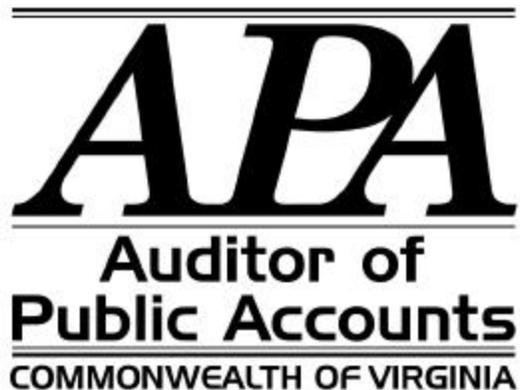


**DEPARTMENT OF PROFESSIONAL
AND OCCUPATIONAL REGULATION
RICHMOND, VIRGINIA**

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



AUDIT SUMMARY

Our audit of the Department of Professional and Occupational Regulation for the year ended June 30, 2001, found:

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

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April 12, 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 **Department of Professional and Occupational Regulation** for the year ended June 30, 2001. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objective, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System and in the Department's accounting records, review the adequacy of the Department's internal control, and test 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
Expenditures
Fixed Assets

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 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 and regulations.

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 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 any internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of the 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 policies and procedures may deteriorate.

Audit 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 in the Department's accounting records. The Department 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, except for the information for the Recovery Trust Fund, which came from the Department's accounting records.

We noted no matters involving the internal control and its operation that we considered material weaknesses. Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components 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 no instances of noncompliance that we are required to report under Government Auditing Standards.

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 management at an exit conference held on May 9, 2001.

AUDITOR OF PUBLIC ACCOUNTS

VMC:whb
whb:28

AGENCY HIGHLIGHTS

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

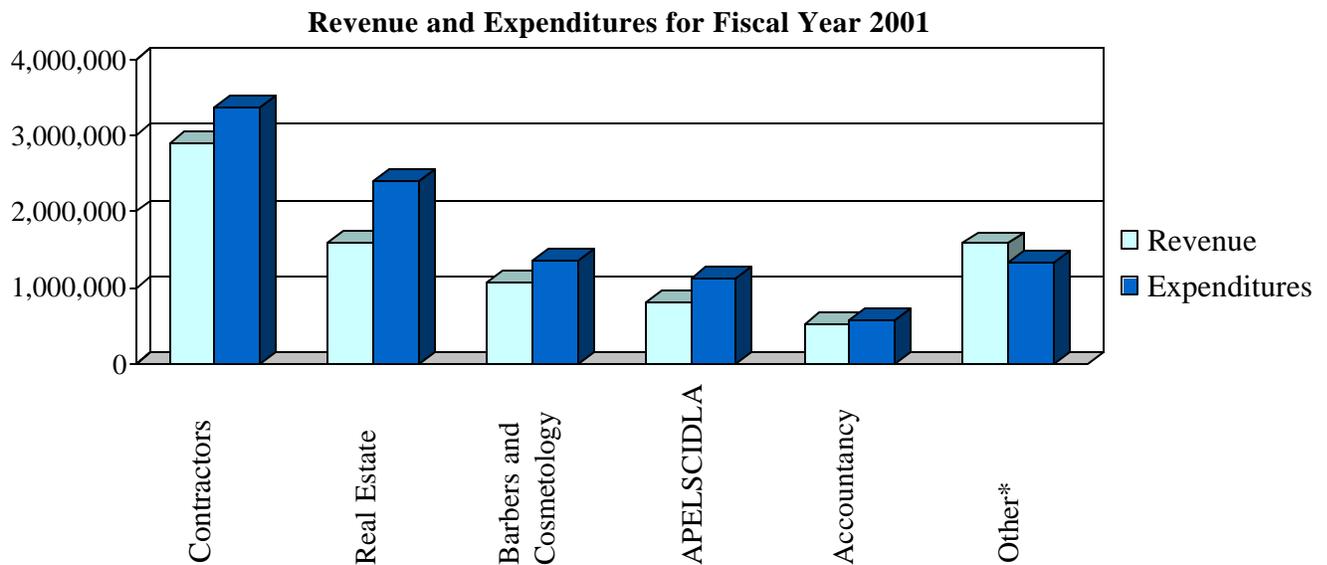
Accountancy*	Geology
APELSCIDLA**	Hearing Aid Specialist
Asbestos and Lead	Opticians
Auctioneers	Polygraph Examiners
Barbers and Cosmetology	Professional Soil Scientists
Boxing and Wrestling Programs	Real Estate
Branch Pilots	Real Estate Appraisers
Cemeteries	Water Works and Wastewater Works Operators
Contractors	Waste Management Facility Operators

* Effective July 1, 2001, the Board of Accountancy separated from the Department of Professional and Occupational Regulation to form a new agency.

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

Financial Highlights

Each board is self-supporting through regulant-assessed fees. The Commonwealth Accounting and Reporting System (CARS) includes all financial data except for the activity of two trust funds. The Department records licensing fees, the collection of fines and penalties assessed, and the expenses associated with regulation in the Special Revenue fund. The following summarizes revenue and expenditures by major boards for fiscal year 2001.

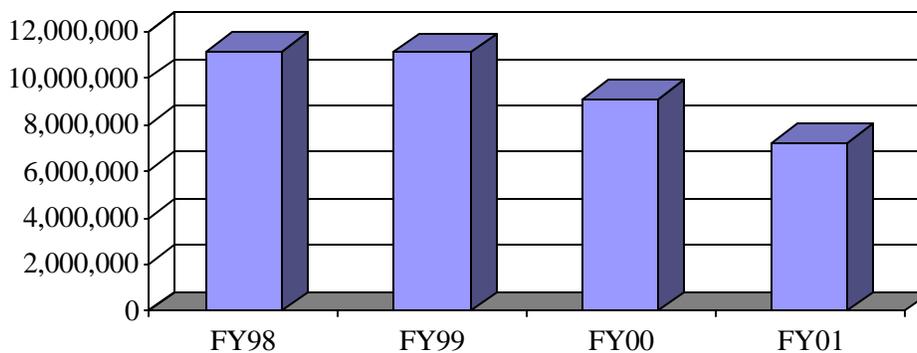


*Other revenue and expenditures includes the activities of the other 13 boards regulated by the Department

The Department allocates administrative expenses, legal costs, and information system costs to the various boards using a cost allocation system. The Department's biggest expense is payroll. In fiscal year 2001, payroll costs of \$8,022,647 accounted for 69 percent of total expenses.

The Code of Virginia requires the Department to adjust fees at the end of each biennium if expenses vary more than ten percent from revenues so that revenues are sufficient but not excessive to cover expenses. Before fiscal year 1998, the Department had accumulated significant cash reserves as a result of low operating costs. In fiscal year 1998, seventeen boards resolved to lower fees in order to decrease these large cash reserve balances. As a result, expenses exceeded revenue by \$1,719,582 in fiscal year 2000 and \$1,624,964 in fiscal year 2001. The following summarizes the decrease in the cash reserves for fiscal years 1998 through 2001:

Cash Reserve Balances for Fiscal Years 1998 through 2001



Trust Funds

The Department controls two trust funds that are recorded separately from CARS, the Virginia Real Estate Transition Recovery Fund and the Virginia Contractor Transition Funds. The Funds 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 in court. During fiscal year 2001, the Contractor Trust Fund paid \$679,108 on 105 claims, and the Real Estate Trust Fund made 24 payments totaling \$84,849. Claim expenses are the majority of the trust fund expenses.

Fair Housing Assistance Program

The Department participates in the Fair Housing Assistance Program administered by the United States Department of Housing and Urban Development (HUD). Pursuant to a cooperative agreement between HUD and the Department, HUD provides financial support to assist with the Department's processing of complaints alleging unlawful discrimination in housing. Additionally, HUD provides funds for training of agency staff involved with the processing of these complaints. Revenue and costs from the Fair Housing Assistance Program are included in the Special Revenue fund. During fiscal year 2001, there were 132 complaints related to fair housing.

DEPARTMENT OF PROFESSIONAL AND OCCUPATIONAL REGULATION
Richmond, Virginia

BOARD MEMBERS

Morris A. Nunes, Chair

Delceno C. Miles, Vice Chair

Richard A. Campana

Susan T. Ferguson

Raynard Jackson

Thomas J. Meany, Jr.

Dona Huang

Zack T. Perdue, Jr.

Leroy O. Pfeiffer, Sr.

AGENCY OFFICIALS

Jack E. Kotvas, Director

James L. Guffey, Deputy Director for Enforcement

Steven L. Arthur, Deputy Director for Administration and Finance