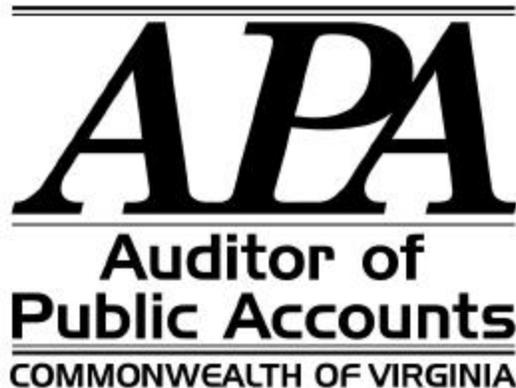


**VIRGINIA INFORMATION PROVIDERS  
NETWORK AUTHORITY  
RICHMOND, VIRGINIA**

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



## **AUDIT SUMMARY**

Our audit of the Virginia Information Providers Network Authority for the year ended June 30, 2001, found:

- the accompanying financial statements present fairly, in all material respects, the Authority's financial position as of June 30, 2001, and the results of operations and cash flows for the year then ended, in conformity with generally accepted accounting principles;
- one internal control matter that we consider a reportable condition; however, we do not consider this to be a material weakness; and
- no instances of noncompliance with material laws and regulations tested.

- TABLE OF CONTENTS -

|   | <u>Pages</u> |
|---|--------------|
| AUDIT SUMMARY   |              |
| INDEPENDENT AUDITOR'S REPORT  |              |
| Report on Financial Statements  | 1            |
| Report on Compliance and on Internal Control Over Financial Reporting | 2-3          |
| INTERNAL CONTROL FINDING AND RECOMMENDATIONS                          | 4            |
| FINANCIAL STATEMENTS  |              |
| Balance Sheet   | 6            |
| Statement of Revenues, Expenses, and Changes in Retained Earnings     | 7            |
| Statement of Cash Flows   | 8            |
| Notes to Financial Statements   | 10-11        |
| AGENCY OFFICIALS  | 12           |

November 1, 2001

The Honorable James S. Gilmore, III  
Governor of Virginia

The Honorable Vincent F. Callahan, Jr.  
Chairman, Joint Legislative Audit  
and Review Commission

Board of Directors  
Virginia Information Providers Network Authority

We have audited the accounts and records of **Virginia Information Providers Network Authority**, as of and for the year ended June 30, 2001, and submit herewith our complete reports on financial statements and compliance and internal control over financial reporting.

#### INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the balance sheet of Virginia Information Providers Network Authority, a component unit of the Commonwealth of Virginia as of June 30, 2001, and statements of revenues, expenses, and retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Virginia Information Providers Network Authority as of June 30, 2001, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of the Virginia Information Providers Network Authority's as of and for the year ended June 30, 2001, we considered internal control over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition, entitled "Strengthen Controls over the Revenue Distribution Transactions" is described in the section titled "Internal Control Finding and Recommendations."

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 misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

The "Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting" is intended solely for the information and use of the Governor and General Assembly of Virginia, the Authority's Board Members and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on October 31, 2001.

AUDITOR OF PUBLIC ACCOUNTS

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whb:40

## INTERNAL CONTROL FINDING AND RECOMMENDATIONS

### Strengthen Controls over the Revenue Distribution Transactions

The Authority did not adequately review the calculation of the revenue distribution. A review of the 12 monthly payment summaries found that seven contained incorrect calculations resulting in over and under payments to five agency partners. The amounts vary at year-end, from a \$4996 overpayment to a \$4632 underpayment.

The Authority makes partnership payments using data put into an online customer database revenue summary report then manually enters the information into excel spreadsheets. The spreadsheets contain both data entry and formula errors.

We recommend the Authority review the documentation of the detailed payment calculations provided by the Network Manager, Virginia Interactive. The review should ensure the accuracy of transactions approved for processing and that Virginia Interactive properly develop and use a methodology that accurately processes partnership payments. In addition, the authority should review the reconciliation of the detail payment summary to the online customer database revenue summary report. These steps should improve the accuracy of the Authority's partnership payment process.

## **FINANCIAL STATEMENTS**

VIRGINIA INFORMATION PROVIDERS NETWORK AUTHORITY  
BALANCE SHEET  
As of June 30, 2001

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ASSETS

|  |                            |
|--|----------------------------|
| Cash with the Treasurer of Virginia (Note 2) | \$ 371,131                 |
| Accounts receivable (Note 3)                 | <u>2,081,357</u>           |
| Total assets                                 | <u><u>\$ 2,452,488</u></u> |

LIABILITIES AND EQUITY

|                                |                            |
|--------------------------------|----------------------------|
| Liabilities:                   |                            |
| Accounts payable (Note 4)      | \$ 793,169                 |
| Due to state agencies (Note 5) | <u>1,651,329</u>           |
| Total liabilities              | <u>2,444,498</u>           |
| Equity:                        |                            |
| Retained earnings (Note 8)     | <u>7,990</u>               |
| Total liabilities and equity   | <u><u>\$ 2,452,488</u></u> |

The accompanying notes to financial statements are an integral part of this statement.

VIRGINIA INFORMATION PROVIDERS NETWORK AUTHORITY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS  
For the Year Ended June 30, 2001

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|  |                        |
|--|------------------------|
| Operating revenues:                        |                        |
| Access and subscription fees               | <u>\$ 23,456,707</u>   |
| Total operating revenues                   | <u>23,456,707</u>      |
| Operating expenses:                        |                        |
| Payments to state agencies (Note 6)        | 18,468,123             |
| Telecommunications                         | 188,553                |
| Contractual services (Note 7)              | 4,735,689              |
| Other                                      | <u>164,546</u>         |
| Total operating expenses                   | <u>23,556,911</u>      |
| Net income (loss)                          | (100,204)              |
| Retained Earnings - July 1, 2000           | <u>108,194</u>         |
| Retained Earnings - June 30, 2001 (Note 8) | <u><u>\$ 7,990</u></u> |

The accompanying notes to financial statements are an integral part of this statement.

VIRGINIA INFORMATION PROVIDERS NETWORK AUTHORITY  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2001

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|   |                            |
|---|----------------------------|
| Cash flows from operating activities:   |                            |
| Cash received from access and subscription fees   | \$ 23,456,518              |
| Payments to state agencies  | (18,230,858)               |
| Payments for other expenses   | <u>(5,367,868)</u>         |
| Net cash provided by operating activities   | (142,208)                  |
| Cash and cash equivalents - July 1, 2000  | <u>513,339</u>             |
| Cash and cash equivalents - June 30, 2001   | <u><u>\$ 371,131</u></u>   |
| Reconciliation of operating income to net cash provided by operating activities:        |                            |
| Operating income (loss)   | \$ (100,204)               |
| Adjustments to reconcile operating income to net cash provided by operating activities: |                            |
| Change in assets and liabilities:   |                            |
| Increase in accounts receivable   | (189)                      |
| Increase in due to state agencies   | 237,265                    |
| Decrease in accounts payable  | <u>(279,080)</u>           |
| Net cash provided by operating activities   | <u><u>\$ (142,208)</u></u> |

The accompanying notes to financial statements are an integral part of this statement.

## **NOTES TO FINANCIAL STATEMENTS**

VIRGINIA INFORMATION PROVIDERS NETWORK AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Virginia Information Providers Network (VIPNet) Authority was created by the General Assembly to help the Commonwealth streamline and enhance the ways in which citizens and businesses access government information and services via the Internet's World Wide Web. The vision of VIPNet is to establish a single, electronic gateway to government information that will improve access to free information while, at the same time, build value-added services for commercially viable information that is needed by the business community.

B. Fund Accounting

The activities of the Authority are accounted for in an enterprise fund. The enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

C. Basis of Accounting

The Authority's records are maintained on the accrual basis whereby revenues are recognized when earned and expenses are recognized when the liability is incurred.

2. CASH WITH THE TREASURER OF VIRGINIA

All state funds of the Authority are held by the Treasurer of Virginia, pursuant to Section 2.1.177, et. seq., Code of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. The fund's equity in pooled state funds is reported as "Cash with the Treasurer of Virginia" on the balance sheet and is not categorized as to credit risk.

3. ACCOUNTS RECEIVABLE

Accounts receivable consist primarily of the accrual of fees associated with drivers records accessed by insurance companies during the month of June.

4. ACCOUNTS PAYABLE

Accounts payable represent amounts owed for goods and services received prior to year-end.

5. DUE TO STATE AGENCIES

Due to state agencies are amounts owed by the Authority to specific state agencies for collection of access and subscription fees. The majority of these collections are due to the Department of Motor Vehicles for driver records accessed during the month of June.

6. PAYMENTS TO STATE AGENCIES

The Authority collects access and subscription fees on behalf of the Departments of Motor Vehicles, Game and Inland Fisheries, Legislative Automated Services, as well as for the Secretary of the Commonwealth, Criminal Justice Services, the Department of Forestry, Library of Virginia, Longwood College, Motor Vehicle Dealer Board, and the Virginia State Bar. Payments to state agencies reflect these amounts.

7. RELATED PARTY TRANSACTIONS

Through a public solicitation process in 1997, the Board entered into a public/private partnership with Virginia Interactive, LLC to serve as VIPNet's Network Manager. Since no tax dollars are used to fund the Network, Virginia Interactive provided all the investment capital to develop the Network and fund its operations for the first year. Based on the partnership contract, Virginia Interactive retains all net profits. Net profits consist of all revenue left over after paying other state agencies for their services and withholding amounts for the reasonable and necessary expenses of the Board. Net profits transferred to Virginia Interactive for the year ending June 30, 2001, totaled \$4,735,689.

8. RETAINED EARNINGS

The Board is allowed to withhold amounts for reasonable and necessary expenses of the Board. In order to have cash available when expenses are incurred, withholding for the Board is a set dollar amount for each month. Any amount withheld and not spent as of June 30, 2001, is classified as Retained Earnings.

9. PENDING GASB STATEMENT

Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, issued June 1999, will be effective for the Commonwealth for the fiscal year ending June 30, 2002. This Statement imposes new standards for financial reporting. The changes to VIPNet's financial statements will be minimal since its activity is accounted for in an enterprise fund. However, VIPNet's management will be required to provide a management's discussion and analysis that gives readers an analysis of the Authority's overall financial position and results of operations including a comparison of current year results with the prior year. VIPNet has completed its assessment of the changes required by this Statement and is preparing for implementation.

10. SURETY BOND

The employees of the Authority were covered by a Faithful Performance Duty Bond administered by the Commonwealth's Department of General Service, Division of Risk Management with liability limits of \$1,000,000 for each occurrence. Information relating to the Commonwealth's self-insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

VIRGINIA INFORMATION PROVIDERS NETWORK AUTHORITY  
Richmond, Virginia

BOARD MEMBERS  
As of June 30, 2001

Jerry Simonoff, Chairman  
Nelson Worley, Vice Chairman

Richard Byrd

Billy R. Cooper

Nicholas DeVincenzo

W. Christopher Doss

The Honorable Donald W. Upson

Calvert S. Whitehurst

Carol Dois Woodward