and databases along with the access controls it currently provides. VITA then must provide the Commissioner assurance that the infrastructure provides the level and depth of security necessary to meet state policy, HIPAA, and Homeland Security.

Under the second approach, VITA and the Commissioner clearly share responsibility for the security of information and databases. It is our opinion that while Health may currently have the resources to undertake the first approach, the long-term change at VITA dictates that the Commissioner use the second approach. Additionally, we believe that VITA should at least annually provide these assurances in writing, so the Commissioner and Health can fulfill their responsibilities under HIPAA and Homeland Security requirements.

Background of the Information Systems Security Specialty Team

All of the Commonwealth's agencies and institutions use integrated systems operating on complex networks that allow for internal communication and data transmission, as well as communication with agencies, institutions, local governments, specific customers and the general public. Many of these networks allow each user multiple points of access to both the network and, more importantly, information on the network.

It is no longer possible to only review the controls over financial systems and believe that these controls alone will protect the assets of the Commonwealth. Agencies and institutions need to maintain security and limit access to their complex networks and applications that require the auditor to review the entire network and security since one hacker can compromise an entire department and potentially, a significant portion of the state government by penetrating one state agency's or institution's internet portal.

The goal of the Team seeks to ensure that adequate controls are in place to control access and security to systems. Team members receive highly technical training in technology and security. Team members have a variety of certifications including Certified Public Accountant, Certified Information Systems Auditor, and Microsoft Certified Systems Engineer. In addition, some members have years of experience in information technology operations.

Fiscal 2007 Projects

Statewide Assessment of Information Security - During the 2006 General Assembly session, Senate Joint Resolution 51, passed directing this Office to conduct a statewide assessment of information security. This assessment helps with our continuing security efforts and will provide an overview of the Commonwealth's security measures.

Ongoing Activities

The Team will continue to perform access and security reviews of all the major agencies and institutions. Several agencies have asked the Team to do penetration tests. Finally, the Team will continue to receive training and upgrade its software and equipment to do its work.

CAPITAL ASSET MANAGEMENT

The Capital Asset Management Team implemented a Facility Inventory and Condition Assessment System to determine the amount of deferred maintenance in the Commonwealth. The Team had oversight responsibility for the collection, analysis, and prioritization of the building assessment data needed to audit deferred maintenance costs. Agencies and institutions of higher education performed condition assessments on 5,269 buildings of the 10,449 buildings inventories in FICAS resulting in a $1.626 billion backlog of deferred maintenance. Based on the information collected, we made recommendations that can significantly change how the Commonwealth plans, budgets, and performs facility maintenance, renewal, and capital outlay to provide safer and more efficient facilities.

Fiscal 2006 Accomplishments

DEFERRED MAINTENANCE – FINAL REPORT

The Capital Asset Management Team issued its final report on Deferred Maintenance in December 2005. We discussed this report earlier in the section entitled "Long term Operational and System Considerations." During this two-year project, we researched best practices for the life cycle of a building, implemented a Facility Inventory and Condition Assessment System, oversaw the population of the system, and transferred responsibility for the system and the Building Assessment program to the Department of General Services as of July 1, 2006. We will continue to monitor the progress of this program and audit the information in the system to ensure that decision makers have accurate and reliable information with which to make capital funding decisions.

SUPPLIES AND MATERIALS AND CONTROLLABLE ASSETS

The Capital Asset Management Team issued a report in November 2005 on the review of the Commonwealth's supplies and materials and controllable assets. We reviewed the Commonwealth's policies and procedures relating to controllable assets and found them to be adequate and essentially mirror that of best practices. State agencies are tracking and recording their controllable assets in compliance with the Commonwealth's policies and procedures. We found that 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.

To improve overall supplies and materials management, we recommended that the Department of Accounts 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.

Since our report, the Department of Accounts developed policies and procedures for supplies and materials inventory as we recommended and published them in April 2006.

DEPARTMENT OF TRANSPORTATION

Transportation maintains and reports a majority of the Commonwealth's infrastructure, consisting of highways, bridges, tunnels, and right-of-way land, as well as a substantial portion of the Commonwealth's buildings and equipment assets. For fiscal year 2005, Transportation's total capital assets, net of accumulated depreciation, are $12.7 billion. These asset balances are included in the Commonwealth's Comprehensive Annual Financial Report (CAFR). The Capital Asset Management Team audits the capital assets at Transportation to support the audit of the CAFR.

For the last several years, beginning in fiscal year 2002, we have noted Transportation's deficiencies in the area of capital asset management and reporting. During 2003, we made specific recommendations for improvement in these areas, and Transportation developed an action plan to implement these recommendations. During fiscal years 2004 and 2005, Transportation continued to improve and refine their processes and define roles within their capital asset divisions. During fiscal year 2005, Transportation made significant progress towards implementing their action plan and, as a result, we have no findings to report related to capital assets for fiscal year 2005.

Objective of the Capital Asset Management Team

The Capital Asset Management Team's main objective is to ensure the proper management, control, and valuation of capital assets; infrastructure; depreciation; preventive, corrective, and deferred maintenance; leases and installment purchases; and historic treasures. This includes auditing all of the stages of the life-cycle of a building.

To enable the team to accomplish its objective, the team members receive training in all specialty areas. Specifically the team's goal is to have every member become a Certified Construction Contracting Officer. In addition, we receive training on the Commonwealth's fixed asset and lease systems and in the areas of accounting and financial reporting for capital assets, life-cycle analysis, facility maintenance and management, and project management.

By developing and retaining qualified and skilled staff, the team is able to support the Office in its requirement to audit the Commonwealth's Comprehensive Annual Financial Report and ensure agencies and institutions of higher education are properly managing and capitalizing their fixed assets, buildings, infrastructure, and leases.

Fiscal 2007 Projects

Audit of Deferred Maintenance – The Capital Asset Management Team plans to continue to audit the data in the Facility Inventory and Condition Assessment System (FICAS.) We will provide assistance in the transitioning of FICAS to the Department of General Services. The Team will work in conjunction with our Data Analysis Team to determine how to bring FICAS data into the Office's warehouse to enable the import of the data on a regular basis. Team members will participate as needed in any pilot funding program or other program to develop statewide policies over FICAS.

Study of Fleet Management – As a follow up to our 2004 report on Agency Owned Vehicles, the Capital Asset Management Team will determine the impact of the new Executive Order #89 and the new policies established by the Office of Fleet Management Services on the purchase and use of state owned vehicles. We will review the implementation of OFMS' new call center and maintenance program. We will review agencies that we identified with inefficient processes and controls over vehicles in our special report issued in June 2004 and determine the status of any corrective actions. Team members will review policies and procedures over licensing of state vehicles at the Department of Motor Vehicles. We will review contracts associated with vehicles and their maintenance to ensure adequate procurement and management.

Statewide Review of the Department of General Services – The Capital Asset Management Team in conjunction with members of the Acquisition and Contract Management Team will review operations at the Department of General Services and the statewide processes in which the Department participates or oversees. This will specifically include: the Bureau of Capital Outlay Management and its role and oversight responsibilities in the capital outlay process; the Division of Purchase and Supply and its role and oversight in the procurement of goods and services; and the Division of Real Estate Services and its increasing role in the administration and oversight of the Commonwealth's portfolio of land and buildings. We will compare current processes and controls with industry best practices to identify opportunities for improvements or increased efficiency. We will gather and maintain information such as statewide lists of contracts and construction projects for use on various agency audits. Finally, we will review controls and processes at the Commonwealth's Surplus Warehouse.

Working with Others

General Assembly – Throughout the Audit of Deferred Maintenance, the Capital Asset Management Team members have worked closely with members of House Appropriations and Senate Finance to develop a program that will meet the needs of the members of the House and Senate to enable them to make more informed decisions surrounding buildings and their funding. In the future, we will continue to participate in any pilot funding program or other program to develop statewide policies over FICAS.

Department of General Services – We will continue to work with General Services to transition responsibility for FICAS. We will assist agencies and institutions of higher education in making this transition as easy as possible.

Department of Accounts – The Capital Asset Management Team often consults with the Department of Accounts on policy changes related to capital assets, leases, and capital outlay.

Reporting and Standards

During 2006, the Office received its fifth unqualified peer review of our quality assurance process by the National State Auditors Association. The Reporting and Standards Team helps ensure the competence, integrity, objectivity, and independence in planning, conducting, and reporting the work of the APA.

Fiscal 2006 Accomplishments

REPORT ON THE SYSTEM OF AUDIT QUALITY CONTROL

The National State Auditors Association, recognized by the U.S. Government Accountability Office, conducted and concluded the fifth peer review of our quality assurance process. This process tests our ability to plan, conduct and report our audit findings in accordance with nationally recognized standards set by the American Institute of Certified Public Accountants and U.S. Government Accountability Office. We have this review every three years and we received our fifth unqualified report.

REVIEW OF THE STATE COMPTROLLER

As discussed earlier, we completed our final review of the operations of the State Comptroller as they relate to the Commonwealth's financial accounting and control operations practices. 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 the report, we describe areas for improvement and make specific recommendations such as increasing the use of technology, improving access to training, and consolidating Commonwealth business functions.

TELECOMMUNICATIONS TAX STUDY

The Joint Subcommittee to Study the State and Local Taxation of the Entire Telecommunications Industry and Its Customers within the Commonwealth has been reviewing ways Virginia could restructure its telecommunications taxes and fees. In reviewing this restructuring, the joint subcommittee recognized the need for more information on the revenue impact from existing state and local telecommunications taxes and fees. Therefore, the General Assembly requested that we collect information, before the 2005 Session, to determine whether the new tax structure will fully replace revenues provided to state and local governments by current telecommunications taxes and fees.

The results of our study found that projected revenue, based on maximum rates in the legislation, does not generate sufficient revenues to fully replace all revenues resulting from the current state and local taxes and fees that are subject to repeal. There is an estimated $34 million deficiency between the current revenue base of $391 million and the projected revenues of $357 million.

The 2005 General Assembly requested that we determine the amount of revenues received by every county, city, and town that is included in the annual Comparative Report for the fiscal year ending June 30, 2005, for the gross receipts tax in excess of 0.5 percent; the local consumer utility tax, video program excise tax, cable franchise fee, and the 911 taxes and fees. We performed analyses and other verification work to determine that the amounts reported by the localities are reasonable. The revenue collections from 170 reporting local governments for fiscal year 2005 totaled $425.8 million. In addition, the Wireless 911 Services Board reported receiving 911 fees totaling $38.9 million.

REVENUE STABILIZATION FUND CALCULATION

Annually, we are required to report on the required calculations for the Revenue Stabilization Fund including the certified tax revenues to be used in the calculation, the maximize size allowed, and the amount of the mandatory deposit to the fund. As a result of changes in the tax structure enacted by the 2004 General Assembly there have been increases and decreases in the taxes used to calculate the mandatory deposit into the fund.

The Virginia Constitution permits the exclusion, in whole or in part, of the growth in tax revenues resulting from increases in tax rates or the repeal of exemptions from the computation of the mandatory deposit for a period up to six years after the effective year of the change. For our November 1, 2005, certification we calculated the mandatory deposit under two alternatives: including and excluding tax increases and exemption repeals. We reviewed the process used by the Department of Taxation to determine the impact of the tax increases and exemption repeals to ensure the reliability of the information used in our calculation of the mandatory deposit.

PERSONAL PROPERTY TAX RELIEF ACT

Item 503 of Chapter 951 of the 2005 Acts of Assembly required the Auditor of Public Accounts to certify in writing by March 1, 2006, the actual payments to counties, cities, and towns for personal property tax relief for tax year 2004. The certified payments will determine each locality's pro rata share of the $950 million available for reimbursement pursuant to Chapter 1 of the Acts of Assembly of 2004, Special Session I, beginning in tax year 2006.

The Department of Motor Vehicles (Motor Vehicles) is responsible for reconciling personal property tax relief payments. Motor Vehicles provided us with reconciled reimbursement payments for tax year 2004 made during calendar years 2004 and 2005. Since towns have the option to accept the Department of Taxation estimate instead of submitting for reimbursement, Motor Vehicles also provided the tax year 2004 estimates for the accepting towns.

The amounts certified represent the actual tax year 2004 personal property tax relief payments made to each county, city, or town compared to the total of all payments to such counties, cities, and towns based on all tax year 2004 reimbursement requests received on or before December 31, 2005. We provided the Department of Accounts a schedule with each locality's pro rata share of the $950 million for tax year 2006 and thereafter.

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Annually the State Comptroller prepares a Comprehensive Annual Financial Report (CAFR) in accordance with Section 2.2-813 of the Code of Virginia. This report consists of management's representations concerning the Commonwealth's finances. We audit the CAFR in accordance with Section 30-133 of the Code of Virginia. Bond rating agencies and others use the CAFR to determine the financial condition and credit worthiness of the Commonwealth. The Team has primary responsibility for ensuring the completion of this work by December 15th of each year.

STATEWIDE SINGLE AUDIT

The *Single Audit Report for the Commonwealth of Virginia* discloses the Commonwealth's compliance with requirements applicable to major federal financial assistance programs. The Report provides the General Assembly and agency management with a means to determine how internal controls affect federal funds and whether agencies are complying with federal laws and regulations. The Team has responsibility for issuing this report by March 31st annually. We believe this report represents a significant indication of the sound fiscal operations of federal funds in the Commonwealth and should assist agency management in administering federal programs and enhance their dealings with federal agencies.

COMPARATIVE REPORT OF LOCAL GOVERNMENT REVENUES AND EXPENDITURES

The Comparative Report of Local Government Revenues and Expenditures presents data submitted by local governments. All Virginia counties, cities, towns with a population of 3,500 or more, and towns operating a separate school division are required to submit comparative data to our office annually. The data presented represents the local government operations for the general government and enterprise activities. We publish the Comparative Reports in a printed version each spring and make it available for viewing and downloading at www.apa.virginia.gov. The on-line version of the report includes amendments, where applicable, for localities that submitted their transmittal data after the deadline for inclusion in the original printed report.

To assist local governments and their independent auditors, we publish various manuals that we update annually. The *Specifications for Audits of Counties, Cities, and Towns* and the *Specifications for Audits of Authorities, Boards, and Commissions* provide guidance to local CPA firms. The *Uniform Financial Reporting Manual* provides accounting and reporting guidelines and instructions for the preparation and submission of Comparative Report transmittal forms. We also provide training periodically to local governments and their independent auditors on new auditing and accounting standards and on the preparation of Comparative Report transmittal forms. Annually, we perform quality control reviews of select audits of local governments to ensure auditors have performed their work in accordance with auditing standards.

Background of the Reporting and Standards Team

Performing audits in accordance with the professional standards, meeting the requirements of United States Government Accountability Office and ensuring that Commonwealth complies with the applicable accounting standards is the fundamental charge of the Reporting & Standards Team. In addition, the Team has primary responsibility for the Commonwealth's Comprehensive Annual Financial Report and the Statewide Single Audit of federal grants and contracts.

The Reporting & Standards Team helps to ensure the Office is following current accounting and auditing standards and adopts newly issued standards. The Team monitors the various standard setting bodies, such as the American Institute of Certified Public Accountants and the Governmental Accounting Standards Board. The Team reviews, analyzes the potential impact on the Commonwealth and the local governments, and communicates to the standard setting body the Commonwealth's concerns for its consideration. The Team also reviews new accounting and auditing standards to determine the effect they will have on the operations of the office and more importantly the Commonwealth.

For standards impacting the Commonwealth, the Team works with the State Comptroller and other agencies to implement the changes. In addition, the Team keeps local governments and their auditors informed of new standards and state compliance requirements through the *Uniform Financial Reporting Manual* and the *Specifications for Audits of Counties, Cities, and Towns* and the *Specifications for Audits of Authorities, Boards, and Commissions.*

The Team maintains the Office's Audit Manual and other practice aids used by our staff. The Team conducts internal reviews of our work to assure not only the quality of the audit work, but to improve our efficiency. Based on these reviews, the Team develops better audit tools and provides both group and individual training. In April 2006, our Office underwent a peer review, which involved auditors from other states reviewing the working papers and reports for a sample of audits we performed in the last year. The reviewers reported that we fully comply with the accounting and auditing standards, and did not have any comments of areas for improving our internal processes.

Fiscal 2007 Goals

In addition to completion of the audit of the Commonwealth's Comprehensive Annual Financial Report, the Statewide Single Audit, and the preparation of the Comparative Report of Local Government Revenues and Expenditures, we plan to be involved in several other projects.

Telecommunications - Chapter 780 of the 2006 Acts of the Assembly requires that the Auditor of Public Accounts determine the amount of revenues received by every county, city, and town for the fiscal year commencing July 1, 2005, and ending June 30, 2006, at rates adopted on or before January 1, 2006, for each of the following taxes and fees collected by the service providers: gross receipts tax in excess of 0.5%, local consumer utility tax, video program excise tax, cable franchise fee, and 911 taxes and fees, where they are collected.

Based on each locality's percentage of the total Fiscal Year 2006 receipts from these sources, we must calculate each locality's percentage share of future distributions of the Telecommunications Sales and Use Tax by the Department of Taxation. We will report our findings on a tax-by-tax basis to the chairmen of the House and Senate Finance Committees and the Department of Taxation no later than December 1, 2006. Further, we will collect annually from local governments and service providers the necessary data to determine changes in: (i) market area and number of customers served, (ii) types of services available, (iii) population, and (iv) possible local reimbursement and report our findings to the Chairmen of the House and Senate Committees on Finance no later than December 1 each year.

Money Received by Sheriffs - Chapter 3 of the 2006 Virginia Acts of Assembly Special Session I requires updating the specifications of the Auditor of Public Accounts for the independent certified public accountants auditing localities to include requirements for any money received by the sheriff. These requirements will include that the independent certified public accountant must submit a letter to the Auditor of Public Accounts annually along with the locality's audit report providing assurance as to whether the sheriff has maintained a proper system of internal controls and records in accordance with the Code of Virginia.

OPEB - The Governmental Accounting Standards Board (GASB) issued statements to establish financial reporting standards for post-employment benefits other than pensions. We briefed the General Government Subcommittee of the Senate Finance Committee on the background and possible consequences of the implementation of these accounting standards in the Commonwealth. We will continue to ensure legislators are aware of the needed policy decisions as a result of the new standards and work with the Department of Accounts to ensure the Commonwealth properly implements these standards. We will also provide guidance to the local governments in their accounting and reporting for these benefits as they implement the standards over the next three years.

New Standards - The American Institute of Certified Public Accountants (AICPA) recently issued several new auditing standards designed to improve the quality and effectiveness of audits. The new standards require a more in-depth understanding of the audited entity and its environment, including its internal controls. The auditor then uses this knowledge to identify the risk of material misstatement in the financial statements (whether caused by error or fraud) and what the agency is doing to mitigate these risks. The auditor then develops audit procedures based on the risks identified and any controls the agency has established to mitigate the risks. In response to these new standards, we will review how we approach our audits, update our audit manual and audit tools, and train our staff in the changes that are necessary.

The AICPA also issued a standard for communicating matters related to an entity's internal control over financial reporting observed during an audit of financial statements. This standard classifies control deficiencies as either other matters, significant deficiencies, or material weaknesses,

depending on the potential for misstatement and the auditor has less room for judgment as the standard provides specific examples regarding classification of internal control deficiencies as significant and material weaknesses.

Generally, the new standard will not affect either the quality or quantity of internal control matters we will report. However, the standard specifically addresses deficiencies over financial reporting observed during an audit of financial statements such as audits of colleges and universities and the audit of the Commonwealth's Comprehensive Annual Financial Report.

Therefore, on these audits we will be required to evaluate internal controls over financial reporting based on the new standards. For example, if we make material adjustments to the financial statements, we will need to determine if the entity has controls to identify and record the adjustment. If the entity does not have adequate controls in place, this is an indicator that a material weakness exists. Material findings can ultimately affect a college or university's ability to participate in decentralization. We are meeting with each agency and providing them guidance for preparing for this new standard.

DATA ANALYSIS

Commonwealth Data Point was a joint development effort of the Data Analysis and Network Operation Teams. Commonwealth Data Point allows citizens, legislators and other policy makers access to a comprehensive source of financial and statistical data on the operations of the Commonwealth of Virginia.

Fiscal 2006 Accomplishments

COMMONWEALTH DATA POINT

Commonwealth Data Point includes state and local government budget, expense, revenue, and demographic information. This information is easily available through a series of drill down menus and is exportable to spread sheets and databases. Users also have the ability to query the data base for specific information.

COMMONWEALTH TRANSPORTATION FUND

This 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 issued a separate audit report on the Department of Rail and Public Transportation 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.

Objective of the Data Analysis Team

Data Analysis strives to develop and teach techniques that allow the Office to conduct cross cutting queries and analysis. The team also attempts to identify potential fraud, waste, and abuse indicators while improving project efficiency.

The team supports the office's statewide audit approach by utilizing technology and computer-assisted auditing techniques to establish a risk-based approach to prioritize projects. Various statistical sampling techniques, together with stratification and summary reports, provide the auditor a statistical basis on which to evaluate an entity's operations. Data Analysis also produces reports, performs comparisons, and other procedures to detect errors or irregularities. Working closely with other audit staff, Data Analysis regularly develops new computer-assisted audit techniques.

To ensure a comprehensive approach to auditing, the Data Analysis team is striving to establish tools and methodologies that continuously monitor systems and internal controls throughout the Commonwealth. This

includes creating ongoing processes of acquiring, analyzing, and reporting on business data to identify and respond to operational and business risks.

Fiscal 2007 Projects

Commonwealth Data Point - The team will continue to maintain and improve Commonwealth Data Point. The Team will update the internet database quarterly with agency financial information, and annually with demographic data. The team will also strive to incorporate other data on a regular basis into the public database, as well as improve on the accessibility of data already contained within the database.

Payroll Data Warehouse Redesign - This project will revamp our current procedures for gathering, and analyzing payroll data. In coordination with our Network Operations team, the team will evaluate and restructure our current warehouse. This restructure will help analysis time and efficiency by eliminating empty and inconsistent fields. After the restructure, the team will perform analysis of the data, and create new trend and trigger reports to better focus audit procedures.

Court Data Warehouse Redesign - This project will reevaluate the current Court data retrieval procedures. This includes data from the Supreme Court's Financial Management System and Case Management System. We will coordinate the new data retrieval procedures with the Supreme Court.

Small Purchase Charge Card - During fiscal 2006, the Commonwealth contracted with a new vendor to administer the state's Small Purchase Charge Card Program. The Data Analysis team, in cooperation with the Acquisition and Contract team, proactively monitored the impact of this change on the tools and audit procedures developed and applied to the previous administrator's small purchase charge card data. The team began receiving new data sets at the end of the fiscal 2006. During fiscal 2007, the team plans to develop computer-assisted audit tools to analyze and interpret this data on a statewide, agency and user level.

ACQUISITION AND CONTRACT MANAGEMENT

During 2006 the Commonwealth entered into two Public Private Education and Infrastructure Act of 2002 (PPEA). Over 10 years, it is estimated that these agreements will have value of over $3 billion.

Fiscal 2006 Accomplishments

PUBLIC PRIVATE EDUCATION AND INFRASTRUCTURE ACT

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 both in 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 the 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.

Background of the Acquisition and Contract Management Team

Over 100 Commonwealth agencies and institutions actively manage their own purchases of goods and services and capital budget programs. Providing guidance for this process are DGS and DOA. Additionally, the Commonwealth has a statewide online procurement system, eVA, but at the same time continues to delegate additional responsibilities and duties to individual agencies and institutions.

Using this approach to purchasing and capital budgeting, team members monitor changes in procurement laws and regulations and keep current on other acquisition and contract management issues in the Commonwealth, in other states, and on the federal level. The Team uses their knowledge and experience to identify, evaluate, and report on procurement issues.

Fiscal 2007 Projects

Purchasing Cards - Although purchasing cards is not a new process within the Commonwealth, the Departments of Accounts and General Services are expanding their use to eliminate any direct payments to vendors. We believe that this expansion with the current control process expands the risk to the Commonwealth. We plan to conduct a series of structured reviews which builds on our normal audit routines review statewide policies, individual agency practices and recognized best practices. We will be working with our Data Analysis team to develop methods to identify and monitor potentially risky practices.

Contract Monitoring - The Team will actively monitor both the State Police STARS radio system replacement and the oversight of the Northrop Grumman VITA contract and prepare periodic reports on the oversight of these contracts.

Ongoing Activities - The Team will continue to monitor and track changes to the Agency Purchasing and Surplus Property Manual, the Capital Outlay Manual, and Virginia procurement laws. We will also review changes in the Commonwealth Accounting Policies and Procedures manual affecting the SPCC and travel card programs and any other procurement areas that can affect acquisition and contract management.

Budgeting and Performance Management

In state government, there is a very close relationship between budgeting, accounting and financial reporting. The budget is the mechanism for allocating resources and is the cornerstone of a government's financial management system. Additionally, in today's world, there is an increased emphasis on governmental accountability and performance management. Our team strives to use our specialized knowledge in budgeting and performance management to identify, evaluate and report financial management issues in the Commonwealth.

Fiscal Year 2006 Accomplishments

OFFICE INTEGRATION OF BUDGET INFORMATION INTO RISK ASSESSMENT PROCESS

Recognizing the significance of the budget in the Commonwealth's financial management and reporting processes, this team has been working for several years to further integrate budget information into our projects and work plan development. This year, we analyzed the budget proposals for fiscal years 2006 through 2008 to identify areas of potential risk for the Commonwealth and develop projects for our upcoming work plan. Our intent here is to have a proactive approach to identifying issues and planning our future projects. As a result of this process, we identified some new projects for the work plan as well as issues we will monitor in upcoming years.

In addition, we have expanded our budget analysis for individual agencies such that we are now performing an annual analysis for most agencies. Project teams use this analysis when planning individual audits, evaluating financial results and reporting audit results. Using budget information in our analysis has improved our ability to analyze financial activity, both in the current and future years, and increased the effectiveness of our reports. Most of our performance reports now include some type of budget and actual reporting, allowing the reader to evaluate actual results versus budgets.

REVIEW OF BUDGET AND APPROPRIATION PROCESSING CONTROL SYSTEM

Annually, we review controls administered by the Department of Planning and Budget over the budget and appropriation processing system. The main objectives of our review are to ensure that budget adjustments processed by Planning and Budget are approved, documented and in compliance with the approved budget. In fiscal year 2005, Planning and Budget processed over 5,500 budget adjustments with a net effect on the budget of over $3 billion.

Our 2005 review included a recommendation to strengthen access procedures over the system used to process budget adjustments which resulted in the implementation of some new procedures to better monitor system access. In addition, we also recommended Planning and Budget improve their review and documentation of budget adjustments which increase appropriations when non-general fund revenue collections are more than anticipated. This recommendation resulted in new procedures and additional training for Planning and Budget analysts.

REVIEW OF PERFORMANCE MEASURES

Virginia Results is an internet website that provides information for both citizens and decision makers on government activities. The Department of Planning and Budget maintains Virginia Results and makes sure that it contains strategic planning and performance measure information for all executive branch agencies. Planning and Budget, in collaboration with the Council on Virginia's Future, is transitioning on the Virginia Results to the Commonwealth's new budget and performance management structure and is re-designing the internet website.

We performed our annual review of Virginia Results' performance measures for completeness, accuracy and understandability. Our review this year was limited to a smaller population of performance measures as we considered only those measures that transferred to the new system. Our review found improvements in the accuracy, completeness and quality of the performance measures reported on Virginia Results. Our report did make recommendations including clearly defining the role of Planning and Budget in the process, and planning for the long-term leadership of the Commonwealth's performance management system. As the Commonwealth moves to a new performance management structure that links budgeting and strategic planning, the emphasis on performance measures information as a means to evaluate performance will increase. Therefore, the reliability and the understandability of the information is essential.

Our review this year also included the capital project performance measures reported biennially in the Governor's Six-Year Capital Plan. Our report included two recommendations for improving the quality and availability of this information for capital projects.

ASSISTANCE TO THE COUNCIL ON VIRGINIA'S FUTURE

We continued to provide assistance to the Council on Virginia's Future as they direct long term planning and performance management efforts in the Commonwealth.

Upcoming Projects and Issues for Fiscal Year 2007

New Budgeting and Financial Reporting Structure - For fiscal year 2007, the Commonwealth is implementing a new budgeting and financial reporting structure. This change is the result of efforts of the Department of Planning and Budget, in collaboration with the Council on Virginia's Future, to transition to a new structure that will provide a stronger link between budgeting and performance management. One of the more significant impact of this change will be the effect on our ability of analyze financial results between fiscal years 2006 and 2007.

Review of the Non-General Fund Revenue Forecasting Process - We will review procedures over the forecasting and monitoring of non-general fund revenue collections. Estimated Non-general fund revenues for fiscal year 2006 were almost $17 billion, making up more than half of the Commonwealth's budget.

Review of Performance Standards at Higher Education Institutions - As part of the Higher Education Restructuring initiatives, the State Council on Higher Education (SCHEV) has developed educational as well as administrative and financial performance standards for the higher education institutions. We will review the benchmarks and targets for each standard for reasonableness and consistency among the institutions.

Review of Budget and Appropriation Processing Controls - We will perform our annual review of statewide budget and appropriation processing controls in conjunction with our annual audit of the Commonwealth's Annual Financial Report.

Review of Performance Measures - We will perform our annual review to determine that state agencies are providing and reporting appropriate information on financial and performance measures, and to review the accuracy of the management systems used to accumulate and report the results. The Code of Virginia mandates this review.

Council on Virginia's Future - We will continue to provide assistance to the Council on Virginia's Future.

FINANCIAL MANAGEMENT

Virginia's Museums have the collective responsibilities of preserving, interpreting, and promoting history, culture, the arts, and sciences throughout the Commonwealth. Virginia's Museums receive a variety of funding to cover the expenses in their efforts to meet these responsibilities including general fund appropriations and special revenue which includes entrance fees, gift shop revenue, gifts, and related foundation grants and loans. Our review of Virginia's Museums found that all museums, with the exception of two, cannot meet payroll obligations using current general fund appropriations. As a result, there is a significant reliance on special revenues for operational expenses.

Fiscal Year 2006 Accomplishments

VIRGINIA'S MUSEUMS

This report contains the results of our combined audit of the following museums*:

Science Museum of Virginia	Gunston Hall
Virginia Museum of Fine Arts	Jamestown Yorktown Foundation
Frontier Culture Museum of Virginia	Virginia Museum of Natural History

* We refer to these agencies collectively throughout the report as Virginia's Museums.

The Science Museum of Virginia has unpaid vendor bills and operating loans from its foundation totaling $777,341 or approximately 10 percent of its annual revenues. Our audit of Virginia's Museums found that all the museums, with the exception of two, have annual payroll expenses that exceed current general fund appropriation, and as a result, have a significant reliance on special revenues for operational expenses. However, three of the six museums missed their estimated special revenue collections in excess of 10 percent. As a result, Virginia's Museums incur the risk of having operating deficits similar to the Science Museum.

In addition, the lack of funding has resulted in the Museums having small administrative staffs that by their nature does not provide for a good internal control structure. The best resolution for this issue is the sharing of general operating functions such as accounting, purchasing, payroll, marketing, development, reservations, and human resources. This structure allows smaller organizations to concentrate on their primary service delivery functions while improving internal controls like segregation of duties and minimizing operating costs. The savings gained from this sharing could improve the Museums' financial health and provide additional needed funding for exhibits, maintenance needs, debt, or the initiation of capital campaigns.

Historically, the Museums have been reluctant or opposed to any form of administrative sharing of resources and have cited their independent boards, management structure, dispersed locations, and differing mission as reasons not to attempt this sharing. The long-term financial health of all of these entities depends on a rational approach to their common administrative and operating needs. Only the Virginia Museum of Fine Arts has the depth of financial resources for long-term sound stability, however, this assumes that the Commonwealth will contribute its current support and increase that support to maintain the new capital construction it has undertaken.

Background of the Financial Management Team

The Team's overall objective is to reduce the level of financial management risk by auditing the cash, investments, and long term debt of the Commonwealth. However, as indicated above the Team also reviews the overall financial operations of like organizations.

The Financial Management Team developed a statewide approach to audit cash and investments, long term debt, and self insurance funds for the Commonwealth Annual Financial Report (CAFR). Our cash and investments audit work concentrates on the entities holding the most significant amounts: the Virginia Retirement System; the University of Virginia Investment Management Company; the Virginia College Savings Plan; and Treasury. Our long term debt audit work is concentrated at the Departments of Treasury and Transportation. Our self insurance audit work is concentrated at the Departments of Human Resource Management, Treasury's Division of Risk Management, and the Virginia Retirement System. In the future, we anticipate that this statewide approach will also facilitate relevant and easily understood reporting of the financial management issues in these areas.

Fiscal 2007 Projects

Virginia's Museums - The Team will continue to monitor the financial condition for the various museums. We will especially review the progress the Science Museum is making to address its long term financial condition.

Higher Education Debt Capacity - The Appropriation Act includes language for a review of institutions of higher education debt capacity and the effect affiliated organizations have on this debt capacity.

Ongoing Activities

New team members will continue to work on obtaining certification as Certified Investment and Derivative Auditors. This work coupled with continuing education on investment instruments, strategies, and policies will allow the Office and the Team to remain current with the ever-changing investment and municipal debt markets.

Higher Education

The Higher Education Specialty Team coordinates the audits of the fourteen state-supported colleges and universities and the community college system. All higher education institutions received unqualified audit opinions on their financial statements for the year ended June 30, 2005. We did have recommendations for improvement in internal controls for several universities.

Fiscal Year 2006 Accomplishments

Longwood University – Interim Report

During the audit of fiscal year 2004 for Longwood University (University), we encountered problems in conducting our examination. Contributing to these problems were University vacancies and other personnel issues. In dealing with these problems, we worked with University management and staff, and while we did not complete the audit for fiscal year 2004 as originally planned, we believed it was in the best interest of the University and the Commonwealth to provide an interim report of our findings so that management and the Board could begin to address these issues. We issued an interim report dated July 15, 2005.

All of Virginia's colleges and universities experienced budget cuts during fiscal years 2002 through 2004 and many responded by reducing administrative positions. Longwood University first reduced administrative costs and only reduced educational programs when absolutely necessary. In addition to the budget cuts, management experienced staff turnover, which was compounded by the excessive time spent finding and recruiting new staff and managers.

The University was in the position of having to address three fundamental issues in order to move forward. The first was ensuring that daily operational functions such as revenue collection, payroll, vendor payments, and student billing were completed and properly recorded. Second, management needed to determine if it had sufficient resources to continue its system implementation efforts and where it should concentrate these efforts. Finally, how would the University systemically address the issue of preparing the information and other needed data for financial statements for fiscal year 2005 and then 2004.

Ensuring that daily operational functions were completed and properly recorded would provide integrity to the financial information. To achieve this, management needed to conduct a review of all year end reconciliations and transactions for reasonableness and make any necessary adjustments to the accounting system and/or CARS before month end close for fiscal year 2005. During the first few months of fiscal year 2006, management needed to define all daily, monthly, and annual processes to ensure the correct recording and budgeting authorization of all transactions. In addition, management needs to ensure the continuity of completing all reconciliations, including a review by knowledgeable staff and posting of all necessary adjustments to the accounting system and/or CARS in a timely manner.

Once management was comfortable that the University could record, properly authorize, and reconcile all transactions timely, they needed to determine if there were sufficient resources to continue the University's system implementation efforts and where to concentrate their efforts. Management needed to determine the cost effectiveness of allocating resources to documenting policies and procedures for processes that use the current general ledger system or waiting to develop policies and procedures for the processes that will use the new general ledger system. The results of this decision would dictate the implementation schedule for the new accounting system. Management was to consult with the system project manager and system vendor when making this decision.

After defining processes, ensuring they are working, and setting the direction and timetable for changes related to the system development effort, management needs to begin systematically reviewing and preparing the information necessary to produce the financial statements for fiscal year 2005 and then 2004. This process will need to strike a balance between maintaining current operations and the new system development effort. While this process is a major milestone in the University's plan to address these issues, these financial statements will not have the same long term benefit to the University that having accurate current financial information and a new system will yield.

Furthermore, because maintaining policies and procedures is not normally a priority of any operation, they tend to become dated and of limited use. We recommended that the Board of Visitors and management have the internal auditor include a periodic review of these policies and procedures that cycle through the entire document over a three to five year period.

RESULTS

In completing our audit for the years ended June 30, 2004 and 2005, we found that University management had addressed the specific findings in our interim report. The University continues to develop policies and procedures and address staffing levels and workloads in response to our recommendations. As the University implements the new financial system (BLISS project) and they find the need to change policies and procedures, management should ensure that departments properly update and document the new policies and procedures.

Management must continue to provide the necessary resources, cross-training, and commitment to providing accurate and timely financial reporting to the Board and other stakeholders. As other institutions have experienced, the year of implementation of the new financial system places additional demands on the financial and accounting staff. Management must closely monitor these demands along with the issues discussed above to ensure the University continues to progress in developing the appropriate policies and procedures, maintaining proper internal controls, and preparing accurate and timely financial statements.

The Higher Education specialty team members work with other specialty teams to complete the financial statement audits for higher education institutions. The higher education specialty team's work concentrates on the student financial aid programs, research and development, NCAA agreed-upon procedures, internal control policies and procedures, and financial reporting.

This year, the higher education team focused on ensuring the institutions documented and followed appropriate policies and procedures including controls over financial reporting. We recommended that several institutions improve controls over their financial statement preparation process. We also recommended improvement in policies and procedures over information systems security, accounts receivables, small purchase charge cards, human resources, and reconciliations.

The American Institute of CPAs (AICPA) issued a new auditing standard on "Communication of Internal Control Related Matters Noted in an Audit." This standard incorporated new definitions of internal control deficiencies, provides guidance in evaluating control deficiencies, and identifies specific types of significant deficiencies and material weaknesses. We are communicating the impact of this new standard to the institutions' Boards of Visitors and management.

NCAA REPORTS

The National Collegiate Athletic Association (NCAA) issued revised agreed-upon procedures guidelines for higher education institutions. These guidelines required additional review of controls and procedures over

revenues and expenses, and new reporting disclosures. The guidelines also required the completion and presentation of reports to the chief executive on or before January 15 following the end of the institution's fiscal year. The higher education team worked with the institutions to ensure we issued the reports by the new deadline.

Objective of the Higher Education Team

The Higher Education Specialty Team provides guidance to auditors performing higher education audits as to the special nature of college and university business operations and develops a core of knowledgeable auditors to assist in the completion of these audits. By specializing in higher education audits, team members develop best practices both in audit planning and techniques for these audits and in the financial operations of colleges and universities. The team provides training and guidance on higher education financial reporting and compliance issues, as well as current industry changes. The team also provides specific guidance on Student Financial Aid and Research and Development programs, and NCAA compliance issues.

The team continues to enhance its webpage within the APA intranet for use of the team members and other teams involved in higher education audits. This page provides helpful information, audit tools, links, and updates on higher education activities.

Higher Education Projects

Auxiliary Enterprises Operations Project – The higher education team is finalizing its Report on the Auxiliary Enterprises Operations. Each institution operates a variety of auxiliary enterprises including dormitories, dining, parking, telecommunications, student centers, and many more. This project reviews the definition of an auxiliary enterprise, examines the current fee structure and reserves within these operations, and evaluates the current reporting model. We have analyzed the institutions' auxiliary enterprises activities using NACUBO and SCHEV guidelines and the resulting year end balances with a comparison between Virginia's public colleges and universities. We are working with several institutions in reviewing our findings and recommendations and plan to issue this report in the fall of 2006.

Review of One-Card Systems - Most institutions have implemented one-card systems for use by the students. These cards can act as the students' meal card, debit card with merchants and vending operations, their key to dormitories, as well as perform other functions. We will finalize this project, which includes a review and comparison of controls, policies, and procedures of the one-card systems, and issue our report this fall.

Restructured Higher Education Financial and Administrative Operations Act – The 2005 General Assembly passed this Act, which provides incentive performance benefits to certain public institutions of higher education that meet the financial and administrative management standards. During the 2006 General Assembly, we reviewed the legislation providing management agreements between the Commonwealth and three institutions. We are monitoring the effects of the Act and these management agreements, and determining the Office's role in ensuring the institutions are meeting the legislative requirements.

Banner Systems – The Higher Education team continues working with the Data Analysis and Information Systems Development Teams to evaluate the implementation of the Banner System for determining data retrieval and analysis functions available for audit purposes. Three more institutions are implementing the Banner System beginning in fiscal year 2007, bringing the total to nine institutions using this financial system and its associated modules.

Debt Analysis for Higher Education Institutions – The Higher Education team will work with the Financial Management team to determine whether the Commonwealth should develop debt capacity guidelines for Virginia's public institutions of higher education. The project will analyze the debt for the institutions, consider the debt issued and paid by the Commonwealth on behalf of the institutions, and evaluate the potential impact of affiliated organizations on the institutions' debt capacity. We will issue a report on the results of our analysis to the Chairmen of the House Appropriations and Senate Finance Committees and the Debt Capacity Advisory Committee by December 1, 2006.

Working with Others

The Higher Education Specialty Team presents training to the Financial Officers of Colleges and Universities (FOCUS) and the College and University Auditors of Virginia (CUAV). This year's presentations included new accounting and auditing standards, financial reporting issues, revised NCAA agreed-upon procedures, and Data Point.

The team works with management of the individual institutions on issues facing such as internal control matters, financial reporting topics, and federal and state compliance requirements. The Office's Budgeting and Performance Management and Higher Education teams continue to coordinate its efforts with the State Council of Higher Education in Virginia (SCHEV) on financial issues affecting higher education as well as determining our responsibilities for the Higher Education Restructuring Act.

The Higher Education Team works with the Reporting and Standards specialty team on changes in auditing standards and accounting principles that affect higher education. We monitor the activities of the following higher education professional organizations - the National Association of College and University Business Officers (NACUBO), the Association of College and University Auditors (ACUA), and the National Association of Student Financial Aid Administrators (NASFAA).

Judicial Systems

The statewide court audit reports identified specific training opportunities for court clerks to address issues relating to court accounting and management issues.

Background of the Judicial Systems Team

The Judicial Systems Specialty Team promotes sound financial management and accountability for public funds through audits of the various courts and related agencies that comprise the Judicial Branch of Virginia's State Government. The Team has five regional groups visiting the more than 320 individual circuit, district, and juvenile and domestic relations courts throughout the Commonwealth at least biennially. Our audits' objectives include determining whether the internal controls are adequate to ensure accurate and timely entry of financial transactions in the courts' automated information systems; ensuring that internal controls are adequate to provide proper safeguarding and distribution of financial assets; and testing compliance with certain laws and regulations. In addition, Team members are responsible for auditing 132 local constitutional officers (state accounts) and General Receiver audits annually. Finally, with two specialty team members on the office's Fraud Task Force, we investigate reports of suspected fraudulent activity in operations of courts and local constitutional officers.

The Judicial Systems Specialty Team also specializes in six specific areas, which include accounts receivable, magistrates, FMS/CMS, general receivers, data retrieval and legislation. Auditors specializing in these areas act as consultants to peers and management when questions arise regarding the judicial branch of Virginia's Government.

Fiscal 2006 Accomplishments

VIRGINIA COURTS STATEWIDE REPORTS

The Judicial Specialty team issued 289 court audit reports from July 1, 2005 – June 30, 2006, which identified six statewide issues as common to several clerks offices. We summarize and report these issues in the annual statewide circuit and district court reports.

As a result of our recommendations in the reports, the Executive Secretary of the Supreme Court and the Education Committee of the Virginia Clerks Associations, in collaboration with this office, developed and presented specific training to clerks at regional meetings. In addition, this office held a training session with newly appointed clerks to educate them on the audit process, audit program and common issues found within the clerks' offices. Due to this continued process and the circuit court audit reporting requirements mandated by the 2004 Appropriations Act, we have noted a corresponding reduction in the recurrence of audit findings.

Fiscal 2007 Goals

Total Cost to Fund District and Circuit Courts – The Judicial Systems Team will gather relevant information to report on the total revenues and expenses of the Circuit and District Courts. The report will include both state and local government expenses for the courts.

Statewide Court Systems Review – The Judicial Specialty Team in conjunction with the Data Analysis and Information Systems Development Specialty teams will continue to gather information to report on the statewide court systems. The report will include supervisory responsibilities of the Supreme Court over systems for the various courts, how courts report data to the Supreme Court, current systems used by courts, implementation of new systems, and enhancements of old systems. We plan to draft a report for issuance by December 2006.

Social and Medical Services

The Department of Medical Assistance Services (DMAS) uses six different Utilization Units (Units) to perform reviews of providers and recipients receiving payments and benefits, from the state's $5 billion Medicaid program. These Units are DMAS primary oversight function in determining both the cost and appropriate level of service.

Our team found inconsistencies across the various Units, including some Units that do not have sufficient resources to complete their work or lack sufficient information for us to determine what work the Units performed. Management is currently working on a multi-year plan that will implement our recommendation to develop a system-wide strategy for the Utilization Units. Preliminary feedback from management indicates that monetary returns are exceeding the increased investments into the Utilization Units.

Fiscal 2006 Projects

VIRGINIA DEPARTMENT OF SOCIAL SERVICES (DSS)

DSS administers $1.5 billion worth of programs using more than 50 different systems and 120 locally-operated social services agencies. System access plays a major part in providing adequate internal controls over the Commonwealth's resources. Our audit found several instances where terminated employees still had access to systems after separation.

Furthermore, we found the Department's listing of local employees to be inaccurate. As a result of our findings, DSS is in the process of developing a System Access Management System to improve access to its information systems by comparing system access to other department records. In addition, DSS plans on enhancing its current local employee tracking system and policies to maintain a more up-to-date local employee listing.

SPECIAL REVIEW OF THE ASSISTIVE TECHNOLOGY LOAN FUND AUTHORITY

As discussed earlier in the report, we completed a special review of questionable items at the Authority. Based on our recommendation, the General Assembly passed legislation to make the Authority an agency of the executive branch of government within the Secretary of Health and Human Resources. In addition, the General Assembly passed legislation requiring the Authority to have an annual audit requirement. We believe that both of these changes will provide the Authority with greater governance and oversight to prevent future questionable items.

VIRGINIA OFFICE FOR PROTECTION AND ADVOCACY

Virginia Office for Protection and Advocacy (Office) is an independent state agency, which relies on its Board to provide oversight. We found the Office and the Board were operating with a minimal amount of polices and procedures. We made recommendations for the Office and the Board to strengthen and document their policies and procedures so they clearly communicate duties and responsibilities to ensure the Board is holding the Office accountable and providing adequate oversight. The Office and the Board are working to address our recommendations.

DEPARTMENT OF VETERANS' SERVICES

Our 2005 report recommended that the Department of Veterans' Services (Department) document its policies and procedures and begin the process of having a base line to evaluate its internal controls. In fiscal 2006, the Department used former state financial officers to assist in addressing its accounting and internal control system needs. However, on-site managers were providing inconsistent supervision and failing to monitoring controls necessary to address the Department's financial operations. As a result of our report, the Department has begun a comprehensive corrective action plan that requires organizational, personnel, budget, and system changes.

Objectives of the Social and Medical Services Team

Every year the Commonwealth spends billions of dollars on its social and medical programs. These programs are not only financially important to the Commonwealth's Comprehensive Annual Financial Report, but in a larger part, are funded through federal grants. These federal grants require that the Commonwealth establish controls that ensure the programs comply with grant requirements. Much of the Social and Medical Services Team's year is devoted to making certain that the Commonwealth's social and medical programs are accurately reflected in the CAFR, and that the programs have the proper controls in place to ensure they continue to receive federal funding. We follow-up on issues reported in the prior year and determine if management has taken adequate corrective action.

Fiscal 2007 Projects

In addition to following-up on prior findings and testing social and medical programs for the CAFR and federal requirements, the team will also work on the following special projects:

> **Personal Care Services** - To determine whether additional collaboration possibilities exist in personal care services among the Commonwealth's social and medical service agencies.
>
> **Health Insurance Portability and Accountability Act (HIPAA)** - To determine the impact of HIPAA on the VDSS operations

Fraud

Upon the discovery of circumstances suggesting a reasonable possibility that a fraudulent transaction has occurred involving funds or property under the control of any state department, court, officer, board, commission, institution or other agency of the Commonwealth, including local constitutional officers and appointed officials exercising the powers of elected constitutional officers, as to which one or more officers or employees of state or local government may be party thereto, the state agency head, court clerk or local official in charge of such entity shall promptly report such information to the Auditor of Public Accounts and the Superintendent of State Police. Section 30-138 of the Code of Virginia.

During the course of the year, in accordance with the above statute, we receive reports of circumstances indicating a reasonable possibility of fraudulent transactions. This Office conducts an initial review of all reports and depending on the nature and circumstances determines how best to proceed. The majority of reports and related situations result in this office and State Police coordinating our activities with agency, institution and locality officials, primarily internal auditors and local law enforcement. The tables below outline the volume of activity we had reported during fiscal years 2004 through 2006.

Fraud Reports

	FY 2006	FY 2005	FY 2004
Outstanding cases at beginning of fiscal year	28	45	44
New reports	46	49	59
Closed reports	(52)	(66)	(58)
Active cases at end of fiscal year	22	28	45

The following table provides a breakdown of the new reports received during the fiscal years 2004 through 2006 by type of entity.

New Reports

Entity	FY 2006	FY 2005	FY 2004
Courts	3	2	4
Local Governments	1	7	2
Institutions of Higher Education	14	14	18
State Agencies	28	26	35
Total	46	49	59

During the year, we were able to resolve and close a number of reports. The breakdown of this resolution follows.

Closed Reports

Disposition	FY 2006	FY 2005	FY 2004
No Conviction	45	50	2
Conviction	2	3	6
Conviction and Restitution	5	5	28
Total	52	58	36

Specialty Teams contribute members to a special fraud task group which coordinates and conducts our reviews. Many of the group members have received special training and a number of them have become Certified Fraud Examiners. Obtaining this designation requires the individual to take a national administrated test and pass an examination. The organization that provides this certification is recognized nationally for its training and skills taught for the investigation of white collar crime.

About the Auditor of Public Accounts Appendix A

The APA serves Virginia's citizens and decision-makers by providing unbiased, accurate information and sound recommendations to improve accountability and financial management of public funds.

Statutory Duties And Responsibilities

The Code of Virginia requires the Auditor of Public Accounts to perform the following duties and responsibilities. The Auditor accomplishes these functions with the assistance of staff provided through an appropriation by the General Assembly.

- Audit all the accounts of every state department, officer, board, commission, institution or other agency handling any state funds.

- Conduct special reviews, studies, or audits as requested by the General Assembly through joint resolutions or appropriation language.

- Upon discovery of any unauthorized, illegal, irregular, or unsafe handling or expenditure of state funds, or it comes to his attention that any unauthorized, illegal, or unsafe handling or expenditure of state funds is contemplated but not consummated, he shall promptly report the facts to the Governor, the Joint Legislative Audit and Review Commission, and the Comptroller. In case there is any irregularity in the accounts of the Comptroller, the Auditor shall report it to the Governor and to the General Assembly.

- The Auditor and the Superintendent of State Police shall receive and review reports suggesting a reasonable possibility that a fraudulent transaction has occurred involving funds or property under the control of any state department, court, officer, board, commission, institution or other agency of the Commonwealth, including local constitutional officers and appointed officials exercising the powers of elected constitutional officers, as to which one or more officers or employees of state or local government may be party. In the event that the Auditor or the Superintendent determines to conduct an investigation, he shall notify the other of the commencement of the investigation as soon as practicable, unless the information involves the Auditor or the Superintendent.

- As part of his normal oversight responsibilities, incorporate into his audit procedures and processes a review process to ensure that the Commonwealth's Personal Property Tax Relief Act payments are consistent with the provisions of the Code of Virginia.

- When called upon by the Governor, examine the accounts of any institution or state officer.

- Upon written request of any member of the General Assembly, furnish the requested information and provide technical assistance upon any matter requested by such member.
- Comply with the provisions of the federal Single Audit Act and audit the accounts pertaining to federal funds received by state departments, officers, boards, commissions, institutions, or other agencies.
- Maintain an internet data base of key financial information on the Commonwealth of Virginia, its localities and demographic data.

- At least once every two years or when the Governor directs, audit all accounts and records of every city and county official and agency in the Commonwealth that handles state funds.

- Under the direction of the Joint Legislative Audit and Review Commission, devise a modern, effective and uniform system of bookkeeping and accounting for the use of all county, city, and town officials and agencies handling the revenues of the Commonwealth or of any political subdivision thereof. The Auditor of Public Accounts may approve any existing system.

- When requested by the governing body of any local government, make and establish a system of bookkeeping and accounting for such unit, which shall conform to generally accepted accounting principles.

- Make and establish a uniform system of fiscal reporting for the treasurers or other chief financial officers, clerks of the courts and school divisions of all counties and cities, and all towns having a population of 3,500 or over and all towns constituting a separate school division regardless of population.

- Prepare and publish annually a Comparative report of local government revenues and expenditures showing in detail the total and per capita revenues and expenditures of all localities for the preceding fiscal year.

- In the event a locality fails to obtain the annual audit, the Auditor of Public Accounts may undertake the audit or may employ the services of certified public accountants and charge the full cost of such services to the locality. However, no part of the cost and expense of such audit shall be paid by any locality whose governing body has its accounts audited for the fiscal years in question as prescribed above and furnishes the Auditor of Public Accounts with a copy of such audit.

The Code of Virginia further requires the Auditor to serve as an ex officio member of the Compensation Board, the Joint Legislative Audit and Review Commission and the Debt Capacity Advisory Committee.

Management Responsibilities

The Auditor serves as the chief administrative officer, overseeing the administrative functions such as personnel, accounting, budgeting, staffing, training and other areas.

Audit organizations that perform work under the federal Single Audit Act and that have their work recognized by Bond Rating Agencies and other regulatory bodies and by users of financial information, must maintain a system of quality control. The system of quality control must undergo an external review at least once every three years. The Auditor must ensure that this quality control system exists, and that all staff maintain their qualifications to meet these standards.

Other Responsibilities

The Auditor serves as a member of a number of advisory boards and committees that provide guidance on various aspects of state government operation.

Upon request, the Auditor will provide public information about the office and our duties and responsibilities.

Analysis of Budgeted and Actual Revenue by Funding Source

Funding Source	Original Budget	Adjusted Budget	Actual Revenue
General Fund appropriations	$9,167,778	$10,159,668	$10,159,668
Special revenue	732,171	732,171	829,006
Total revenues	$9,899,949	$10,891,839	$10,988,674

Appropriation Adjustments

General Fund	$ 9,167,778
Required adjustments	991,890
Adjusted General Fund appropriation	10,159,668
Special fund	732,171
Total appropriations	$10,891,839

Revenues – Deposits to the General Fund of the Commonwealth

Circuit courts	$298,683
Center for Innovative Technology	32,828
General Fund total	$331,511

Analysis of Budget versus Actual Expenses by Funding Source

Funding Source	Adjusted Budget	Expenses	Variance
General Fund appropriations	$10,159,668	$8,899,384	$1,260,284
Special revenue	732,171	727,748	4,423
Total	$10,891,839	$9,627,132	$1,264,707

Note: An asterisk * indicates that the report includes audit findings and recommendations.

July 2005

State Departments, Divisions, Commissions, Agencies, etc.

- State Corporation Commission for the year ended June 30, 2004*
- Department of Agriculture and Consumer Services for the period January 1, 2003 through June 30, 2004
- Office of the Executive Secretary of the Supreme Court of Virginia, Clerk of the Supreme Court, Clerk of the Court of Appeals and the Judicial Inquiry and Review Commission July 1, 2001 through June 30, 2004

Special Reports

- Interim Review of the State Board of Election's Virginia Election and Registration Information System Project, June 2005
- Department of General Services, eVA Security Review, June 2005*
- Report to the Joint Legislative Audit and Review Commission for the quarter April 1, 2005 through June 30, 2005

August 2005

State Departments, Divisions, Commissions, Agencies, etc.

- Department of Mines, Minerals, and Energy for the three year period ended June 30, 2004
- Virginia Museums for the fiscal year ended June 30, 2004*

Colleges and Universities

- Interim Report of Virginia State University's Project New Horizons, August 2005*
- Longwood University Interim Report on the Financial Statement Audit for the year ended June 30, 2004*

September 2005

State Departments, Divisions, Commissions, Agencies, etc.

- Office of the Governor for the year ended June 30, 2005
- Office of the Lieutenant Governor for the year ended June 30, 2005
- Virginia's A. L. Philpott Manufacturing Extension Partnership for the year ended June 30, 2004
- Division of Selected Agency Support Services for the year ended June 30, 2005
- Governor's Cabinet Secretaries for the year ended June 30, 2005

Special Reports

- Department of Medical Assistance Services Vulnerability Assessment of Network Penetration Test, August 2005*
- Department of Social Services Public-Private Partnership, August 2005*
- Virginia Information Technologies Agencies Review of Security Controls over Information Technology, August 2005*

October 2005

Special Reports

- 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*
- Revenue Stabilization Fund Calculations for the year ended June 30, 2005*

State Departments, Divisions, Commissions, Agencies, etc.

- Tobacco Indemnification and Revitalization Commission for the year ended June 30, 2005 *
- 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
- Department of Rail and Public Transportation for the year ended June 30, 2005*
- Virginia Economic Development Partnership for the year ended June 30, 2005

November 2005

Special Reports

- Report to the Joint Legislative Audit and Review Commission for the quarter July 1, 2005 through September 30, 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*
- Virginia Circuit Courts Statewide Report for the year ended June 30, 2005*

State Departments, Divisions, Commissions, Agencies, etc.

- Virginia Racing Commission for the fiscal year ended June 30, 2005*
- Virginia Retirement System as of and for the years ended June 30, 2005 and 2004*
- Review of the Financial Accounting and Control Operations of the State Comptroller Final Report, November 2005*
- Virginia Port Authority a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2005
- 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

December 2005

Special Reports

- Report on State and Local Communication Service Taxes and Fees for the year ended July 30, 2005
- Virginia District Courts Statewide Report for the period July 1, 2004 through June 30, 2005*
- Commonwealth Transportation Fund - Agencies of the Secretary of the Commonwealth*
- Review of Deferred Maintenance in the Commonwealth, Final Report, December 2005*
- Special Review of the Assistive Technology Loan Fund Authority, December 2005*

State Departments, Divisions, Commissions, Agencies, etc.

- Virginia Commercial Space Flight Authority for the year ended June 30, 2005
- Virginia College Savings Plan for the year ended June 30, 2005
- Department of Medical Assistance Services for the year ended June 30, 2005*
- Virginia Biotechnology Research Park Authority for the year ended June 30, 2005

January 2006

Special Reports

- Report to the Joint Legislative Audit and Review Commission for the quarter October 1, 2005 through December 31, 2005

State Departments, Divisions, Commissions, Agencies, etc.

- Department of Education Including Direct Aid To Public Education and Virginia Schools for Deaf and Blind for the year ended June 30, 2005
- Department of Social Services for the year ended June 30, 2005*
- Virginia Department of Health for the year ended June 30, 2005*
- Virginia Employment Commission for the year ended June 30, 2005*
- Virginia Tourism Authority for the year ended June 30, 2005*

Colleges and Universities

- College of William and Mary Intercollegiate Athletic Programs for the year ended June 30, 2005
- George Mason University Intercollegiate Athletic Programs for the year ended June 30, 2005
- James Madison University Intercollegiate Athletic Programs for the year ended June 30, 2005
- Longwood University Intercollegiate Athletic Programs for the year ended June 30, 2005
- Norfolk State University Intercollegiate Athletic Programs for the year ended June 30, 2005
- Old Dominion University Intercollegiate Athletic Programs for the year ended June 30, 2005
- University of Virginia for the year ended June 30, 2005
- University of Virginia Intercollegiate Athletic Programs for the year ended June 30, 2005
- University of Virginia Medical Center for the year ended June 30, 2005
- Virginia Commonwealth University for the year ended June 30, 2005*
- Virginia Commonwealth University Intercollegiate Athletic Programs for the year ended June 30, 2005
- Virginia Military Institute Intercollegiate Athletic Programs for the year ended June 30, 2005

February 2006

Special Reports

- Comparative Report of Local Government Revenue and Expenditures for the fiscal year ended June 30, 2005
- Summary of Local Government Audit Findings: Enhanced 911 Special Tax Funds, February 1, 2006*
- Personal Property Tax Relief Program dated February 2006

State Departments, Divisions, Commissions, Agencies, etc.

- Virginia Department of Emergency Management for the year ended June 30, 2005
- Review of the Budget and Appropriation Processing Control System administered by the Department of Planning and Budget for the fiscal year ended June 30, 2005*

Colleges and Universities

- Radford University for the year ended June 30, 2005*
- Radford University Intercollegiate Athletic Programs for the year ended June 30, 2005
- Tidewater Community College for the year ended June 30, 2005
- Virginia Polytechnic Institute and State University for the year ended June 30, 2005*
- Virginia Polytechnic Institute and State University Intercollegiate Athletic Programs for the year ended June 30, 2005

March 2006

Special Reports

- Commonwealth of Virginia Single Audit Report for the year ended June 30, 2005*
- Wireless E-911 Service Board for the year ended June 30, 2005

State Departments, Divisions, Commissions, Agencies, etc.

- Agencies of the Secretary of Finance for the year ended June 30, 2005*
- Agencies Serving Virginians with Disabilities for the year ended June 30, 2005*
- Department of Mental Health, Mental Retardation, and Substance Abuse Services for the audit period January 1, 2005 through June 30, 2005*
- Indigent Defense Commission for the period July 1, 2002 through June 30, 2005*
- Office of Comprehensive Services for At-Risk Youth and Families for the year ended June 30, 2005
- State Board of Elections for the year ended June 30, 2005*
- Virginia Board of Accountancy for the year ended June 30, 2005

April 2006

Special Reports

- Report to the Joint Legislative Audit and Review Commission for the quarter January 1, 2006 to March 31, 2006
- Virginia Military Institute Review of Controls over Cashiering Function, March 2006*

State Departments, Divisions, Commissions, Agencies, etc.

- Department of Corrections and Virginia Parole Board for the year ending June 30, 2005*
- Potomac River Fisheries Commission for the year ended June 30, 2005
- Southwest Virginia Higher Education Center for the year ended June 30, 2005
- Virginia Tobacco Settlement Foundation for the year ended June 30, 2005
- Virginia War Memorial Foundation for the year ended June 30, 2005

Colleges and Universities

- College of William and Mary in Virginia for the year ended June 30, 2005*
- Old Dominion University for the year ended June 30, 2005
- Virginia Military Institute for the year ended June 30, 2005*
- Virginia State University for the year ended June 30, 2005*

May 2006

Special Reports

- Review of Information Technology Governance and Virginia Information Technologies Agency Operations April 2006*

State Departments, Divisions, Commissions, Agencies, etc.

- Department of Environmental Quality for the year ended June 30, 2005
- Department of Labor and Industry for the year ended June 30, 2005
- Department of Minority Business Enterprise for the period July 1, 2004 through January 31, 2006*
- Department of State Police for the period of July 1, 2004 through December 31, 2005*
- Virginia Correctional Enterprises, Department of Corrections, for the year ended June 30, 2005*
- Virginia Department of Agriculture and Consumer Services and the Virginia Agricultural Council for the year ended June 30, 2005
- Virginia Worker's Compensation Commission for the year ended June 30, 2005

Colleges and Universities

- George Mason University for the year ended June 30, 2005
- James Madison University for the years ended June 30, 2005 and 2004

June 2006

Special Reports

- Progress Report on Selected Information Technology Projects in the Commonwealth, June 2006*
- Review of Performance Measures for the year ended June 30, 2005*
- Virginia Information Technologies Agency (Formerly Virginia Information Providers Network) as of May 1, 2006

State Departments, Divisions, Commissions, Agencies, etc.

- Department of Game and Inland Fisheries for the period November 1, 2005 through March 31, 2006*
- Department of Historic Resources, for the year ended June 30, 2005
- Department of Housing and Community Development for the year ended June 30, 2005 *
- Department of Professional and Occupational Regulation for the year ended June 30, 2005
- Lotto South -- State Lottery Department Report on Applying Agreed-Upon Procedures for the period April 1, 2005 through February 25, 2006
- Virginia Commission for the Arts for the period January 1, 2004 through June 30, 2005
- Virginia's A.L. Philpott Manufacturing Extension Partnership for the year ended June 30, 2005

Colleges and Universities

- Christopher Newport University for the year ended June 30, 2005*
- Norfolk State University for the year ended June 30, 2005*
- University of Mary Washington for the year ended June 30, 2005*
- Virginia Community College System for the year ended June 30, 2005*

The following lists show those courts audited during the period July 1, 2005 through June 30, 2006.

Circuit Courts

Accomack
Albemarle
Alleghany
Amelia
Arlington
Augusta
Bath
Bedford County
Botetourt
Bristol
Buchanan*
Buckingham
Buena Vista
Caroline*
Carroll
Charles City
Charlotte
Charlottesville
Chesapeake
Chesterfield
Clarke
Colonial Heights
Craig
Culpeper
Cumberland
Danville
Dinwiddie
Essex
Fairfax County
Fauquier
Floyd
Fluvanna
Fredericksburg
Giles*
Gloucester
Goochland
Grayson
Greene
Greensville*
Halifax
Hampton
Hanover
Henrico
Highland
Hopewell
Isle of Wight
James City/Williamsburg
King & Queen
King George
King William
Lancaster
Lee
Loudoun
Louisa
Lunenburg
Lynchburg
Madison
Martinsville
Mathews
Middlesex
Montgomery
Nelson
New Kent
Newport News
Norfolk
Northampton
Orange
Page
Petersburg*
Pittsylvania
Portsmouth
Powhatan*
Prince George
Pulaski
Radford
Richmond City-John Marshall
Richmond City-Manchester
Richmond County
Roanoke City
Rockbridge
Rockingham
Russell
Scott
Shenandoah
Smyth*
Southampton
Spotsylvania
Stafford
Suffolk
Surry
Sussex*
Tazewell
Virginia Beach
Warren
Washington*
Westmoreland
Winchester
Wise & Norton
Wythe
York

General Receivers

Alexandria
Arlington
Bristol
Buchanan
Charlottesville
Dickenson
King George
Lee
Loudoun
Russell
Sussex
Washington
Wise & Norton

General District, Juvenile and Domestic Relations, and Combined General District Courts

General District Courts	Juvenile and Domestic Relations Courts	Combined General District Courts
Accomack	Accomack*	Alleghany
Albemarle	Albemarle	Amelia
Alexandria	Alexandria	Bland
Arlington	Arlington*	Botetourt
Bedford County	Bedford County	Brunswick
Bristol	Caroline	Buchanan
Caroline	Charlotte	Buckingham*
Charlotte*	Chesapeake	Buena Vista
Charlottesville	Chesterfield	Carroll
Chesterfield*	Clarke	Colonial Heights*
Clarke*	Danville	Craig
Fairfax City	Fairfax County	Culpeper
Fauquier	Frederick	Cumberland
Franklin County	Fredericksburg	Dickenson
Frederick	Gloucester	Emporia
Fredericksburg	Halifax	Essex
Gloucester	Hampton	Falls Church
Halifax	Henrico	Floyd
Hampton	Henry	Galax
Hanover	Isle of Wight	Giles
Henrico	James City/Williamsburg	Grayson
Henry	King & Queen	Greene
James City/Williamsburg	King William	Greensville
King & Queen	Lancaster	Hopewell
King William	Loudoun*	King George
Loudoun	Lynchburg	Lee
Lynchburg	Martinsville	Louisa
Martinsville	Mathews	Lunenburg
Mathews	Mecklenburg	Madison
Mecklenburg	Middlesex	Nottoway
Middlesex	Montgomery	Orange*
Montgomery – Christiansburg*	New Kent	Powhatan
Nelson	Newport News	Prince Edward
New Kent	Norfolk	Prince George*
Norfolk Civil	Northampton	Radford
Norfolk Criminal	Northumberland	Rappahannock
Norfolk Traffic	Page	Rockbridge
Northampton	Patrick	Russell
Northumberland	Petersburg	Salem
Page	Pittsylvania	Scott
Patrick	Portsmouth	Shenandoah
Petersburg	Pulaski	Southampton
Portsmouth	Richmond City	Surry
Prince William*	Roanoke City	Sussex
Pulaski	Roanoke County	
Richmond City Civil	Rockingham	
Richmond City Criminal*		

General District Courts	Juvenile and Domestic Relations Courts
Richmond City - Manchester	Smyth
Roanoke City	Spotsylvania
Roanoke County*	Stafford
Smyth	Staunton
Spotsylvania	Suffolk
Stafford	Tazewell
Staunton	Virginia Beach
Suffolk	Warren
Tazewell	Washington
Virginia Beach	Waynesboro
Warren	Westmoreland
Washington*	Winchester
Westmoreland	Wise & Norton
Winchester	Wythe
Wise & Norton	York
Wythe	
York	

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