

AUDIT SUMMARY

Our audit of the Department of Information Technology for the year ended June 30, 1998, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no material weaknesses in the internal control structure; and
- no instances of noncompliance that are required to be reported.

March 5, 1999

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Richard J. Holland
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Department of Information Technology** for the year ended June 30, 1998. We conducted our audit in accordance with generally accepted government auditing standards.

Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to review the Department's accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, adequacy of the internal control structure, and compliance with applicable laws and regulations.

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 and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Revenues
Expenses
Fixed Assets

We obtained an understanding of the relevant policies and procedures for these internal accounting controls. 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 policies and procedures were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

The Department's management has responsibility for establishing and maintaining an internal control structure and complying with applicable laws and regulations. The objectives of an internal control structure are to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are processed in accordance with management's authorization, properly recorded, and comply with applicable laws and regulations.

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

Audit Conclusions

We found that the Department properly stated, in all material respects, financial information reported to the Department of Accounts for preparation of the Commonwealth's Comprehensive Annual Financial Report. The Department also accurately recorded its financial transactions in the Commonwealth Accounting and Reporting System which uses the cash basis of accounting, a comprehensive basis of accounting other than generally accepted accounting principles. Financial information presented in this report came directly from the Commonwealth Accounting and Reporting System and the Department's other financial records.

We noted no matters involving the internal control structure and its operation that we considered to be material weaknesses. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the Department's financial statements may occur and not be detected promptly by employees in the normal course of performing their assigned functions.

The results of our tests of compliance disclosed no instances of noncompliance that are required to be reported herein under Government Auditing Standards.

AUDITOR OF PUBLIC ACCOUNTS

JBS:whb
whb:29

Agency Information

The Department of Information Technology (Department) provides state and local government with a central source for meeting information technology needs. The Department accounts for the majority of its activities in four Internal Service Funds: Telecommunications Services, Computer Services, Systems Development Services, and Teleconferencing Services.

The Telecommunications Division plans and administers voice and data network services for state government. It also manages and competitively procures telecommunications services from local and long-distance companies. The Computer Services Division meets customer data processing needs through the use of IBM and UNISYS mainframe computers and other devices. The Systems Development Services Division provides project management and coordination services; consulting services; and technical and maintenance services to other state agencies. The Teleconferencing Division offers audio and video teleconferencing services and ad hoc satellite services to state agencies and local governments. The Department also provides video production, telemedia applications, and technology planning services. The Department furnishes these services on a cost-reimbursement basis, collecting \$80.5 million in revenues across all of the internal service funds for fiscal 1998.

The Department also provides services to other state agencies and institutions that are financed by General Fund appropriations. These services include centrex and interconnection systems, and financial assistance for education telecommunications and public broadcasting.

Finally, the Department continues to offer Year-2000 customer support for the IBM and UNISYS environments, and other platforms used by its customers, as well as ensuring its internal systems are compliant. To this end, the Department is implementing PeopleSoft financials, with a scheduled operating date of June 1, 1999.

The table below highlights the revenues and the associated expenses in each internal service fund as well as the General fund.

	<u>General Fund</u>	<u>Tele- communications</u>	<u>Computer Services</u>	<u>Systems Development</u>	<u>Tele- conferencing</u>
Beginning Balance	\$ 2,802	\$ 9,757,189	\$11,161,706	\$ 1,130,772	\$ 158,303
Revenues:					
Appropriations	7,285,290	-	-	-	-
Charges for Services	-	43,869,882	32,876,750	2,981,247	735,177
Other	-	32	40	1,396	-
Total Revenue	<u>7,285,290</u>	<u>43,869,914</u>	<u>32,876,790</u>	<u>2,982,643</u>	<u>735,177</u>
Expenses:					
Personal Services	-	5,200,303	12,261,780	2,358,000	483,266
Contractual Services	202,589	39,038,955	4,598,415	1,202,939	187,231
Depreciation	-	461,609	7,926,782	33,962	55,419
Rent, Insurance, Other	-	436,018	5,550,217	79,303	83,684
Financial Assistance	7,078,016	-	-	-	-
Other	-	1,596,979	1,477,547	78,587	40,517
Total Expenses	<u>7,280,605</u>	<u>46,733,864</u>	<u>31,814,741</u>	<u>3,852,791</u>	<u>850,117</u>
Ending Balance	<u>\$ 7,487</u>	<u>\$ 6,893,239</u>	<u>\$12,223,755</u>	<u>\$ 260,624</u>	<u>\$ 43,363</u>

Note: The information presented above is based on the Department's records. The General fund is presented on a cash basis of accounting. The internal service funds are presented on an accrual basis of accounting.