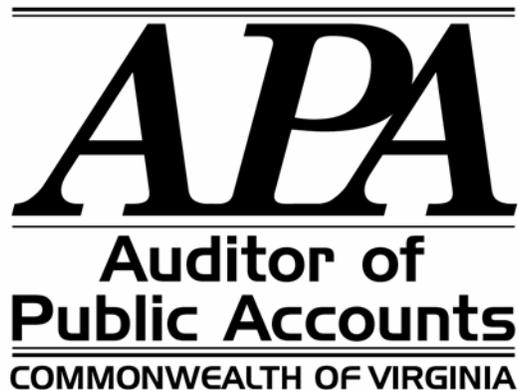


**DEPARTMENT OF  
PROFESSIONAL AND OCCUPATIONAL REGULATION**

**REPORT ON AUDIT  
FOR THE THREE-YEAR PERIOD ENDED  
JUNE 30, 2004**



## **AUDIT SUMMARY**

Our audit of the Department of Professional and Occupational Regulation for the three-year period ended June 30, 2004, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System and the internal accounting system of the Department of Professional and Occupational Regulation;
- management has established and maintained internal controls over the revenues and expenditures tested; and
- no instances of noncompliance that are required to be reported.

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## AGENCY HIGHLIGHTS

The Department of Professional and Occupational Regulation protects the citizens of the Commonwealth by regulating commercial occupations and certain professions as designated by the General Assembly. The Department's responsibilities include certification, licensing, investigation, monitoring compliance, fee collection, record maintenance, and enforcement. The Department provides centralized administrative, examination, and enforcement functions to the following 18 boards.

APELSCIDLA*	Geology
Asbestos, Lead, and Home Inspectors	Hearing Aid Specialists
Auctioneers	Opticians
Barbers and Cosmetology	Polygraph Examiners
Boxing and Wrestling Programs	Real Estate
Branch Pilots	Real Estate Appraisers
Cemeteries	Soil Scientists and Wetland Professionals
Contractors	Waste Management Facility Operators
Fair Housing	Waterworks and Wastewater Works Operators

\*Architects, professional engineers, land surveyors, certified interior designers, and certified landscape architects

Effective July 1, 2001, the Board of Accountancy separated from the Department to form a new agency. Changes to the board structure during the audit period include the following: Home Inspectors (combined with Asbestos and Lead as of July 1, 2001), Fair Housing (new board as of July 1, 2003) and Wetland Professionals (combined with Soil Scientists as of July 1, 2004).

## FINANCIAL INFORMATION

The Commonwealth Accounting and Reporting System includes all financial data except for the activity of two recovery funds. The Department records licensing fees and the expenses associated with regulation in its special revenue funds. The Department records the collection of monetary penalties in the state Literary Fund.

The following schedules summarize the Department's budgeted revenues and expenses compared with actual results for fiscal year 2004.

### Analysis of Budgeted and Actual Appropriations and Funding Fiscal Year Ended June 30, 2004

<u>Funding Source</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Funding Received</u>
Special revenue	\$10,645,608	\$10,869,984	\$11,779,626
Federal	<u>275,000</u>	<u>444,000</u>	<u>444,155</u>
Total resources	<u>\$10,920,608</u>	<u>\$11,313,984</u>	<u>\$12,223,781</u>

Analysis of Budgeted and Actual Expenses  
Fiscal Year Ended June 30, 2004

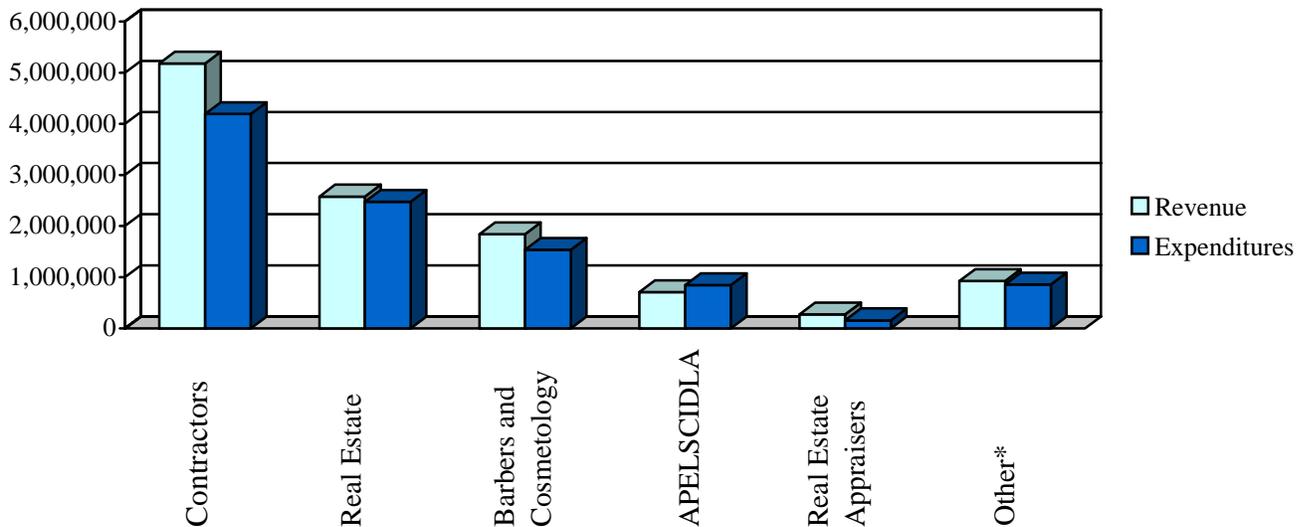
Fiscal Year	Program Expenses			Expenses by Funding Source	
	Original Budget	Adjusted Budget	Actual	Special Revenue	Federal
2004	<u>\$10,920,608</u>	<u>\$11,313,984</u>	<u>\$10,550,528</u>	<u>\$10,180,053</u>	<u>\$370,475</u>

The excess funding over expenses reflects the higher fees collected for the Board for Contractors of \$987,071 and the Board for Barbers and Cosmetology of \$305,947. In addition to the funding indicated above, the Department collected \$298,319 in monetary penalties, which the Department deposits in the state Literary Fund. The Department allocates administrative expenses, legal costs, and information system costs to the various boards using a cost allocation system. The Department's largest expense is payroll. In fiscal year 2004, payroll costs of \$7,700,389 accounted for 73 percent of total expenses.

Board Activity

The following bar chart contains revenues and expenses for selected boards individually and the remaining boards combined for the fiscal year ended June 30, 2004.

Revenue and Expenses  
Fiscal Year Ended June 30, 2004

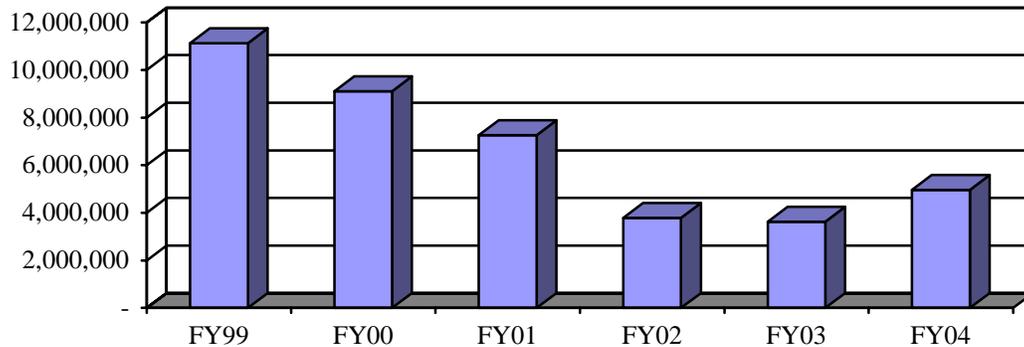


\* includes the activities of the other 13 boards regulated by the Department

Each board is self-supporting through regulant-assessed fees. The Code of Virginia requires the Department to adjust fees at the end of each biennium if expenses vary more than ten percent from revenues, so that revenues are sufficient, but not excessive to cover expenses. Before fiscal year 1999, the Department had accumulated significant cash reserves as a result of low operating costs. Between fiscal years 1999 and 2003, 17 boards resolved to lower fees in order to decrease those large cash balances. By the 2002-04

biennium, some of those boards had substantially reduced their excess cash balances and projections indicated that revenues collected from the reduced fees would not be adequate to cover future operating expenses. In order to ensure collection of sufficient revenues, six boards adopted fee increases. Higher fees became effective during the 2002-04 biennium for the Board for Barbers and Cosmetology and the Board for Contractors. Fee increases for the APELSCIDLA, Real Estate, Soil Scientists and Wetlands Professionals, and Waterworks and Wastewater Works Operators boards became effective during fiscal year 2005. The following summarizes the changes in cash reserves for fiscal years 1999 through 2004:

Cash Reserve Balances for Fiscal Years 1999 through 2004



Recovery Funds

The Department controls two recovery funds held in the Local Government Investment Pool, a short term investment pool managed by the State Treasurer. At June 30, 2004, the Virginia Real Estate Transaction Recovery Fund and the Virginia Contractor Transaction Recovery Fund had balances of \$2,983,818 and \$2,787,751, respectively. The Funds pay individuals who have claims against licensees who are bankrupt, cannot be located, or otherwise cannot pay a claim when found guilty in court of improper and dishonest conduct. The following chart shows claims payments from the recovery fund for fiscal years 2002 through 2004.

Recovery Fund Payments for Fiscal Years 2002 through 2004

<u>Fiscal Year</u>	<u>Virginia Real Estate Transaction Recovery Fund</u>		<u>Virginia Contractor Transaction Recovery Fund</u>	
	<u>No. of Payments</u>	<u>Amount</u>	<u>No. of Payments</u>	<u>Amount</u>
2002	1	\$ 7,530	86	\$621,642
2003	2	10,388	128	818,231
2004	2	23,200	49	310,065

Fair Housing Assistance Program

The Department's federal fund consists primarily of revenue and expenditures from its participation in the Fair Housing Assistance Program administered by the U.S. Department of Housing and Urban Development (HUD). Pursuant to a cooperative agreement between HUD and the Department, HUD provides financial support to assist with the Department's processing of complaints alleging unlawful discrimination in housing. Additionally, HUD provides funds for training of agency staff involved with the processing of these complaints. During fiscal year 2004, the Department processed 146 complaints related to fair housing.



# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

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

April 26, 2005

The Honorable Mark R. Warner  
Governor of Virginia  
State Capitol  
Richmond, Virginia

The Honorable Lacey E. Putney  
Chairman, Joint Legislative Audit  
and Review Commission  
General Assembly Building  
Richmond, Virginia

We have audited selected financial records and operations of the **Department of Professional and Occupational Regulation** for the three-year period ended June 30, 2004. We conducted our audit in accordance with the standards for performance audits set forth in Government Auditing Standards, issued by the Comptroller General of the United States.

## Audit Objectives, Scope, and Methodology

Our audit's primary objective was to review the significant cycles for the Department's activities as reported in the Commonwealth Accounting and Reporting System (CARS) and in the Department's internal accounting system. In support of this objective, we evaluated the accuracy of recording financial transactions in CARS and the Department's internal accounting system, reviewed the adequacy of the Department's internal control, and tested for compliance with applicable laws, regulations, contracts, and grant agreements.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Department's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls including controls for administering compliance with applicable laws, regulations, contracts, and grant agreements. Our review encompassed controls over the following significant cycles:

Revenues  
Payroll Expenditures  
Contractual Service Expenditures

Recovery Fund Accounts  
Small Purchase Charge Card

We gained an understanding of the overall internal controls surrounding these cycles, both automated and manual, sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Department's controls were adequate, had been placed in operation, and were being followed.

Management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute,

assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws, regulations, contracts, and grant agreements. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

#### Audit Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and in its internal accounting systems for the cycles listed in the scope section of this report.

We noted no matters involving internal control and its operation that we considered necessary to bring to management's attention.

The results of our tests of compliance with applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended for the information and use of the Governor and General Assembly, management, and citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

SAH/kva

DEPARTMENT OF PROFESSIONAL AND OCCUPATIONAL REGULATION

BOARD MEMBERS

Raynard Jackson, Chairman

Julie M. Clifford, Vice Chairman

Susan T. Ferguson	Ronald E. Lushbaugh
Maxime A. Frias	Thomas J. Meany, Jr.
Walter M. Fore, Jr.	Leroy O. Pfeiffer

William A. Tucker

AGENCY OFFICIALS

Louise Fontaine Ware, Director

Sandra Whitley Ryals, Chief Deputy Director

Steven L. Arthur, Deputy Director for Administration and Finance