

AUDIT SUMMARY

Our audit of The Library of Virginia for the period July 1, 1997 through December 31, 1998, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no matters involving the internal control structure and its operation that we consider material weaknesses;
- noncompliance with state procurement regulations that is required to be reported under Government Auditing Standards; and
- adequate corrective action with respect to audit findings relating to updating the information technology plan, establishing an information security program, and recording fixed assets promptly as reported in the prior audit.

May 3, 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

OVERVIEW OF THE OPERATIONS OF THE LIBRARY OF VIRGINIA

The Library of Virginia purchases and maintains collections of books, periodicals, newspapers, and other materials. It provides assistance to other agencies and all public libraries in maintaining libraries and collections, publications, educational services, and records management. The Library also distributes state and federal library funds to 90 public libraries. The Library Board consists of 15 governor-appointed members who establish policy for the Library.

The Library currently maintains a collection of approximately 700,000 volumes and provides multiple indexes for this collection at its Internet site. The Library is nearing completion of a new Records Center to provide off-site storage and plans to have this facility in full operation by July 1, 1999. The new facility will store current and non-current records and will eliminate the need for the former library building.

Programs

The Library conducts operations through the following programs:

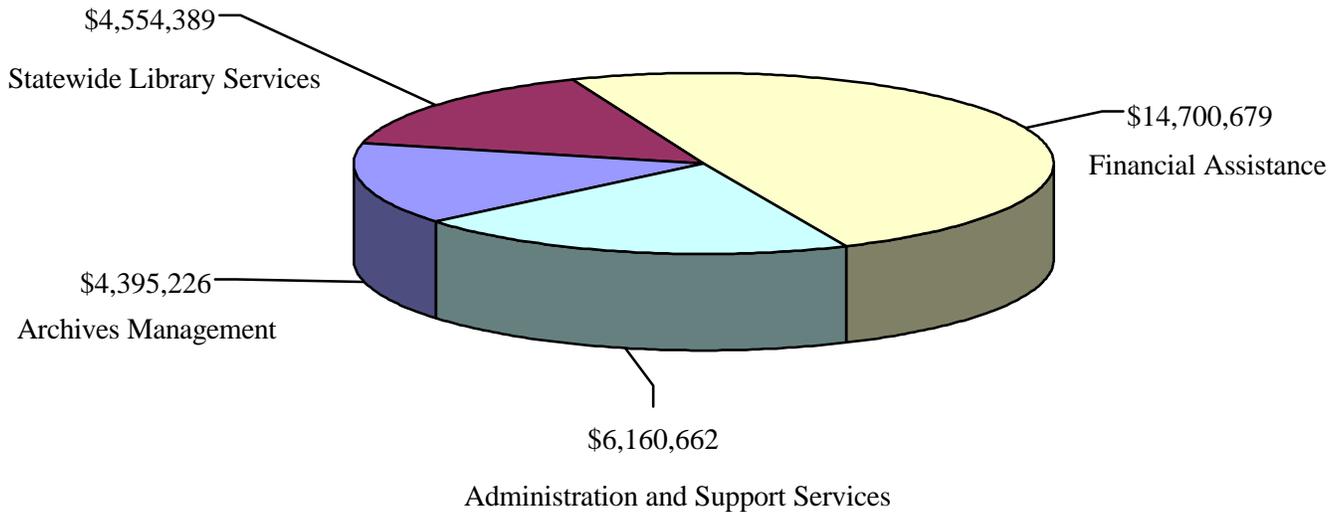
- *Archives Management* - maintains central reference library and repository for all state publications and archives of the Commonwealth.
- *Statewide Library Services* - provides advisory assistance to public libraries within the Commonwealth, such as assistance with acquisition of books and materials, development of policies, development of cooperative library networks, and developing technological needs. The Library also maintains the Virginia Library and Information Network, which links over 3,000 librarians at approximately 570

Virginia libraries. This network facilitates communication and promotes the exchange of library materials and information.

- *Financial Assistance for Cultural and Artistic Affairs* - provides state assistance to local libraries based on a formula established by the Code of Virginia. Historically, the Library has not received sufficient appropriations to fully fund assistance established by the formula. During fiscal year 1998, calculated assistance was 73 percent funded. The Appropriation Act established a phase-in of funding increases beginning in fiscal year 1999 with the intention to provide full funding in fiscal year 2001. In fiscal year 1999, the Library received appropriations to support 80 percent of the calculated assistance. The Library also distributes additional funding to local libraries through award of Federal grant monies.
- *Administrative and Support Services* – includes budgeting, financial reporting, procurement, human resources, facilities management, and similar activities.

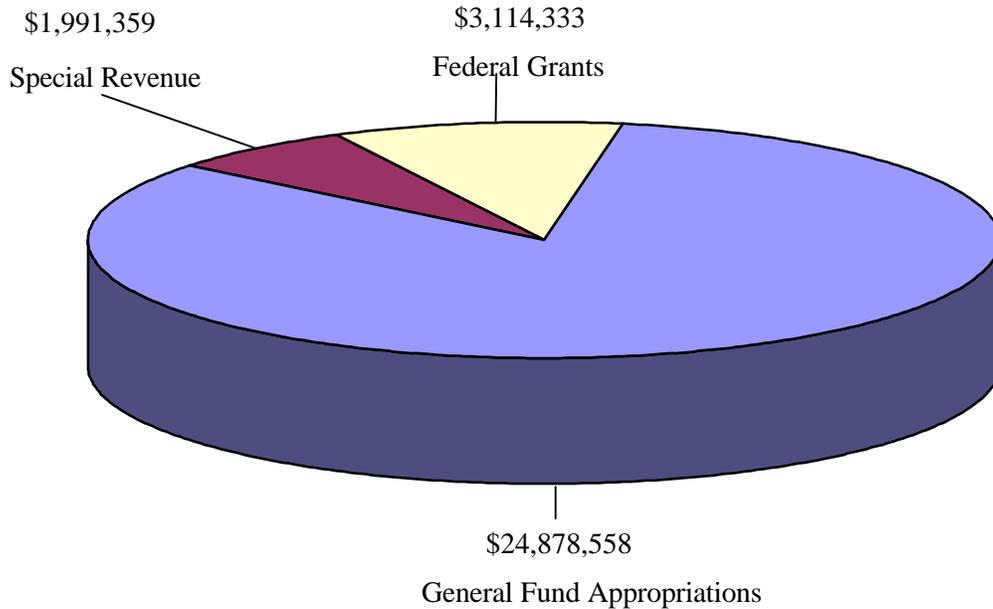
The graph below shows the breakdown of fiscal year 1998 expenses by program:

FISCAL YEAR 1998 EXPENSES



Program funding primarily comes from General Fund appropriations. The Library also receives special revenues from circuit court fees and miscellaneous collections as well as federal grants from the U.S. Department of Education. The amount from the circuit courts represents a one-dollar fee for each deed or will recorded and supports projects to preserve circuit court records. The graph below shows the breakdown of fiscal year 1998 receipts.

FISCAL YEAR 1998 RECEIPTS



COMPLIANCE FINDING AND RECOMMENDATION

Strengthen Procurement Procedures

As noted in a procurement review by the Department of General Services (DGS), the Library failed to seek competition for purchases in accordance with state procurement regulations on four occasions. This review also noted other instances of noncompliance involving failure to maintain required documentation related to the purchasing and procurement functions. The Library concurs with these findings and has developed a corrective action plan based on General Services' recommendations. The Library has completed several recommended actions including formal delegation of purchasing responsibilities and has revised internal procedures to address other findings.

The Library should complete all corrective actions to ensure compliance with state procurement regulations. The Library has requested that DGS perform a follow-up review in six months to ensure all findings have been resolved.

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of The Library of Virginia for the period of July 1, 1997 through December 31, 1998. We conducted our audit according to the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to evaluate the Library's accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Library's internal control structure, and test compliance with applicable laws and regulations. In addition, we evaluated the Library's implementation of corrective action relating to prior audit findings on implementing information technology and security plans and recording fixed assets.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Library's operations. We also tested transactions and performed other such 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 over the following significant cycles, classes of transactions, and account balances:

Revenue and Cash Receipts	Fixed Assets
Expenses	Payroll

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 Library'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 Library'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 according to 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 controls 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 Library properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Library records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted

accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

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 condition in which the design or operation of the specific 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 financial operations may occur and not be detected promptly by employees in the normal course of performing their duties.

The results of our tests of compliance with applicable laws and regulations found one instance of noncompliance that we are required to report under Government Auditing Standards which is described in the section entitled Compliance Finding and Recommendation.

We determined that the Library has completed adequate corrective action with respect to audit findings relating to updating the information technology plan, establishing an information security program, and recording fixed assets promptly as reported in the prior audit.

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

EXIT CONFERENCE

We discussed this report with the State Librarian and management at The Library of Virginia on June 3, 1999.

AUDITOR OF PUBLIC ACCOUNTS

JHS:whb
whb:41