

DEPARTMENT OF STATE POLICE

**REPORT ON AUDIT
FOR THE PERIOD**

JULY 1, 2004 THROUGH DECEMBER 31, 2005

APA

**Auditor of
Public Accounts**
COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Department of State Police for the period of July 1, 2004 through December 31, 2005, found:

- amounts reported in the Commonwealth Accounting and Reporting System and the Department's accounting records were fairly stated;
- certain matters involving internal control and its operation that require management's attention and corrective action;
- instances of noncompliance that are required to be reported under Government Auditing Standards; and
- inadequate corrective action of prior year audit findings.

State Police management is responsible for establishing and maintaining effective internal control. Internal control is a framework designed to provide reasonable assurance over the reliability of financial records, effectiveness, and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations.

Our audit found several issues in areas related to accounting and internal controls that add to challenges in the overall financial management of the State Police. The common issues we found during our audit include a lack of written policies and procedures, inadequate management oversight, and the use of antiquated systems and inefficient processes. These issues are particularly significant in overtime reporting, processing, and billing.

The results indicate a clear need for process changes as well as enhanced automation. These changes will 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. 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.

We understand that State Police management faces complex and difficult challenges. However, not making some of these longer-term changes will lead to more of the accounting and internal control issues included in this report.

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AGENCY OVERVIEW

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 the several concurrent problems facing the management of the State Police.

1. Recruiting and filling administrative positions is difficult due to the lack of advancement opportunities, the screening process, and tight labor market for qualified staff.
2. Antiquated systems, coupled with equally antiquated processes, require significant management oversight; therefore, these sources are spending time performing duties in order to keep the work flowing.
3. 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 time keeping, 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.

INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

State Police management is responsible for establishing and maintaining effective internal control. Internal control is a framework designed to provide reasonable assurance over the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations.

Our audit found several issues in areas related to accounting and internal controls that add to challenges in the overall financial management of the State Police. The common issues we found during our audit include a lack of written policies and procedures, inadequate management oversight, and the use of antiquated systems and inefficient processes. These issues are particularly significant in overtime reporting, processing, and reimbursement billing.

When management begins conducting their review of these financial management issues, they should begin with ensuring adequate documentation of their policies and procedures. Policies and procedures that are adequately documented aid management in ensuring continuity of operations. Written policies and procedures are particularly beneficial when key position vacancies or staff substitutions occur. These documented policies and procedures assist the new person in accomplishing the duties.

Finally, many of the items that follow have their root cause in the matters discussed earlier in the report. These items are symptoms of the need for process changes and automation. However, they also require that fundamental examination of the question: Does this procedure really support our business process, and do we need to continue this procedure if the direction of the business process has changed?

Expenditure Cycle

Our audit found several areas of weakness of internal controls throughout the expenditure cycle. The following findings indicate that State Police management must improve, through consistent communication and monitoring, internal controls over payroll, travel, petty cash and small purchase charge card, and fleet management. We discuss each of these areas in detail below.

Payroll

Payroll is the single largest expense at the State Police, with over 2,000 employees. In addition to salary and wages, the department uses its leave processing procedures for monitoring and controlling time earned and taken for compensatory work, overtime, military, vacation, sick, and worker's compensation, in addition to the other payroll functions.

Over the past 13 months, State Police management has issued two documents regarding Safety in Work, Construction, and Safety Zone and Special Assignments. These documents address an audit comment from the prior year audit and a State Police internal review concerning overtime earned for work zones assignments.

We found several areas of non-compliance in the areas of payroll processing and overtime. The payroll and overtime reporting processes are manual and time consuming. Individuals use handwritten timesheets and the only reconciliation process available is a manual match of timesheets to dispatch logs. Our review of timesheets found non-reimbursable time, inadequate documentation of time worked and contradictions between the hours reported on the timesheets and the amount of hours logged in the computer dispatch system.

State Police management should identify and implement a better system of time and effort reporting. There are many time keeping systems available commercially and in the Commonwealth that could utilize the technology available to troopers in the field and limit the amount of manual processes.

Travel

The State Police must comply, at a minimum, with the Commonwealth's policies and procedures concerning travel expense reimbursements by communicating state travel policies, regulations, and procedures to all employees who travel on state business. Our review of travel reimbursements identified several instances of non-compliance with the Commonwealth's policies and procedures. These included improper coding, payment of non-reimbursable expenses, lack of required documentation, and incorrect calculations.

Contract Files

The State Police has not established standing contracts with all vendors, with which they have regular dealing and the amount of purchases exceed \$50,000 annually, in accordance with Commonwealth purchasing laws and guidelines. In addition, when the State Police do have standing contracts, we found that staff was not consistently monitoring the agreements to ensure the agency was receiving the goods or services and the amount billed complied with the standing contract.

Petty Cash and Charge Cards

We reviewed the State Police's petty cash transactions and found several instances of improper use of petty cash funds. These funds pay for items such as travel expenses, tailoring, laundry, storage facility rentals, towing service, and vehicle repair. Our review determined many of these purchases should have followed the regular vendor payment process.

Additionally, to eliminate the need for petty cash and the associated inherent risk and paperwork, the Commonwealth adopted the use of small purchase charge card (SPCC) for incidental purchases. Further, to eliminate the need for travel advances the Commonwealth adopted a travel card program. The State Police has not fully implemented since we found a number of travel advances, both temporary and permanent, several of these exceed \$500.

The State Police should review the nature of petty cash transactions to seek alternative methods of purchasing and/or payment. These alternatives include using the regular vendor invoice process when appropriate or identifying alternative methods of purchasing goods and services.

Commonwealth accounting practices allow the use of a petty cash fund to handle emergency purchases or purchases requiring immediate payment. A petty cash fund should not become a substitute for an agency's normal vendor payment process when processing delays result in potential late fees, or that chronic late payments cause vendors to require alternative payment methods.

The Commonwealth has established a SPCC program, which, if implemented properly, can reduce the number of petty cash transactions. This would require State Police management to implement and monitor new controls and processes. The State Police has implemented limited use of the SPCC program in purchasing and our review of this program indicates that State Police management could improve its monitoring as controls are occasionally circumvented without management approval.

Fleet Management

Management of the fleet of vehicles owned and operated by the State Police is critical to the accomplishment of the department's mission. The State Police needs to document all fleet management policies and procedures, and update or replace systems used to provide fleet information to enhance decision making.

Documented policies and procedures provide guidance to personnel currently carrying out these activities and provide the information necessary for other personnel to perform the processes should changes in personnel occur. Without this documentation, State Police management risks losing the institutional knowledge of the current staff.

Current Property and Materials Management and Vehicle Expense Systems do not provide decision makers with adequate information to support assignment and maintenance decisions. The State Police should consider using the statewide system available at the Department of General Services' Office of Fleet Management Services, before attempting to incur significant costs in upgrading or replacing their current system.

Summary

The current lack of controls in the handling of contracts, billing, and oversight of charge card use represents a serious risk, which could lead to the loss of assets. Internal controls over safeguarding assets constitute a process that provides reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the State Police assets.

Documented policies and procedures, consistent communication and monitoring, and the enhanced use of technology will provide State Police management with the information required to make appropriate decisions about agency operations. Understanding the integrated business processes and the associated flow of resources and expenses will allow management to effectively monitor agency operation and performance.

Systems Development – Strategic Planning and Prioritization

Integral to the payroll system and overtime issues discussed previously, is the billing and recovery of personnel costs from various third parties. A significant portion of the State Police's overtime budget comes from recovering payroll costs for patrolling or performing specific work such as Work Zone Safety Patrol Enforcement.

Since 1998, State Police management has identified the need for a consolidated billing system. This system has been categorized as a high-priority system development project for approximately eight years. The agency has made a significant investment of time and resources in an attempt to build the system in-house, but eventually cancelled the project. The consolidated billing is now part of their e-Business efforts; however, management has rescheduled this module for a later implementation date to meet competing priorities.

We have reviewed the Information Technology and Planning Division's IT strategic plan and determined that the plan focuses on a short-term list of projects as opposed to a long-range plan for the future of the agency. They also are in the early stages of a multi-module implementation of an Oracle e-Business Suite. The plan includes only early requested modules. Lastly, in the plan provided for review, there was no correlation between the State Police's overall strategic plan and their IT strategic plan.

Although, the Department has unique operating needs, many of the core functions are similar to the operations of any other businesses, agencies, or institutions. The Commonwealth has available a wealth of systems and knowledge that the Department could use to address these needs without continuing to rely on a system development approach that does not take advantage of these resources.

State Police is an agency under the oversight of the Virginia Information Technology Agency (VITA), which has specific requirements for the requesting and approval of system development efforts. State Police management believes planning system implementation by individual components rather than planning the implementation of the entire Oracle e-Business Suite exempts them from these reporting requirements. However, both the nature of the effort and the ultimate nature of the program require the approval and oversight of VITA. We do not believe that the State Police e-business efforts comply with the VITA reporting and approval requirements.

We recommend that State Police management reassess their strategic plan for their agency and the IT department, ensuring there is a connection between the two. They should also review their IT strategic plan and adjust it for a more proactive approach towards systems development as opposed to their current reactive short-term approach. We would also recommend that they look at the Oracle e-Business Suite in a more long-term approach, laying out the modules they need to accomplish to complete the entire suite and not just one module at a time.

In addition, we recommend that the State Police comply with VITA system development approval and oversight guidelines. Compliance with these guidelines is essential to the State Police's overall administrative operations as the Commonwealth moves to new administrative systems, which include many of the systems the State Police are considering replacing with their e-business project. By not tracking this statewide project, the State Police may find that they will need to replace their e-business solution before it is operational.

Information Systems Security Assurance

Information security risks are any activity or event that threatens the achievement of identified business objectives by compromising confidentiality, integrity, or availability of electronic information. Agencies are vulnerable to many kinds of information risks inflicting various types of damage, which can result in significant losses. To achieve information security assurance, management must understand the processes and implement applicable internal controls. To be effective, management should deploy these controls across the environment and have them embedded in the everyday processes of the organization.

Our review of the State Police's information system security policies and procedures indicate the agency does not properly monitor access to their systems and networks. In addition, policies and procedures are not sufficient in detecting necessary changes/modifications to access.

The State Police does not have documented policies and procedures for security awareness and training programs for new and current employees. The Commonwealth Security Standard requires that agencies establish and maintain information security awareness and security training programs. The State Police does not have either of these programs documented in their Security policy. Likewise, the security policy does not have any security training requirements for managers, administrators, and other IT staff.

The State Police does have policies and procedures in place to monitor systems and network access. However, these processes are ineffective and require updating. Access controls to State Police systems, such as the Commonwealth's payroll system (CIPPS), and their virtual private network (VPN) are not sufficient to ensure that unauthorized users do not gain access.

Failure to properly document, approve, or remove the access can allow an employee unnecessary access to the State Police's critical infrastructure or systems. In addition, failing to remove an account timely provides an opportunity for someone, who knows the password, to use the account inappropriately. To reduce the risk of inappropriate access, the State Police can adopt a monitoring and review process to verify that employee access is reasonable on a periodic basis. This monitoring and review process is an additional control if the communication process fails in notifying the Security Officer of an employee departure or transfer of job duties.

Relationship with VITA

State policy makes the Superintendent of the State Police responsible for the security and safeguard of all the State Police'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, the State Police have also transferred many of the staff who had the expertise to advise the Superintendent on these matters.

We believe that the State Police 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 Superintendent must have VITA provide assurance that their infrastructure would provide the safeguards to protect the databases and information under state policy.

The Superintendent needs to evaluate the State Police's capabilities for determining the level of assurance needed from VITA. Since the State Police retains ownership and maintains the application systems and databases that gather information, the Superintendent's 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 Superintendent of the adequacy of those controls. This shared environment is the same as the mainframe data center operation that VITA and its predecessors offer. However, for the transmission of information to and from the database, the Superintendent must address whether the State Police has the expertise to assess this issue. Inherent within this question is whether the State Police 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 the State Police 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 the State Police 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 Superintendent assurance that the infrastructure provides the level and depth of security necessary to meet state policy and other federal requirements.

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

SELECTED AGENCY INFORMATION AND FINANCIAL HIGHLIGHTS

The Department of State Police is the Commonwealth's law enforcement agency. In addition to their headquarters, which is located in Richmond, there are 7 field divisions and 48 area offices located throughout the state. The State Police employs over 2,600 employees, which includes approximately 1,800 troopers. The State Police has three bureaus.

Field Operations - Provides both traffic enforcement and criminal law enforcement on over 64,000 miles of state roadways and interstate highways throughout the Commonwealth. In addition, Field Operations manages the Motor Vehicle Safety Inspection Program, enforces motor carrier and commercial vehicle safety regulations, and oversees the State Police's Aviation Unit.

Criminal Investigation - Investigates all criminal matters mandated by statute and established departmental policy. The Bureau consists of four divisions: General Investigation, Drug Enforcement, Criminal Intelligence, and Insurance Fraud. The General Investigation Division investigates certain felonies, as well as requests from various officials. The Drug Enforcement Division conducts narcotics investigations, participates on task forces and special assignments, and conducts routine drug enforcement activities. The Criminal Intelligence Division operates the Virginia Criminal Intelligence Center, which provides information to various law enforcement agencies. The Insurance Fraud Division established on January 1, 1999 performs independent inquiries and conducts investigations of insurance fraud.

Administrative and Support Services - Includes the Divisions of Communications, Criminal Justice Information Services, Information Technology and Planning Division, Human Resources, Property and Finance, Training, STARS, and the Planning and Research Unit.

The Department has critical criminal and administrative information on three major information system networks: State Police Administrative Network (SPAN), Virginia Criminal Information Network (VCIN), and the Automated Fingerprint Identification System (AFIS). SPAN maintains all of the Department's in-house applications including the central criminal records exchange, sex offender registry, and the firearms transactions program. The central criminal records exchange, sex offender registry, and firearms transaction programs are all used to perform various types of criminal background searches.

VCIN connects the Department to other state and federal criminal justice agencies, and other states' motor vehicle departments. VCIN is a retrieval and information exchange system for state and local police officers during traffic stops. AFIS is a shared state and local computer system, which supplements VCIN. AFIS and Live-scan equipment operate in local agencies throughout Virginia. Live-scan equipment electronically records and transmits arrest and finger print information to AFIS.

Financial Information

The State Police had an operating budget of over \$223 million and \$233 million in fiscal years 2004 and 2005, respectively. This operating budget includes all the costs of operating the department. In addition, the State Police had a capital outlay budget of over \$14 million and \$170 million in fiscal years 2004 and 2005, respectively. In fiscal year 2005, the State Police began work on their Statewide Agencies Radio System (STARS). STARS is a multi-year project; therefore, actual expenses were significantly lower than budgeted amounts. The spending of the remainder appropriation will occur in future fiscal years.

Analysis of Budgeted and Actual Expenditures

<u>Program</u>	FY 2005		FY 2004	
	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
Criminal justice information systems and statistics	\$ 33,411,748	\$ 31,227,584	\$ 30,287,156	\$ 27,743,035
Criminal justice training, education, and standards	3,330,685	3,330,681	3,261,525	3,261,524
Crime detection, investigation and apprehension	165,363,250	161,437,531	160,979,173	153,769,656
Administrative and support services	13,097,673	13,093,477	11,791,625	11,774,132
Ground transportation system safety	17,398,644	13,387,308	16,441,557	12,421,571
Vending facilities, snack bars and cafeterias	<u>453,430</u>	<u>453,418</u>	<u>398,340</u>	<u>394,535</u>
 Total operating budget	 233,055,430	 222,929,999	 223,159,376	 209,364,453
 Capital outlay projects	 <u>170,829,258</u>	 <u>46,717,377</u>	 <u>14,237,589</u>	 <u>3,683,707</u>
 Total	 <u>\$403,884,688</u>	 <u>\$269,647,376</u>	 <u>\$237,396,965</u>	 <u>\$213,048,160</u>

Source: Commonwealth Accounting and Reporting System

The State Police primarily receives general fund appropriations and transfers from other state agencies. In addition, the State Police collects fees for central criminal record searches, sex offender registry searches, firearm transaction program inquiries, and state inspection stickers. Revenue also comes from state and federal asset forfeitures, surplus property sales, insurance recoveries, and federal grants. In fiscal years 2004 and 2005, the State Police received funding totaling \$205,944,245 and \$215,293,701, respectively. The following table shows the breakdown of funding by source.

Funding by Source

	<u>FY 2005</u>	<u>FY 2004</u>
General Fund appropriations	\$176,701,413	\$161,877,755
Revenue:		
State inspection sticker fees	11,994,998	11,942,284
Criminal records check fees	5,115,260	4,736,113
Federal grants and contracts	9,582,101	17,205,482
Sale of surplus property	584,487	924,090
Asset forfeitures (state and federal)	1,724,477	979,794
Sex offender registry	966,923	1,480,408
Firearms dealer fees	524,950	414,612
Insurance recoveries	350,615	295,944
Other revenues	<u>7,748,477</u>	<u>6,087,763</u>
 Total	 <u>\$215,293,701</u>	 <u>\$205,944,245</u>

Source: Commonwealth Accounting and Reporting System

In fiscal years 2004 and 2005, the State Police spent a total of \$213,048,162 and \$269,647,376 respectively. This included over \$46 million for capital outlay in fiscal year 2005, and less than \$4 million in fiscal year 2004. As stated above, in fiscal year 2005, the State Police began work on the STARS project.

This project resulted in a large increase in capital outlay expenditures. The following table breaks down expenses by category.

Expenses by Category

	<u>FY 2005</u>	<u>FY 2004</u>
Personnel services	\$167,085,086	\$154,745,831
Contractual services	20,087,071	18,190,266
Supplies and materials	11,331,556	10,178,205
Continuous charges	9,309,217	8,990,168
Equipment	13,293,545	15,674,436
Plant and Improvements	198,111	67,676
Other	<u>1,625,413</u>	<u>1,517,873</u>
 Total operating expenditures	 222,929,999	 209,364,454
 Capital outlay	 <u>46,717,377</u>	 <u>3,683,707</u>
 Total	 <u>\$269,647,376</u>	 <u>\$213,048,162</u>

Source: Commonwealth Accounting and Reporting System

Statewide Agencies Radio System (STARS)

The STARS concept began in the mid-1990's as an upgrade to the State Police's 1977 land mobile radio network. As planning progressed, both technology advances and direction from state government led to the present concept of a shared system composed of the 21 state agencies that use two-way radio communication as a regular part of their operations.

In 2001, the General Assembly approved the State Police to request proposals for a radio system to update or replace the existing radio system in use. The STARS contract is an agreement between the Commonwealth of Virginia and Motorola Incorporated for the development, construction, and installation of a digitally trunked radio transmitter and receiver system and infrastructure.

The STARS Contract is broken down into seven divisions. The main division is Division One, Richmond. This is the main division because it is the first division for completion and the division where the Network Operations Center (NOC) is located. There are other back-up network centers, but this is the main one.

The contract started in July 2004 with completion scheduled for September 2009. The Division One implementation schedule is for January 2006 after a revision from December 2005. Final acceptance of Division One is June 2006. A large portion of the payments for the contract costs will occur in fiscal year 2006 with the majority of the work in Division One. The systems integrator and STARS staff anticipate implementation of the STARS radio system complete by June 30, 2008.

The contract cost and deliverables are as follows:

Core system	\$318,091,943
Performance bonds	222,000
Mandatory maintenance and configuration warranty	<u>11,359,756</u>
Total	<u>\$329,673,699</u>

Review of Contract Performance

Contract deliverables, thus far, include transmitter site designs, fleet mapping, installation of microwave towers and some training. All of the site designs and fleet mapping are approved. Nineteen of the twenty microwave sites are completed. The last microwave site is now scheduled for completion by September due to weather delays. The State Police received two mobile communications centers this fiscal year per the contract.

The contractual schedule calls for Division One to be operational December 2005. Division One operations was delayed until the end of January 2006. The delay is in large part due to the construction of the Network Operations Center. Final acceptance of Division One is still scheduled for June 2006. Although, subsequent installment issues have arisen with vehicle installations and it is likely that substantial completion of these installations will be later than June 2006 for Division One.

Project costs as of December 2005 are \$52,063,875. The revised total projected cost of the STARS project is \$359,245,533. This accounts for the contract costs for Motorola and costs taken on by the State Police. The project's revised final cost includes \$9,988,834 for changes in participation by state agencies. The project added a few agencies; they are the Department of Forestry, Charitable Gaming, Virginia Port Authority and The Chesapeake Bay Bridge and Tunnel Police. It also eliminated two agencies because of lack of applicability; they are Department of Aviation and the Department of Professional and Occupational Regulation. By fiscal year-end, the State Police projected contractual costs with Motorola at \$159,300,000. This will leave \$199,945,533 to be funded in fiscal years 2007 through 2009.

Planning work for Divisions Two through Seven has already started. This allows the systems integrator, Motorola, and the State Police to get a head start on the remaining divisions for the project.

The State Police and Motorola are making progress with the installation issues with the vehicles. The performance monitoring of the contract by the State Police occurs on a daily basis. The STARS staff is involved with the work performed and gets updates at least monthly. There should be no reason the project will be delayed past September 2009 completion date unless the Commonwealth and the State Police expand the scope of the contract beyond the present scope.



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General Assembly Building
Richmond, Virginia

We have audited the financial records and operations of the **Department of State Police** for the period July 1, 2004 through December 31, 2005. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Agency's internal controls, test compliance with applicable laws and regulations, and review corrective actions of audit findings from prior year reports.

Audit Scope and Methodology

The State Police'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 and regulations.

We gained an understanding of the overall internal controls, 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. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Revenues	Federal grant revenues and expenditures
Expenses	Network security and system access

We performed audit tests to determine whether the State Police'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 and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the State Police's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that the State Police properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The State Police 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.

We noted certain matters involving internal control and its operation and compliance with applicable laws and regulations that require management's attention and corrective action. These matters are described in the section entitled "Internal Control and Compliance Findings and Recommendations."

The Agency has taken adequate corrective action for three of five audit findings reported in the prior audit report. The Agency has not taken adequate corrective action with respect to the prior findings "Improve Fleet Management Policies and Procedures" and "Improve Systems Development Process."

EXIT CONFERENCE

We discussed this report with management on April 24, 2005. Management's response has been included at the end of this report.

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

NJG/kva



Colonel W. S. (Steve) Flaherty
Superintendent

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COMMONWEALTH of VIRGINIA

DEPARTMENT OF STATE POLICE

Lt. Col. Robert B. Northern
Deputy Superintendent

P. O. BOX 27472, RICHMOND, VA 23261-7472

May 2, 2006

The Honorable Walter J. Kurcharski
Auditor of Public Accounts
Post Office Box 1295
Richmond, Virginia 23218-1295

Dear Mr. Kurcharski:

We have reviewed the audit report for the period of July 1, 2004 through December 31, 2005. We appreciate an opportunity to comment on the report.

This report represents a comprehensive audit of the Department and includes a number of findings and/or recommendations. As you have explained in the report, the Department does not have the financial or personnel resources that are needed to address all administrative and law enforcement responsibilities. Like most agencies, the Department has directed limited resources to priorities in its primary service areas of law enforcement. In these troubling times since 9-11, the Department has been required to devote law enforcement and civilian resources/funding to the protection of the citizens of the Commonwealth against terrorism. Although these resources are dedicated to that mission, we do support the need for a strong system of internal control sufficient to ensure that assets are properly safeguarded. We are very aware of our responsibilities in this area and will continue to strengthen internal control.

The report also includes a number of comments related to information technology (IT). We recognize the need for continued improvement in this area and welcome the opportunity to improve or replace many internal systems that no longer support the needs of the Department.

I am sure that you, and your staff, are aware of our intentions to improve our systems. However, this report does not recognize the vast improvements that have been made in the last year in our IT area. We believe that we have in place an excellent, but limited staff that has our overall system needs well in focus and

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who are devoted to needed improvements, provided that the necessary resources are available.

Internal Control Related to Expenditure Cycle

Several areas of weaknesses are included in the audit report that require immediate corrective action, including documentation of procedures, change in business processes and improvement or replacement of automated systems.

Areas where improvements are required include payroll, with emphasis on the processing and billing of special projects overtime, travel, petty cash and fleet management.

A number of the corrective actions can be implemented quickly to improve the control in the areas of travel and petty cash. Changes are already in place that will correct a number of the concerns.

Corrective actions such as change in business processes and improvement or replacement of automated systems, will take much longer to implement. We have identified an IT solution, Oracle e-Business Suite software, which would assist us in this effort and we are fortunate to have a dedicated information technology staff to assist in the automated systems improvements.

The Department is committed to a strong system of internal controls and will make serious efforts to ensure necessary corrective action is taken.

Systems Development, Strategic Planning and Prioritization, and IT Security

In an effort to improve coordination between the planning and IT functions within the Department, on February 25, 2005, the Department reorganized to combine the Data Processing Division with the Planning and Research Unit. Since that time, there have been significant improvements in the areas of IT strategic planning and systems development. After the reorganization, management of the newly created Information Technology and Planning Division reviewed your previous audit report and recognized the need to evaluate commercially available off-the-shelf applications to replace outdated administrative systems as opposed to in-house development. The Department then moved forward with procuring Oracle e-Business Suite, with the oversight and approval of the Virginia Information Technologies Agency (VITA). Although VITA did not communicate that we were not in compliance with their reporting and approval requirements, we will work collaboratively with them on these issues.

In an effort to strengthen planning efforts in the IT area, the Department's strategic plan was recently revised to include one goal and ten strategies specifically dedicated to information technology. One strategy addresses the full implementation of the Oracle e-Business Suite to replace outdated administrative applications. As recommended in your report, an implementation plan will be prepared and submitted to VITA for approval. The Department will strive to continue the advancements that we have made in the area of IT strategic planning.

The Department fully recognizes that the security of IT systems is extremely important and will make every effort to strengthen internal controls. Policy changes are already in place to address the issue of access controls to State Police systems, including the virtual private network (VPN). These changes will tighten internal controls by reducing the risk of inappropriate access. Additionally, the Department is in the process of dedicating funding for the implementation of a security awareness training program for new and current employees. This interactive web-based program is offered by VITA on state contract.

The Department concurs with your recommendation that VITA should provide a written assurance that the infrastructure provides the necessary security controls. This requirement has been included in the proposed memorandum of understanding between the Department and VITA.

We look forward to working with your staff to improve in this area in the future.

Sincerely,


Superintendent

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