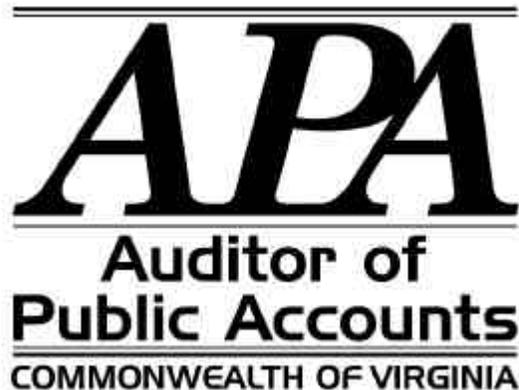


**SELECTED AGENCIES
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2001**



AUDIT SUMMARY

We have audited the financial records and operations of the six entities listed below for the year ended June 30, 2001:

- Commission on Local Government
- Commonwealth Competition Council
- Council on Human Rights
(Renamed Human Rights Council effective July 1, 2002)
- Department for Rights of Virginians with Disabilities
- Department of Employment Dispute Resolution
- State Board of Elections

Our audit of these entities found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- internal control matters that we consider reportable conditions, however, we do not consider these matters to be material weaknesses;
- instances of noncompliance with applicable laws and regulations that are required to be reported; and
- adequate implementation of corrective action on the prior year audit finding.

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AGENCY HIGHLIGHTS

The Department of General Services maintains financial activity records for the following entities. We issued a separate report, dated November 27, 2001, detailing the results of our audit of the Department of General Services.

Commission On Local Government

The Commission on Local Government does the following:

- Reviews local boundary change and governmental transition issues for localities and the courts
- Provides technical assistance to local governments, state agencies, and the public on boundary change and transition issues
- Prepares an annual report analyzing the revenue capacity, revenue effort, and fiscal stress of Virginia's cities and counties
- Prepares an annual update of the Catalog of State and Federal Mandates on Local Governments documenting state agency assessment of mandates on localities
- Prepares fiscal impact statements on proposed state legislation that requires additional net local expenditures or the net reduction of local revenues
- Provides research assistance to the General Assembly and legislative study committees
- Provides staff support for the Virginia Advisory Commission on Intergovernmental Relations, which serves as the state's only forum to address intergovernmental issues and concerns

For fiscal year 2001, the Commission received \$655,337 in General Fund appropriations. Ninety percent of these appropriations paid salaries and benefits for agency personnel. The remaining appropriations funded other miscellaneous expenses to support the Commission such as rent, supplies and materials, and telecommunication services.

Commonwealth Competition Council

The Commonwealth Competition Council has the goal of identifying and promoting innovations and competition within the Commonwealth for providing government services. The Council has worked with state agencies to identify best practice innovations within their agencies and has organized these innovations into a searchable database on the Council's website. The Council has created a five-step process, including a public or private performance analysis, to facilitate the evaluation of privatization opportunities by state agencies. Finally, the Council issues a quarterly newsletter through their website, highlighting public/private partnership initiatives and opportunities. The Council received \$284,693 in General Fund appropriations to support its activities, 74 percent of which covers personnel services.

Other expenses for fiscal year 2001 are below.

Fiscal Year 2001 Expenses

Personnel services	\$211,415
Contractual services	36,435
Equipment	21,036
Rent, insurance, and other charges	2,268
Supplies, materials and miscellaneous	<u>1,977</u>
Total expenses	<u>\$273,131</u>

Council on Human Rights

The Council on Human Rights seeks to safeguard all individuals within the Commonwealth from unlawful discrimination as defined in the Virginia Human Rights Act. The Council has the following duties under the Virginia Human Rights Act:

- Issue regulations
- Receive, investigate, and refer complaints of unlawful discrimination
- Hold hearings and make findings and recommendations regarding complaints of unlawful discrimination practices
- Promote local human rights commissions, which support the same function within their communities

The Council received General Fund appropriations of \$364,020 and federal grants of \$19,471 to support its programs. Below is a summary of the Council's expenses for fiscal year 2001.

Fiscal Year 2001 Expenses

Personnel services	\$291,627
Rent, insurance, and other charges	35,369
Contractual services	19,631
Supplies and materials	1,806
Workers compensation payments	<u>974</u>
Total expenses	<u>\$349,407</u>

Department for Rights of Virginians with Disabilities

The Department for Rights of Virginians with Disabilities provides legal and advocacy services to protect and defend the rights of persons with cognitive, sensory, mental, and physical disabilities particularly in the areas of abuse, neglect, and discrimination. The Department also provides technical assistance, training, and referral information on available resources and services.

In addition to its central office in Richmond, the Department maintains three field offices in Richmond, Virginia Beach, and Staunton. It has nine attorneys and four advocates on staff.

Funding for the Department consists of 77.8 percent federal grants, 11.5 percent special revenue, and 10.6 percent Commonwealth general funds and totaled \$2,094,636 for fiscal year 2001 with an ending fund balance of \$211,304. Below are the programs.

- Virginians with Disabilities Act - allows the Department to bring legal action in the event of unlawful discrimination in employment, voting, state programs and activities, education, transportation, housing, and access to places of public accommodation.
- Client Assistance Program - protects the rights and benefits of people who are applicants or clients of the Department of Rehabilitative Services, Department for the Blind and Vision Impaired, Center for Independent Living, or other programs funded under the Rehabilitation Act of 1973, as amended.
- Assistive Technology Program - assists disabled individuals in obtaining access to assistive technology devices and services.
- Protection and Advocacy of Individual Rights Program – provides advocacy or legal services to individuals faced with unlawful discrimination or barriers to independent living or to receiving benefits and services generally offered to the public.
- Protection Advocacy of Individuals with Mental Illness – protects the human rights and the access to services of mental health facility residents or persons recently discharged, or persons living in the community who have a mental illness.
- Developmental Disabilities Program – protects persons with developmental disabilities who have experienced abuse, neglect, or discrimination in education, housing, employment, community programs, treatment, and services.
- Protection and Advocacy for Beneficiaries of Social Security Program – provides eligible SSI and SSDI beneficiaries with vocational rehabilitation services, employment services, and other support services.

The Department can assist anyone who qualifies for one of the above programs. Assistance can come in the form of advocacy, mediation, or legal action on behalf of the client. In 2001, the Department provided direct legal or advocacy services to 624 persons, provided referral information or technical assistance to 10,451 persons, trained 1,974 persons, and distributed 23,888 of its own publications to persons. Agency staff also serve on 22 advocacy boards, councils, or task forces to direct public policy on behalf of persons with disabilities. The Department's expenses by program area for fiscal year 2001 follows.

Fiscal Year 2001 Expenses

Protection and Advocacy of Individual Rights	\$ 283,101
Assistive Technology	47,896
Developmental Disabilities	585,180
Protection and Advocacy of the Mentally Ill	441,025
Virginia Disabilities Act/Administration	222,662
Client Assistance Program	202,716
Indirect Cost Recoveries	271,641
Protection and Advocacy for Beneficiaries of Social Security Programs	<u>7,347</u>
 Total expenses	 <u>\$2,061,568</u>

Department of Employment Dispute Resolution

The Department of Employment Dispute Resolution administers the Commonwealth's employee grievance procedure. In addition, the Department works to prevent and resolve employment-related disputes in state government through its statewide mediation program, a toll-free advice line, and training on the grievance procedure and conflict resolution.

The Department received funding through General Fund appropriations of \$1,150,505 and special revenue collections of \$136,333. Below are the Department's expenses for fiscal year 2001 of which personnel services represents 84 percent.

Fiscal Year 2001 Expenses

Personnel services	\$1,055,600
Contractual services	88,417
Equipment	8,158
Rent, insurance, and other charges	95,763
Supplies and materials	<u>9,817</u>
 Total expenditures	 <u>\$1,257,755</u>

State Board of Elections

The State Board of Elections (Board) supervises and coordinates the work of local voter registration officials (Registrars) and Electoral Board members (Election Officials) who register voters and conduct elections within their jurisdictions. Its statutory mission is to ensure statewide uniformity of voter registration and election procedures and fairness, accuracy, purity, and legality in all elections. The Board also provides guidance, certifies all voting equipment, qualifies candidates for nomination and election, and certifies statewide, general assembly, and shared constitutional officer election results.

We reviewed the progress of the Board's Virginia Voter Registration Systems Development Project and issued a separate report dated December 18, 2001. The review identified that the project lacks a detailed project plan, a comprehensive budgeting mechanism, and adequate funding to complete the project. For fiscal year 2001, the Board has spent \$1,128,390 with cumulative project expenses as of January 31, 2002, of \$2,534,814. Details concerning these issues are in the separate report.

The Board provides localities funding to pay the salaries and some expenses of the Registrars and Election Officials. Compensation amounts are generally calculated based on the most recent population estimates from the U.S. Census Bureau or the University of Virginia's Center for Public Service. The compensation period is March through February.

Finally, the Code of Virginia requires that the Board receives and catalogs all candidate and committee campaign finance report files. As a part of this requirement, the Board verifies that all reports are complete and submitted on time, assessing civil penalties for late, incomplete, or unfiled reports.

General Fund appropriations support the majority of the Board's activities. The Board received \$12,185,464 in General Fund appropriations in fiscal year 2001. The Board also collects minimal revenues from the assessment of Campaign Finance Disclosure fines (civil penalties) on behalf of the Commonwealth and receives expenditure refunds from the sale of copies of voter registration listings and campaign finance reports. The Board's expenses fall into the following broad areas for fiscal year 2001, 51 percent of which were transfer payments to localities.

Fiscal Year 2001 Expenses

Personnel services	\$ 1,134,259
Contractual services	4,339,980
Equipment and property improvements	228,295
Rent, Insurance and other charges	114,278
Supplies and materials	93,491
Aid to local governments	<u>6,108,652</u>
 Total expenses	 <u>\$12,018,955</u>

INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Complete a Comprehensive System of Information Security

The State Board of Election's contingency plan only addresses emergency election day procedures and Y2K issues that prepared the agency for the year 2000. In addition, the Board has not completed a Business Impact Analysis or Risk Assessment.

The Commonwealth of Virginia Information Technology Resource Management, Standard 95-1, (COV ITRM 95-1) requires each agency to conduct a business impact and risk analysis. A business impact analysis should provide reasonable assurance that the agency has identified all potentially sensitive and critical information and documented the risk analysis that show there is adequate consideration of existing safeguards and additional safeguards to ensure proper security. The Board is developing a "Business Risk Impact Analysis" to comply with Executive Order no. 7, "The Secure Virginia Initiative," issued January 2002 and expects completion by June 2002.

In addition, agencies should revisit these plans regularly to ensure there are appropriate safeguards on both existing and new systems. The Board should also ensure that it has tested its contingency plan and documented the test procedures and results.

The Board will also need to implement security safeguards. The Board has not fully addressed security issues as they relate to all systems. The Board prevents access to the servers through security

safeguards built into the system and locking devices on the hardware; however, access to the room is not limited to necessary personnel. The physical security of the systems equipment should include normal and emergency operating procedures for monitoring access to the servers to ensure unauthorized individuals are not gaining access to the system.

Report Violations of the Campaign Finance Disclosure Act

The State Board of Elections has not reported violations of the Campaign Finance Disclosure Act to the appropriate attorney for the Commonwealth as required by the Code of Virginia §24.2-928. The Code requires that the Board report violations if the penalty remains unpaid 30 days following notice of the penalty. In addition, the Board takes an excessive amount of time to issue penalty letters following internal knowledge of late and unfiled reports.

The Campaign Finance and Disclosure Act software improved receipting and cataloging of electronically-filed reports. However, the Board continues to receive manually-filed reports. In addition, the software does not generate accurate reports for identifying late and unfiled reports. Therefore, in January 2002, the Board began developing, internally, an application external to the campaign finance software, which would accurately determine and flag reports that violated the filing deadlines. The Board expects by late spring 2002, it will implement its campaign finance revised application.

The Board should continue to identify ways to improve their compliance with the Campaign Financial Disclosure Act over electronically and manually-filed reports. The prompt issuance of penalty notices and reporting violations is important to deter the number of unfiled and late reports.

February 25, 2002

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

The Honorable Vincent F. Callahan, Jr.
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 six entities (the Entities) listed below for the year ended June 30, 2001:

- Commission of Local Government
- Commonwealth Competition Council
- Council on Human Rights
- Department for the Rights of Virginians with Disabilities
- Department of Employment Dispute Resolution
- State Board of Elections

We conducted our audit in accordance with 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 accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Entities' internal control, and test compliance with applicable laws and regulations. We also reviewed corrective actions of the audit finding from the prior year report.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Entities' 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:

Expenditures	Fixed Assets
Revenues	Systems

We obtained an understanding of the relevant internal control components 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 Entities' 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.

Each Entity'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.

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 and regulations. 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 Entities properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Entities record their 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 certain matters involving internal controls and its operation that we consider to be reportable conditions. A reportable condition involves matters coming to our attention relating to deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Entities' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. The reportable conditions entitled "Complete a Comprehensive System of Information Security" and "Report Violations of The Campaign Finance Disclosure Act" are described in the section titled "Internal Control Findings and Recommendations." We believe that none of the reportable conditions are material weaknesses.

The results of our tests of compliance with applicable laws and regulations disclosed instances of noncompliance that are required to be reported under Government Auditing Standards, which are discussed in the findings entitled "Complete a Comprehensive System of Information Security" and "Report Violations of the Campaign Finance Disclosure Act."

The Entities have taken adequate corrective action with respect to the audit finding reported in the prior year.

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 public record.

EXIT CONFERENCE

We discussed this report with management.

AUDITOR OF PUBLIC ACCOUNTS

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COMMISSION ON LOCAL GOVERNMENT
Richmond, Virginia

George Urquhart, Executive Director

COMMONWEALTH COMPETITION COUNCIL
Richmond, Virginia

Emmett W. Hanger, Jr., Chairman

Phil K. Bomersheim, Executive Director

COUNCIL ON HUMAN RIGHTS
Richmond, Virginia

Roxie Raines Kornegay, Director

DEPARTMENT FOR RIGHTS OF VIRGINIANS WITH DISABILITIES
Richmond, Virginia

Heidi L. Lawyer, Acting Director

DEPARTMENT OF EMPLOYMENT DISPUTE RESOLUTION
Richmond, Virginia

Neil A.G. McPhie, Director

STATE BOARD OF ELECTIONS
Richmond, Virginia

Lenwood Cobb III, Chairman

Cameron Quinn, Secretary