

Auditor of Public Accounts

2012 Annual Report

Commonwealth of Virginia

The reports we issued in 2012 have dealt with a wide array of topics that affect the administration of how Virginia government delivers services to the public. These topics range from actions the Commonwealth can undertake to reduce the cost of future system development efforts to the nature of court funding to concerns about the safety of state and local police officers if the Commonwealth does not update and improve the Virginia Criminal Information Network.

Our staff's wide ranging knowledge of the accounting and general operations of State government and their expertise in specific technical areas allows us to address issues such as systems development and security, administration and fiscal management of the judicial system and fraud investigation techniques. While many reports this year appear to concentrate on system development issues, they have improving efficiency and effectiveness at their root.

We intend for our annual report to provide you with insights into how our office works each day to give you a greater ability to question agency management about their activities, and hold them accountable for their role in maintaining Virginia's status as the best managed state in the country. The next few pages provide a brief look into who we are and a few of the reports we issued this year. Additional details are in the body of our 2012 Annual Report.

You can find the spotlighted reports from the 2012 Annual Report on our website www.apa.virginia.gov, where you can read a summary of our recommendations on the first page, and then peruse the remainder of the report for the context and support behind our observations. If you have any questions or comments, you can contact me directly at: 804-225-3350 or Walter.Kucharski@apa.virginia.gov.

Overview of the Office

Providing sound reliable financial information and highlighting operational alternatives helps the Commonwealth's leaders address the challenges facing Virginia today. The Office of the Auditor of Public Accounts serves as the General Assembly's eyes and ears, monitoring and reporting how state agencies and institutions spend taxpayers' money.

As the Commonwealth's Board of Directors, the General Assembly directs the work of the Auditor's Office, either through specific study language or through a work plan annually approved by the Joint Legislative Audit and Review Commission. General Assembly members can also request technical assistance from the Auditor's Office in understanding the financial operations of the Commonwealth and its localities.

The bottom line . . . the Auditor's Office is here to meet the needs of the General Assembly and the Commonwealth's citizens.

www.apa.virginia.gov



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Points of Interest

- *Summaries of significant audits and reviews performed in 2012 as well as a status update of the issues and findings*
- *Insights into our organization and how we are here to serve you*
- *Significant projects planned for 2013*

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More than Just Audit, the Auditor's Office . . .

- *Created and provides ongoing support for Commonwealth Data Point, an online resource showing where and how Virginia spends its funds. Anyone can visit this site (datapoint.apa.virginia.gov) to learn about Commonwealth spending, revenues, demographics and more. Commonwealth Data Point also gives Virginians access to similar information about Virginia's cities, counties and towns.*
- *Monitors major IT projects and contracts, giving the General Assembly the opportunity to measure their progress, assess their performance and determine when they need adjustment. Our reports on these activities not only highlight the Commonwealth's successes, but also identify projects struggling to meet major milestones.*
- *Developed the first statewide perspective on the status of IT security across the Commonwealth. Through regular updates to the original report issued in 2006, we work with the Virginia Information Technologies Agency (VITA) to ensure key issues under the management of Northrup Grumman remain a priority for implementation.*
- *Provides technology-related vulnerability and penetration testing services for those organizations that do not fall under the purview of VITA and Northrup Grumman, when requested.*

What Does the Auditor Audit in a Year?

Financial, Federal, Performance and More

The first part of our year predominantly focuses on addressing [Code of Virginia](#) and federally mandated audits such as the Commonwealth's Comprehensive Annual Financial Report (CAFR), the Statewide Single Audit, and numerous other operational and financial statement audits.

In order to increase audit efficiency and cover the greatest number of agencies and institutions not mandated for review, the Auditor completes an annual risk assessment of the remaining agencies and institutions as well as key issues facing the Commonwealth. Using the risk assessment, we select projects for completion within the confines of our available resources.

Finally, while the Auditor's annual work plan encompasses both mandated and risk based projects, the Office remains fluid enough to address emerging issues as they arise.

Our Reports Hit the Issues

Providing Policy and Process Change Recommendations

Our audit reports and special studies regularly provide recommendations which the Commonwealth could implement to enhance the fiscal management of agency programs. The following shows some of the reports issued in the past year, which highlighted opportunities for operational improvements and identified significant risks in key areas of government. We spotlight each of these reports in more detail in Section 1 the 2012 Annual Report:

Progress Report on Commonwealth Data Standards, [Lack of Standards Increases System Cost and Hinders Transparency.](#) *Without common data standards, the Commonwealth increased the cost of four new systems between \$3.5 million and \$4.5 million and still cannot provide transparency on what the Commonwealth buys by vendor and other key information.*

Agencies under the Secretary of Finance, [Cardinal and Performance Budgeting are Key to Modernizing the Commonwealth's Systems.](#) *The State Controller and Planning and Budget will use Cardinal and Performance Budgeting Enterprise Applications as the new statewide accounting and budgeting systems; however, the Commonwealth does not have a source for funding their ongoing operation.*

Virginia's Court System, [Funding Methods should be Revisited and Revised.](#) *The Commonwealth's funding of its Court System, which dates to the State Constitution of 1850, is a complicated maze of state and local tax revenues and fines and costs with little connection to service delivery. Similarly, the division of responsibility for expenses between the Commonwealth and localities comes more from historical tradition than from funding sources or accountability. Over the past year we have issued two reports showing how the Court System receives and manages its funding.*

State Employees Health Insurance Fund and its Related Insurance Plans, [Reserve Funding Policy Needed.](#) *Best practices indicate that the Commonwealth should, at a minimum, fund an actuarially determined "incurred but not paid" reserve. Although there is no consensus on the funding of a contingency reserve, there does appear sound support for some actuarially determined funding of this reserve to prevent the reoccurrence of the funding issues from the late 1990's and early 2000's.*

Virginia Department of State Police, *Virginia Criminal Information Network at Risk for Infrastructure Failure and Outages*. On January 4th and 19th of 2012, the Virginia State Police (State Police) experienced two network outages of the Virginia Criminal Information Network. Both State Police and the IT Infrastructure Partnership with Northrop Grumman have linked the problem to unreliable and unsupported infrastructure devices, but specific security requirements established by the FBI's Criminal Justice Information Services Division has made the replacement of the network difficult and caused problems estimating the cost of the solution. These network failures could also affect local law enforcement agencies.

Electronic Health and Human Resources (eHHR) Program - Virginia's Medicaid Modernization Solution, *Allowing all Agencies of the Secretary of Health and Human Resources to Modernize and Exchange Information*. The eHHR Program Management Office represents the development of the information technology infrastructure that will improve Virginia's ability to administer effective social services, support Medicaid expansion, a Health Benefits Exchange, and compliance with other aspects of the Patient Protection and Affordable Care Act of 2010. We identified numerous risks that could adversely affect the success of the eHHR Program. Some of these risks are outside the control of the Program Director and some are risks common to information systems development projects

Progress Report on Systems Development Projects in the Commonwealth, *Four Systems Development Projects Require Continuing Monitoring*. This report reflects the status of our on-going review of \$205 million in Commonwealth systems development projects. This semiannual report focuses on four key systems development projects with significant risks that could adversely change the scope, delay the implementation schedule, or increase costs.

Review of Retail Sales and Use Tax Collection and Distribution Processes, *Taxation is Improving their Processes*. The Commonwealth collects almost \$5 billion in retail sales and use taxes annually and distributes approximately \$1 billion of these revenues to localities as a one percent local option tax. Our interim report found that Taxation has implemented a number of internal controls and procedures in recent years to address and help reduce both business and agency errors in the business registration process, as well as the tax collection and distribution processes.

Structure and Funding

The Auditor of Public Accounts is a constitutional officer, serving as the external auditor for all non-legislative state entities of the Commonwealth. The General Assembly elects the Auditor to serve a four-year term and the Auditor reports to the General Assembly through the Joint Legislative Audit and Review Commission. Virginia's Constitution and the Code of Virginia define the Auditor's duties. This structure provides independence from the agencies and institutions audited. The Auditor's Office receives about 90% of its funding from the General Fund of the Commonwealth with the remaining 10% resulting from billings for federal audit work. Additionally, the Auditor annually bills and directly deposits into the General Fund over \$500,000 for local court audits. Section 2 provides additional information about our organization.

The APA 2012 Annual Report to the General Assembly is available on our website in its entirety at the following link:
<http://www.apa.virginia.gov/reports/APAAAnnualReport12.pdf>



More than Just Audit, the Auditor's Office . . .

- Works with local, agency and institutional internal auditors investigating fraud, waste, and abuse reported throughout the Commonwealth.
- Reviews the entire court system from the Supreme Court of Virginia down to each Circuit, General District and Domestic Relations Court located across the state.
- Examines the records of Commonwealth's Constitutional Officers and their management of state funds at least once every two years.
- Maintains oversight responsibility for local government audits performed by public accounting firms, to ensure local governments receive audits that meet both their needs and the needs of the Commonwealth.
- Prepares the Comparative Report of Local Government Revenues and Expenditures, which presents financial data representing each local government's operations for the general government and their enterprise activities.

Our Staff Make the Difference

From CPA's to CISA's, our staff hold over twenty different types of professional certifications and are actively involved in relevant local and national professional organizations such as the National Association of State Auditors, Comptrollers, and Treasurers.



Bringing Together the Right Resources

Developing Areas of Expertise is Key

To ensure the Auditor's Office remains qualified to meet its mission, the Auditor has divided the organization into eleven specialty teams. We developed our specialty teams based on areas, activities, or processes which could put the management of Commonwealth assets at risk. Specific areas of specialization include:

- *Acquisition and Contract Management*
- *Budgeting and Performance Management*
- *Capital Asset Management*
- *Data Analysis*
- *Financial Management*
- *Higher Education Programs*
- *Human Services Management*
- *Information Technology Systems Development*

- *Information Technology Systems Security*
- *Judicial Systems*
- *Reporting and Standards*

Every auditor receives fundamental training in auditing, computer, and analytical skills as well as training sessions to familiarize all the staff with the general skill set of each of the specialty teams. The diversity of skill sets within our organization creates cross-training synergies that are highly valuable. APA prides itself on having diverse individuals with backgrounds ranging from Economics, Accounting, Information Technology, and Business Management just to name a few.

Section 2 of the 2012 Annual report provides more details on each team, highlighting their areas of concentration and audit work.

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

Producing Big Results with Limited Resources

During 2012, our organization of 105 auditors, technology and support staff:

- *Issued 12 state wide special reports*
- *Audited 96 state agencies and institutions, issuing findings for 39 of them*
- *Reviewed 211 General, Juvenile & Domestic Relations and Combined District Courts, issuing findings for 51 of them*
- *Reviewed 79 Circuit Courts, issuing findings for 31 of them*
- *Reviewed 132 Constitutional Officers, issuing 21 findings*

Special Studies on the Horizon

Bringing Focus to Significant Issues in the Commonwealth

Our work always keeps us moving. The following reflects some of our upcoming studies. Some of our projects are the result of legislative requests, statute, or the Appropriation Act language. The majority, however, are the result of our annual analysis of risks to the Commonwealth.

- *Review of Sales and Use Tax Collection and Distribution – Phase 2*
- *Study of Social and Medical Systems*
- *Study of Capital Outlay*
- *Study: Use of Internal vs. External Staff*
- *Study: Managing Separation of Duties in a Virtual Environment*
- *Study of Internet Facing Websites*
- *Study: Feasibility of Using CPA Firms*
- *Review of Surplus Procedures for Electronic Devices with Storage*

This list is never all inclusive, as we build flexibility into our work plan each year to address additional issues and requests as they arise. Check out Appendix A of the 2012 Annual Report to learn more about these and other special studies included in our 2013 work plan.

Section 1: Highlights from Significant Reviews

Our reports in 2012 have dealt with a wide array of topics that affect the administration of how Virginia government delivers services to the public. These topics include actions the Commonwealth can undertake to reduce the cost of future system development efforts to concerns about the safety of State Police Officers if the Commonwealth does not update and improve the Virginia Criminal Information Network.

Our staff's wide-ranging knowledge of the accounting and general operations of State government and their expertise allows us to address issues such as systems development and security, administration and fiscal management of the judicial system, and fraud investigation techniques. While this year appears to concentrate on system development issues, many of the reports have improving efficiency and effectiveness at their root.

The following section highlights of some of our reports that address areas for improvement in Virginia government operations.

Progress Report on Commonwealth Data Standards Lack of Standards Increases System Cost and Hinders Transparency

Without common data standards, the Commonwealth increased the cost of four new systems between \$3.5 million and \$4.5 million and still cannot provide transparency information on what the Commonwealth buys by vendor and other key information. These four projects, with their combined budget of over \$87 million, represent a large investment of Commonwealth resources, and allowing each project to separately define the data needs of these common business areas is duplicative and inefficient.

The success of the eHHR Program shows that with appropriate resources and commitment by management at the Secretarial level; the Commonwealth can develop and implement data standards. Data standards improve current operations in the delivery of benefits and the reduction of risk, and also set the ground work for reducing future system development costs.

The Secretaries of Administration, Finance, and Technology, and the Chief Information Officer should use the electronic Health and Human Resources Program (eHHR) model to develop data standards for the Commonwealth's most fundamental operations, such as:

- the collection of taxes,
- payments to recipients, vendors, and employees,
- management of human resources; and,
- other back office operations.

Benefits will accrue to all of state government with the development and use of data standards.

Status of Issues and Findings

Since issuing our report in May 2012, no progress has occurred in setting Commonwealth data standards beyond those necessary to support the eHHR program.

As described in our report, the Virginia Information Technologies Agency hopes to leverage personnel resources from the eHHR program to work on Commonwealth data standards once eHHR needs are met.

Agencies under the Secretary of Finance

Cardinal and Performance Budgeting, Key to Modernizing the Commonwealth's Systems

While this report summarizes our fiscal year 2011 audit results for the five agencies under the Secretary of Finance and arises from our work on the Comprehensive Annual Financial Report, it is the Commonwealth's Modernization Projects that are drawing the most attention at this time.

The State Controller and Planning and Budget will use the Cardinal and Performance Budgeting Enterprise Applications as the new statewide accounting and budgeting systems; however, the Commonwealth does not have a funding source to support their ongoing operation.

Cardinal System

The Commonwealth has continued to make progress on its Cardinal system, which will replace the Commonwealth's financial system (CARS) and the Virginia Department of Transportation's (Transportation) financial system with a modern, enterprise-wide financial system (base financial system). This is a key project for the Commonwealth since the current accounting systems are outdated both in terms of the technology and available functionality. For example, due to their age and lack of integration, the Commonwealth's current systems either do not contain the information, or cannot easily exchange information, to support current state and federal initiatives related to government transparency and timelier financial reporting.



The first implementation phase of the project occurred in December 2011 with the implementation of Transportation's instance of the financial system. Plans remain intact for phase two of the implementation where the Department of Accounts (Accounts) as an agency will go-live in October 2012. Phase three, which involves an incremental roll out to all state agencies, will occur over the next several years.

Phases two and three of the implementation will provide the Commonwealth's base financial system and consist of general ledger and accounts payable modules. These modules will provide the foundation for a modern financial system for the Commonwealth with the ability to add other modules and expand functionality in future yet to be defined phases.

The project development and implementation cost budget is \$58 million for phases one and two. Transportation and a working capital advance of approximately \$7.3 million are funding these phases. Further, Transportation is currently funding all operating costs. As of December 2011, actual project expenses totaled approximately \$49 million.

The project development and implementation cost budget for phase three is \$57 million and will require an additional working capital advance. Accounts plans to assess charges through an internal service fund to fund the operating costs and repay the working capital advance for this and the earlier phases.

Performance Budgeting System

During fiscal year 2011, Planning and Budget and the Virginia Information Technologies Agency (VITA) Enterprise Applications Division continued their efforts to implement the Performance Budgeting System to replace the legacy budgeting systems, Program Budget System (PROBUD) and Form 27 Automated Transaction System (FATS), as well as other ancillary databases, spreadsheets, and documents previously supporting the Commonwealth's strategic planning and budgeting processes. In September 2010, phase one implementation occurred and addressed four functional areas: budget development (operating and capital), six-year financial planning, and budget execution.

In June 2011, management temporarily suspended the phase two implementation, addressing the remaining two areas of agency spending plans and strategic planning. Phase two was originally scheduled for completion in April 2011. This decision allowed the project team to focus on correcting and adding enhancements to the phase one functionality and stabilizing that environment in time for the fall 2011 budget season. The project team re-started phase two activities in December 2011 and anticipates completion of this phase and overall project close out by March 2012. After project close out the system will enter the maintenance phase of the system development life cycle.

Funding for this \$15 million project comes from a working capital advance administered by VITA. The Appropriation Act directs the repayments of the advance from enhanced collections, cost recoveries, inter-agency collaborative projects, and other initiatives. No repayment from these sources has occurred to date.

Enterprise Applications Internal Service Fund

The Commonwealth has not finalized the funding methodology to support system maintenance and operation costs for these new systems. Item 250.10 of Chapter 890, 2011 Acts of Assembly, provides the authority for a new internal service fund that Accounts will manage and authorizes the Secretary of Finance to establish a fee charged to agencies to support enterprise system administration. However, the Secretary of Finance has not finalized the method for assessing the fee. Future changes to these fees will require the Joint Legislative Audit and Review Commission's approval.

Recent developments...

Since our report, the Secretary of Finance has developed a rate structure for billing agencies using the new systems and submitted this structure to the Joint Legislative Audit and Review Commission's for approval at its October 2012 meeting.

Virginia Department of State Police

Virginia Criminal Information Network at Risk for Infrastructure Failure and Outages

On January 4th and 19th of 2012, the Virginia State Police (State Police) experienced two network outages of the Virginia Criminal Information Network. Both State Police and the IT Infrastructure Partnership with Northrop Grumman have recognized the problem with the unreliable and unsupported infrastructure devices, but specific security requirements established by the FBI's Criminal Justice

Information Services Division has made the replacement of the network difficult and caused problems estimating the cost of the solution. These network failures could also affect local law enforcement agencies.

During the outage, State Troopers could not access the Virginia Criminal Information Network (VCIN) to conduct background checks while performing their law enforcement duties. These outages highlight the fact that State Police is using unreliable and unsupported infrastructure devices to run its network which allows State Troopers and external law enforcement entities to connect to critical systems, such as VCIN.

Both State Police and the IT Infrastructure Partnership with Northrop Grumman (Partnership) have recognized the problem with the unreliable and unsupported infrastructure devices, but specific security requirements established by the FBI's Criminal Justice Information Services Division has made the



replacement of the network difficult and caused problems estimating the cost of the solution. Both parties have agreed that transformation and resolution of this issue should not start until State Police and the Partnership can agree on a final network design. The Partnership has proposed the final network design, but it does not include the equipment or software for the more than 600 non-State Police agencies that use the network.

The non-State Police agencies using the network consist of local law enforcement agencies, Commonwealth's Attorneys, local and state correctional facilities and other related agencies. These agencies have acquired the equipment and software to use the State Police network over time and therefore will have numerous issues adjusting to

any changes that will occur with this network. Further, most of the equipment and software utilized by these entities are not part of the Partnership agreement.

Unfortunately the current state of the network presents a greater risk of continuing network outages, which may make the option of waiting for a final and complete design unacceptable to the alternative of starting a phased transition implementation immediately. Compounding the problem is the fact that there are several hundred additional devices within the network that the vendor will no longer support after November 2012. There is simply not enough time to replace all of these devices even if transformation had begun when we originally issued this report.

We recommended that State Police plan a phased approach that will allow transformation to start immediately and that is flexible enough to accommodate as many changing requirements as possible. While providing extra flexibility may result in higher implementation costs, delaying transformation of its aging network is exponentially increasing the risk of failure and the inability for its Troopers and other law enforcement entities to access time sensitive information when performing their public safety duties.

Virginia's Court System

The Commonwealth Should Consider Revising the Methods of Funding the Court System

The Commonwealth's funding of its Court System, which dates back to the State Constitution of 1850, is a complicated maze of state and local tax revenues and fines and costs with little connection to service delivery. Similarly, the division of responsibility for expenses between the Commonwealth and localities comes more from historical tradition than from funding sources or accountability. Over the past year we have issued two reports showing how the Court System receives and manages its funding.

[Annual Review of the Commonwealth of Virginia Court System – 2010](#)

This report provided a comprehensive overview of the fiscal operations of the Commonwealth's Circuit and District Courts, which netted the Commonwealth approximately \$329 million and its localities approximately \$83.7 million in fiscal year 2010. This is a decrease of three percent and 12 percent respectively over fiscal year 2009.

Both the Circuit and District Courts collect fines, fees, and costs for the adjudication of cases which come before the courts. In addition, the Circuit Courts record and maintain numerous official documents and, in connection with these duties, collect fees, taxes, and other funds for deposit in both the Commonwealth's and locality's treasuries.

As a follow-up to our report from September 2009, during the 2010 legislative session the General Assembly included in the Appropriation Act the requirement for District Courts to deposit all state collections directly into the treasury. The Office of the Executive Secretary of the Supreme Court of Virginia implemented this recommendation effective April 2010.

In addition to highlighting court funding and expenses in this report, we repeated two recommendations which addressed the Compensation Board's allocation of excess fees; and the need for consistent accounting and reporting of all transactions affecting both Circuit and District Court operations.

[Local Ordinances and the Funding of Courts](#)

This second report on Virginia's Court System highlighted the background behind the maze of funding and cost sharing traditions as well as several issues the General Assembly may wish to address as a result. Many of the report issues center on how local ordinances can parallel state statutes and the nuances of how those local ordinances effect the collection of state revenues. For example, when localities adopt ordinances that parallel state statutes and citizens pay fines and costs, localities deposit these collections in their general funds without any commitment to fund education, as with the Commonwealth's Literary Fund, or their share of court operations.

Based on this and other issues discussed in greater detail in the report, we acknowledged in this report that the General Assembly may wish to address the following funding issues.



In the near term . . .

As a result of these reports,

- *The General Assembly passed a budget amendment during the 2012 session requiring all District Courts to deposit their local collections directly with the Treasurer of Virginia.*
- *In addition, effective July 2012, the General Assembly passed a policy which allows the Commonwealth to retain half of the excess for any locality whose local ordinance collections exceed their total collections.*
- *Finally, the General Assembly directed the Office of the Inspector General to study the usage of local ordinances and the potential impact on Commonwealth revenues.*

While these actions begin to address each locality's usage of local ordinances, the court funding structure continues to be very complex and in need of restructuring to ensure appropriate division of both revenues and expense responsibility.

Our 2011 Annual Review of the Court System, issued in August 2012, continues to emphasize the lack of connection between the courts revenue and funding that was reported in the 2010 Annual Review.

We will also issue a report this fall with recommendations relating specifically to the Court System's accounts receivable process and potential improvements.

1. Should counties and cities continue to have the authority to adopt ordinances that parallel state statutes and retain the fines, fees, and costs; and if so, should this process restrict funding to either education or the court system?
2. Counties and cities provide court facilities and, in some cases, staffing beyond that funded by the Commonwealth. Should the Commonwealth and locality share the cost of these expenses? If so, how should they share them?
3. Since the District Court reorganization eliminated town courts, why do towns continue to have the ability to assess and collect fines and fees?
4. Since Circuit Court Clerks receive funding from the General Fund of the Commonwealth, should the Compensation Board continue to calculate excess fees and share this funding with the locality?
5. Should the Commonwealth continue to fund a portion of the Circuit Court Clerk functions for the recordation of land records; if so, what services should this funding cover?
6. Should the Clerks of the Circuit Courts continue to receive a commission for simply depositing the Commonwealth and individual locality's collections with the appropriate Treasurer?
7. If the Commonwealth alters the funding for court services in the Circuit Court Clerk's office, should the administrative responsibility for this funding move from the Compensation Board to the Supreme Court?



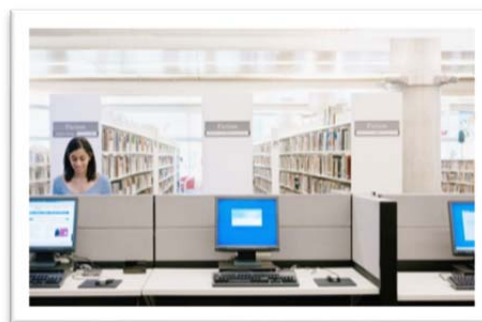
Electronic Health and Human Resources (eHHR) Program -- Virginia's Medicaid Modernization Solution

eHHR Program will allow all agencies of the Secretary of Health and Human Resources to modernize and exchange information

In the spring of 2012 we issued our first in a series of reports reflecting our on-going review of the eHHR Program Management Office and the information technology projects it is overseeing, which is a \$101 million joint investment between Virginia and the federal government. These projects and the management of the eHHR Program Management Office represent the development of the information technology infrastructure that will improve Virginia's ability to administer effective social services as well as support Medicaid expansion, a Health Benefits Exchange, and compliance with other aspects of the Patient Protection and Affordable Care Act of 2010.

Throughout this report we identified numerous risks that could adversely affect the success of the eHHR Program. Some of them are outside the control of the Program Director and some are risks common to information systems development projects:

- Program Management Offices are New in Virginia – This is one of the first times the Commonwealth has used a Program Management Office to oversee multiple projects, and current project management standards may not always be suitable.
- Program Authority – The Virginia Secretary of Health and Human Resources and the Commonwealth Chief Information Officer need to clearly document in the eHHR Program Charter the organizational and reporting structure of the eHHR Program Office.
- Condensed Timeline – Ideally, the eHHR Program Office would have been established, followed by planning its projects and their interdependencies. In reality, Virginia had to begin early to prepare for Medicaid expansion by October 2013 and started several projects before the eHHR Program Office was staffed and operating. Also, the Department of Social Services has less than two years to secure a vendor to replace its current Medicaid eligibility system. The eHHR Program Office has established program milestones, but does not have a critical path based on detailed project plans and interdependencies.
- Healthcare Reform Uncertainty – The Supreme Court ruling on the Patient Protection and Affordable Care Act of 2010 will not occur until June 2012, relatively late in the project timeline.
- Uncertain Timeline Flexibility – Due to the complicated uncertainty of Healthcare Reform and state responsibilities for conforming, key stakeholders believe that the October 2013 deadline will have to be pushed back. However, if the Patient Protection and Affordable Care Act of 2010 is upheld, it would take an act of Congress to amend the law to extend the Medicaid expansion deadlines.



- *Restrictions on Data Sharing Among Agencies* - Federal and state laws restrict agencies from readily sharing recipient information. The legislature did not approve proposed budget language to remove state data sharing barriers. As an interim solution, the eHHR Program Office is working with the Attorney General's Office to develop a data sharing agreement and legislation that would permit agencies to share information. Delays in finalizing this agreement could adversely affect eHHR program success.

Status Update

In June 2012 the United States Supreme Court upheld the Patient Protection and Affordable Care Act of 2010 and work on the eHHR Program continues. The Program seeks to implement a new Medicaid eligibility system by October 2013. One vendor responded to an RFP to implement this system and the Secretary of Health and Human Resources remains hopeful that a contract will be executed shortly.

The project continues to be at risk, primarily due to the condensed timeline in which all projects within the program must be completed. To date, the Service Oriented Architecture and Enterprise Data Manager projects due dates have been extended; however, the eHHR Oversight Committee believes these will not adversely affect the overall Program schedule.

Instrumental to the Program's success is the ability for agencies to share information regarding Medicaid recipients. The Program was designed to reduce Medicaid fraud and incorrect data by employing more data sharing between state entities. Currently, Federal and State regulations may prohibit certain agencies from sharing information so the Governor proposed an amendment in the 2012 Appropriation Act to authorize such sharing. The amendment was rejected by the General Assembly and it is uncertain whether the Governor will again propose an amendment in 2013. Without data sharing, some of the efficiencies, data consistency, and fraud reduction measures anticipated with the Medicaid eligibility system modernization may not be realized.

Progress Report on Selected System Development Projects in the Commonwealth

Four System Development Projects Require Continuing Monitoring

The Office's Information System Development Specialists routinely monitor the progress of significant systems development initiatives in the Commonwealth. This report reflects observations from our on-going review of \$205 million in Commonwealth systems development projects in 2012.

Throughout the systems development life cycle all projects experience varying degrees of success and risk. The following highlights systems development projects with risks that could adversely change either the project's scope, delay the implementation schedule, or increase costs.

- Virginia Retirement System has again rescheduled the implementation dates for its Modernization project, due to vendor issues, ultimately reducing the vendor's involvement in an effort to realize success.

- Motor Vehicles cancelled their Customer Services System Integrated Systems Redesign project after having spent about \$28 million and initiated a new program office to address the original deliverables of the cancelled project. The use of a program office to address these deliverables introduces new risks.
- Virginia Employment Commission's Financial Management System and Unemployment Insurance Modernization Project continue to experience risk in the area of systems hosting as well as long-term financial resources.
- As noted in our report on the Agencies under the Secretary of Finance, the Cardinal and Performance Budgeting Enterprise Applications both require continued financial support for their operations and maintenance; however, the Commonwealth has not finalized the funding methodology for these projects.

By regularly monitoring significant projects, it is our review goal to detect problems at the earliest possible point and alert decision makers to this information, thereby reducing potential project failures. In this report, we highlight the progress of the projects we are actively monitoring as well as any recommendations that pertain to improving project management practices.

State Employees Health Insurance Fund and Its Related Insurance Plans

Reserve Funding Policy Needed

We performed this audit pursuant to the Appropriation Act Chapter 890 Item 1.2, 2-D, which required the Auditor of Public Accounts to complete a financial review of the state employee health insurance fund and address the rate setting process and projected expenses compared to actual expenses.

The Commonwealth receives sound actuarial information to set employee health care premiums and reserves. Best practices indicate that the Commonwealth should, at a minimum, fund an actuarially determined "incurred but not paid" reserve. While there is no consensus on the funding of a contingency reserve, there does appear sound support for some actuarially determined funding of this reserve to prevent the reoccurrence of the funding issues from the late 1990's and early 2000's.

From 2007 to 2010, the State Health Insurance Fund (HIF) net assets exceeded 100 percent of the actuarially recommended reserve level, known as "overfunding." To eliminate this overfunding, the Commonwealth has been providing a premium subsidy on behalf of active state employees, thereby allowing these employees and their agencies to pay less than the required monthly premium and using HIF net assets to make up the difference. Because the Commonwealth has no formal reserve funding policy, nothing prohibits Commonwealth management from taking actions that could drop net assets below the actuarially recommended level, and this occurred as of June 30, 2011.



As a result . . .

The 2012 General Assembly set a reserve funding policy in Chapter 3 of the Acts of Appropriation. The funding policy requires the Health Insurance Fund hold reserves sufficient to pay incurred, but not paid, claims.

Overall, fiscal year 2013 insurance premiums are consistent with prior year amounts; however, the amount of premium subsidized with HIF reserves was significantly reduced. As a result, insurance premium costs to employees and agencies rose.

The reduction in premium subsidy was necessary to prevent HIF reserves from falling below actuarially recommended amounts. Further reductions or total elimination of the premium subsidy for fiscal year 2014 and beyond may be necessary to meet the General Assembly's funding policy.

Since the HIF reserves have fallen below the actuarially recommended amounts, the Departments of Human Resource Management, Planning and Budget, and the Governor will need to consider this as part of their analysis when proposing the fiscal year 2013 state health insurance premium rates and deciding whether to continue the current premium subsidy. The General Assembly will also need to consider this when reviewing the proposed rates and any subsidy during the legislative session.

The General Assembly may wish to consider establishing a reserve funding policy during the 2012 legislative session, before adopting the 2013 health insurance premium rates and choosing to continue other actions related to the HIF. Premium subsidies, withholding of interest, and low premiums all reduce state agency expenses and are attractive as a short-term fix to balance the Commonwealth's budget during tight budgetary times. However, failure to set a reserve funding policy will likely end with the HIF net assets dropping too low, requiring additional General Fund support in the future to make it actuarially sound, similar to conditions that occurred in fiscal year 1997.

In addition to recommending the establishment a reserve funding policy, this report includes several recommendations to improve the Health Insurance Fund's overall management.

Review of Retail Sales and Use Tax Collection and Distribution Processes

Taxation Is Improving their Processes

The Commonwealth collects almost \$5 billion in retail sales and use taxes annually and distributes approximately \$1 billion of these revenues to localities as a one percent local option tax. The Code of Virginia requires the Virginia Department of Taxation (Taxation) to collect all retail sales and use tax revenues in the Commonwealth and determine proper local allocations. For years, Virginia localities have experienced inaccuracies in their local retail sales and use tax distributions, and progressively, Taxation and localities have worked together to improve the accuracy of local distributions.

We performed this review pursuant to Section 30-133.2 of the Code of Virginia, which requires the Auditor of Public Accounts to perform a review of the collection and distribution of the Retail Sales and Use Tax with an important focus on the collection and distribution of local retail sales and use taxes. This interim report provides background information on the collection and distribution process and discusses current practices employed by Taxation and localities to ensure accurate local distributions. We made the following observations based on this interim phase of our review.

- Retail sales and use tax collection and distribution is an evolving process that requires active participation by Taxation, localities, and taxpayers to ensure accurate distributions. Communication and coordination between the entities is critical to ensure the process is effective in minimizing distribution errors.
- In recent years, Taxation has implemented a number of internal controls and procedures to address and help reduce both business and agency errors in the business registration process, as well as the tax collection and distribution processes. Based on available data, over the last three fiscal years both the number and dollar amount of adjustments required to correct erroneous local distributions has steadily decreased. In the most recent fiscal year, 2011, adjustments to correct erroneous distributions totaled \$8.6 million, which is less than one percent of total local distributions of over \$1 billion.
- Sales tax distribution errors do not impact all localities equally; therefore, any recommendations for improvements must undergo an evaluation of the cost effectiveness of the change.

The next phase . . .

We have identified several areas for further evaluation in the next phase of our review to be performed during our 2013 work plan. This phase of the review will focus on the business registration process and communication and coordination of information between Taxation and localities. This phase will also include various recommendations for performance benchmarks to assess the effectiveness of Taxation's local retail sales and use tax collection and distribution process.

We recognize that any recommendations for improvement must consider their potential impact on businesses. Suggested improvements that could result in increased costs for businesses or complicate the business registration process may not be cost effective solutions.

Virginia Employment Commission

Improving Its Procedures for Overpayments

The Employment Commission has taken several actions to address overpayment issues identified in our "Review of Unemployment Benefit Overpayments" issued in November 2010. We performed that original review based on a legislative request to analyze unemployment benefit overpayment activity to determine the amount of overpayments attributable to administrative errors and followed-up on the status of our findings during our 2011 audit of the organization. As a result of this work we determined the following.



- Effective February 2011, the Employment Commission changed its work search policy to allow claimants to use telephone contact for their job search. Previously, claimants could not contact employers by phone to satisfy the work search requirements and this resulted in benefit overpayments.

- In addition, the Employment Commission increased staffing in the Benefit Payment Control Unit by four investigators and one administrative staff. This Unit is responsible for detecting and addressing benefit overpayments. With the staffing increase, the backlog of cases for review for potential overpayments identified during our original review has decreased by approximately 4,342 cases or 20 percent.

The Employment Commission also has several system development projects underway, which we discuss in detail in this report. As the Employment Commission moves forward with these projects, they will need to consider the necessity to analyze overpayment data and how to best record this information in their new systems. While the Employment Commission currently has limitations in their ability to analyze overpayment information due to their existing systems, they expect their new systems, once implemented, will give them the opportunity to obtain better information for overpayment analysis.

Section 2: Organizational Highlights

Operational Highlights

We complete most of our reviews of the Commonwealth's agencies and institutions in conjunction with our audit of the State Comptroller's Comprehensive Annual Financial Report and the Statewide Single Audit of federal grants and contracts. Beyond these audits, using a risk based analysis of an agency's control environments, we determine which agencies have the most need for an audit in order to best maximize our available resources and protect the assets of the Commonwealth. Further, we perform special reviews looking at a wide range of topics from analysis of policy issues facing the administration and the General Assembly to performance reviews of certain Commonwealth programs.

Our Staff Make It Happen

To ensure we have the right resources to get our work done, the Auditor's office is organized into areas of specialization. We developed our specialty teams based on areas, activities, or processes which could put the management of Commonwealth assets at risk.

In addition to their specialty training, every auditor receives fundamental training in auditing, computer, and analytical skills. Also, there are training sessions to familiarize all the staff with the general skill set of each of the specialty teams. This general skill set training allows the auditor to identify the need for a specialist and the diversity of skill sets within our organization creates cross-training synergies that are highly valuable.

The Auditor of Public Accounts (APA) prides itself on being an organization of diverse individuals with various backgrounds ranging from Economics, Accounting, Information Technology, and Business Management just to name a few.



Following is a discussion of each of our teams and highlights their areas of concentration and audit work.



The **Acquisition and Contract Management Team** supports prudent contract administration within the Commonwealth by providing those responsible for procurement and contract administration with analysis of financial information and best practices related to contractual services. Specifically, this team reviews and analyzes the effectiveness, efficiency, and economy of various contractual services. Team members participate in the Virginia Contracting Officer Program, to ensure they maintain a strong working knowledge of the Commonwealth's procurement law and regulations.

The Acquisition and Contract Management Team takes special interest in monitoring and evaluating the effectiveness of long-term contracts such as the Commonwealth Infrastructure Partnership between the Virginia Information Technologies Agency and Northrop Grumman as well as key procurement and purchasing tools such as eVA, the Commonwealth's electronic procurement system, and the Commonwealth's small purchase charge card program.

The Commonwealth has emerged as a leader in performance management in government. The **Budgeting and Performance Management Team** plays a vital role in improving government transparency and accountability in Virginia and consists of individuals with varying backgrounds, including accounting and public policy. The team analyzes agency and statewide budget information to identify areas of risk and develop expectations for financial analysis. Team members review budget transactions, attend legislative meetings, and monitor the budget development and budget execution processes throughout the year. This team also performs work on agency performance measures available to the public on the Virginia Performs website to ensure information being used by decision makers is accurate and reliable.



The **Capital Asset Management Team's** main objective is to ensure the proper management, control, and valuation of the Commonwealth's assets, including: capital assets; infrastructure; depreciation; preventive, corrective and deferred maintenance; lease and installment purchases; and historic treasures. In support of this, team members seek to become Certified Virginia Construction Contracting Officers.



This team bases its work on a life-cycle approach to capital asset management and accomplishes its objectives through both financial and performance audits. Annually, they audit the financial recording and reporting of Virginia's \$36.3 billion in capital assets reported in the Commonwealth's Comprehensive Annual Financial Report. The majority of this work occurs at the Department of Transportation on the highway infrastructure and across the Commonwealth at agencies and institutions of higher education for building construction projects.

In their performance audits, this team looks for opportunities in state government to improve the efficiency and effectiveness of processes related to capital assets. They review areas such as fleet management, asset management, deferred maintenance, energy performance contracts, cell phone management, and capital outlay and recommend ways to bring the Commonwealth's practices into alignment with best practices.

Our office's responsibilities require a wide range of data and analytical activities to efficiently perform our work. The **Data Analysis Team** works to quickly gain an understanding of complex data and provide valuable insight and analytics to increase the productivity and efficiency of our audits and other special projects. They also look for anomalies and fraud throughout all of Virginia's state agencies.



Additionally, the Data Analysis team maintains and continues to enhance Commonwealth Data Point, an internet database accessed through 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. It has become the main government transparency resource for Virginia.

The **Financial Management Team** reviews and assesses agency and institution financial management activities. Team members promote fiscal responsibility in the Commonwealth by determining whether state government obtained resources at reasonable costs while maintaining timeliness and quality considerations for delivering goods and services. In addition, team members identify and evaluate the cash, debt, and investment policies, procedures, controls, and decisions at agencies and institutions of higher education to ensure they are within the Commonwealth's guidelines and meet reporting requirements.



With 14 four-year universities and 23 community colleges exceeding \$26 billion in combined assets, the **Higher Education Programs Team** provides audit and advisory services to one of the largest industries in Virginia. In addition to performing financial statement audits, the team has specialized knowledge regarding federal student financial aid compliance, federal research grant management, and NCAA policies and procedures. Team members regularly provide guidance regarding best practices at public Colleges and Universities and use that knowledge to promote efficient and effective operations at the various institutions of higher education across the Commonwealth.



The Secretary of Health and Human Resources is as complicated as they come and it takes a specialized group of individuals to aid our Office in auditing these agencies. These agencies are responsible for administering hundreds of health and social state and federal programs and account for nearly a quarter of the state's expenses each year. The **Human Services Management Team** works with the other teams in our Office to ensure these agencies are following the best management practices for their industry, while at the same time confirming that they are complying with the requirements set by the federal government and the General Assembly.



State agencies and institutions spend an increasing amount of resources on system development projects each year. The Information **Systems Development Team** follows systems implementation projects throughout their life cycle. A major goal of this team is to determine if and when a project may not be progressing as planned, and alert any critical decision makers to this information, thereby mitigating the potential for failure. The typical process for following a project is as follows:



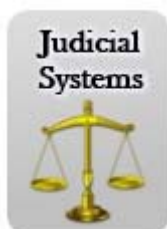
- Attending project meetings and reviewing project schedules to ensure the system is on track and on budget.
- Documenting the project's progression.
- If the project requires corrective action, communicating this information to the agency and other decision-makers.
- Continuing to follow the project's progress until it is officially closed or determined to be a successful implementation.

Information Systems Security Team members audit the complex information systems and infrastructure that support the business applications that agencies use to serve the citizens of Virginia. The System Security Team works to ensure and improve how the Commonwealth of Virginia keeps its most sensitive and critical information protected within information systems and network infrastructure.

The primary objectives of their reviews focus on data confidentiality, integrity, and availability (CIA). The CIA is commonly known as the “three pillars of information security,” and these pillars are principles that apply to systems that contain financial data as well as databases that contain sensitive or private data. To that end, our audits include information security program compliance reviews with the Commonwealth’s security standard and industry best practices and technical reviews of operating systems, databases, web applications, and firewalls, to mention a few.



Team members have degrees and advanced degrees in computer science, accounting and information systems, economics, and electrical engineering. Additionally, the members hold several technical certifications, including Certified Information Security Manager (CISM), Certified Information Systems Auditor (CISA), Certified Information Systems Security Professional (CISSP), and Project Management Professional (PMP).



Virginia's court system is the oldest judicial system in the country and collects an estimated \$1 billion annually for the use of state and local governments. Court sizes range from as few as one full-time clerk to as many as 150 full-time clerks and related staff.

The **Judicial Systems Team** is responsible for completing the audits relating to the Commonwealth’s Judicial branch. Each year they carry out audits relating to Circuit and District Courts, as well as other constitutional officers. Team members work with these entities to establish consistency in policies and practices across the Commonwealth and ensure appropriate oversight is given to this branch of government.

Since all teams at the APA have to be knowledgeable about auditing and accounting standards, the **Reporting and Standards Team** is responsible for ensuring all APA staff are aware of and follow the applicable standards. To this end, team members provide training, perform internal quality control reviews on select audits, and serve as a technical resource for researching accounting and auditing issues. Team members also review pending legislation for issues relevant to accounting and auditing at the state and local level.

Further, this team reviews proposals for new auditing and accounting standards and drafts responses to the standard setting bodies. Their responses feed into the process that determines standards used by state and local government accountants and auditors throughout the United States. When new standards are issued, the team assesses the impact on audits performed by the Office and determines any changes that need to be made to the resources used to perform our audits.



Finally, the team ensures that local governments and their auditors are informed of and follow applicable accounting and auditing standards by preparing and distributing annual local government guidelines, updating the local government audit specifications for requirements unique to Virginia, and serving as a resource for local governments in the implementation of new standards. The team leads quality control reviews of auditors of Virginia’s local governments since our Office has oversight over the local government audit process.

Working within Constraints

We have accomplished all of our work while, like the rest of state government, experiencing continued reductions in our general fund appropriations and consequently staffing. Specifically, to avoid layoffs we instituted a hiring freeze in fiscal year 2009, which, in conjunction with other restructuring activities, reduced management by three and our staff by almost 30 positions. In fiscal year 2011 and 2012 we started hiring again to begin replacing some of the staff we lost through attrition during this period. However, it will take time to rebuild our organization back to prior experience levels.

Staffing Overview	
	Count
Approved staffing level	130
Funded staffing level	111
Actual Funded and Available Staff	
<i>As of June 30, 2008</i>	129
<i>As of June 30, 2009</i>	121
<i>As of June 30, 2010</i>	111
<i>As of June 30, 2011</i>	103
<i>As of June 30, 2012</i>	107

Reductions in our most critical resource, our staff, coupled with mandated activities limit the breadth of work we can accomplish in any given year. We must perform many of our audits, because they have statutory mandates, support federal regulations, or fulfill bond covenants requirements. Further, increased auditing requirements by the federal government under ARRA have required increased time to audit federal funds. Other work performed by our office, such as maintaining Commonwealth Data Point, fulfills additional statutory mandates. Each of these mandates put a strain on our resources.

In recent years, less time has been available for our risk based auditing activities. In fact eighty-five percent of the 2012 work plan supported mandatory audits. To the extent feasible, we continue to build risk-based audits into our work plan as demonstrated by the planned special projects highlighted in Appendix A of this report. Ideally, we would prefer to have more resources available to focus on non-mandatory work. But, like other organizations in the Commonwealth, over the past four years we have had to strategically manage our resources to ensure we get our required work done. In the future, as we increase our staffing levels, we will rededicate resources to these types of audits.

Financial Highlights

As reflected above, we strive to make the most of our available resources while ensuring we remain good stewards of the Commonwealth's funds and minimize the potential for staff layoffs. The schedule on the following page reflects our budget to actual performance for fiscal year 2012, but does not fully reflect the extent of our efforts to conservatively manage our funding.

Over the past several years we have been required to make significant reversions of funds. For example, we learned in fiscal year 2010 that the Appropriation Act would require our office to make a reversion of \$1.3 million for both fiscal year 2011 and 2012. Upon learning this, we immediately began planning for these reductions and potential future reductions by continuing our hiring freeze initiated in 2009 and implementing other cost saving initiatives internally. As a result by the end of fiscal year 2011 we spent over \$1.4 million less than had been provided in our adjusted budgeted for that period.

The Department of Planning and Budget informed our office in September 2011 that we could carry forward our 2011 savings. We planned to use those savings to address the mandatory reversion for fiscal year 2012 and to begin to address rebuilding our staffing levels. The subtotal below reflects our original and adjusted budget for fiscal year 2012, based on the on the \$1.3 million reversion and carry forward of the 2011 savings.

Throughout most of fiscal year 2012, we managed ourselves to the total available budget for general funds of just over \$10.6 million. However, we learned late in fiscal year 2012 that we would have to provide an additional mandatory reversion of \$500,000. The total available general funds below reflects the impact of the additional reversion. As you can see, even with the mandatory reversion covered mostly by the prior year's savings, due to our conservative use of the available funds, we still spent significantly less than our available adjusted budget.

Analysis of APA Original and Adjusted Budget verses Actual Expenses by Funding Source
for the year ending June 30, 2012

<u>Funding Source</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>	<u>Variance</u>
<i>General Fund</i>	\$10,367,464	\$10,489,995		
<i>Mandatory Reversion</i>	(1,322,000)	(1,322,000)		
<i>Carry forward of FY2011 general fund savings</i>	-	<u>1,464,589</u>		
<i>Subtotal</i>	9,045,464	10,632,584		
<i>Additional Mandatory Reversion</i>	-	(500,000)		
<i>Total available General Funds</i>	9,045,464	10,132,584	\$8,896,428	\$1,236,156
<i>Special Revenue</i>	<u>869,754</u>	<u>869,754</u>	<u>869,754</u>	-
Total	<u>\$ 9,915,218</u>	<u>\$11,002,323</u>	<u>\$9,766,182</u>	<u>\$1,236,156</u>

The schedule below reflects our original budget for fiscal year 2013. As of this report date, we are not aware of any required reversions for 2013, nor have we learned the status of any potential carry forward of our 2012 savings. The uncertainty of the economic outlook for the Commonwealth and potential for reversions in the future will lead us to continue the exceptionally conservative management of our available funds.

APA Original Budget
for the year ending June 30,
2013

<u>Funding Source</u>	<u>Original Budget</u>
<i>General Fund</i>	\$10,453,492
<i>Special Revenue</i>	<u>878,053</u>
Total	<u>\$11,331,545</u>

Maximizing our available staffing resources, while living within our available funding, remains our top priority. In 2013, we will continue to focus on rebuilding our staffing resources, so that we may expand the valuable work our office performs, addressing more of the potential projects identified through our risk assessment process.

Section 3: Investigating Fraud

During the course of the year, in accordance with the Section 30-138 of the Code of Virginia, 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 the 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 2010 through 2012.

Fraud Reviews

	FY 2012	FY 2011	FY 2010
<i>Outstanding cases at beginning of fiscal year</i>	35	33	43
<i>New reports</i>	37	44	48
<i>Closed reports</i>	(42)	(42)	(58)
<i>Active cases at end of fiscal year</i>	30	35	33

The following table provides a breakdown of the new reports received during the fiscal years 2010 through 2012 by type of entity.

New Reports

Entity	FY 2012	FY 2011	FY 2010
<i>Courts</i>	1	2	6
<i>Local Governments</i>	9	4	9
<i>Institutions of Higher Education</i>	10	17	8
<i>State Agencies</i>	17	21	25
<i>Total</i>	37	44	48

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

Closed Reports

Disposition	FY 2012	FY 2011	FY 2010
<i>No Conviction</i>	7	13	25
<i>Conviction</i>	4	2	6
<i>Conviction and Recovery</i>	12	15	2
<i>Administrative Action</i>	10	5	9
<i>Administrative Action and Recovery</i>	9	7	16
<i>Total</i>	42	42	58

The following section highlights special projects planned for the upcoming work plan year. Several of these projects are either required by legislation, statute, or the Appropriation Act. The remaining projects reflect the results our annual analysis of risks to the Commonwealth. It should be noted that this list is not all inclusive and that we build flexibility into our work plan each year to address additional issues and requests as they arise.

Review Sales and Use Tax Collection and Distribution – Phase 2

Objectives:

In accordance with Section 30-133.2 of the Code of Virginia, we will perform the second phase of a review of the collection and distribution of local retail sales and use taxes, including Taxation’s coordination with local officials in the collection and distribution process.

Study – Feasibility of Using CPA Firms

Objectives:

To analyze the issues for considering whether CPA firms should perform all or certain functions of the Auditor of Public Accounts. Our analysis will include, but not be limited to, a review of legislative oversight of the audit function; costs, benefits and risks of working with CPA firms; a comparison to other states; independence issues for firms desiring to provide services beyond the audit contract; and a fiscal impact review.

VDOT Asset Management System

Objectives:

This review is the second part to the “Review of Transportation’s Asset Management System and Maintenance Funding Practices” report issued in July 2010. The first report noted the Asset Management System (AMS) identifies the maintenance needs but Transportation is not using it to directly allocate and apply maintenance funding to the individual roads and bridges. Part II will perform detailed work on how Transportation uses funding versus how AMS recommends funding usage. We will also review the performance measures Transportation follows for road maintenance. We will also look into how operational maintenance (mowing, snow removal, etc.) factors into a district’s maintenance budget.

Study - Managing Separation of Duties in a Virtual Environment

Objectives:

Research and define best practices for managing separation of duties in a virtual environment and compare to current internal control guidance provided to Commonwealth agencies. Recommend changes, if any, to ensure agencies consistently follow best practices for managing separation of duties in a virtual environment.

Study of Capital Outlay

Objectives:

To determine the status of the Department of General Services’ implementation of a capital project IT solution required in the 2008 capital outlay bond act. To review the effectiveness of the Commonwealth’s process to determine which projects to move to the construction phase in the capital outlay process and the feasibility of a statewide prioritization system. To review/make recommendations to improve General Services’ process to develop construction draw schedules and communicate that information to the Department of Treasury to determine bond issuance timing.

Statewide Review of Controllable Assets

Objectives:

To determine whether agencies and institutions are efficiently managing controllable assets, including a cost-benefit analysis of managing versus expensing. To analyze the types of controllable assets to determine whether there are categories that need stricter controls than others.

Study of Social and Medical Systems

Objectives:

This project continues to follow the implementation of the eHHR program in Virginia. This program implements the systems necessary for Medicaid Reform in October 2013.

Study of Vehicle Usage

Objectives:

To compile, analyze and report on the use of “state” vehicles in the Commonwealth including agency managed, Department of General Services centrally managed, rented through the statewide contract, or personal vehicles for which mileage reimbursement is provided. We will analyze and report on agency and General Services’ roles in monitoring vehicle usage, evaluate the quality of the data available to support monitoring activities, and determine whether state owned vehicles are being used enough to warrant them.

Court Accounts Receivable

Objectives:

To examine the current Circuit and District court collections processes. We will review best practices and make recommendations to improve both current collections as well as outstanding receivables.

Study – Use of Internal versus External Staff

Objectives:

To determine whether agencies are using internal versus external staff effectively and efficiently. This will include an analysis of overtime costs versus hiring full-time or part-time staff. The analysis will consider benefit costs, the point of diminishing returns, layoffs, attrition, etc. To determine whether a decision model exists for using external versus internal staffing resources. We will assess the impact these decisions have on human resource costs over time.

Review of Surplus Procedures for Electronic Devices with Storage

Objectives:

To review the Commonwealth’s process to surplus (or return to vendor) electronic devices that contain storage capability, such as a hard disk. In addition to desktops and laptops, these devices may include digital copiers and fax machines that store images on hard drives of each copy made or fax sent. Without proper hard disk sanitation procedures, confidential and sensitive data may end up in unauthorized hands when selling these devices to citizens or returning them to vendors.

Security of Internet Facing Websites

Objectives:

To determine whether agencies’ internet facing websites adequately protect data confidentiality, integrity, and availability. The review will focus on web sites that have access to confidential (PII, HIPAA, FERPA, etc.) and mission critical data. The review will also focus on the Commonwealth’s security standard and whether it adequately addresses industry best practices for web site security.

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, 2012. An asterisk * indicates that the report includes audit findings and recommendations.

Agencies and Institutions

Judicial Branch

Virginia Board of Bar Examiners for the years ended June 30, 2010 and June 30, 2011
 Virginia State Bar for the year ended June 30, 2011
 Virginia’s Judicial System for the year ended June 30, 2010*

Independent Agencies

State Corporation Commission for the two-year period ended June 30, 2011*
 Virginia College Savings Plan for the year ended June 30, 2011*
 Virginia Office for Protection and Advocacy for the three-year period ended June 30, 2011*
 Virginia Retirement System for the year ended June 30, 2011
 Virginia State Lottery Department for the year ended June 30, 2011
 Virginia State Lottery Department “Mega Millions”—Report on Applying Agreed-Upon Procedures for the period April 1, 2010 through March 31, 2011
 Virginia State Lottery Department “Power Ball”—Report on Applying Agreed-Upon Procedures for the period January 31, 2010 through March 31, 2011
 Virginia State Lottery Department “Power Play”—Report on Applying Agreed-Upon Procedures for the period January 31, 2010 through March 31, 2011
 Virginia State Lottery Department “Win for Life”—Report on Applying Agreed-Upon Procedures for the period April 1, 2010 through March 31, 2011

Executive Departments

Division of Selected Agency Support Services for the year ended June 30, 2011
 Governor’s Cabinet Secretaries for the year ended June 30, 2011
 Office of the Attorney General and the Department of Law for the year ended June 30, 2011*
 Office of the Governor for the year ended June 30, 2011
 Office of the Lieutenant Governor for the year ended June 30, 2011

Administration

Department of Employment Dispute Resolution for the three-year period ended June 30, 2011
 Department of Human Resource Management for the three-year period ended June 30, 2011*
 Department of Minority Business Enterprise for the period January 1, 2009 through June 30, 2011
 Human Rights Council for the years ended June 30, 2009, June 30, 2010, and June 30, 2011

Agriculture and Forestry

Department of Forestry for the years ended June 30, 2009, 2010, and 2011

Commerce and Trade

Department of Mines, Minerals, and Energy for the period July 1, 2008 through June 30, 2011
 Virginia Biotechnology Research Partnership Authority for the year ended June 30, 2011*
 Virginia Board of Accountancy for the year ended June 30, 2011
 Virginia Commercial Space Flight Authority for the year ended June 30, 2011
 Virginia Economic Development Partnership for the year ended June 30, 2011
 Virginia Employment Commission for the year ended June 30, 2011*
 Virginia National Defense Industrial Authority for the year ended June 30, 2011
 Virginia Racing Commission for the fiscal year ended June 30, 2011*
 Virginia Tobacco Indemnification and Community Revitalization Commission for the year ended June 30, 2011
 Virginia Tourism Authority for the year ended June 30, 2011

Education

Department of Education and Direct Aid to Public Education for the year ended June 30, 2011
 State Council of Higher Education for Virginia for the period July 1, 2008 through June 30, 2011
 Virginia School for the Deaf and Blind and the Virginia School for the Deaf and Blind Foundation for the year ended June 30, 2010*

Colleges and Universities

Christopher Newport University for the year ended June 30, 2011*
 George Mason University for the year ended June 30, 2011
 George Mason University Intercollegiate Athletics Program for the year ended June 30, 2011
 James Madison University for the year ended June 30, 2011
 James Madison University Intercollegiate Athletics Program for the year ended June 30, 2011
 John Tyler Community College for the year ended June 30, 2011
 Longwood University for the year ended June 30, 2011
 Longwood University Intercollegiate Athletics Program for the year ended June 30, 2011
 New College Institute for the years ended June 30, 2010 and 2011*
 Norfolk State University Intercollegiate Athletics Program for the year ended June 30, 2011
 Old Dominion University for the year ended June 30, 2011*
 Old Dominion University Intercollegiate Athletics Programs for the year ended June 30, 2011
 Radford University for the year ended June 30, 2011*
 Radford University Intercollegiate Athletics Program for the year ended June 30, 2011
 The College of William and Mary in Virginia Intercollegiate Athletics Program for the year ended June 30, 2011*
 University of Mary Washington for the year ended June 30, 2010
 University of Virginia for the year ended June 30, 2011
 University of Virginia Intercollegiate Athletics Program for the year ended June 30, 2011*

Colleges and Universities (continued)

Virginia Commonwealth University for the year ended June 30, 2011*
Virginia Commonwealth University Intercollegiate Athletics Program for the year ended June 30, 2011
Virginia Community College System for the year ended June 30, 2010*
Virginia Military Institute for the year ended June 30, 2011
Virginia Military Institute Intercollegiate Athletics Program for the year ended June 30, 2011
Virginia Polytechnic Institute and State University Intercollegiate Athletics Program for the year ended June 30, 2011
Virginia Polytechnic University for the year ended June 30, 2011
Virginia State University for the year ended June 30, 2010*
Virginia State University for the year ended June 30, 2011*

Finance

Agencies of the Secretary of Finance for the year ended June 30, 2011*
Internal Control Report on Audit of Local Government Investment Pool, Virginia College Building Authority, Virginia Public Building Authority, and Virginia Public School Authority for the year ended June 30, 2011

Health and Human Resources

Agencies of the Secretaries of Health and Human Resources for the year ended June 30, 2011*
Assistive Technology Loan Fund Authority for fiscal years ended June 30, 2010 and June 30, 2011*
Virginia Foundation for Health Youth for the year ended June 30, 2011

Natural Resources

Department of Environmental Quality for the years ended June 30, 2010 and June 30, 2011
Department of Game and Inland Fisheries for the year ended June 30, 2010*
Potomac River Fisheries Commission for the year ended June 30, 2011
Rappahannock River Basin Commission for the year ended June 30, 2011

Public Safety

Commonwealth's Attorneys' Services Council for the year ended June 30, 2011
Department of Alcoholic Beverage Control for the fiscal year ended June 30, 2011*
Department of Corrections, Virginia Parole Board, and Virginia Correctional Enterprises for the year ended June 30, 2011*
Department of Fire Programs for the years ended June 30, 2010 and June 30, 2011*
Virginia Department of State Police for the years ended June 30, 2010 and June 30, 2011*

Technology

Innovation and Entrepreneurship Investment Authority, including its blended component unit, the Center for Innovative Technology for the year ended June 30, 2011

Transportation

Agencies of the Secretary of Transportation for the year ended June 30, 2011*
Virginia Port Authority for the year ended June 30, 2011*

Special Reports

Auditor of Public Accounts – 2011 Report to the General Assembly*
Commonwealth of Virginia Court Operations for the year ended June 30, 2010*
Commonwealth of Virginia Single Audit Report for the year ended June 30, 2011*
Comparative Report of Local Government Expenditures and Revenues for the year ended June 30, 2011
County of Goochland Report on Investigation of Treasurer’s Office—August 25, 2011*
General Assembly, Legislative Agencies, and Commissions of the Commonwealth of Virginia Financial Report for the year ended June 30, 2011, with the Independent Accountant’s Report on Applying Agreed-Upon Procedures
Local Ordinances and the Funding of Courts – September 2011*
Progress Report on Selected Systems Development Projects in the Commonwealth – March 2012*
Report on Collections of Commonwealth Revenues by Local Constitutional Officers for the year ended June 30, 2011*
Report to the Joint Legislative Audit and Review Commission for the quarter April 1, 2011 through June 30, 2011*
Report to the Joint Legislative Audit and Review Commission for the quarter July 1, 2011 through September 30, 2011*
Report to the Joint Legislative Audit and Review Commission for the quarter October 1, 2011 through December 31, 2011*
Revenue Stabilization Fund Calculations for the year ended June 30, 2011*
Review of Compliance with the Federal Payments in Lieu of Taxes (PILT) Act for the period October 1, 2010 through September 30, 2011
Review of Retail Sales and Use Tax Collection and Distribution Processes – November 2011*
Review of the Budget and Appropriation Processing Control System for the year ended June 30, 2011
Review of the State Employees Health Insurance Fund—October 2011*

The following lists those courts audited during the period July 1, 2011 through June 30, 2012. An asterisk * indicates that the report includes audit findings and recommendations.

Circuit Courts

Alexandria	Henrico	Prince Edward
Alleghany	Henry*	Prince George*
Amelia	Highland	Pulaski
Amherst*	James City/Williamsburg*	Rappahannock
Augusta*	King and Queen	Roanoke
Bedford	King William*	Roanoke
Bland	Lancaster	Rockbridge*
Bristol*	Loudoun*	Rockingham*
Brunswick	Louisa*	Russell*
Buchanan	Louisa	Scott*
Buena Vista	Lynchburg*	Shenandoah*
Carroll*	Mathews	Smyth
Charles City*	Mecklenburg	Southampton
Charlotte	Middlesex*	Spotsylvania
Clarke	Montgomery	Staunton*
Colonial Heights	Nelson	Suffolk
Cumberland	New Kent	Surry
Dickenson*	Newport News	Sussex
Dinwiddie	Newport News	Virginia Beach
Fairfax	Northampton	Waynesboro*
Franklin	Northumberland*	Westmoreland
Fluvanna	Nottoway*	Winchester
Frederick	Orange	York/Poquoson*
Fredericksburg*	Page	
Greensville*	Patrick	
Hampton	Portsmouth*	
Halifax*	Powhatan*	

Circuit Courts – Clerk Turnover Audits

Hopewell	Petersburg*
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General Receivers

Alexandria	Charlottesville*	Russell
Arlington	King George*	Sussex
Bristol	Lee	Washington
Buchanan	Loudoun	

General District Courts

Accomack*	Hanover	Pittsylvania
Albemarle*	Henrico	Portsmouth
Alexandria	James City/Williamsburg	Prince William*
Amherst	King and Queen	Pulaski
Appomattox*	King William	Richmond (Criminal Division)
Arlington*	Lancaster	Richmond (Traffic Division)*
Augusta*	Loudoun	Roanoke
Botetourt*	Louisa	Roanoke
Brunswick	Lynchburg	Rockbridge
Charlotte	Martinsville	Rockingham
Charlottesville	Mathews	Shenandoah*
Chesapeake	Mecklenburg	Smyth*
Chesterfield	Middlesex	Staunton
Clarke	Nelson	Virginia Beach*
Culpeper	New Kent	Warren*
Fairfax	Newport News (Criminal Division)*	Washington
Fairfax	Newport News (Traffic Division)	Waynesboro
Fauquier	Norfolk	Winchester
Franklin	Northampton	Wise/Norton*
Frederick	Northumberland	Wythe
Halifax	Page*	York
Hampton	Petersburg*	

Juvenile and Domestic Relations Court

Accomack*	Henrico*	Petersburg
Albemarle	James City/Williamsburg	Pittsylvania
Alexandria	King and Queen	Portsmouth
Amherst	King William	Prince William
Appomattox	Lancaster	Pulaski
Arlington	Loudoun	Richmond*
Augusta	Louisa*	Roanoke
Charlotte	Lynchburg	Roanoke*
Charlottesville	Martinsville	Rockbridge*
Chesapeake*	Mathews	Rockingham*
Chesterfield	Mecklenburg	Smyth
Clarke	Middlesex	Stafford
Culpeper	Montgomery	Staunton
Danville	Nelson	Suffolk
Fairfax*	New Kent	Virginia Beach
Fauquier	Newport News	Warren
Gloucester	Norfolk	Waynesboro
Halifax	Northampton	Winchester
Hampton	Northumberland	Wise
Hanover*	Page	Wythe

Combined General District Courts

Alleghany	Floyd	Madison
Amelia	Fluvanna	Nottoway
Bath	Franklin*	Orange*
Buckingham*	Galax	Powhatan
Buena Vista	Giles	Prince Edward*
Charles City	Goochland	Prince George
Colonial Heights	Grayson	Radford
Craig	Greene	Rappahannock*
Cumberland	Greensville	Richmond
Dickenson	Highland	Salem
Dinwiddie	Hopewell	Southampton
Emporia	King George	Surry
Essex	Lee	
Falls Church	Lunenburg	

Magistrates

Accomack	Fairfax	Pittsylvania
Alexandria*	Fauquier	Portsmouth
Alleghany	Franklin	Powhatan*
Amelia	Frederick	Prince Edward*
Amherst	Gloucester	Prince William
Appomattox	Halifax	Pulaski
Arlington	Hampton	Richmond
Bath	Hanover	Richmond (Criminal Division)*
Bedford	Henrico	Roanoke
Botetourt	Henry	Roanoke *
Brunswick	Hopewell	Rockbridge
Buchanan	James City/Williamsburg	Rockingham
Buckingham*	King William	Russell
Campbell*	Lancaster	Scott
Carroll	Lee	Shenandoah
Charles City	Loudoun	Stafford
Charlotte	Lunenburg*	Suffolk
Charlottesville	Lynchburg	Sussex
Chesapeake	Mecklenburg*	Tazewell
Chesterfield*	Montgomery	Virginia Beach
Culpeper	New Kent	Warren
Cumberland	Newport News*	Washington
Danville	Norfolk	Westmoreland
Dickenson	Orange	Wise/Norton
Dinwiddie	Page	Wythe
Emporia	Patrick	York*
Essex	Petersburg	

State Accounts

Accomack	Dickenson	Lee*	Rappahannock
Albemarle	Dinwiddie	Lexington	Richmond
Alexandria	Emporia	Loudoun	Richmond*
Alleghany	Essex	Louisa	Roanoke*
Amelia	Fairfax	Lunenburg*	Roanoke*
Amherst*	Fairfax	Lynchburg	Rockbridge*
Appomattox	Falls Church	Madison	Rockingham*
Arlington	Fauquier	Manassas Park	Russell
Augusta	Floyd	Martinsville	Salem*
Bath	Fluvanna	Mathews	Scott
Bedford	Franklin	Mecklenburg	Shenandoah
Bedford	Franklin	Middlesex*	Smyth
Bland	Frederick	Montgomery	Southampton
Botetourt	Fredericksburg	Nelson	Spotsylvania
Bristol	Giles	New Kent	Stafford
Brunswick	Gloucester	Newport News	Staunton
Buchanan	Goochland	Norfolk	Suffolk
Buckingham	Grayson	Northampton	Surry
Buena Vista	Greene	Northumberland	Sussex
Campbell	Greensville	Norton	Tazewell
Caroline	Halifax	Nottoway	Virginia Beach
Carroll	Hampton	Orange	Warren
Charles City	Hanover	Page	Washington
Charlotte	Harrisonburg*	Patrick	Waynesboro*
Charlottesville	Henrico	Petersburg	Westmoreland
Chesapeake	Henry	Pittsylvania	Williamsburg
Chesterfield	Highland	Poquoson	Winchester
Clarke	Hopewell	Portsmouth	Wise
Colonial Heights	Isle of Wight	Powhatan	Wythe
Covington	James City	Prince Edward	York
Craig	King and Queen	Prince George	
Culpeper	King George	Prince William	
Cumberland	King William	Pulaski	
Danville*	Lancaster	Radford	

State Account - Turnover Audits

Albemarle	Floyd	Patrick
Alleghany	Greensville	Rockbridge
Amherst	Henrico	Scott
Bath	Louisa	Tazewell
Botetourt	Lunenburg	New Kent
Charles City	Nelson	
Dinwiddie	New Kent	