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Auditor of Public Accounts

COMMONWEALTH OF VIRGINIA

2008 REPORT TO THE GENERAL ASSEMBLY

The Auditor of Public Accounts serves Virginia citizens and decision-makers by providing unbiased, accurate information and sound recommendations to improve accountability and financial management of public funds.

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HELPING TO MAKE MANAGING -- WORK

Best Managed State

In February 2008, Governing Magazine again ranked Virginia as one of the Best Managed States. In providing its assessments, Governing cited about a half dozen reasons the Commonwealth received such a high ranking. Half of the reasons for the high ranking result from work done by this Office.

> ***"Virginia Performs and the VDOT Dashboard aren't the state's only all-access information repositories. Commonwealth Datapoint displays complete financial figures and demographic statistics for the entire state, detailing where every penny came from, where it was spent and how much each locale gets back from Richmond."*** Governing February 2008

We operate Commonwealth Datapoint, which you can find on our website http://datapoint.apa.virginia.gov/ or searching the web. This website was one of the first sites of its kind in the nation and we have assisted some ten other states in designing and implementing similar sites and made several presentations at National Conferences.

We continue to update and improve the site with changes recommended by users and researchers. We are constantly looking for new data to add to the site and believe that as the Commonwealth adopts data standards for information, access to other sources of information will occur.

> ***"In a state blessed with such abundant data and careful planning, Virginia's infrastructure management is playing catch-up. The governor and legislature currently are negotiating formal prioritization criteria that would guide the capital budget agenda. Whatever criteria they choose, an improved assessment of the state's maintenance needs will help the planning process. A 2005 report from a task force on deferred maintenance led to the implementation of a Facility Inventory and Condition Assessment System, which still is gathering information on more than 10,000 state buildings. It would be better to have regular full assessments of all state buildings — until this happens, the state won't fully know the extent of its deferred maintenance."*** Governing February 2008

In 2004, the General Assembly charged this Office with the responsibility for determining how the Commonwealth needed to address it building maintenance needs and to help the Commonwealth acquire a system to monitor and track maintenance. We issued the report noted above and then helped the Commonwealth acquire a system to track this information. During 2008 Special Session I, the capital outlay program adopted by the General Assembly incorporated many of the changes contained in our report on deferred maintenance and capital outlay.

"And that's what makes Virginia's efforts in this field so impressive: The state avoids formulas and focuses on the harder work of asking why goals and targets aren't being met, then seeks to address the underlying problems. Virginia Performs, the state's performance-accountability system, tracks measurable societal outcomes as well as the agency goals and management benchmarks that will help achieve them.

Firm knowledge of what works and what doesn't makes a difference with budget officers and agency managers — especially when they face reductions in revenue such as the $980 million shortfall Virginia confronts in 2008. Good performance data can make otherwise clumsy cuts more precise and ensure that reductions don't frustrate state goals." Governing February 2008

In 2002, the General Assembly required this Office to check on the accuracy and completeness of the data supporting the Commonwealth's performance measures. We have issued six reports on the accumulation and reporting of this information. The Commonwealth has made progress in reporting this information to the point that Governing considers the accuracy and completeness an essential element of the Commonwealth's overall performance.

"Virginia's information technology isn't perfect. Its financial information system, for example, isn't "functionally rich," according to Comptroller David Von Moll. But lacking the money to buy a new system, the state experimented in order to upgrade. A partnership with Northrop Grumman provided an infusion of expertise and cash to replace the system without raising the overall IT budget." Governing February 2008

We have issued a series of reports on the implementation of the Northrop Grumman contract to ensure the Commonwealth monitors and controls this partnership and how the Commonwealth oversees its IT Governance. All of these reports have caused the Commonwealth to experiment with new and innovative approaches to managing information technology.

To be a *BEST MANAGED STATE* requires hard work and persistence as a fundamental principle that an organization needs to follow to maintain its sound structure. This Office is an important part of the that structure for the General Assembly and Executive Branch ensuring that agencies and institutions are keeping the discipline to have the Commonwealth continue its ***Best Managed*** title.

Hard Work and Persistence

Most of our reports find that agencies and institutions are properly keeping their accounting records and financial processes, maintaining sound and strong internal controls over their resources and assets and complying with the Commonwealth and Federal governments' rules, regulations, and laws. Over the past several years, we have found that agencies and institutions individually do not have the ability to create improvement using their hard work or becoming more efficient and

effective without achieving some significant process change internally or having the Commonwealth change it process.

Recognizing that the need to change within agencies and institutions requires broad process changes, this Office is reviewing and commenting on those processes which need to change to achieve success. In short, we are finding it is not that the agencies and institutions are not following the rules, but that the rules may need to change.

This annual report will highlight the reports we have issued in the last year which we believe will continue to contribute to the long-term ability of the Commonwealth to maintain its BEST MANAGED STATE rating. We will also include some other reports we have issued over the past year.

Some report topics will require hard work and persistence, not only of the individual agencies and institutions, but the Secretaries and Governor to achieve long-term change. Addressing these topics will continue to move the Commonwealth forward and maintain our BEST MANAGED STATE rating.

Understanding the Budget

We issued a series of reports over the past several years examining the Commonwealth's budgeting and reporting practices. As we have examined this process, we have concluded that the guiding principle below is not being met by the Commonwealth.

"The accounts of the United States ought to be and may be made as simple as those of a common farmer and capable of being understood by common farmers." *--Thomas Jefferson to James Madison, 1796.*

The most recent report on the **Review of the Budget and Appropriation Process** concluded the following:

Neither a lay person nor the sophisticated user can easily relate the budget to the actions of the Commonwealth. Current accounting, budgeting, and procedural processes obscure the easy comparison of budgeted to actual activity. As the legislature and administration continue to explore making information on government activities more accessible to the public, these issues need to be addressed.

We have used the following concept to assess and review the Commonwealth's budget development and execution process. While the Commonwealth's budgeting process requires even the average citizen to have an understanding of the program, that level of understanding should not be so great as to not understand the flow of information. We have termed this understanding of the process as ***Budget Transparency***.

Budget Transparency is the concept of an average citizen being able to review the budget document and financial reports; and understand where the government's funding comes from, how the government spent the funds and what the government achieved with those funds. Many governmental programs and activities involve complex financial transactions, multiple levels of government: federal, state, and local and some programs have multi-year objectives and timeframes, such as the construction of highways.

The modern concept of budget transparency envisions allowing an informed citizen who has fundamental knowledge of a program, its funding, the anticipated performance results, and some of the complexities of government, to understand the state's priorities and how funds are spent. Further, this modern concept of budget transparency anticipates that the government will attempt to make the information available and understandable and the performance measures will directly reflect the government's use of resources.

Budget Transparency is a part of government's accountability to the public and legislative body on how the government manages resources. Performance measures are a component of the accountability and should reflect the combined consent of public, legislative, and executive branches on what the government seeks to achieve with committing resources to particular program.

Isolating programs and its resources are the only way to relate the use of resources with measuring performance. Although financial resources are only one of the performance measure inputs, it is not possible to compare the cost of a program's achievement to a performance measure, without separating the cost of only that performance measure. Governments must isolate performance measure costs from other costs or it will either over or under report the resources necessary to achieve the measure.

Performance Measurements' report concluded that the new budget process significantly improved the linkage between the budgeting and the performance measure reporting. We believe the goals for linking the two systems will ultimately allow the public and legislators to have access to information on how a program was performing, in addition to the dollars and human resources used to achieve those results.

However, the current process does not provide a clear linkage which would allow the average citizen's ability to understand the relationship between service areas, the budget, resource usage, and the measures in place monitoring service area progress. The Governor and Planning and Budget are developing a request for proposal for a new performance budgeting system for budget development activities and should consider these issues as they move forward with this initiative.

Non-General Fund Revenues comprise almost half the Commonwealth's budget, and we concluded that there is a need for increased review of revenue projections, analysis of what the Commonwealth considers revenue and more frequent reporting budget versus actual collections. There have been numerous reviews of the Commonwealth's projections of General Fund revenues; however, there have been only a few reviews of the other budgeted resources referred to as Non-General Fund Revenues.

Following is the summary of three reports we have issued in the past year on the budgeting process of the Commonwealth. These reports address the need for greater budget transparency to aid in the understanding of the budget process.

REVIEW OF THE BUDGET AND APPROPRIATION PROCESSING CONTROL SYSTEM

Neither a lay person nor the sophisticated user can easily relate the budget to the actions of the Commonwealth. This report as well as our previous report discusses various budget

transparency issues that make understanding the budget process difficult. Current accounting, budgeting, and procedural processes obscure the easy comparison of budgeted to actual activity. As the legislature and administration continue to explore making information on government activities more accessible to the public, these issues need to be addressed.

The Department of Planning and Budget (Planning and Budget) and the Governor have recognized the complexity of the process and are issuing a request for proposal for a new performance budgeting system. However, this system will take several years to secure and implement and will only provide half of the information necessary to perform a comparison of budgeted or planned activity to actual.

While we concur with the need to secure a new budget development system, there are several procedural changes Planning and Budget and the Department of Accounts (Accounts) could implement on an interim basis to make the reporting and comparison of budget and actual activity more transparent. This report recommends several procedural changes to improve reporting budgetary data and actual information which the Commonwealth could implement quickly and with minimal cost.

The most significant budget transparency issue is the transfer of General Funds to various non-general funds that occurs after the budget's approval. These transfers affect programs such as Personal Property Tax Relief and higher education operations, and result in a loss of transparency of close to $3 billion in general funds. These transfers occur to comply with various requirements in the Appropriation Act which are intended to allow for separate monitoring and tracking of these funds; however, the current practice adopted by Planning and Budget and Accounts creates a disconnect between the budgeting and accounting for these programs.

Another budget transparency issue is the lack of a reporting process for administrative changes made to the budget after the General Assembly's approval. There is no process in place to inform the General Assembly and the public of changes made to the budget during any fiscal year. Administrative adjustments can significantly alter the approved budget, and regular reporting of these changes to the General Assembly and public should exist to improve the transparency of the budgeting process.

We offer the following recommendations for consideration to address some of the budget transparency issues caused by current practices.

- Accounts should consider adding a sub-fund of the General Fund in the Commonwealth Accounting and Reporting System to account for the Personal Property Tax Relief Program. The creation of a sub-fund for this program would improve the budget transparency by close to $1 billion in General Funds. Another alternative would be making the payments from the General Fund.

- The Commonwealth should re-examine the practice of transferring General Funds budgeted for colleges and universities to higher education funds and similar transactions to other funds. This practice originated twenty years

ago to accommodate certain accounting system technology; however, this practice may no longer be necessary given the capabilities of modern financial systems at the higher education institutions and other funds. The elimination of this practice would improve the budget transparency of $1.5 billion in General Funds.

- As part of the new performance budget system, Planning and Budget should consider an improved reporting mechanism for administrative adjustments processed during a year.

REVIEW OF AGENCY PERFORMANCE MEASURES

This report summarizes our review of the executive branch agency performance measures and provides recommendations based on our observations. Section 30-133 of the Code of Virginia requires the Auditor of Public Accounts to conduct an annual audit of performance measures and to review the related management systems used to accumulate and report the results.

The current performance management system has components for strategic planning, performance measurement, program evaluation and performance budgeting. Together, these components should provide information to manage strategy and improve and communicate the results of government services. Section 2.2-1501 of the Code of Virginia requires Planning and Budget to develop, coordinate, and implement a performance management system. Planning and Budget is also required to ensure that the information is useful for managing and improving the efficiency and effectiveness of state government operations and is available to citizens and public officials.

The Process Needs to Compare Performance Measurement with Amounts Budgeted

We evaluated the linkage between the budget structure and the agency's performance measures to determine if the average citizen could understand the relationship between service areas, performance measures, and the budget. We evaluated 15 agencies and found that each agency's service areas had at least one performance measure; however, most agencies' service areas had multiple performance measures which made it difficult to determine the funding directly related to a specific performance measure.

In addition, we found that most service areas perform more than one function and not all functions had a related performance measure tracking its progress. Therefore, there is no linkage or budget transparency between the performance measures and the use of budget resources which provide the average citizen the information to make an evaluation.

Findings and Recommendations

Virginia Performs is continuing to evolve and the Council on Virginia's Future and Planning and Budget will need to continue to work together to refine the performance management system. While there have been improvements since our last review, we believe there are areas where

additional improvements are necessary in order to provide complete and accurate information on Virginia Performs that can be used in the decision making process. Our report includes recommendations on the following issues:

> *Although agencies have ultimate responsibility for the data in Virginia Performs, no one has responsibility for implementing controls over the data, and providing oversight to increase the reliability of information in Virginia Performs. Previous audit reports have discussed deficiencies of Virginia Performs data and we again note many of the deficiencies in this report. Virginia Performs should provide accurate and reliable information for decision making, however deficiencies noted in Virginia Performs data can affect the data's usefulness.*
>
> *Agencies must strengthen controls over data reported on Virginia Performs to ensure data is complete, accurate, reasonable and understandable. Inaccurate information can affect the usefulness of the information for the user. Agencies should develop and document internal control procedures to provide guidance to those who have responsibility for preparing and reviewing the performance measure data. Strengthened controls should include a supervisory review, which will help ensure that information is accurate and reasonable.*

REVIEW OF NON-GENERAL FUND REVENUE FORECASTING PROCESS

The Commonwealth's budget includes non-general fund revenues which fund approximately half of the total budget. We found a general lack of review in the forecasting and monitoring of these funds at a statewide level. In addition, current budgeting practices result in a distortion of at least $2 billion (8 percent) of the fiscal year 2007 revenue estimate. These practices include potentially showing some estimated Medicaid funding for services provided by state agencies twice, and including collections for others in the revenue estimate.

Non-general funds represent a variety of collections, many of which specifically fund certain programs or activities. Many of the forecasting and reporting processes in place for general funds are not in place for non-general funds, and we recommend improvements in the forecasting and monitoring processes for these revenues. The Commonwealth cannot effectively fund its programs and services without a thorough understanding of its revenue structure, both general and non-general fund sources.

We analyzed estimated and actual non-general fund revenues at both the category and agency level for fiscal year 2007. Based on the results of our review, the Commonwealth needs to make significant improvements in the forecasting and monitoring processes over these revenues and our report includes the following recommendations:

- ✓ *Planning and Budget and the Secretary Finance should develop a quarterly statewide mechanism to monitor and report on actual non-general fund revenue collections in comparison to the estimates in the approved budget. Currently, there is no mechanism in place to provide comprehensive statewide reporting to the legislature or to the public.*

- ✓ *Planning and Budget and the Secretary of Finance need to analyze the non-general fund revenue portfolio to determine which sources represent actual revenue and how best to present these sources in the budget. We found approximately $1 billion in estimated collections that really are collections for others. In addition, we found another $1 billion in Medicaid funding that may appear twice in the revenue estimate. In both cases, these revenue streams support appropriations in the budget, but current budget practices distort the user's ability to understand exactly what resources are available to fund programs and services. Planning and Budget and the Secretary of Finance should analyze revenues and evaluate alternative presentations in the budget that would more clearly differentiate the different types of collections of non-general funds.*

- ✓ *Individual agencies and Planning and Budget should strengthen their procedures over the estimating of non-general fund revenues. We found a number of errors in the non-general fund revenue information currently accumulated and reported in the Executive Budget Document. It is important for agencies to understand the budgeting as well as the accounting for their various revenue streams so they can properly develop revenue estimates for Planning and Budget.*

  In addition, it is important for Planning and Budget staff to understand the budgeting and accounting for the revenue streams to ensure the information they are compiling and reporting is comparable and accurate. Planning and Budget needs to dedicate adequate resources to this area so they can comply with their statutory requirement to verify the accuracy of agency estimates.

- ✓ *Planning and Budget does not have adequate documentation to support their current procedures for accumulating and reporting non-general fund revenue information in the Executive Budget Document. In considering this recommendation, the Secretary of Finance and the Director of Planning and Budget must consider whether or not Planning and Budget has adequate resources to meet their other statutory requirements.*

Addressing the Commonwealth's IT Spending:

Commonwealth spends $219 million on normal Information Technology activities. While the Commonwealth has reasonable controls over the use of funds for Information Technology projects and infrastructure, we concluded that the Commonwealth did not control and manage the $219 million spent on other Information Technology costs.

The Judicial Branch is planning a number of major projects to upgrade and enhance its Information Technology infrastructure and applications. When comparing their planning and project management of industry best practices, there is a need to improve planning and project management processes.

The Commonwealth is undertaking the development of an Enterprise Applications which will ultimately replace many of the core business processes. There is a need for data exchange standards as discussed with the eVA application under the caption *Addressing Standards for Enterprise Information Needs*.

Information Technology Governance

The Commonwealth's information technology (IT) governance has undergone significant changes in the last five years. These changes have fundamentally altered and strengthened the Commonwealth's infrastructure and new systems development process. At the same time, these changes have highlighted some flaws with systems development and shown that the Commonwealth could further improve the management of its information technology resources.

The Commonwealth, excluding institutions of higher education, spends approximately $607 million annually on IT and of this amount about 64 percent relates to infrastructure and new systems development. The remaining amount, about $219 million, is used by agencies to pay for staff salaries, consultants and other costs related to the maintenance and operations of agency-based systems.

Who Has Control?

One of the most difficult challenges with understanding the Commonwealth's IT governance is answering the question, "Who has control?" Regrettably, there is no simple answer to this question because no one has the authority to exercise control over all areas where agencies spend on IT. The Virginia Information Technologies Agency (VITA) controls the infrastructure, the Chief Information Officer (CIO) and Information Technology Investment Board (Board) control new systems development recommendations and oversight, and the individual agencies control their maintenance and operations of legacy applications.

Other issues further complicate the question such as different groups influencing the budget process, agency responsibility being unclear, and a lack of resources to do the job properly. As an example, the CIO's responsibilities far exceed those of VITA which, as an agency, has responsibility for infrastructure and purchasing. The CIO's responsibilities include project management oversight,

standard-setting, and budget resource recommendations that go beyond VITA's core infrastructure mission and available resources.

However, because the CIO is also the agency head of VITA, many assume that the CIO's Commonwealth-wide responsibilities for oversight, standard-setting, and IT budget reviews, should be funded using a rate structure model similar to how agencies pay VITA for providing the infrastructure. Additionally, while the CIO and Board must develop and report on agency IT strategic plans, neither has the ability to influence the process since the Governor controls the budget process independently and it currently emphasizes a biennial budget approach rather than a long-term system planning approach.

While the Commonwealth has partnered with Northup Grumman (NG) to consolidate its infrastructure, telecommunications and other hardware related operations, the CIO's other duties have not diminished. However, his ability to perform these other duties is limited because agencies retain significant budgets for operation and maintenance of existing systems and only the agencies have information on how they will use their budgets and whether opportunities exist to improve the Commonwealth's effective use of these funds. This approach places the Commonwealth at risk since many of the smaller agencies have neither the expertise nor the funding to maintain and properly operate systems.

The Answer to "Who Has Control?"

Ultimately, the answer to the question, "Who has control?" is nobody. Everyone has some small piece of control with no one determining direction or overseeing spending. The Commonwealth has left these responsibilities divided among many entities at many levels with no one entity having control or authority to make decisions.

Effects of Lack of Control

IT operations within the Commonwealth are complex and management and oversight responsibilities for these operations are fragmented and diffused. The Commonwealth has always approached its IT management and oversight this way. The consolidation of IT operations has historically involved consolidating the existing infrastructure but not system applications or security.

No one determines if agency spending on maintenance and operations of legacy systems constitutes an efficient use of resources and minimizes the use of funds for duplicative systems. Individual agency needs and not the Commonwealth's priorities receive funding and there is no incentive to cooperate and share resources among state agencies.

Following are several examples of how a lack of sound governance over all components of information technology has created duplication, lack of sound investment, and systems development projects that do not support the Commonwealth's business plan.

Failure to Understand the Commonwealth's Business Model

In 2006, the Commonwealth outsourced its IT infrastructure and its operation to Northrop Grumman (NG) under a 10-year partnership agreement valued at almost $240 million annually. Under the partnership, the Commonwealth committed that its agencies would use Northrop Grumman as its primary infrastructure service provider. However, a recent draft proposal for a new agency system included language that bidders consider a hosted infrastructure arrangement outside of the existing NG partnership. The agency did not originally include the language but it was added later by a state official during his review of the proposal. When VITA reviewed the draft proposal they discovered the added language and removed it before it was finally released.

Going outside of NG would have significantly increased the monthly rates other agencies pay because the Commonwealth is obligated to pay NG a guaranteed amount so they can recover their investment in the new infrastructure they are installing. Having fewer hardware components to divide into the guaranteed amount would have resulted in higher monthly service rates to other agencies.

Inadequate Maintenance Planning

Two agencies with mission critical systems used databases and application languages that the vendor had ceased supporting. These systems ran on computer equipment that was becoming obsolete and costly to maintain. Neither agency believed the Governor nor the General Assembly would invest in new technology and therefore did not ask for additional resources to replace the unsupported systems. Instead, agency staff believed that they could continue to maintain these systems internally.

Recently, both agencies have had to undertake expensive, short-term conversions of their databases and application language since the equipment supporting these systems was becoming expensive and it was increasingly difficult to find staff with knowledge to support the antiquated programming language. This emergency conversion will not provide either agency with a more modern or efficient system. The emergency transfer of the system and data from one machine to another only postponed the continuing need for an altogether new application.

Failure to Work Jointly to Implement an Enterprise System

In 2001, an agency began considering a project to replace their legacy licensing systems with a commercially-available, off-the-shelf (COTS) licensing application. In 2005, the CIO determined that rather than having the one agency pursue a licensing system, the Commonwealth could benefit from an enterprise licensing solution since there are 32 regulatory entities tasked with providing professional and occupational licensing, permitting, certification, and/or registration services to approximately 1.5 million customers.

The CIO authorized VITA to enter into a statewide contract with a vendor to provide the COTS licensing solution that VITA would host. The CIO got together several licensing agencies to champion a collaborative system by setting common data standards for license information. By

2006, it was apparent that the agencies could not reach a consensus on uniform data standards, therefore ending this collaborative approach.

Since the CIO cannot force agencies to work collaboratively, his only alternative was to terminate the collaborative effort. In a presentation to the Board, the CIO reported the impasse and noted that without consensus, obtaining a common system for professional and occupational licensing activity could not occur.

Lack of Data Standards Results in Disparate Systems

In 2000, an agency awarded a contract to provide the Commonwealth with an electronic procurement system. Agencies must use the system to initiate and process purchase requests. The system uses look-up tables that contain data such as vendor information and commodity codes; however, some of this data such as vendor information does not conform to the existing vendor table used by the Commonwealth's statewide accounting system. In Spring 2007, Forrester Consulting reviewed the system and their report noted the Commonwealth's failure to agree on data standards for information common among its applications has led to disparate systems that cannot exchange information or be useful in performing analysis.

Avoid IT Governance by Developing Projects Using Maintenance and Operating Budgets

In 1998, an agency acquired a system and has continued to make modifications to it to support Federal government initiatives. In 2005, the agency stopped making modifications to the system and began rewriting it into a web-based application. Since the web-based application will replace the current system, Commonwealth standards require the project to receive the CIO and Board's approval through the IT governance structure for new systems projects.

However, the agency has been developing the system since 2005 without the CIO and Board's approval and without VITA's Project Management Division's (PMD) oversight. They have been paying for the system through existing maintenance and operating funds. When the CIO discovered this discrepancy in July 2007, he suspended the project pending a PMD review of the project's health and status. The agency's system replacement effort has resulted in missed deadlines and the filing of inaccurate status reports with the federal government.

Judicial Branch

The Supreme Court of Virginia does not fall under the supervision of the Virginia Information Technologies Agency (VITA), like other judicial, legislative, independent branch agencies, and institutions of higher education. Although these agencies are exempt from VITA's policies, procedures, and standards, they must still provide for sound internal controls over information technology (IT) through the adoption of and compliance with policies and procedures that meet industry best practices. The purpose of our audit is to understand and compare the Supreme Court's Information Technology Department's (Department) policies and procedures to industry best practices.

Before the Information Technology Department undertakes new projects funded by the Court Technology Fund (CTF), they should ensure that the project supports the strategic direction of the Supreme Court and that they manage these projects using formal project management processes. The Information Technology Department needs to work with management of the Supreme Court to provide an information security environment that adequately addresses several areas we believe need improvement, such as their business impact analysis, risk analysis, continuity of operations and their incident response procedure.

Below are some of our recommendations.

- We recommend that as the Supreme Court updates its strategic plan, the Department ensure that its IT plan supports all of the Supreme Court's strategies. This approach will help the Department modernize the systems and reduce inefficiencies in the courts system. We also recommend the Department's plans consider how to effectively spend their CTF money.

- We recommend that the Department establish and follow industry best practices for managing IT projects. Although not required to, the Department may wish to adopt and follow Virginia Information Technologies Agency's Project Management Standard since this standard mirrors industry best practices.

- We recommend the Chief Justice of the Supreme Court establish a plan to work with circuit court clerks on creating data standardization guidelines including critical data for information sent to other state agencies as necessary.

- We recommend that the Department document and implement an incident response plan in accordance with industry best practices. We recommend that the Department ensure that IBM develops and documents a business impact analysis and risk assessment that will be beneficial to the Department and its IT environment. We also recommend that the Department continue their plans for a formal security awareness and training program in accordance with industry best practices.

Addressing Standards for Enterprise Information Needs

As part of the Commonwealth's Enterprise Application Project, Forrester Consulting assessed General Services' eVA application. In order to prepare for an enterprise application procurement and purchasing system, Forrester identified a number of actions that the Commonwealth needs to undertake to position itself for the use of an enterprise application. Their recommendations for preparation follow.

- Create a statewide, standardized procurement environment, including creating standardized workflow, approvals, and reports available for all eVA agencies to use.

- Create a single statewide vendor table, which includes all information about all registered vendors in one location.

- Develop ways to integrate eVA into the agencies' accounting system, including integrating the chart of accounts into eVA, combining eVA data with invoice data, budget checking, and receiving.

The Auditor of Public Accounts concurs with these recommendations and the first two recommendations are findings previously cited by this Office in the implementation of eVA. We do not, however, believe that General Services alone can execute the process necessary to address these issues raised by the consultant. To effect a change of this nature will require the cooperation not only of a number of central agencies, but of most state agencies and institutions.

Therefore, we are recommending that the Secretaries of Administration, Finance and Technology work with General Services and the Commonwealth's Enterprise Application Project Director to develop and implement the framework for achieving these three recommendations.

Further, we also believe that achieving these three recommendations, even if the Commonwealth delays implementation of the enterprise application, will save the Commonwealth resources, reduce redundancy and improve accountability and internal controls. Finally, these recommendations move the Commonwealth to a more efficient and effective approach to dealing with its vendor community.

Large Project Management

Statewide Agencies Radio System Project by the State Police and **Virginia Information Technologies Agency**'s Public-Private Partnership with Northrop Grumman have a combined value over the life of the project of almost $3 billion. Below are our assessments of each project's progress to date and issues facing them in the future.

STATEWIDE AGENCIES RADIO SYSTEM

We completed an interim review of the State Police Project Management Team's oversight and administration of the Statewide Agencies Radio System (STARS) Project. The STARS project includes a six-year, $338 million agreement with Motorola to design and install a new state of the art telecommunications and radio system for the Virginia State Police and twenty other agencies of the Commonwealth. Our office monitors the status of major Commonwealth projects such as the Statewide Agency Radio System to help identify and prevent failures related to project management in order to minimize loss to the Commonwealth.

Our review found that the STARS Project Management Team has provided accurate but not complete information to support an accurate determination that the project is on-time and on-budget. The Project Management Team does not follow a number of best practices in project scheduling, budgeting and risk management. The Project Management Team has not revised its plan to ensure complete and timely communication to reflect current needs. The Project Management Team has not established complete policies and procedures to enable it to effectively manage the contract with Motorola.

We recommend throughout the report that the STARS Project Management Team incorporate the following.

- Revise the project communication plan to ensure current processes are included and all necessary written communiqué is documented and agreed-upon by all stakeholders.

- Develop a long-range assignment schedule of internal resources to more effectively plan for inspection of deliverables.

- Develop an estimated cost to complete the project in order to improve the effectiveness of budget management.

- Develop and adopt realistic assumptions for project scheduling and budgeting in order to reduce delays that are unexpected by key stakeholders.

- Continue to follow best practices in the execution, control, and close-out of the project in order to ensure the quality of the final system.

It is important for the Project Management Team to balance the three project constraints of cost, time, and scope, to ensure that the project delivery is on-time, on-budget, and complete with stakeholder's expectations. As the Project Management Team moves forward under the assumptions adopted and considers future changes in order to bring this project to a close on-time and on-budget, it is essential that the quality and intended scope of the project be considered in all decisions. Failure to do so could create greater long term costs to the Commonwealth resulting from future maintenance, upgrades, or training.

VIRGINIA INFORMATION TECHNOLOGIES AGENCY PUBLIC-PRIVATE PARTNERSHIP

In November 2005, the Commonwealth entered into a Public-Private Partnership (Partnership) with Northrop Grumman through signing a Comprehensive Agreement (Agreement). In doing so, effective July 2006, the Virginia Information Technologies Agency (VITA) turned over to Northrop Grumman the management of the IT infrastructure, including security operations, for those agencies using VITA. The Commonwealth agreed to pay a sum not to exceed $236 million per year (cap) for the next ten years for a baseline IT infrastructure.

The Agreement, managed by VITA's Service Management Organization (SMO), calls for a phased approach toward the consolidation and takeover of the information system infrastructure. Although Northrop Grumman assumed responsibility for infrastructure security and management as of July 2006, transition of the management of the infrastructure consolidation will occur in three distinct phases: Current Operations, Transformation, and Post-Transition. This review focuses on completion of the Transformation phase and the upcoming first year of the Post-Transition phase. For more information on current operations or past milestones, please reference our 2007 Interim Review of Information Technology Partnership report which may be found on our website (www.apa.virginia.gov).

Findings and Recommendation

Our review found that Northrop Grumman may not meet several milestones, including significant milestones relating to the Information Technology Infrastructure Library (ITIL) and the Disaster Recovery Test at the Southwest Enterprise Solution Center. Although performance of the actual Disaster Recovery test is not at risk, Northrop Grumman and the SMO have not agreed to acceptance criteria or testing plans for this milestone. Additionally, Northrop Grumman has not documented the process by which Northrop Grumman will collect, report, and analyze the performance metric data as required by the Partnership Agreement. The ITIL and the performance metric process are essential deliverables granting the Commonwealth the ability to measure Northrop Grumman's performance after July 1, 2008.

As the Partnership moves to a managed service environment on July 1, 2008, without a completed procedures manual including the ITIL and a complete set of standards for performance measures, the Commonwealth is at risk of not having adequate means to assess complete delivery of Northrop Grumman services after July 1, 2008.

We recommend that the SMO work with Northrop Grumman to develop a contingency plan in the likely event complete and official policies, processes, and procedures are not agreed-upon before transition to a managed service environment.

This report includes other matters and findings which may be of interest.

Comments to Management and the Administration

Risk Alerts and Efficiency Issues are two methods we use to inform agency and institution management of concerns, but we also alert other agencies of their need to assist agencies in dealing with issues. Below are excerpts from our report on the *Agencies of the Secretary of Finance*, which includes examples of each type of issue. Modernize Financial Systems and Processes and Security Risk Assurance for Infrastructure are alerts to management and the administration that they need to begin addressing these issues or the current systems and processes may fail.

Improve Service Arrangements between Agencies and Collect Information in the Commonwealth Portfolio represent opportunities to reduce risk in agencies that do not have the staff to maintain accountability without increased costs and the use of existing software rather than incurring new costs for new application.

The Department of Business Assistance report shows another opportunity to improve internal controls and maintain accountability with little cost.

AGENCIES OF THE SECRETARY OF FINANCE

Modernize Financial Systems and Processes

Financial Systems

As we have indicated in previous reports, the Commonwealth's current accounting systems are all over twenty years old and have not had substantial upgrades since the Y2K concerns of the late 1990's. All of the systems, as the Y2K process disclosed, have passed their normal life cycle and are fundamentally at risk of a failure where either the vendor or expertise of keeping the system operating could become unsustainable.

While finding the resources to address these issues in the current economy may be difficult, the risk of system failure will continue to increase. Finally, the Commonwealth also needs to guard against the perceived economies that the systems do not cost substantial funds to maintain. There are clear examples within the Commonwealth of a system requiring replacement because vendors have abandoned the technologies, requiring the Commonwealth to upgrade the system with no improvements or efficiencies.

The current accounting systems limit Account's ability to expedite the financial reporting process since it is basically a general ledger and cash receipts and disbursement system. Therefore, the current system does not provide much of the information such as accounts receivable and long-term financial obligations that is necessary to prepare the annual report. This limitation has become more of a concern given the recent push for more timely financial reporting in the government

sector, particularly in the areas of federal grants and contracts reporting and disclosures related to municipal securities.

Another concern as noted above is the need to modernize the Commonwealth's financial systems, since it has become more difficult to keep the Commonwealth's antiquated systems up to date to meet current user needs. Statewide systems such as the Commonwealth Accounting and Reporting System (CARS) along with the Commonwealth Integrated Payroll and Personnel System (CIPPS) use the Common Business Oriented Language (COBOL). While COBOL was one of the earliest high-level programming languages of its time, it has become outdated and is no longer part of modern day computer programming classes. In effect, this directly imposes a risk to owners of systems created under this programming language.

As individuals with the unique knowledge and skill sets in this language begin to retire, the Commonwealth may not be able to hire qualified replacements to maintain these systems. As user needs change and system modifications become necessary, it is important to have skilled technicians that can make the proper changes. There are also many modern accounting systems used throughout the Commonwealth that are unable to interface with CARS efficiently due to its limitations. Therefore, some agencies are unable to take advantage of features that their systems may provide due to the restrictions of an out of date system.

In the prior year, we reported that the Commonwealth, through its Virginia Enterprise Application Project, had begun the process for replacing it accounting, payroll, fixed asset, and budgeting systems, with a planned initial implementation date for the first phase of July 1, 2008, for the budget module and July 1, 2009, for the remaining financial management modules. However, as we reported in our January 2008 report entitled "Progress Report on Selected Information Technology Projects in the Commonwealth", the specific timelines for implementation and the source of funding for the project remain uncertain.

We recommend the Secretary of Finance and State Comptroller continue to work with the Virginia Enterprise Application Program Office to develop solutions to the current issues facing this project to ensure the Commonwealth is able to move forward with the modernization of its financial systems.

Financial Processes

In our March 2005 report entitled "Review of Statewide Reporting Process," we recommended Accounts improve the process used to prepare the Commonwealth's Comprehensive Annual Financial Report. We recognize that the changes necessary to evaluate and implement our recommendations cannot occur in a short period of time and, therefore, we have continued to monitor and report on Accounts' efforts. Accounts has continued to make progress toward addressing our recommendations. In order to best utilize its available resources, Accounts has selected areas and agencies for review using a risk-based approach.

Over the last year, Accounts' Accounting and Internal Control Compliance Oversight Division began performing quality assurance reviews at select agencies primarily to review the accuracy of financial information agencies submit to Accounts for financial reporting purposes and

to determine whether agencies are complying with reconciliation requirements. Through this review, Accounts has identified issues and made recommendations for improving the process used by agencies in preparing financial information and reconciliations.

Accounts' Financial Reporting Division also continues to make progress toward evaluating and identifying areas that require improvement and implementing changes. During the year, the Financial Reporting Division focused their efforts on the capital assets area to address identified deficiencies. Accounts modified its policies and procedures to require quarterly reconciliations of capital asset information in the accounting and capital asset systems. In addition, Accounts has increased its analysis of capital asset data and inquiries of agencies regarding questionable activities. Through their increased efforts in this area, Accounts identified several reporting errors at the agency level and we have noted overall improvements in this area through our test work.

As we indicate above, since the timeframe for implementing a new financial system remains uncertain and as the implementation of a new accounting system will not solve all of the inefficiencies in the current financial reporting process, Accounts must continue to seek more efficient and effective methodologies for managing the current statewide systems and for accumulating and analyzing data. As part of this process, Accounts should continue to evaluate the guidelines in the Commonwealth Accounting Policies and Procedures manual to ensure the guidelines are up-to-date and appropriate. In addition, as Accounts performs reviews of agency processes, they should evaluate the efficiency and effectiveness of the processes and make recommendations for improvements.

Improve Service Arrangements Between Agencies

The Auditor of Public Accounts has advocated that smaller agencies, which do not have the resources or staff, use larger agencies for business functions, such as accounting, budgeting, information security, or personnel resources. These arrangements allow the smaller agencies to concentrate on providing program services and eliminate unnecessary personnel costs and resources dedicated to administrative functions.

During an audit, we review the arrangements between agencies and the internal controls surrounding financial transactions, payroll, fringe benefits, and information security. We have found circumstances where these arrangements are not providing or improving internal controls. In some circumstances, we have found that the arrangement may contribute to actually weakening internal controls.

Smaller agencies do not have the staff expertise or resources to process financial transactions, personnel and payroll, procurement, and other administrative processes, such as implementing an adequate information security program, and maintaining adequate separation of functions for basic internal controls. Loss of one person can, and does in many of these agencies, compromise the internal control structure and knowledge base needed to handle key transactions and duties. Therefore, the use of larger agencies with sufficient staff and resources provides needed internal controls and management oversight of public resources.

Further, change in agency leadership may result in having leaders without knowledge of state processes, standards, regulations, and laws. Agency leadership without an understanding of this essential information could enter into agreements or contracts that are not in the best interest of the agency or the Commonwealth.

In many cases, the service arrangements are ad hoc agreements to provide services where neither the service provider nor the agencies have a clear understanding of what they need. The intended purpose of these arrangements is to provide expertise, oversight, and direction, where small agency management may neither possess nor understand the importance of internal controls or have the necessary financial management expertise.

Our audits have indicated that in some circumstances these service arrangements are providing no oversight or internal controls for the smaller agency. The service providers are simply processing the paperwork without any managerial review of the transactions. This situation does not improve the Commonwealth's or the smaller agencies' handling of state funds and compliance with applicable state policies and procedures.

Since Accounts provides some of these services, we believe they hold an ideal position in taking a leadership role in developing a comprehensive back office operation for smaller agencies, which would assume total operations for administrative functions. This mechanism will also serve as a sound basis for the development of the needs for the Virginia Enterprise Application Program Office standards for the Commonwealth's Enterprise Application. In addition, Accounts has the Accounting and Internal Control Compliance Oversight Division which, through their quality assurance reviews, can assist in identifying agencies that could benefit from a service arrangement. Finally, we believe the Governor's Cabinet could develop a model process for making sure that their agencies get needed services, without significant use of program resources to meet their performance measures.

In addition, our review of information security in the Commonwealth revealed that most small agencies, such as the Department of Planning and Budget, do not have the resources, expertise, or funding to develop and implement adequate information security programs that protect their critical and sensitive data.

We believe that the Secretaries of Administration, Finance, and Technology should work with the Departments of Accounts, General Services, Planning and Budget, and Human Resource Management, and the Virginia Information Technologies Agency (VITA) to develop and implement an administrative agreement for all back office operations, including information security, managerial oversight and internal controls, for agencies requiring administrative assistance or establish a central back office operation to provide these functions. The current arrangements do not provide a cohesive process which addresses the true operations of an administrative unit. For example, purchasing depends on budget availability, understanding of state contracting practices, contract management, and ultimately the payment and recording of the purchase.

We believe that Secretaries need to address the needs of smaller agencies as an arrangement of outsourcing the entire administrative function rather than the paper processing of groups of transactions. We believe that this approach will improve the operational efficiency of these

agencies. However, we do not believe that the Commonwealth will recognize any saving in either personnel or cost, since the smaller agencies are using marginal resources with marginal results.

We also recognize that leaders of the smaller agencies will resist this type of change; however, the Commonwealth will greatly improve its internal controls and gain risk management benefits.

Collect Information in the Commonwealth Portfolio

Accounting standards will require the Commonwealth to accumulate and capitalize the cost associated with both new and legacy computer systems similar to the accounting for buildings and other structures. VITA's Project Management Division (PMD) has a computerized tool, known as the Portfolio, which they use to track new systems development efforts. Fully implemented, the Portfolio has the capability to gather and analyze information on all of the Commonwealth's systems necessary to comply with these accounting standards. However, in order to achieve budget reduction targets for fiscal 2009-2010, VITA suspended implementation of these capabilities pending funding.

The State Comptroller should work with PMD to jointly implement the Portfolio cost accumulation capabilities to ensure it gathers accurate and complete cost information to comply with the accounting standard. Also, this joint effort should eliminate unnecessary duplicate data entry into two potential systems and should provide important management information, not currently found in our fixed asset accounting system.

To accomplish this, the Comptroller and PMD should develop data exchange standards so the Comptroller's accounting system can provide accurate and complete actual IT spending information for each agency in the Commonwealth's Portfolio system. For agencies that only submit summary data to the Comptroller, they must be required to provide the Portfolio with IT spending data consistent with the data standards developed by the Comptroller and PMD.

With the Portfolio fully implemented, the Commonwealth will have an official repository of its IT investment data and the Comptroller will have the information for the Commonwealth's annual financial report.

Security Risk Assurance for Infrastructure

The Departments have responsibility for the security and safeguarding of all of their Department's information technology systems and information. Over the past four years, the Commonwealth has moved the information technology infrastructure supporting these databases to VITA, who has an Information Technology Partnership (IT Partnership) with Northrop Grumman. In this environment, VITA and the Departments clearly share responsibility for the security of their Department's information technology assets, systems, and information and must provide mutual assurance of this safeguarding.

The Departments have provided VITA with all the documentation required to make this assessment and VITA should provide assurance that the IT Partnership will practice proper policies and procedures as outlined by the Departments. The annual review and audit of the IT Partnership infrastructure has concluded that VITA will communicate any findings and corrective action to the Departments.

The annual review and audit has identified that the IT Partnership staff did not have formal, documented policies and procedures for backup media, system monitoring, help desk functions, or job operation scheduling. In addition, IT Partnership staff do not perform periodic review of user accounts; comply with CIS standards surrounding password parameters; maintain evidence of system monitoring; or document offsite tape rotation. A documented and implemented system administration process and system monitoring process is critical in order to minimize the security risks relating to the confidentiality, integrity, and availability of their Department's information stored on the IT Partnership's hardware and infrastructure.

Although the Departments are not responsible for correcting these findings, they should receive regular status reports from VITA on the progress the IT Partnership is making to correct the issues. As part of the progress reporting, VITA should provide the Departments with any interim steps they should take if the IT Partnership must delay addressing this issue. We bring this matter to the attention of the Departments so that they can properly manage their risk and monitor corrective action.

DEPARTMENT OF BUSINESS ASSISTANCE

The Department has reduced its total staff, including those individuals providing administrative support, and currently has 37 employees. The Department, like other smaller agencies, does not have the staff expertise or resources to process financial transactions, personnel, payroll, procurement, and other administrative processes, such as implementing an adequate information security program, and maintaining adequate separation of functions for basic internal controls. Loss of one person can compromise the internal control structure and knowledge base needed to handle key transactions and duties.

The Department should work with another agency to establish a central back office operation to provide accounting, budgeting, information security, human resources, and procurement services. Current service arrangements with other agencies do not provide a cohesive process which addresses the true operational needs of the Department. We discuss this and other recommendations in greater detail within the separately issued report.

Seeing Change and Progress

Improving fiscal management and internal controls takes time and may undercover the need to address additional issues. Following are four agencies in which we can see the agencies making progress to improve their operations.

Sometimes, like the Department of Minority Business Enterprises, the size of the agency limits its ability to address certain issues. As with all of these agencies and issues in our reports, the magnitude and number of issues indicate that the corrective action will take time to do correctly, and therefore, ensure the agency will not have the problem in the future.

ASSISTIVE TECHNOLOGY LOAN FUND AUTHORITY

Update on Prior Year Findings and Future Issues

During the last two years in responding to our audits, the Board and management have worked together to develop a Strategic Plan and Board governance manual, and increase the volume and amount of outstanding loans. The increase in loans comes from the Authority's new marketing plan which involved branding itself as the NewWell Fund.

The Board and management have taken significant steps to move the organization forward and the movement raises a series of new challenges that the Authority must face. The Authority, in positioning itself to increase loan demand, must consider the long term financial implications of its strategies to help ensure it does not adversely affect its long term financial position.

Develop a Business Plan

The Authority is operating without plans to address the increased demand for services caused by its new marketing plan. Because of the increased demand, we project that the Authority could use more than $350,000 of the Assistive Technology Loan Fund (Fund) to cover operating expenses over the next three years.

We therefore recommend that the Board and the Authority develop a business plan that addresses operations and financial sustainability to ensure that the Authority can continue to provide services in the future. The plan should document the Board's long-term forecast of the Authority's financial position along with thresholds that the Board can use as benchmarks to evaluate future performance. Additionally, the plan should take into consideration the effects that future increases in operational expenses will have on the amount of funds that are available for providing services.

DEPARTMENT OF MINORITY BUSINESS ENTERPRISE

Efficiency and Risk Reduction

We again comment that the Commonwealth is increasing its risk that smaller agencies could have administrative problems with personnel, payroll, procurement, contract management, or other administrative functions, since current service agreements are not providing them sufficient

oversight and assistance. The service agreements are not providing or improving internal controls. In some circumstances, we have found that the arrangement may contribute to actually weakening internal controls. The Cabinet Secretaries should work with the Secretaries of Administration, Finance, and Technology, as well as the Departments of Accounts, General Services, Planning and Budget, and Human Resource Management, and the Virginia Information Technologies Agency to establish a central back office operation to provide information security, managerial oversight, and internal controls for agencies requiring administrative assistance. We discuss this recommendation in greater detail within the section entitled, "Comments to Management".

Status of Prior Findings and Recommendations

The Department of Minority Business Enterprise (Department) has made progress in improving its operations, and management has taken a number of actions to address the internal control issues; however, limited resources and the current structure within which management operates restricts their ability to fully resolve the matters. We therefore continue to find many of the same problems with internal controls and compliance during fiscal year 2007 that we discussed in prior reports.

Although we have noted improvements in the Department's fiscal operations within the past year, internal control weaknesses continue to exist. We recommend, as stated above, that the Department work with the Cabinet Secretaries to establish arrangements that outsource the entire fiscal function, rather than simply outsourcing transaction processing.

DEPARTMENT OF STATE POLICE

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.

The previous 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. As part of our audit this year, we followed up on these findings and any progress made by State Police in addressing these issues. We found that State Police did make progress in addressing some of these issues. Having said that, results of this audit, in addition to our other reviews, continue to 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.

As we recommended last year, 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 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.

Our prior report included various findings related to improving accounting and internal controls. As part of this review, we followed up on the status of these findings and summarized progress in the following table.

Status of Prior Year Findings

Prior Year Finding	Status of Finding
Improve Internal Controls over Contracts	Resolved
Improve Security Awareness Training Program	Resolved
Improve Internal Controls over Payroll	Progress made
Non-compliance with Travel Regulations	Progress made
Improper Use of Petty Cash Funds	Progress made
Improve System Access Controls	Progress made
Improve Fleet Management	Limited Progress made
Lack of Adequate Information Technology Strategic Plan	Limited Progress made

DEPARTMENT OF VETERANS SERVICES

Before the formation of the Department of Veterans Services, the Department of Veterans' Affairs and the Veterans Care Center Board of Trustees were the two primary agencies serving Virginia's veterans. The Department of Veterans' Affairs assisted veterans and their families with applying for benefits and operated the Virginia Veterans Cemetery in Amelia. The Virginia Veterans Care Center Board of Trustees, a separate state agency, managed, controlled, maintained, and operated the Virginia Veterans Care Center, a long-term care facility. The Board of Trustees contracted with various private companies to operate the center. Additionally, the Department of Education reviewed, approved, and monitored post-secondary education and training programs for veterans under the State Approving Agency for Veterans Education program.

Our prior report included various findings related to improving accounting and internal controls. As part of this review, we followed up on the status of these findings and summarized the progress below.

Prior Year Finding	Status of Finding
Establish Process for Determining Negotiated Rates	Resolved
Strengthen Controls over the Small Purchase Charge Card Program	Progress Made
Properly Report Construction in Progress	Progress Made
Implement and Monitor Procedures To Ensure Proper Use of Funds	Progress Made
Establish and Implement Adequate Policies and Procedures over the Veterans Services Foundation	Progress Made
Improve Voucher Documentation and Compliance with Procurement and Payment Policies	Progress Made
Establish a Memorandum of Understanding with the Department of General Services	Limited Progress Made
Ensure Accurate Time and Leave Reporting	Limited Progress Made
Improve Petty Cash Controls	Limited Progress Made
Appropriate Allocate Administrative Costs	Limited Progress Made
Information Systems Security Assurance	Limited Progress Made
Improve Petty Cash Records and Compliance with Requirements	Limited Progress Made
Comply with Commonwealth Human Resources Overtime Standards	Limited Progress Made
Improve Debt Collection Efforts and Account Write-offs	Limited Progress Made
Properly Manage Fixed Assets	Limited Progress Made

Providing Information and Explaining the Financial Relationships

Medicaid is one of the largest programs in the Commonwealth. While the Department of Medical Assistance Services manages the program, numerous other agencies and institutions either provide services directly to Medicaid recipients or perform services for Medical Assistance Services. The following write up shows the inter-relationship of Medicaid funding with all the other state agencies and institutions.

As the Table on page 33 shows, several agencies and institutions rely heavily on the funding from Medicaid to provide services and fund operations. It is highly unlikely that the Department of Mental Health, Mental Retardation and Substance Abuse Services could operate effectively without Medicaid funding.

Periodically, we provided this type of information to bridge the gap from simple financial reporting to showing the overall inter-relationship of programs, fund, and activities. We hope that this type of information helps explains some fairly complex issues.

MEDICAID

Medicaid is a health program for eligible low-income parents, children, seniors, and people with disabilities. The federal government and individual states jointly fund the Medicaid program at an approximate cost of $305 billion annually. Each individual state manages and administers its own program, in accordance with their statewide plan approved by the federal government.

The Centers for Medicare and Medicaid Services (CMS) is the federal agency that oversees and monitors the state-run programs. CMS establishes minimum requirements for service delivery, quality, funding, and eligibility standards.

Each state must conform to these minimum guidelines in order to receive matching funds and grants from the federal government. The federal matching formula varies by state, depending on individual states' average per capita income. States with the highest average per capita income receive a federal match of 50 percent, while states with lower average per capita income receive a larger match. Virginia is one of 13 states with a 50 percent federal matching rate.

Virginia's Medicaid Program

In fiscal 2007, the Commonwealth's total expenses were approximately $34.13 billion. Of that amount, Virginia's Medicaid program totaled $5.04 billion, or nearly 15 percent of total state expenses. The following schedule illustrates the portion of total state expenses that have gone to the Medicaid program since 2003.

	2003	2004	2005	2006	2007
Medicaid	3,643,148,864	3,895,466,765	4,394,414,236	4,772,677,271	5,042,199,846
Non-Medicaid	26,252,619,136	27,022,514,235	29,180,260,764	31,082,777,729	34,127,693,154
Medicaid	12%	13%	13%	13%	13%

As a percentage of total state expenses, Medicaid expenses have remained relatively constant over the past five years. This is largely a result of several cost containment strategies adopted by the state to control increases in Medicaid spending. Virginia's Medicaid expenses have increased by 38.4 percent in the last five years; this is in line with the national trends. According to CMS, national health care expenses increased by 35.3 percent over the most recent five-year period for which data is available (2001-2005).

As discussed in the previous section, Virginia's federal matching participation rate is 50 percent. That is, for every dollar the Commonwealth spends on allowable Medicaid expenses, the federal government reimburses the state 50 cents.

AGENCIES PROVIDING MEDICAID SERVICES

This section will detail the impact that Medicaid dollars have throughout Virginia government and its programs. The following table lists the relationships that Medical Assistance Services has with other state agencies and the services they provide.

Department of Medical Assistance Services' Relationship with Other State Agencies

Agency	Relationship
Department of Rehabilitative Services	• Eligibility Determinations for the Disabled
	• Medicaid Infrastructure Grant
Department of Social Services	• Eligibility Determinations for Medicaid (to include outstation employees) and SLH
	• Early and Periodic Screening, Diagnosis, and Treatment Outreach
	• Identification of Recipients with Third Party Liability
	• Client Medical Management Program
	• Nursing Home Pre-admission Screenings
	• Reimbursement of Medicaid Refugee Costs from a Federal Grant Provided to DSS
	• Identification of Suspected Fraud and Non-Entitled Benefits
	• Licensure for Adult Care Residence

Department of Health	• Licensure and Certification of Nursing Facilities
	• Early and Periodic Screening, Diagnosis, and Treatment Support (Training)
	• Nursing Home Pre-admission Screenings
	• Resource Mothers Program - Support Persons for Indigent Young Pregnant Women
	• Health Clinic Medical Services, Including Home Health Services
	• Case Management Services for Pregnant Women and Children
	• Teen Pregnancy Prevention Programs
	• Certificate of Public Need Approvals – Nursing Homes and Hospitals
	• Screening of Children for Lead Poison
	• Data Sharing
Attorney General's Office	• Medicaid Legal Representative
	• Medicaid Fraud Unit
Department for the Aging	• Case Management for the Elderly
	• Quality Care Assurance-Nursing Facilities
	• Relocation of Residents of Nursing Homes
	• Outreach for Dual Eligibles
Department of Education	• School-Based Health Centers
	• Rehabilitative Services
	• Skilled Nursing Services
	• Psychological Services
	• Data Sharing
Department of Taxation	• DMAS uses the Tax Debt setoff on accounts that cannot be collected
JLARC	• Data Sharing
Department of Mental Health, Mental Retardation and Substance Abuse Services	• Inpatient and Community Mental Health and Mental Retardation Services
	• Nursing Home Pre-admission Screenings and Resident Reviews
	• Certification of Providers of Mental Health and Mental Retardation Case Management Services
	• Early Intervention Services for Infants and Toddlers

VCU and UVA Hospitals	• Inpatient and Outpatient Care
	• Nursing Home Pre-admission Screenings
	• Infrastructure Grant Projects
	• Revenue Maximization Support
	• Medicaid Buy-In Study
	• Consumer Directed Services
Supreme Court of Virginia	• Payments to Hospitals and related providers of medical and health services for individuals subject to Involuntary Mental Commitment proceedings
Department of Health Professions	• Nurse Aide Certification
	• Licensure of providers
	• Investigation of Complaints (Quality of Care)
State Police	• Medicaid Drug Fraud
Virginia Employment Commission	• Access to Virginia Employment Case Management Files
Department of Accounts	• Financial Reporting
	• Compliance Audits
	• Official record of DMAS financial transactions
	• EDI – Travel Vouchers
Treasury Department	• Treasury Issues, DMAS checks, and wire transfers for vendors and providers
Department of Planning and Budget	• Oversee the agency's administrative and medical budget
Department for the Blind & Vision Impaired	• Eligibility Determinations
Office of Comprehensive Services	• Comprehensive Services Act
Library of Virginia	• Document Storage
Virginia Information Technology Agency	• Executive Summary for the VITA Transition
Virginia Commonwealth University	• Support for Revenue Maximization Project
	• Personal Care Aid and Certified Nurse Assistant Training Program
	• Partnership for People with Disabilities
	• Area Health Education Centers Program

Medical Assistance Services is the state agency charged with the administration and management of the state's Medicaid program. All Medicaid funds flow through Medical Assistance Services. Medical Assistance Services uses Medicaid funds to reimburse service providers.

As stated previously, the Commonwealth's Medicaid expenses totaled $5.04 billion in fiscal 2007. Of this amount, Medical Assistance Services paid just over $1.2 billion in Medicaid funding to other state agencies and localities (Commonwealth entities) for the services they provide to individuals in the Medicaid program. The $1.2 billion represents 24 percent of Virginia's total Medicaid expenses and accordingly, the federal government reimbursed the state for about $600 million (50 percent) of that amount. Several of the internal entities in the tables below rely heavily on this Medicaid funding stream (both state and federal funding) to provide services.

The following table lists the Commonwealth entities that Medical Assistance Services pays Medicaid funding to for the services they provide to Medicaid clients.

Internal Medicaid Payments for Services

Entity		Entity Provided Match	Funding from the Department of Medical Assistance Services	Total Medicaid Funding	Total Available Funding for Services	Medicaid Funding as a Percent of Total Funding for Services
DMHMRSAS	Inpatient Care, Facilities and Other	$ 27,530,014	$240,307,767	$252,307,767	$ 556,137,478	45%
Community Service Boards	Community Care	-	274,172,085	274,172,085	783,348,814	35%
Comprehensive Services	Residential Psychiatric Treatments and Utilization Management Reviews	46,805,143	46,805,143	93,610,286	316,164,675	30%
University of Virginia Health System	Patient Care	-	190,077,245	190,077,245	882,400,985	22%
VCU Medical Center	Patient Care	-	247,956,798	247,956,798	1,230,558,294	20%
Social Services, State & Local	Outreach and Eligibility Determination and Other	62,357,790	62,357,790	124,715,580	629,647,855	20%
Local School Divisions	Student Care	14,594,894	14,594,894	29,189,788	541,575,468	5%
Virginia Commonwealth University	Research	458,661	458,661	917,322	18,000,000	5%
Department of Health	Various Services, Including Outpatient Care	3,092,186	3,279,201	6,371,387	220,959,335	3%
Department of Rehabilitative Services	Eligibility Determination	987,373	987,373	1,974,746	90,755,900	2%
Woodrow Wilson Rehabilitation Hospital	Rehabilitation	-	371,476	371,476	19,903,732	2%
Department for the Aging	Medicaid Ombudsman Program	166,148	166,148	332,296	30,806,751	1%
Department of Health Professions	Nurse Aide Training and Certification Program	-	211,840	211,840	23,092,461	1%
Total		$155,992,209	$1,081,746,421	$1,222,208,616	$5,343,351,748	23%

In February 2006, the Deficit Reduction Act of 2005 became law. This legislation affected many aspects of domestic entitlement programs, including Medicare and Medicaid. The Deficit Reduction Act and other developments at the federal level aim to reduce the federal portion of costs for the entitlement programs. As the federal government tightens spending on these programs, the burden to fund these programs will shift back to individual states.

The movement to decrease costs at the federal level is forcing states to consider the impact of Medicaid spending at the individual state level. If the federal government were to cut Medicaid funding, the Commonwealth would either need to increase its contribution to the Medicaid program to maintain current levels of services, or reduce funding. The following entities rely heavily on Medicaid funding.

DMHMRSAS received about $240.3 million in Medicaid funding from Medical Assistance Services in fiscal 2007. DMHMRSAS matched funds to receive $27.5 million of those funds. The combined total of $252.3 million in Medicaid funding represents 45 percent of DMHMRSAS' total funding for services. DMHMRSAS uses Medicaid funds to provide in-patient mental health and mental retardation services at their facilities statewide.

Community Service Boards (Boards), which provide community care for mentally ill individuals and persons with disabilities, received about $783.3 million in funding in fiscal 2007. Medical Assistance Services provided about $274 million (35 percent) of the Boards' funding from the Medicaid program. Without Medicaid, the Boards would lose more than a third of their total funding stream.

Comprehensive Services transferred approximately $46.7 million of its General Fund monies to Medical Assistance Services in fiscal year 2007. Medical Assistance Services, through the Medicaid program, uses the funds to match an equal amount from the federal government. The total amount, $93.4 million, was paid to private services providers for residential psychiatric treatments for foster care children that qualify for the Medicaid program. This funding arrangement allows Comprehensive Services to double 17 percent of its budgeted funding to obtain approximately $316 million in total available funding for services.

Social Services (state and local) provided a match of about $62.4 million in fiscal 2007 to receive a one-for-one match in Medicaid funds from Medical Assistance Services. In total, Social Services received total Medicaid funding of $124.7 million to provide outreach and determine Medicaid eligibility for potential clients. Eligibility determination is an administrative cost for Social Services, and Medicaid dollars represents 20 percent of the funding for state and local Social Services' total administrative expenses ($629 million).

For the services they provide to individuals in the Medicaid program and indigent patients, the University of Virginia (UVA) Health System and the Virginia Commonwealth University (VCU) Medical Center received $190.0 million and $247.9 million respectively in Medicaid funding in fiscal year 2007. Medicaid funds represent 22 percent of the UVA Health System's, and 20 percent of the VCU Medical Center's total revenues in fiscal 2007.

In addition to those agencies that provide services to clients, there are agencies that provide services to Medical Assistance Services. The ten agencies in the following table provide services to Medical Assistance Services, and Medical Assistance Services pays these agencies with Medicaid funds.

Entity	Services	Entity Provided Match	Funding from the Department of Medical Assistance Services	Total Medicaid Funding	Total Available Funding for Services	Medicaid Funding as a Percent of Total Funding for Services
Office of the Attorney General	Legal Services	$769,979	$3,560,311	$4,330,290	$31,032,332	14%
Department of General Services	Building Rentals, State Cars, Etc.	-	109,119	109,119	4,860,800	2%
Library of Virginia	Building Rental, Agency Meetings	-	24,625	24,625	2,017,528	1%
Department of the Treasury	Insurance Payments	-	27,677	27,677	2,782,553	1%
Auditor of Public Accounts	Audit	-	101,119	101,119	10,449,250	1%
Department of Accounts	Fiscal and Payroll Services	12,148	12,823	24,971	4,623,166	1%
Virginia Information Technologies Agency	IT Services	-	1,273,867	1,273,867	322,194,387	-
Department of Human Resource Management	Workers Compensation, Training, Etc.	-	31,702	31,702	9,326,934	-
Correctional Enterprises	Office Supplies, Furniture, Etc.	-	70,794	70,794	47,340,707	-
Department of Employee Dispute Resolution	Legal Services	-	1,350	1,350	1,369,724	-
Total		$782,127	$5,213,387	$5,995,514	$435,997,381	1%

Of the ten entities listed, only one receives substantial amounts of Medicaid funding in relation to their overall funding level. The Office of the Attorney General receives $3.6 million and

provides a match of $769,979 for total Medicaid funding of $4.3 million. This represents 14 percent of their total funding. The Office of Attorney General receives Medicaid funding because it is responsible for investigating and prosecuting clients or companies that commit Medicaid fraud.

The remaining entities on this list either receive an immaterial amount of Medicaid funds or an immaterial amount of funds as they relate to the entity's operations, and thus they should not be substantially impacted if Medicaid funding significantly decreases.

Our Specialty Teams Are the Key to Our Success

Following are the objectives of each of the teams. The objectives highlight their areas of concentration and audit work. Following these objectives are the special projects identified in our 2008 work plan and their status, and those projects in 2009 work plan submitted to the Joint Legislative Audit and Review Commission.

Every auditor receives fundamental training in auditing, computer, and analytical skills. In addition, there are training sessions to familiarize all the staff in the general skill set of each of the specialty teams. The general specialty skill set training allows the auditor to identify the need for a specialist.

Acquisition and Contract Management

The Acquisition and Contract Management Team supports prudent contracting and administration within the Commonwealth by providing analysis of financial information and best practices relating to contractual matters and the effectiveness, efficiency, and economy of various contractual services to those responsible for procurement and contract administration. The Team takes special interest in monitoring and evaluating long-term contracts such as the Commonwealth Infrastructure Partnership between the Virginia Information Technologies Agency and Northrop Grumman as well as the implementation of the Statewide Agencies Radio System (STARS) by the State Police.

The Team seeks to train and develop experienced procurement and contracting experts through both internal and external sources. Team training commences with the Virginia Contracting Officer program, administered by the Department of General Services, which provides all team members with a basic working knowledge of the Commonwealth's procurement laws and regulations. The Team places additional emphasis on the development of its team members' ability to research and identify best practices in various contracting environments and in project management. Team members are also encouraged to become Certified Public Accountants.

Budgeting and Performance Management

The Budgeting and Performance Management team monitors the budget process and performance management initiatives to help the Office identify potential financial management issues and areas of risk. The team provides information within the office on the budget development process and monitors budget legislation as it moves through the legislative process. The team also analyzes budgetary activity during the year to identify significant changes in the budget approved by the General Assembly. This work analyzes the original and final budgets for agencies, and evaluates reasons for changes. The Office uses this analysis as a risk identification tool.

The Budgeting and Performance Management team is comprised of staff with both accounting and public administration backgrounds. Each team member receives training in the Commonwealth's budget and performance management processes, and strives to keep up

to date on state and national trends in these areas. The team conducts annual training within the office to educate other staff on the budget process and the relationship between the budgetary and financial reporting cycles in state government.

Capital Asset Management

The Capital Asset Management Team seeks to ensure that the Commonwealth has the proper management, control, and valuation of capital assets; infrastructure; depreciation; preventive, corrective, and deferred maintenance; leases and installment purchases; and historic treasures. The Team bases its work on a life-cycle approach to capital asset management.

The Team seeks to have every member become a Certified Virginia Construction Contracting Officer. In addition, the Team members will annually receive training on the Commonwealth's fixed asset and lease systems and in the areas of accounting and financial reporting for capital assets, life-cycle analysis, facility maintenance and management, and project management.

Data Analysis

Data Analysis team members strive to develop and teach techniques that allow the Office to conduct cross-cutting queries and analyses. The team supports the Office's statewide audit approach by utilizing technology and computer-assisted auditing techniques. The team also develops tools and methodologies that allow for the on-going monitoring of financial transactions and internal controls. This process requires acquiring, analyzing, and reporting on various types of data to identify operational and business risks.

The Data Analysis team also maintains, and continues to enhance *Commonwealth Data Point*, an internet database located on the Auditor of Public Accounts website. Commonwealth Data Point allows citizens, legislators, and other policymakers access to a comprehensive source of financial and statistical data on the operations of the Commonwealth of Virginia.

Financial Management

The Financial Management Team identifies, analyzes and provides recommendations to enable the Commonwealth to manage financial and operational risk related to cash, investments, debt, and self-insurance. In addition, the team reviews the overall financial operations of entities within the Commonwealth. Reviews of the management operations help ensure the agency is operating in an efficient and effective manner.

The team also provides financial training and guidance to other office members on such topics as cash, investments, derivatives, debt, and arbitrage. In addition, team members receive training on current investment and debt trends, issues, and standards. Members of the team pursue the Certified Investment and Derivatives Auditor certification.

Higher Education

The Higher Education Specialty Team continues to improve efficient and effective audit practices for higher education financial and special audits. The Team provides guidance on accounting issues facing the State Council of Higher Education for Virginia and higher education financial officers. The Team also develops and updates specific auditing guidance on Student Financial Aid and Research and Development programs, and NCAA compliance issues.

Team members specialize in audits of higher education institutions through experience in completing those audits; participation in specialized training, such as the College Business Management Institute; and through certifications such as the CPA and Certified Government Financial Manager. Team members strive to be a continuous resource to the universities in areas of financial accounting, internal controls, and compliance issues through a comprehensive understanding of the higher education business environment.

Information Systems Development

The Information System Development team ensures systems developed process financial information accurately and efficiently, and create a usable audit trail. The Team reviews systems development projects including safeguards (called controls) that will promote accuracy, dependability, and security and report that projects are progressing on schedule, within budget, and toward success.

Team members undertake special training in project management as sponsored by George Washington University and work towards certification as Project Management Professionals by the Project Management Institute. Additionally, team members regularly attend classes to keep current with system development best practices.

Information Security

The Information Security team evaluates agencies' information security plans and how they impact the accuracy of financial statements and protect mission critical and sensitive information. The Team evaluates information security plans against industry best practices and the Commonwealth of Virginia policies, standards, and guidelines. As a highly technically trained team, they also evaluate how hardware and software configurations ensure the appropriate levels of protection for the information they contain.

Each team member has an assigned area of technical concentration, which allows the team to extend its expert knowledge base to all areas of information technology, including; network infrastructure, server platforms, databases, and business applications. Collectively, the team possesses several professional certifications including Microsoft Certified Systems Engineer, Cisco Certified Network Analyst, Certified Information System Security Professional, and Certified Information Systems Auditor.

Judicial Systems

The Judicial Systems Team promotes sound financial management and accountability for funds by audits of the various courts, general receivers, magistrates; and constitutional officers. In addition, Team members are on-call to perform special reviews when there is a change of any Clerk of Circuit Court or Treasurer.

The Team ensures that the court and constitutional officers accurately process financial transactions, maintain sound internal controls and comply with the Code of Virginia. This Team performs over 400 reviews annually.

Reporting and Standards

The Reporting and Standards Team ensures that our Office is following current accounting and auditing standards and incorporates this information into our audits. For newly issued standards, the Team not only works with our auditors, but actively works with the State Comptroller and his staff, the Cabinet Secretaries and local governments and their auditors to help everyone properly implement and follow generally accepted accounting and auditing principles. The Team specializes in the financial statement reporting model and assists in auditing the reporting process, including having primary responsibility for the audit of the Commonwealth's Comprehensive Annual Financial Report.

Team members strive to become Certified Public Accountants and regularly receive training in accounting and auditing standards. To ensure we follow the standards in every audit we perform, team members use this training to prepare training for all Office staff and update our Office's Audit Manual and practice aids. In addition, the Team conducts internal reviews of our work to assure not only the quality of our audit work, but to improve our efficiency.

Social and Medical Services

The Social and Medical Services Team evaluates the management of the agencies providing these services to ensure they have effective and efficient internal controls surrounding both their fiscal operations and compliance requirements. The Team audits several of the Commonwealth's highest-funded agencies, including the Departments of Health, Medical Assistance Services, and Social Services.

The Team uses best practices in both audit planning and audit techniques for Social and Medical Service agencies, which includes having an in-depth knowledge of various subjects, including federal auditing requirements. To help aid with this objective, our team members' backgrounds and expertise are as diverse as the agencies it audits. This includes bachelor degrees in accounting and finance, a master's degree in business administration, Certified Public Accountants, and experience as a former Nursing Home Director. Additionally, some

team members are undertaking the Grants Management Certificate Program recommended by the National Grants Management Association.

SPECIAL PROJECTS

Acquisition and Contract Management

2008

Department of State Police - STARS Radio System

Objectives: To continue following the implementation of a $350 million radio system to ensure the project remains on schedule and on budget, while providing the required functionality.

Status: In our report entitled "Interim Review of STARS Project" issued in January 2008, we found that the STARS Project Management Team has provided accurate but not complete information to support an accurate determination that the project is on-time and on-budget. The Project Management Team does not follow a number of best practices in project scheduling, budgeting, and risk management. The Project Management Team has not revised its plan to ensure complete and timely communication to reflect current needs. The Project Management Team has not established complete policies and procedures to enable it to effectively manage the contract with Motorola.

Specifically, we recommend that the project management team:

- Revise the project communication plan to ensure current processes are included and all necessary written communiqué is documented and agreed-upon by all stakeholders.
- Develop a long-range assignment schedule of internal resources to more effectively plan for inspection of deliverables.
- Develop an estimated cost to complete the project in order to improve the effectiveness of budget management.
- Develop and adopt realistic assumptions for project scheduling and budgeting in order to reduce delays that are unexpected by key stakeholders.
- Continue to follow best practices in the execution, control, and close-out of the project in order to ensure the quality of the final system.

VITA - Contract Management

Objectives: To follow VITA's management of the Northrop Grumman contract and the effects the contract has on VITA's operations and the Commonwealth's infrastructure.

Status: In our report entitled "Interim Review of the Information Technology Partnership" issued in February 2008, we found that Northrop Grumman may not meet several milestones, including significant milestones relating to the Information Technology Infrastructure Library (ITIL) and the Disaster Recovery Test at the Southwest Enterprise Solution Center. Additionally, Northrop Grumman has not documented the process by which they will collect, report, and analyze the performance metric data as required by the Partnership Agreement. The ITIL and the performance metric process are essential deliverables granting the Commonwealth the ability to measure Northrop Grumman's performance after July 1, 2008.

As the Partnership moves to a managed service environment on July 1, 2008, without a completed procedures manual including the ITIL; and a complete set of standards for performance measures, the Commonwealth is at risk of not having adequate means to assess complete delivery of Northrop Grumman services after July 1, 2008.

We recommend that the SMO work with Northrop Grumman to develop a contingency plan in the likely event complete and official policies, processes, and procedures are not agreed-upon before transition to a managed service environment.

Study of Inventory Management

Objectives: To follow up on the inventory management practice review performed in 2005, with the additional objective to review those agencies that have significant inventory and compare their inventory management practices to accepted best practices. This review will include the practices for timely removal of obsolete, useless or damaged items, efficient ordering practices, and physical safeguards. This review will also look at the efficiency and security of the surplus property warehouse and review cost/benefit of surplus property practices.

Status: We postponed the project to the 2009 work plan due a lack of staff resources and our reassessment of risk relative to other special projects with a high risk factor. We plan to issue a final report in April 2009.

2009

Department of State Police - STARS Radio System

Objectives: To continue following the implementation of a $350 million radio system to ensure the project remains on schedule and on budget, while providing the required functionality. Rather than focusing only on project governance, we will expand our

review to include specific project deliverables in addition to following-up on our recommendations from the prior year audit to ensure that the State Police management and the project management team has taken adequate corrective actions. We plan to issue a final report in January 2009.

VITA - Contract Management

Objectives: To continue tracking VITA's management of the Northrop Grumman contract and the effects the contract has on VITA's operations and the Commonwealth's infrastructure. Specifically we will test the accuracy of the data VITA uses to evaluate Northrop Grumman performance. Our review will also focus on the improvement of the Request for Service Process of VITA and Northrop Grumman. We will also follow-up on our recommendations from the prior year audit to ensure that VITA management has taken adequate corrective action. We plan to issue a final report in February 2009.

State-wide Review of Small Purchase Charge Cards

Objectives: To review a one year sample of purchases across the state for suspicious transactions. Our team will work closely with the Data Analysis Team to examine trends and perform other analytics to identify suspicious transactions with credit cards. We plan on issuing a final report in March 2009.

State-wide Pharmacy Review

Objectives: To review the pharmacy operations in the Commonwealth and assess the reasonableness of the procurement and inventory management of prescription medications at state funded pharmacies. We will also compare pharmacy operations across state funded pharmacies and to best practices in the pharmacy industry. Additionally, we will determine whether state funded pharmacies take advantage of available federal prescription drug discount programs and share knowledge. We plan to issue a final report in September 2009.

Budgeting and Performance Management

Required by Legislation, Statute, or Appropriation Act

Review of Performance Measures

Objectives: To determine that state agencies are providing and reporting appropriate information on financial and performance measures, and to review the accuracy of the management systems used to accumulate and report the results. (Code of Virginia Section 30-133B.)

Status: We issued this report in May 2008.

We perform this project work annually. We are planning to change our reporting approach to this work in 2009. We will include any management recommendations related to performance measures in the individual agency reports as well as issuing a statewide report.

Council on Virginia's Future

Objectives: To provide staff assistance to the Council on Virginia's Future. (Code of Virginia Section 2.2-2688)

Status: We continue to provide staff assistance to the Council on Virginia's Future as needed.

Higher Education - Review of Performance Measures

Objectives: To determine that colleges and universities are providing and reporting appropriate information on financial and performance measures, and to review the accuracy of the management systems used to accumulate and report the results. (Code of Virginia Section 30-133B - the Department of Planning and Budget has delegated this function for colleges and universities to the State Council of Higher Education in Virginia).

Status: This project is a joint project between the Budgeting and Performance Management and Higher Education teams. This project is currently in progress, and we plan to issue a report in Fall 2008. This initial report will focus on documenting the process for reporting various performance measures information for colleges and universities as a result of the restructuring efforts.

2008

Department of Planning and Budget
Review of Budget Transparency of the Development Process

Objectives: To compare the Commonwealth's budget transparency of the development process to best practices and other states and review Department of Planning and Budget guidance. We will review specific issues to include the use of operating plans, non-general fund cash balances and how they affect budget development, the approach for budgeting personnel costs and vacancy savings, and how Planning and Budget handle re-appropriations in budget development.

Status: We have completed the initial phase of this work and gained an understanding of these aspects of the budget development process. We did not issue a separate report on this work, but have incorporated various aspects of this project into other reports

we have issued this past year. We plan to issue a summary report of our findings on this matter in Spring 2009.

Review Non-General Fund Forecasting

Objectives: To review and evaluate the forecasting process for non-general fund revenues.

Status: We completed this project in phases and issued two separate reports. We issued our interim report in May 2007 and our final report in June 2008. Based on the results of our review, we recommended the Commonwealth make significant improvements in the forecasting and monitoring processes over these revenues and our report included the following specific recommendations:

- Planning and Budget and the Secretary of Finance should develop a quarterly statewide mechanism to monitor and report on actual non-general fund revenue collections in comparison to the estimates in the approved budget. Currently, there is no mechanism in place to provide comprehensive statewide reporting to the legislature or to the public.

- Planning and Budget and the Secretary of Finance need to analyze the non-general fund revenue portfolio to determine which sources represent actual revenue and how best to present these sources in the budget. We found approximately $1 billion in estimated collections that really are collections for others. In addition, we found another $1 billion in Medicaid funding that may appear twice in the revenue estimate. In both cases, these revenue streams support appropriations in the budget, but current budget practices distort the user's ability to understand exactly what resources are available to fund programs and services. Planning and Budget and the Secretary of Finance should analyze revenues and evaluate alternative presentations in the budget that would more clearly differentiate the different types of collections of non-general funds.

- Individual agencies and Planning and Budget should strengthen their procedures over the estimating of non-general fund revenues. We found a number of errors in the non-general fund revenue information currently accumulated and reported in the Executive Budget Document. It is important for agencies to understand the budgeting as well as the accounting for their various revenue streams, so they can properly develop revenue estimates for Planning and Budget.

  In addition, it is important for Planning and Budget staff to understand the budgeting and accounting for the revenue streams to ensure the information they are compiling and reporting is

comparable and accurate. Planning and Budget needs to dedicate adequate resources to this area so they can comply with their statutory requirement to verify the accuracy of agency estimates.

- Planning and Budget does not have adequate documentation to support their current procedures for accumulating and reporting non-general fund revenue information in the Executive Budget Document. In considering this recommendation, the Secretary of Finance and the Director of Planning and Budget must consider whether or not Planning and Budget has adequate resources to meet their other statutory requirements.

Capital Assets Management

2008

Statewide Review of Department of General Services

Objectives: To complete the review of operations at the Department of General Services and the statewide processes that the Department participates in or oversees. This will specifically include: the Bureau of Capital Outlay Management and its role and oversight responsibilities in the capital outlay process; the Division of Purchase and Supply and its role and oversight in the procurement of goods and services; and the Division of Real Estate Services and its increasing role in the administration and oversight of the Commonwealth's portfolio of land and buildings. To compare current processes and controls with industry best practices to identify opportunities for improvements or increased efficiency. To gather and maintain information such as statewide lists of contracts and construction projects for use on various agency audits. To review controls and processes at the Commonwealth's Surplus Warehouse.

Status: This review resulted in two separate reports.

✓ "The Department of General Services: Report on Audit for the Years Ended June 30, 2005 and June 30, 2006" in August 2007 focused on General Services and its internal programs and controls.

- The majority of our findings revolved around General Services not having documented or adequate policies and procedures over fiscal operations, eVA, surplus property warehouses, and real estate services.

- General Services does not have adequate information or processes to evaluate state contracts for renewal.

- The report also provided some recommendations on opportunities to increase awareness and use of the surplus property program.

✓ "Statewide Review of Capital Outlay" in July 2008. This report focused on the capital outlay process, including the role of General Services, Department of Planning and Budget, and the agencies and institutions. We considered the implications of the new capital outlay bond act passed by the 2008 Special Session of the General Assembly, which incorporated numerous recommendations we have made in previous reports, including providing planning funds for projects to ensure better cost estimates before committing funding for project construction.

We support General Services' current effort to provide the Commonwealth with a centralized capital project system to capture project cost and schedule data in a single location. In addition, we made various recommendations to improve the availability of project status data on capital projects and to perform and update periodic facility condition assessments.

Statewide Review of Fleet Management

Objectives: To determine the impact of the new Executive Order and the new policies established by the Office of Fleet Management Services on the purchase and use of state-owned vehicles. To review the implementation of OFMS' new call center and maintenance program. To review agencies that we identified with inefficient processes and controls over vehicles in our special report issued in June 2004 and determine the status of any corrective actions. To review policies and procedures over licensing of state vehicles at the Department of Motor Vehicles. To review contracts associated with vehicles and their maintenance to ensure adequate procurement and management.

Status: We issued this report in October 2007.

✓ The Office of Fleet Management Services (OFMS) at the Department of General Services did not adequately address issues noted in JLARC's review of passenger vehicles in 2004 and most agencies did not address some of the issues from our review of agency-owned vehicles in 2004.

✓ OFMS does not have a business plan outlining its goals for the future. We recommended development of a business plan and several changes in the Commonwealth's vehicle policies, procedures, and processes to improve the efficiency and effective of the Commonwealth's fleet.

Statewide Review of Energy Performance Contracts

Objectives: A project to compile data on all energy performance contracts in which the Commonwealth is participating. The project will determine the status of each contract. It will also classify contracts by financing method and determine whether the method of financing was favorable, beneficial, and the most cost effective method to use. Based on this information, we will determine whether there is a preferred method to contract and finance energy improvements that is the most beneficial to the Commonwealth. Finally, we will determine whether energy performance contracts are beneficial to the Commonwealth and recommend whether they should continue in the future.

Status: We cancelled this project during the 2008 Work Plan due to a lack of staffing, and we determined that some changes in the approval process of contract reduce the risks initially identified during our 2008 work plan development.

Develop Capital Projects Life-Cycle Budget Analysis

Objectives: To develop a life-cycle budget analysis for capital projects for higher education. (Appropriations Act Item 4-4.01 n. 3.b.)

Status: We combined this project with the Deferred Maintenance project below.

Deferred Maintenance

Objectives: To review the work that Department of General Services has accomplished in implementing the Facility Inventory Condition Assessment System (FICAS). The Review will include General Services support to agencies, instructions and work with the State Council of Higher Education for Virginia (SCHEV). We will also interview user agencies.

Status: We postponed this project from the 2008 work plan, and it is now part of the current work plan.

2009

Review of the Department of General Services Division of Real Estate Services

Objectives: To identify and reduce duplication of efforts between the Division of Real Estate Services and the Department of Accounts related to the tracking of leases for management and financial reporting purposes. To determine reasonableness of the Division of Real Estate Services' statewide and internal lease policies and procedures.

Review of Department of Transportation's Asset Management System

Objectives: To gain an understanding of Transportation's Asset Management System used to track road conditions and determine maintenance needs. To review and evaluate how Transportation uses the data in the system to determine maintenance needs and request funding. To determine how Transportation tracks whether the maintenance needs and uses maintenance funding.

Data Analysis

Required by Legislation, Statute, or Appropriation Act

Development of Internet Database

Objectives: The Auditor of Public Accounts shall compile and maintain on its Internet website a searchable database providing certain state expenditure, revenue, and demographic information as described in this subsection. The Auditor of Public Accounts shall update the database each year by October 15 to provide the information required in this subsection for the ten most recently ended fiscal years of the Commonwealth. (Code of Virginia Section 30-133)

Status: We have continually enhanced Commonwealth Data Point during 2008 as discussed below and plan more enhancements during the upcoming year.

- Local government expenditure and revenue screens re-design allow a more user-friendly access and drill-down to detailed data.
- Statewide small purchase charge card transactions data is available with links to actual payment voucher.
- Enhance Search functions allow searches on multiple data fields.
- General fund spending by locality analysis allows users to view how much of the Commonwealth General Fund is spent in their locality and for what purposes.
- A "Where Does Your Money Go" analysis allows citizens to enter monies paid to the Commonwealth of Virginia and view what categories their monies supported in the past five fiscal years. We added this enhancement based on the request of a member of the House of Delegates.

2008

Small Purchase Charge Card Review

Objectives: To review processes and collect for analysis the new MasterCard program data; specifically, collect statewide small purchase charge card data; analyze data at agency and statewide levels; review any changes to the charge card program since implementation of MasterCard - Program; and develop trigger reports for identified exceptions or unexpected results.

Status: We did not issue a specific report on this review during the 2008 work plan, but included any findings in individual audit reports. We continue to collect and analyze statewide small purchase charge card data perform test work on an agency by agency basis, and issue findings issued when necessary. This project is a joint effort with the Acquisition and Contract Management Team.

Financial Management

Required by Legislation, Statute, or Appropriation Act

Review of the Southeastern Public Service Authority's Operations and Finances

Objectives: To assess the Southeastern Public Service Authority's financial stability and performance, compare the Authority's operations with similar public and private entities, and make recommendations (HJR 89)

2008 and 2009

Review of Construction Financial Planning

Objectives: To determine whether a business and financing plan exists and supports the need for new construction. An agency's or institution's review of the business plan should establish the feasibility of long-term construction projects before agencies and institutions commence building. This study will also include determining whether the agency or institution developed an appropriate operating budget and future cash flow projection.

Status: We had a shortage of staffing resources and postponed this project from the 2008 work plan, and it is now part of the current work plan.

Fraud Study

Objectives: To gain an understanding of the various agency internal fraud programs and determine what types of frauds they investigate. To gather statistics on a statewide basis (i.e. restitution amount, number of cases, type of cases, and final action/outcome

of the case) and make suggestions on improvements as deemed necessary. To compare data from various state systems and determine if individuals may be improperly receiving benefits and/or services. To compare benefit and service records to vital statistics records, tax records, and corrections records.

Status: We had a shortage of staffing resources and postponed this project from the 2008 work plan, and it is now part of the current work plan.

Review of Revenue Collections

Objectives: To document the various methods that the Commonwealth agencies use to collect revenues, including internet, mail, and in person, except student tuition and fees. To determine how easy these methods are for customers. To analyze whether these methods are secure and consistently safe. To review whether there are easier, more cost-effective, and more secure methods to collect revenue.

Status: We had a shortage of staffing resources and postponed this project from the 2008 work plan, and it is now part of the current work plan and the project reviewing the Commonwealth's collection practices for accounts receivable.

Higher Education

Required by Legislation, Statute, or Appropriation Act

Higher Education Chartered Institutions

Objective: To conduct a review, in cooperation with JLARC and pursuant to the "Restructured Higher Education Financial and Administrative Operations Act", Section 23-38.88 of the Code of Virginia, relating to the initial management agreements submitted by Virginia Tech, the University of Virginia, and the College of William and Mary. The review will determine the degree of compliance with the terms of the management agreements, the degree to which the universities have demonstrated their ability to manage successfully their administrative and financial operations, and the degree to which the universities are meeting their objectives. The review will cover a period of at least 24 months from the effective date of the management agreements.

Status: We have met with JLARC to plan and discuss the review and methodologies to review compliance with the management agreements. JLARC is currently gathering data and will develop an analysis and discussion regarding the institutional compliance. This Office will review and provide information as requested.

2008

Review Auxiliary Enterprise Accounting and Reporting

Objectives: To review the definition and classification of auxiliary enterprises to establish the comparability of auxiliary enterprises and related fees between universities; to review the oversight and standardization of auxiliary enterprise accounting and reporting; to review the effectiveness of the current Schedule of Auxiliary Enterprises and develop any required improvements; and to review guidelines for maintenance of operating and capital reserves and related oversight and reporting.

Status: This review resulted in a report dated September 14, 2007, *Auxiliary Enterprises Accounting and Reporting Issues at Virginia's State-Supported Universities.* The report contained several recommendations designed to improve accounting and reporting for auxiliary enterprises at Virginia's state-supported universities including the following:

- SCHEV should develop a principle-based definition of those activities funded from mandatory fees.
- SCHEV should update and refine its auxiliary enterprise accounting guidance.
- SCHEV should develop specific, consistent procedures for preparing the schedule, showing the sources and uses of Auxiliary Enterprises Reserves or determine whether the schedule should continue to be required.
- University management should monitor auxiliary enterprises to determine whether they are self-supporting and document and approve transfers between auxiliary enterprises.

Review One-Card Systems

Objectives: To review One-Card Systems used at Virginia's state-supported universities. These One-Cards provide students, faculty, and staff with a single card to serve as identification, meal plan access, building and dorm access, and debit card access to various merchants. The review will encompass the following specific objectives:

- Provide background information on the functions of the One-Cards at the universities.
- Provide information on customer service features of the One-Cards and compare those features between the universities.
- Obtain preliminary information regarding accounting controls and reporting for One-Cards for use on financial statement audits.

Status: Staffing shortage prevented us from complete this project during 2008. We have completed the planning phase of the review and are now gathering data. We plan to issue a report around December 31, 2008.

Information Systems Development

2008 and 2009

Systems Development Projects

Objectives: To monitor the systems development process over major systems to determine the projects are on schedule, on budget, and provide required functionality. This includes systems development projects for the various departments, agencies, and higher education institutions.

Status: Throughout 2008 we monitored the status of several major systems implementations including the Department of Rehabilitative Services Case Management and Financial Management Systems, the Department of Professional Occupation and Regulations new licensing system, and systems at the Departments of Transportation, State Police, Motor Vehicles, and the Supreme Court of Virginia. In 2008, we issued two progress reports that detailed the status of all the systems we are monitoring and these reports highlighted specific recommendations to improve the projects schedule, scope, and budget.

In 2009, we continue to closely monitor about twenty major system implementations and our specialists regularly attend project meetings and review project documentation. We plan to issue two progress reports this year, which will include our recommendations as necessary.

Statewide Systems Replacement

Objectives: To monitor the replacement of statewide applications, including accounting, budgeting, human resources, and other administrative systems, with an enterprise solution.

Status: Throughout 2008, we closely monitored developments surrounding the Commonwealth's replacement of statewide applications to make sure we understood the direction the Enterprise Application Office was taking to implement these applications by having regular meetings with the Chief Applications Officer and staff. In addition, we regularly attended workgroup meetings to understand system requirements and observe the workgroup's progress.

During 2008, the Chief Applications Officer had no funding to pay for new statewide applications, and chose to work with the Department of Transportation who had funding to replace their existing accounting system. Under this partnership, the

Department of Transportation will implement a new accounting application that will conform to the requirements and standards of a new statewide accounting application. Once implemented by the Transportation, the application will then become the new statewide financial application.

Throughout 2009, we will continue to follow the progress of this partnership as well as any other statewide application projects that may move forward. We will report on the status of these applications in our regular progress report described earlier and if necessary, we will issue a separate audit report that describes the project and any relevant findings and recommendations.

We have received a request by the Information Technology Investment Board to conduct a separate review of the spending and outcome of Enterprise Application Office since it inception. We anticipate issuing a report in October 2008.

Information Systems Security

2008

VITA Service Bureau Review

Objectives: To audit the information systems general control policies and procedures of the VITA Service Bureau, which provides agencies information systems data processing services.

Status: This project does not result in a report. The VITA Service Bureau data center has transitioned to the IT Infrastructure Partnership, who is Northrop Grumman and they employ Deloitte & Touché, a public accounting firm to review the internal control structure.

We used this project to monitor the progress and scope of the Deloitte & Touché infrastructure and security audits of the data center to ensure adequate coverage for our offices' other audits. In addition, to make agency managements aware of any existing problems in the infrastructure supporting and securing their data, our office issued risk alerts identifying any findings or issues relevant to their particular agency.

Review of Statewide Systems Security Policies

Objectives: To review whether VITA is giving proper guidance to agencies and institutions to manage their information systems and security and if VITA is setting appropriate statewide standards.

Status: This project does not result in a report. The security auditors in our office are active participants in the Commonwealth's Information Security Officer Advisory Group and the Commonwealth Information Security Council. In this capacity, we

immediately review proposed new, changed, or removed policies, standards, and guidelines before presentation to the Information Technology Investment Board for final approval.

Our office conducted a statewide review of information systems security policies in our 2006 report "A Review of Information Security in the Commonwealth of Virginia." One of our objectives in this report evaluated the adequacy of the Commonwealth's policies and standards to that of industry best practices. While we identified that the Commonwealth's policies and standards did not follow certain best practices, these policies and standards are strong and the continually review and revisions allow them to address information security threats and risks.

2009

E-Commerce

Objectives: To determine if the status of the Commonwealth's compliance with VISA/MasterCard merchant requirements for properly securing customer information (Member Compliance Validation Requirements) and identify methods to ensure the Commonwealth is not subject to resulting fines/penalties or loss of customer confidence. To determine the Commonwealth uses various e-commerce processes and the risks associated with the use of electronic processing and digital signatures, and which best practices and controls should exist.

Status: We have completed field-work for this project and are currently working on analyzing the data and writing the report. This study will be included in the bi-annual information security report issued by our office in September.

Systems Security - Review

Objectives: A follow-up of the results implemented from our 2006 report "A Review of Information Security in the Commonwealth of Virginia" and assess the current adequacy of the security of state government databases and data communications from unauthorized uses.

Status: We have completed fieldwork for this project, and are currently working on analyzing the data and plan to issue the report in September 2008. We plan to begin issuing a semi-annual report arising from our reviews of individual agencies during that semi-annual period with the first of these reports issued in April 2009.

Judicial

Study of Costs for Operating Court System

Objectives: To compile, analyze, and report financial data regarding the total costs to fund the district and circuit courts.

2008

Status: The Team has identified the various data elements for this statewide report, and the corresponding agency resources for this data. A template has been developed that will show court-type revenue earnings for the local government and the Commonwealth, along with the corresponding expenditures and transfers. Research is underway to develop the narrative explanations for the various elements of the report.

2009

Status: The goal is to complete and deliver this report by November 1, 2009. This will require completion of the data automation process to generate the table for each locality courts' data, and then compile for summary presentation. Over 150 localities will be included in this report.

Reporting and Standards

2009

Study - Collection of Receivables

Objectives: Review and report on the collection of the Commonwealth's receivables. Determine the various classes of receivables, the nature of the financial activity resulting in receivables, and how agencies classify and report receivables. Also, determine best practices the Commonwealth should use for appropriately extending credit, billing and collecting receivables, and reporting and determining collectability of each receivables class. Make recommendations for improvement of the management and reporting of receivables.

Frauds and Other Investigations

Upon the discovery of circumstances suggesting a reasonable possibility that a fraudulent transaction has occurred involving funds or property under the control of any state department, court, officer, board, commission, institution or other agency of the Commonwealth, including local constitutional officers and appointed officials exercising the powers of elected constitutional officers, as to which one or more officers or employees of state or local government may be party thereto, the state agency head, court clerk or local official in charge of such entity shall promptly report such information to the Auditor of Public Accounts and the Superintendent of State Police. Section 30-138 of the Code of Virginia.

During the course of the year, in accordance with the above statute, we receive reports of circumstances indicating a reasonable possibility of fraudulent transactions. This Office conducts an initial review of all reports, and depending on the nature and circumstances, determines how best to proceed. The majority of reports and related situations result in this office and State Police coordinating our activities with agency, institution, and locality officials, primarily internal auditors and local law enforcement. The tables below outline the volume of activity we had reported during fiscal years 2005 through 2007.

Fraud Reports

	FY 2007	FY 2006	FY 2005
Outstanding cases at beginning of fiscal year	15	55	30
New reports	50	44	50
Closed reports	(40)	(84)	(25)
Active cases at end of fiscal year	25	15	55

The following table provides a breakdown of the new reports received during the fiscal years 2005 through 2007 by type of entity.

New Reports

Entity	FY 2007	FY 2006	FY 2005
Courts	3	3	3
Local Governments	4	1	7
Institutions of Higher Education	19	14	14
State Agencies	24	26	26
Total	50	44	50

During the year, we were able to resolve and close a number of reports. The breakdown of this resolution follows.

Closed Reports

Disposition	FY 2007	FY 2006	FY 2005
No Conviction	15	49	18
Conviction	5	4	1
Conviction and Recovery	7	9	3
Administrative Action	6	21	3
Administrative Action and Recovery	7	1	-
Total	40	84	25

Specialty Teams contribute members to a special fraud task group which coordinates and conducts our reviews. Many of the group members have received special training and a number of them have become Certified Fraud Examiners. Obtaining this designation requires the individual to take a national administrated test and pass an examination. The organization that provides this certification is recognized nationally for its training and skills taught for the investigation of white collar crime.

Issued Reports and Audited Courts — Appendix A

The following is a listing of all Agencies and Institutions reports issued by the Auditor of Public Accounts during the fiscal year ended June 30, 2008. All reports listed are for the year ended June 30, 2007, unless otherwise indicated. An asterisk * indicates that they report includes audit findings and recommendations.

Agencies and Institutions

Division of Selected Agency Support Service for the year ended June 30, 2007
Virginia Biotechnology Research Partnership Authority for the year ended June 30, 2007
Virginia Commercial Space Flight Authority for the year ended June 30, 2007

Judicial Branch

Indigent Defense Commission for the period July 1, 2005 through June 30, 2006*
Indigent Defense Commission for the year ended June 30, 2007*
Review of the Supreme Court's Systems Planning and Operations as of August 30, 2007*
Virginia Board of Bar Examiners for the period July 1, 2004 through June 30, 2006
Virginia State Bar for the Years Ended June 30, 2005 and 2006*
Virginia State Bar for the year ended June 30, 2007*
Virginia Board of Bar Examiners for the year ended June 30, 2007*
Virginia Circuit Courts Report on Audits during the period July 1, 2006 through June 30, 2007*
Statewide Report on the Virginia District Court System for the year ended June 30, 2007

Independent Agencies

A. L. Philpott Manufacturing Extension Partnership for the years ended June 30, 2006 and 2007
Mega-Millions – State Lottery Department Report on Applying Agreed-Upon Procedures for the period April 1, 2006 through March 31, 2007
State Corporation Commission for the years ended June 30, 2006 and 2007*
The State Lottery Department: Report on applying agreed-upon procedures for the period March 1, 2006 through March 31, 2007
State Lottery Department Report on Audit for the year ended June 30, 2007*
Virginia College Savings Plan for the year ended June 30, 2007*
Virginia Retirement System for the year ended June 30, 2007
Virginia's Workers Compensation Commission for the years ended June 30, 2006 and June 30, 2007*

Executive Departments

The Governor's Cabinet Secretaries for the year Ended June 30, 2007
Office of the Attorney General and the Department of Law and the Division of Debt Collection for the year ended June 30, 2007*
Office of the Governor for the year ended June 30, 2007
Office of the Lieutenant Governor for the year ended June 30, 2007

Administration

Department of General Services for the fiscal year ended June 30, 2006*
Department of Minority Business Enterprise for the period July 1, 2007 through January 31, 2008*
Virginia Employment Commission for the year ended June 30, 2007*
Virginia War Memorial Foundation for the Year Ended June 30, 2006
Virginia War Memorial Foundation for the year ended June 30, 2007*

Commerce and Trade

Department of Business Assistance for the years ended June 30, 2006 and 2007*
Department of Housing and Community Development for the fiscal year ending June 30, 2007
Department of Labor and Industry for the year ended June 30, 2007*
Tobacco Indemnification and Community Revitalization Commission Financial Statements Fiscal year 2007
Virginia Board of Accountancy Report on Audit for the Year Ended June 30, 2007
Virginia Economic Development Partnership for the year ended June 30, 2007
Virginia Racing Commission Report on Audit for the year ended June 30, 2007*
Virginia Small Business Financing Authority for the year ended June 30, 2007
Virginia Tourism Authority for the period July 1, 2007 through January 31, 2008

Education

Department of Education Including Direct Aid to Public Education and Virginia Schools for Deaf and Blind*
Internal Control Report on Audit for Local Government Investment Pool, Virginia Public School Authority, Virginia College Building Authority, and Virginia Public Building Authority for the year ended June 30, 2007
New College Institute for the year ended June 30, 2007
Southwest Virginia Higher Education Center for the year ended June 30, 2007
Virginia Commission for the Arts for the years ended June 30, 2006 and 2007

Colleges and Universities

Christopher Newport University for the year ended June 30, 2007*
College of William and Mary in Virginia Intercollegiate Athletics Programs for the year ended June 30, 2007
The College of William and Mary in Virginia for the year ended June 30, 2007*
Eastern Shore Community College Reaccreditation Review for the year ended June 30, 2007
George Mason University Intercollegiate Athletics Programs for the year ended June 30, 2007
George Mason University for the year ended June 30, 2007*
James Madison University Intercollegiate Athletics Programs for the year ended June 30, 2007
James Madison University for the year ended June 30, 2007*
Longwood University Intercollegiate Athletics Programs for the year ended June 30, 2007
Longwood University for the year ended June 30, 2007*
Norfolk State University Intercollegiate Athletics Programs for the year ended June 30, 2007

Colleges and Universities(continued)

Norfolk State University for the fiscal year ended June 30, 2006*
Norfolk State University Report on Audit for the year ended June 30, 2007*
Old Dominion University Intercollegiate Athletics Programs for the year ended June 30, 2007*
Old Dominion University for the year ended June 30, 2007*
Paul D. Camp Community College Reaccreditation Review for the year ended June 30, 2007
Radford University Intercollegiate Athletics Programs for the year ended June 30, 2007*
Radford University for the year ended June 30, 2007*
Rappahannock Community College Report on Review for the year ended June 30, 2007
Richard Bland College of the College of William and Mary Reaccreditation Review for the year ended June 30, 2007
University of Mary Washington for the year ended June 30, 2007*
University of Virginia Intercollegiate Athletics Programs for the year ended June 30, 2007
University of Virginia for the fiscal year ended June 30, 2007*
University of Virginia Medical Center for the fiscal year ended June 30, 2007
University of Virginia President's Report, 2006-2007 (Report may be viewed at: http://www.apa.virginia.gov/data/download/reports/audit_local/uvafinancial07.pdf)
Virginia Commonwealth University Intercollegiate Athletics Programs for the year ended June 30, 2007
Virginia Commonwealth University for the year ended June 30, 2007*
Virginia Community College System for the Year Ended June 30, 2006*
Virginia Military Institute Intercollegiate Athletics Programs for the year ended June 30, 2007
Virginia Military Institute for the year ended June 30, 2007*
Virginia Polytechnic Institute and State University Financial Report, 2006-2007
Virginia Polytechnic Institute and State University Intercollegiate Athletics Programs for the year ended June 30, 2007
Virginia Polytechnic Institute and State University for the year ended June 30, 2007
Virginia State University Intercollegiate Athletics Programs for the year ended June 30, 2007*
Virginia State University Report on Audit for the Year Ended June 30, 2007*

Finance

Agencies of the Secretary of Finance for the year ended June 30, 2007*
Financial Statement Opinion on A Comprehensive Annual Financial Report for the fiscal year ended June 30, 2007

Health and Human Resources

Agencies of the Secretary of Health and Human Resources June 30, 2007*
The Assistive Technology Loan Fund Authority report on audit for the year ended June 30, 2007*
Commonwealth Health Research Board for the period July 1, 2004 through June 30, 2006
Department of Health Professions for the years ended June 30, 2006 and 2007*
Department of Medical Assistance Service, Vulnerability Assessment and Penetration Test as of February 2007*
Department of Mental Health, Mental Retardation and Substance Abuse for the fiscal year ending June 30, 2006*
Office of Comprehensive Services for At-Risk Youth and Families for the year ended June 30, 2007
Virginia Tobacco Settlement Foundation for the year ended June 30, 2007

Natural Resources

Department of Conservation and Recreation for the years ended June 30, 2006 and 2007*
Department of Environmental Quality for the year ended June 30, 2007*
Department of Historic Resources for the years ended June 30, 2006 and 2007*
Virginia Outdoors Foundation for the year ended June 30, 2007

Public Safety

Department of Alcoholic Beverage Control Report on Audit for the Year Ended June 30, 2007*
Department of Juvenile Justice for the fiscal year ending June 30, 2006*
Department of State Police Report on Audit for the Period January 1, 2006 through June 30, 2007*
Department of Veterans Services and the Veterans Services Foundation for the period April 1, 2006 through June 30, 2007*
Interim Review of STARS (Statewide Agency Radio Station) Project, January 2008*
Virginia Department of Emergency Management for the year ended June 30, 2007*

Technology

The Innovative Technology Authority Including Its Blended Component Unit Center for Innovative Technology for the year ended June 30, 2007
Progress Report on Selected Information Technology Projects in the Commonwealth, January 2008*

Transportation

Agencies of the Secretary of Transportation (Commonwealth Transportation Fund) for the year ended June 30, 2007*
Virginia Port Authority for the year ended June 30, 2007

Special Reports

Auditor of Public Accounts 2007 Report to the General Assembly
Auxiliary Enterprises Accounting and Reporting Issues at Virginia's State-Supported Universities as of September 21, 2007*
Comparative Report of Local Government Revenue and Expenditures for the fiscal year ended June 30, 2007
Comparative Report of Local Government Expenditures and Revenues for the year ended June 30, 2007
Federal Land Payments for the period October 1, 2006 through September 30, 2007
General Assembly and Legislative Agencies and Commissions of the Commonwealth of Virginia, Financial Report, for the year ended June 30, 2007
Information Technology Governance, December 2007*
Report on the City of Norfolk's Department of Human Services, November 2007*
Report on Collections of Commonwealth Revenues by Local Constitutional Officers for the year ended June 30, 2007*

Special Reports (continued)

Report to the Joint Legislative Audit and Review Commission for the quarter July 1, 2007 through September 30, 2007*
Report to the Joint Legislative Audit and Review Commission for the quarter October 1, 2007 through December 31, 2007*
Report to the Joint Legislative Audit and Review Commission for the quarter January 1, 2008 through March 31, 2008*
Report to the Joint Legislative Audit and Review Commission for the quarter April 1, 2008 through June 30, 2008*
Revenue Stabilization Fund Calculations for the year ended June 30, 2007*
Review of Agency Performance Measures for the year ended June 30, 2007*
Review of Cost Allocation Plan, Billing and Collections for the Virginia Information Technologies Agency, June 2008
Review of the Budget and Appropriation Processing Control System Report on Audit for the Year Ended June 30, 2007*
Review of Non-general Fund Revenue Forecasting Process Final Report*
Review of Performance Measures for the Year Ended June 30, 2006
Service Management Organization of the Virginia Information Technologies Agency—Interim Review of the Information Technology Partnership, February 29, 2008*
Statewide Review of Fleet Management*
Statewide Single Audit for the year ended June 30, 2007*

The following lists show those courts audited during the period July 1, 2007 through June 30, 2008.

Circuit Courts

Accomack
Alleghany
Amelia
Amherst
Appomattox
Augusta
Bath
Bedford County
Bland
Botetourt
Bristol
Brunswick
Buchanan
Buckingham
Campbell
Caroline
Carroll
Charlotte
Chesapeake
Chesterfield
Craig
Colonial Heights
Cumberland
Dickenson*
Essex
Fauquier
Floyd
Fluvanna
Franklin*
Grayson*
Greensville
Halifax
Hampton
Henry
Highland
Hopewell
King & Queen
King William
Lancaster
Lee
Loudoun
Mathews
Mecklenburg
Montgomery
New Kent
Norfolk
Nottoway
Northampton
Patrick
Petersburg*
Pittsylvania
Portsmouth
Prince Edward
Prince George
Pulaski
Radford*
Rappahannock
Richmond City-John Marshall
Richmond County
Roanoke City
Roanoke County
Rockbridge
Russell
Salem*
Scott
Shenandoah*
Southampton
Spotsylvania
Stafford
Staunton
Tazewell
Waynesboro
Wise & Norton
York

Circuit Courts – Clerk Turnover Audits

Albemarle	Gloucester	Montgomery
Arlington	Grayson	Prince William
Bath	Highland	Rockingham
Dickenson	Isle of Wight	Russell
Franklin	Lancaster	Southampton
Giles		Spotsylvania

General Receivers

Alexandria	Dickenson	Lynchburg
Arlington	King George	Russell
Bristol	Lee	Sussex
Buchanan	Loudoun	Washington
Charlottesville		Wise & Norton

General Receivers – Turnover Audits

Charlottesville

General District Courts

Alexandria*
Amherst*
Appomattox
Arlington
Augusta
Bedford County
Bristol
Caroline
Charlottesville
Chesapeake
Chesterfield
Danville
Fairfax City
Fairfax County*
Frederick*
Fredericksburg
Halifax
Hanover
Henrico
James City/Williamsburg
King & Queen
King William
Lancaster
Loudoun
Lynchburg
Middlesex*
Mecklenburg
Montgomery –
Christiansburg
Blacksburg
Nelson
New Kent
Newport News Civil
Newport News Criminal
Newport News Traffic
Norfolk Civil
Norfolk Criminal
Norfolk Traffic
Patrick
Petersburg
Pittsylvania
Portsmouth*
Prince William
Pulaski
Richmond City Civil
Richmond City Criminal
Richmond City Traffic
Roanoke County
Roanoke City*
Spotsylvania
Stafford*
Staunton
Tazewell
Warren
Winchester
York

Juvenile and Domestic Relations Courts

Alexandria
Amherst
Appomattox
Arlington
Bedford
Bristol
Campbell
Caroline
Charlotte
Chesapeake
Chesterfield
Clarke
Danville
Fairfax County*
Fauquier
Frederick
Fredericksburg
Halifax
Hanover
Henrico
Isle of Wight
James City/Williamsburg
King & Queen
King William
Lancaster
Loudoun
Lynchburg
Martinsville
Mecklenburg*
Montgomery
Norfolk
Northampton
Patrick
Petersburg
Pittsylvania
Portsmouth
Prince William
Pulaski*
Richmond City*
Roanoke City
Roanoke County
Smyth
Spotsylvania
Suffolk
Warren
Washington
Winchester
Wythe
York

Combined General District Courts

Amelia*	Essex	Madison
Bath	Fluvanna	Nottoway
Buchanan	Franklin City	Prince George
Buckingham	Galax	Rappahannock*
Charles City	Goochland	Russell
Colonial Heights	Greene	Salem
Craig	Greensville	Scott*
Culpeper	Highland	Shenandoah
Dinwiddie	Hopewell	Southampton
Emporia	Lee	

Fiscal Year 2008 Budgetary Analysis

Appendix B

Analysis of Budgeted and Actual Revenue by Funding Source

Funding Source	Original Budget	Adjusted Budget	Actual Revenue
General Fund appropriations	$ 9,660,318	$ 9,985,477	$ 9,985,477
Special revenue	787,329	787,329	891,353
Total revenues	$10,447,647	$ 10,772,806	$10,876,830

Appropriation Adjustments

General Fund	$ 9,660,318
Required adjustments	325,159
Adjusted General Fund appropriation	9,985,477
Special fund	787,329
Total appropriations	$10,772,806

Revenues – Deposits to the General Fund of the Commonwealth

Circuit courts	$ 332,974
Center for Innovative Technology	38,961
Department of Medical Assistance Services (State portion)	88,729
General Fund total	$ 460,664

Analysis of Budget versus Actual Expenses by Funding Source

Funding Source	Adjusted Budget	Expenses	Variance
General Fund appropriations	$ 9,985,477	$ 9,757,151	$ 228,326
Special revenue	787,329	787,329	-
Total	$10,772,806	$ 10,544,480	$ 228,326

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