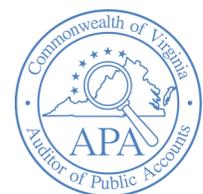




DEPARTMENT OF PROFESSIONAL
AND
OCCUPATIONAL REGULATION

REPORT ON AUDIT
FOR THE TWO YEARS ENDED
JUNE 30, 2014

Auditor of Public Accounts
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AUDIT SUMMARY

Our audit of the Department of Professional and Occupational Regulation for the period July 1, 2012, through June 30, 2014, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System and the Department's internal licensing system;
- no matters involving internal control and its operation necessary to bring to management's attention; and
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

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AGENCY HIGHLIGHTS

The Department of Professional and Occupational Regulation (Department) 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, compliance monitoring, fee collection, record maintenance, and enforcement. The Department provides centralized administrative, examination, and enforcement functions to the following boards:

APELSCIDLA*	Hearing Aid Specialists and Opticians
Asbestos, Lead, and Home Inspectors	Polygraph Examiners
Auctioneers	Professional Boxing, Wrestling, and Martial Arts
Barbers and Cosmetology	Real Estate
Branch Pilots	Real Estate Appraisers
Cemetery	Professional Soil Scientists, Wetland Professionals, and Geologists
CNG Vehicle Mechanics Advisory Board**	Waste Management Facility Operators
Common Interest Community	Waterworks and Wastewater Works Operators and Onsite Sewage System Professionals
Contractors	
Fair Housing Board	

*Architects, Professional Engineers, Land Surveyors, Certified Interior Designers, and Certified Landscape Architects

** New board in fiscal year 2014: Certified Natural Gas Vehicle Mechanics Advisory Board

The Department completed implementation of its new licensing and enforcement system, EAGLES, during fiscal year 2014. The new system expands public access through online licensing and permitting services. In addition, the Department's previous licensing and enforcement system used a programming language that was no longer supported by the vendor. The Department began project execution on EAGLES in October 2007 and temporarily suspended the project to address several implementation issues. The initial project cost estimate was approximately \$2.9 million, but increased to just over \$8.3 million as a result of project re-base-lining to address implementation issues. The final actual cost of the system was \$7.7 million.

FINANCIAL INFORMATION

The Commonwealth Accounting and Reporting System includes all financial data except for the activity of three recovery funds. The Department records licensing fees and the expenses associated with regulation in its special revenue funds. The Department's federal fund consists primarily of revenue and expenses from its participation in the Fair Housing Assistance Program administered by the U.S. Department of Housing and Urban Development (HUD). The Department records the collection of monetary penalties in the Literary Fund. The schedule below compares the Department's budgeted versus actual expenses for fiscal years 2013 and 2014.

Analysis of Budgeted and Actual Expenses
Fiscal Years 2013 and 2014

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
2013	\$22,112,574	\$22,112,574	\$19,346,324
2014	\$22,153,069	\$22,153,069	\$18,831,942

Source: Commonwealth Accounting and Reporting System

The Department allocates administrative expenses, legal costs, and information system costs to the various boards using a cost allocation system. The Department's actual expenses were less than the final budget in both fiscal years 2013 and 2014 primarily due to personnel vacancies and lower than expected information technology costs. The Department's expenses consisted primarily of payroll expenses of \$14,257,591 in fiscal year 2013 and \$14,018,348 in fiscal year 2014. This accounted for 74 percent of total expenses in both fiscal years. The majority of the remaining expenses are contractual services, which mainly consist of Virginia Information Technology Agency information technology infrastructure services.

Board Activity

The Department uses special revenue funds to account for the daily operations. The Code of Virginia requires separate special revenue funds for the activities of the Boxing and Wrestling Board and the Common Interest Community Management Board. The Department records its remaining activities in a single dedicated special revenue fund for all the other boards. We have consolidated all of these funds in the schedules presented in this report. The largest source of revenue comes from licensing fees for applications and renewals.

The following schedule summarizes the activity of the boards' operating funds for fiscal years 2013 and 2014.

Summary of Board Operating Activity

	<u>2013</u>	<u>2014</u>
Revenues	\$23,506,687	\$22,440,141
Expenses	<u>19,035,250</u>	<u>18,612,878</u>
Revenues less expenses	4,471,437	3,827,263
Transfers	<u>(1,489)</u>	<u>(856)</u>
Change in cash balance	4,469,948	3,826,407
Prior year cash balance	<u>18,860,809</u>	<u>23,330,757</u>
Current year cash balance	<u>\$23,330,757</u>	<u>\$27,157,164</u>

Source: Commonwealth Accounting and Reporting System

Appendix A summarizes the activity and cash balances of the Department’s operating funds by Board. Each board is self-supporting through regulant-assessed fees. The Code of Virginia requires the individual boards to adjust fees at the end of each biennium if expenses vary more than ten percent from revenues. Adjusting a fee schedule is a lengthy process that can take up to three years to fully implement. Thus, boards set fees at a level that will support the boards’ activity for three to four biennia.

Revenues will generally exceed expenses for the first few years after a fee increase. This allows the boards to establish cash balances, which they use in the later years when expenses begin to exceed revenues. When this occurs, the Department proposes new fee schedules to the boards for approval. The Department continually monitors each board to determine if a fee increase or decrease is necessary, since economic factors greatly impact the activity of each board. The large increase in cash balances is primarily due to prior fee increases in the Board of Contractors and the Board of Barbers and Cosmetology. As expenses have not increased along with the fee increase, which occurred in September 2011, the fee for the Board of Barbers and Cosmetology was decreased in March of 2014. There was a fee increase for the Board of Contractors in fiscal year 2010 and the cash balances have steadily increased since that time. Although expenses are expected to increase for the Board of Contractors, the Department is considering a fee decrease.

The following chart summarizes the changes in available cash reserves for the Department for fiscal years 2010 through 2014.



Source: Commonwealth Accounting and Reporting System

Recovery Funds

The Department controls three recovery funds held in the Local Government Investment Pool (LGIP), a short-term investment pool managed by the State Treasurer. The Department also maintains an operating bank account for each fund. Fees from the respective boards fund the recovery funds, which pay individuals who have claims against licensees who are bankrupt, cannot be located, or otherwise cannot pay a claim when found guilty of improper and dishonest conduct. The following schedule shows the cash and investment balances for the recovery funds for fiscal years 2013 and 2014.

Cash and Investment Balances **Fiscal Years 2013 and 2014**

<u>Account Name</u>	<u>2013</u>	<u>2014</u>
Virginia Common Interest Community Management Recovery Fund	\$ 174,517	\$ 183,080
Virginia Contractor Transaction Recovery Fund	\$ 1,608,180	\$1,981,840
Virginia Real Estate Transaction Recovery Fund	\$ 2,532,386	\$2,557,406

Source: LGIP and Bank Account Statements



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Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

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April 2, 2015

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable John M. O'Bannon, III
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Department of Professional and Occupational Regulation** for the two years ended June 30, 2014. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in the Commonwealth Accounting and Reporting System and the Department's internal licensing system, review the adequacy of the Department's internal controls, and test compliance with applicable laws, regulations, contracts, and grant agreements.

Audit Scope and Methodology

The Department's 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, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Revenues
Expenses, including payroll and contractual services
Recovery Fund activity
Information System Access

We performed audit tests to determine whether the Department's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

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 the Department's internal licensing system. The Department records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System or the Department's bank statements.

We noted no matters involving internal control and its operation that we consider necessary to be reported to management. 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.

Exit Conference and Report Distribution

We discussed this report with management on April 8, 2015.

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

AUDITOR OF PUBLIC ACCOUNTS

SAH/clj

Board Activity for Fiscal Years 2013 and 2014

Appendix A

	APELSCIDLA*	Asbestos, Lead, and Home Inspectors	Auctioneers	Barbers and Cosmetology	Branch Pilots	Cemetery	Common Interest Community
2012 Cash Balance	\$ 2,207,513	\$ 220,140	\$ 291,123	\$ 679,632	\$ 20,694	\$ 29,856	\$ 1,568,494
2013 Revenue	1,569,931	166,459	62,498	6,131,127	3,360	29,960	1,078,489
2013 Expenses and Transfers	1,689,378	281,592	74,323	3,696,463	3,222	82,597	692,044
2013 Cash Balance	2,088,066	105,007	279,298	3,114,296	20,832	(22,781)	1,954,939
2014 Revenue	1,776,801	191,421	35,701	5,387,824	3,180	56,190	1,084,141
2014 Expenses and Transfers	1,646,730	263,427	67,775	3,576,504	2,163	79,811	684,111
2014 Cash Balance	\$ 2,218,137	\$ 33,001	\$ 247,224	\$ 4,925,616	\$ 21,849	\$ (46,402)	\$ 2,354,969
			Hearing Aid Specialists and Opticians	Polygraph Examiners	Professional Boxing, Wrestling, and Martial Arts	Real Estate	Real Estate Appraisers
2012 Cash Balance	\$ 5,604,293	\$ -	\$ 120,850	\$ 11,393	\$ 131,038	\$ 7,206,963	\$ 239,176
2013 Revenue	10,064,060	33,985	198,965	21,585	183,020	3,513,590	181,761
2013 Expenses and Transfers	7,686,281	33,985	161,796	10,221	184,459	3,884,947	193,739
2013 Cash Balance	7,982,072	-	158,019	22,757	129,599	6,835,606	227,198
2014 Revenue	9,207,904	33,260	86,586	22,090	171,520	3,765,611	227,027
2014 Expenses and Transfers	7,311,467	33,260	132,377	8,766	207,602	3,954,324	278,946
2014 Cash Balance	\$ 9,878,509	\$ -	\$ 112,228	\$ 36,081	\$ 93,517	\$ 6,646,893	\$ 175,279
			Waterworks and Wastewater Works Operators and Onsite Sewage System Professionals	CNG Vehicle Mechanics Advisory Board**	Miscellaneous***	TOTAL	
2012 Cash Balance	\$ 174,834	\$ 78,219	\$ 272,692	\$ -	\$ 3,899	\$ 18,860,809	
2013 Revenue	18,040	21,075	228,290	-	492	23,506,687	
2013 Expenses and Transfers	44,674	26,798	289,727	-	493	19,036,739	
2013 Cash Balance	148,200	72,496	211,255	-	3,898	23,330,757	
2014 Revenue	40,150	20,370	325,339	-	5,026	22,440,141	
2014 Expenses and Transfers	43,273	29,441	288,578	166	5,013	18,613,734	
2014 Cash Balance	\$ 145,077	\$ 63,425	\$ 248,016	\$ (166)	\$ 3,911	\$ 27,157,164	

*Architects, Professional Engineers, Land Surveyors, Certified Interior Designers, and Certified Landscape Architects

** New for fiscal year 2014: Certified Natural Gas Vehicle Mechanics Advisory Board

*** The Miscellaneous column represents activity not allocated to a specific board.

Source: Board Financial Statements

AGENCY OFFICIALS

DEPARTMENT OF PROFESSIONAL AND OCCUPATIONAL REGULATION

As of June 30, 2014

Jay W. DeBoer
Director

Nick Christner
Deputy Director