Auditor of Public Accounts
COMMONWEALTH OF VIRGINIA

Quarterly Report Summary

January 1, 2009 to March 31, 2009

IT Partnership Making Progress, Caution and Oversight Still Needed

Overall, the Partnership is completing Milestones, but we found delays in the delivery and acceptance of most Milestones since our last audit, with some Milestones remaining outstanding. Success hinges on the completion of inventories to set the new baseline for easier measurement of resource units and service levels in the future. Completion of this inventory is the most critical deliverable in Transformation for the moment. (pages 1-2)

Comprehensive Reports of the Commonwealth Transportation Fund and Secretaries of Finance and Health and Human Resources Issued and Identify Issues

The *Commonwealth Transportation Fund and Secretaries of Finance and Health and Human Resources* reports address financial management, internal control, and compliance issues. The Finance report continues to identify the risks of the Commonwealth's aging central systems. The Health and Human Resources report highlights Mental Health, Mental Retardation, and Substance Abuse Services' Central Office's need to improve oversight and guidance. (pages 2-4)

Several System Development Projects Bear Monitoring

Virginia's Enterprise Application Program needs a strategic plan, and the Drivers License Central project of the Department of Motor Vehicles will provide a new, more secure, driver's license issuing system. (pages 4-6)

Other Items

During this quarter, we also issued the Commonwealth Statewide Single Audit Report for the year ended June 30, 2008, which is on our website. We have also highlighted the results from our audits of the Department of Minority Business Enterprise and the Virginia Board of Accountancy. (pages 6-8)

We will be happy to provide you any reports in their entirety, or you can find all reports listed in this document at our website http://www.apa.virginia.gov/reports.cfm. We welcome any comments concerning this report or its contents.

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COMMONWEALTH OF VIRGINIA

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SUMMARY OF REPORTS ISSUED *9-13*

"Interim Review of IT Partnership"
Service Management Organization of the Virginia Information Technologies Agency

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 nearly all Commonwealth agencies at an annual cost not to exceed $236 million. Over the first three years of the Agreement, the Partnership is to Transform Commonwealth IT infrastructure management into a managed service environment. For more information on past Transformation progress, please reference our 2008 and 2007 Interim Review of Information Technology Partnership reports which are on our website (www.apa.virginia.gov).

Since our last review, the Partnership has passed the contracted date of June 30, 2008, to fully commence the Managed Services phase of transformation. The Partnership has not completed the necessary inventories to establish updated baselines nor the supporting milestones and deliverables to support managed services. Northrop Grumman is invoicing the Commonwealth as if the Partnership were operating in a managed service environment; however they are invoicing quantities using estimates in the original 2005 Agreement, not actual quantities. We conducted this review of the status of transformation of IT infrastructure to determine the following.

- Milestones are on schedule for completion by contractual deadlines.
- The Information Technology Infrastructure Library (ITIL) and complete Procedures Manual are delivered in accordance with the Partnership Agreement.
- The physical and non-physical inventories are completed prior to resetting the Agreement's resource unit baseline;
- Contractual service level agreement metrics are measurable, properly applied, and reviewed.
- Northrop Grumman and VITA have a reasonably defined "Request for Service" process and are consistently applying it.

Overall, we found that the Partnership is completing Milestones, including the Procedures Manual; inventories; and Service Level Agreements; but has not completed them on time. We found delays in the delivery and acceptance of most Milestones since our last audit with some Milestones remaining outstanding.

We also found progress toward the completion of a Procedures Manual, agreed-upon Service Level metrics, and physical and non-physical inventories, although all of these deliverables are behind schedule. We also found that the Partnership has revised its Request for Service Process and is consistently using this process for requests since our last review.

Much of the successful completion of Transformation hinges on the completion of physical and non-physical inventories by the Partnership. These inventories will form the new baseline for the Agreement in future years and will make the future measurement of resource units and their respective service levels easier. Completion of this inventory is the most critical deliverable in Transformation for the moment.

Secretary of Finance

This report summarizes our fiscal year 2008 audit results for the five agencies under the Secretary of Finance and arises from our work on the Comprehensive Annual Financial Report.

We have included two risk alerts, which are beyond the corrective action of management and require the action of either another agency, outside party, or a change in the method by which the Commonwealth conducts its operations to improve efficiency, reduce risk and enhance its operations.

- ***Modernize Financial Systems and Processes (Repeat Risk Alert)***

Government Transparency is a concept which requires governments to provide a substantial amount of information online using the internet. The federal government has already enacted legislation to provide information online and is considering new legislation. Additionally, in the past several General Assembly sessions, members have introduced a number of bills modeled on the existing and proposed federal legislation that makes state data available on the internet.

Much of the requested information one would typically find in modern enterprise accounting and information systems. However, the Commonwealth's systems do not contain the information, or cannot easily exchange the information, due to their age and lack of integration. Further, the Commonwealth's key systems are antiquated and are fundamentally at risk of a failure where either the vendor or expertise of keeping the system operating could become unsustainable. This limits the Commonwealth's financial reporting capabilities, which 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.

It will take a substantial amount of time, effort, and coordination among agencies to upgrade and replace the Commonwealth's systems. Therefore, the Commonwealth needs to continue to move forward with the modernization of its systems and with its plan to develop standardized data requirements, which would ease the exchange of data between central systems and systems maintained by other agencies and institutions in the Commonwealth.

- ***Consolidate Functions within Secretary of Finance Agencies***

The Secretary of Finance should review the current organization and operations of the Departments of Accounts and Treasury and consider consolidating certain functions to improve the effectiveness and efficiency. We believe the Secretary should transfer many of Treasury's Trust Accounting functions in the Operations Division to Account's General Accounting or Financial

Reporting Divisions. The transfer would eliminate redundancy between Accounts and Treasury, strengthen internal controls, and clarify and improve staff responsibilities for accounting and financial reporting of the Commonwealth's cash and investments and long-term debt activity.

The report also includes other internal controls and compliance findings and recommendations.

Secretary of Health and Human Resources

This report discusses the services and financial activities of the thirteen departments and agencies reporting to the Secretary of Health and Human Resources for the year ended June 30, 2008.

AUDIT RISK ALERT

Mental Health, Mental Retardation, and Substance Abuse Services' Central Office is not providing adequate guidance and oversight to its facilities. Specifically, we noted facilities with inadequate controls, significant non-compliance, and accounting errors in the following areas.

Comply with Information Systems Security Program	Document Security Awareness Training
Develop and Test Continuity of Operations and Disaster Recovery Plans	Complete Employment Eligibility Verification Forms
Record Construction in Progress	Control Capital Assets
Grant Access to Timekeeping System	

We bring this to the Secretary and senior management's attention so they will be aware of the underlying issues so they can determine the best way to address these findings. In determining how to address these findings, they should consider evaluating whether changes are needed in DMHMRSAS's management structure and philosophy.

One approach the Secretary and management could consider is to have the Central Office perform as much of the administration functions as possible for the facilities. The Auditor of Public Accounts has advocated that smaller agencies, like facilities, which do not have sufficient resources or staff, use larger agencies for business functions, such as accounting, budgeting, information security, or personnel resources. These arrangements allow smaller agencies to concentrate on providing program services.

Since the Central Office already provides the facilities with centralized billings and construction management, we believe it holds an ideal position to take a leadership role in developing a comprehensive back office operation for the facilities that would assume total operations for administrative functions.

We believe that this approach will improve the operational efficiency of these facilities. However, we do not believe that DMHMRSAS will recognize any savings in either personnel or other costs, since the facilities are using marginal resources with marginal results. We also

recognize that leaders of the facilities will resist this type of change; however, DMHMRSAS will greatly improve its internal controls and gain risk management benefits.

The report also includes other internal controls and compliance findings and recommendations.

Progress Report on Selected System Development Projects in the Commonwealth

This report reflects our on-going review of Commonwealth systems development projects totaling over $281 million in budget. We have excluded the over $300 million STARS at Virginia State Police from this report, but plan to issue a follow-up report in the first quarter of 2009 to our previous STARS report issued in January 2008.

Our goal with these reviews is to detect problems at the earliest possible point and alert decision makers to this information, thereby reducing potential project failures. In this report, we will highlight the progress of selected projects we are actively monitoring along with recommendations we have to improve their project management. Specifically, this report highlights the following systems development projects.

- Virginia's Enterprise Application Program (VEAP), the Commonwealth's multi-year, multi-phase statewide applications replacement initiative.

  The VEAP does not have a formal strategic plan or direction. In addition, without resolving the question of information technology governance in the Commonwealth, the future need for the VEAP is questionable; and, without a reliable funding stream, the VEAP's ability to perform work is doubtful. The Commonwealth received value from the VEAP's original products provided under the public-private partnership with CGI, an information technology service provider; however, these products are time sensitive and their value will fade if the Commonwealth does not use them or regularly update them. The Information Technology Investment Board and others have had difficulty understanding and keeping current with the direction the VEAP is taking, and this confusion has raised concerns over the effective use of and value received from the resources committed to this project.

- Drivers License Central Issue, Motor Vehicle's new, more secure, driver's license issuing system.

  In May 2005, the CIO of the Commonwealth approved an Agency Procurement Request (APR) totaling $16 million for DMV's procurement of a new drivers license issuance system. DMV stated that this new system would move the Commonwealth closer to REAL ID compliance by issuing a more secure driver's license/identification card. DMV described the system procurement as a "turn-key" implementation, meaning DMV would

purchase the program (both hardware and software) that should require minimal work to begin issuing licenses with the new product. DMV began vendor selection through the RFP process but then cancelled the procurement and later reissued the RFP. DMV awarded the procurement in February 2008 to Canadian Bank Note (CBN) for $40 million over seven years and soon thereafter DMV asked VITA's Project Management Division (PMD) whether DMV would need a VITA certified project manager to lead this project. This question caused PMD to look at the procurement a little closer, and finally they determined this system was no longer a procurement, as suggested by the original APR, but rather a major IT project. The DMV Commissioner and the Commonwealth's CIO agreed on this fact in May 2008.

The Information Technology Investment Board (ITIB) required DMV to go back and complete the required project initiation documents and to send those documents through the proper approval procedures. The ITIB received the project documents the first week of August 2008 and the ITIB asked DMV to present the information at the October 2008 ITIB meeting. DMV Commissioner, D.B. Smit, presented the project and requested the ITIB approval to move the project into execution. The ITIB had several issues with the project including DMV signing a $40 million contract that they had initially estimated would cost $16 million, but ultimately DMV addressed the concerns and the project received development approval. The highlights section of this report contains details on this project, including a high-level timeline and various other project information.

- EAGLES, the web-enabled application to replace the current licensing and enforcement system for the Department of Professional and Occupational Regulation.

  The EAGLES project team is currently implementing the second release for phase 1, which had a go-live date originally set for September, but the team has delayed this release by five months. We have noted in the past that project management issues within DPOR were the cause for previous project delays. These issues included an insufficient project plan and insufficient project documentation. DPOR worked to resolve these issues and now the primary reason for the current delays relates to VERSA. VERSA is having problems addressing project issues in a timely manner and has yet to provide DPOR with system documentation and user manuals. The lack of system documentation and user manuals is impacting project testing. DPOR is currently working with VERSA to resolve the issues so they can go-live with the second release for phase 1. We will continue to monitor this project closely throughout its implementation.

- ChildWINS, an update on the project's cancellation and a summary of our prior report on overall project management at the Department of Social Services.

  In October 2008, the APA followed up on Social Services' progress in addressing the recommendations listed above. We found that Social Services has made progress by linking its internal policies and procedures to the Commonwealth's Project Management Standards and revising them to address the recommendations issued the previous year.

Department of Minority Business Enterprise
for the period February 1, 2008 through December 31, 2008.

The Department of Minority Business Enterprise continues to address previous audit issue and to strengthen its system of internal control.

STATUS OF PRIOR YEAR RECOMMENDATIONS

Information System Security Program

The Accounting and Internal Control Compliance Oversight unit at the Department of Accounts is assisting the Department of Minority Business Enterprise (Minority Business) in developing an information systems security program. The anticipated completion date is April 2009. Once the program is complete, Minority Business should continue to work with the Accounting and Internal Control Compliance Oversight unit to implement the program and train its employees in the information security policies and procedures.

INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Follow Small Purchase Charge Card Procedures

Minority Business' sole cardholder did not maintain a daily record of individual purchases to compare to the monthly credit card statement. Therefore, Minority Business does not know if they are paying for only their purchases, or if there are erroneous charges on their monthly statement.

The State Comptroller recommends that small purchase charge card holders maintain a daily log of purchases to ensure that agencies only pay for items they purchased and can detect errors and erroneous charges timely. Minority Business should follow the Commonwealth's procedures for small purchase charge cards.

Process Vendor Statements Promptly

Minority Business did not send several bills to the Department of General Services in a timely manner, resulting in non-compliance with Commonwealth's Prompt Payment Statutes. The

Prompt Payment Statutes require agencies to pay their vendor bills either by the due date or within 30 days of receiving goods or services, whichever is later. In order to comply with the Prompt Payment Statutes, Minority Business must send its bills to the Department of General Services in sufficient time for them to pay the bill in accordance with the Statutes.

Virginia Board of Accountancy

For the year ended June 30, 2008

Subsequent to June 30, 2008, the Board has undergone some significant changes in its general and accounting operations. The Executive Director position has been vacant since November 7, 2008, the BOA has terminated its accounting services agreement with another state agency and the individual who has previously prepared its financial statements would not continue to perform this function. The Board brought this accounting function in-house. As part of the audit, we observed the operations of the Board staff and have serious concerns about maintaining accurate accounting information, having adequate internal controls and preparing financial statements for the next fiscal year.

We believe that the existing staff, who assumed the accounting services duties formerly outsourced, do not have the training and expertise to undertake these duties. Additionally, the Board has no documented policies and procedures to assist the staff in performing these duties.

We understand that the Board is negotiating an agreement with the Department of Accounts for accounting services and the Department of Human Resources for human resource services but has not filled the financial statement preparation function. Currently a search process is in effect to fill the Executive Director position.

We suggest the Board take immediate action to:

1. Fill the position of Executive Director as soon as possible

2. Provide staff training in how to use Commonwealth Systems to provide daily operations along with the existing Board licensing system and credit card acceptance system. The Board should obtain interim assistance from the State Comptroller to assist in processing and reconciling transactions, pending either continued performance of these duties internally, or entering into another accounting services agreement.

3. Develop documented operating procedures that address sufficient audit trails for purchase card transactions, revenue refund transactions, and general accounting procedures, including: reconciliation of the licensing, credit card, and accounting systems; recognition and capitalization of fixed asset expenses; recognition and recording of lease obligations; procedures for batching and approving regular accounting transactions. Also, there is a need to develop some emergency procedures should the Board lose it accounting support in the future.

4. Re-examine internal staffing assignment and resources to adequately segregate duties between accounts receivable, treasury, accounts payable, purchasing, and general accounting functions.

5. Either internally address the lack of staff experience and training in Generally Accepted Accounting Principles sufficient to ensure adequate preparation of financial statements or seek to contract again with someone to prepare the year-end statements.

While we understand that the Board is attempting to examine and select an alternative, we believe that the Board is at risk if it should lose any additional staff especially in the area of accounting. We recommend that the Board contact the State Comptroller to seek interim assistance and potentially consider the use of one of the other state agencies that provide smaller agencies assistance.

SUMMARY OF REPORTS ISSUED

The following reports on audit were released by this Office during the period January 1, 2009, to March 31, 2009. Those reports which included findings in the area of internal controls or compliance are indicated by an (*) asterisk.

Judicial Branch

Virginia State Bar for the year ended June 30, 2008*

Independent Agencies

Virginia College Savings Plan—Annual Report on Financial Statements for the fiscal year ended June 30, 2008

State Agencies and Institutions

Executive Departments

Administration

Compensation Board for the years ended June 30, 2007 and June 30, 2008*
Department of Employment Dispute Resolution for the two-year period ended June 30, 2008
Department of Minority Business Enterprise for the period February 1, 2008 through December 31, 2008*
Human Rights Council for the fiscal years ended June 30, 2008 and 2007

Commerce and Trade

Virginia Board of Accountancy for the year ended June 30, 2008*
Virginia Employment Commission for the fiscal year ended June 30, 2008*

Education

Library of Virginia for the years ended June 30, 2007 and 2008

Colleges and Universities

The College of William and Mary in Virginia for the year ended June 30, 2008*

College of William and Mary – Intercollegiate Athletics Programs for the fiscal year ended June 30, 2008
George Mason University – Intercollegiate Athletics Programs for the fiscal year ended June 30, 2008
J. Sargeant Reynolds Community College Report on Review for the year ended June 30, 2008
James Madison University – Intercollegiate Athletics Programs for the fiscal year ended June 30, 2008
Longwood University – Intercollegiate Athletics Programs for the fiscal year ended June 30, 2008
Mountain Empire Community College Report on Review for the year ended June 30, 2008
Norfolk State University – Intercollegiate Athletics Programs for the fiscal year ended June 30, 2008
Piedmont Virginia Community College Report on Review for the year ended June 30, 2008
Radford University – Intercollegiate Athletics Programs for the fiscal year ended June 30, 2008
University of Virginia – Intercollegiate Athletics Programs for the fiscal year ended June 30, 2008
Virginia Commonwealth University for the fiscal year ended June 30, 2008*
Virginia Commonwealth University – Intercollegiate Athletics Programs for the fiscal year ended June 30, 2008
Virginia Military Institute – Intercollegiate Athletics Programs for the fiscal year ended June 30, 2008

Finance

Agencies of the Secretary of Finance for the year ended June 30, 2008*
Internal Control Report on Audit for Local Government Investment Pool, Virginia Public School Authority, Virginia College Building Authority, and Virginia Public School Authority for the year ended June 30, 2008*

Health and Human Resources

Agencies of the Secretary of Health and Human Resources for the year ended June 30, 2008*
The Assistive Technology Loan Fund Authority for the year ended June 30, 2008*

Public Safety

Department of Criminal Justice Services for the two-year period ended June 30, 2008*
Commonwealth's Attorneys' Services Council for the period July 1, 2006 through June 30, 2008
Virginia Department of Emergency Management for the year ended June 30, 2008*

Transportation

Agencies of the Secretary of Transportation (Commonwealth Transportation Fund) for the year ended June 30, 2008*

Special Reports

Commonwealth of Virginia Single Audit Report for the year ended June 30, 2008*
Progress Report on Selected Information Technology Projects in the Commonwealth, January 2009*
Report on Collections of Commonwealth Revenues By Local Constitutional Officers for the year ended June 30, 2008*
Report to the Joint Legislative Audit and Review Commission for the quarter October 1, 2008 through December 31, 2008*
Service Management Organization of the Virginia Information Technologies Agency—Interim Review of the Information Technology Partnership, February 2009*

Clerks of the Circuit Courts

Cities:

City of Alexandria – July 1, 2007 through September 30, 2008
City of Danville – July 1, 2007 through September 30, 2008
City of Hopewell – July 1, 2007 through September 30, 2008
City of Radford, Turnover – December 1, 2008 through December 31, 2008
City of Richmond, Criminal Division – October 1, 2007 through September 30, 2008*
City of Virginia Beach – April 1, 2007 through September 30, 2008
City of Winchester – January 1, 2007 through September 30, 2008

Counties:

County of Arlington – January 1, 2007 through September 30, 2008
County of Bath – July 1, 2007 through September 30, 2008
County of Bedford – October 1, 2007 through December 31, 2008
County of Caroline – July 1, 2007 through September 30, 2008
County of Charles City – April 1, 2007 through June 30, 2008*
County of Craig – July 1, 2007 through September 30, 2008*
County of Dickenson – July 1, 2007 through September 30, 2008
County of Floyd – July 1, 2007 through December 31, 2008
County of Franklin – October 1, 2007 through December 31, 2008
County of Frederick – April 1, 2007 through September 30, 2008
County of Giles – July 1, 2007 through September 30, 2008
County of Goochland – April 1, 2007 through September 30, 2008
County of Henrico – April 1, 2007 through September 30, 2008
County of Isle of Wight – April 1, 2007 through September 30, 2008

County of King George – for year ended June 30, 2008
County of Madison – April 1, 2007 through September 30, 2008
County of Madison, Turnover – October 1, 2008 through December 31, 2008
County of Nottoway – October 1, 2007 through September 30, 2008
County of Russell – October 1, 2007 through September 30, 2008
County of Suffolk –January 1, 2007 - September 30, 2008*
County of Surry – April 1, 2007 through September 30, 2008

State Accounts

Cities:

City of Falls Church – year ended June 30, 2008
City of Martinsville Treasurer Turnover – as of January 31, 2009
City of Roanoke – year ended June 30, 2008

Counties:

County of Fairfax – May 1, 2008 through June 30, 2008*
County of Frederick – year ended June 30, 2008*
County of Mathews – year ended June 30, 2008*
County of Page – year ended June 30, 2008*
County of Patrick – year ended June 30, 2008*
County of Roanoke – year ended June 30, 2008
County of Rockbridge – year ended June 30, 2008*
County of Westmoreland – April 1, 2007 through September 30, 2008

General Receivers

Cities:

City of Alexandria – for year ended June 30, 2008
City of Bristol – for year ended June 30, 2008
City of Buena Vista – January 1, 2007 through September 30, 2008
City of Charlottesville – for year ended June 30, 2008
City of Charlottesville – general receiver turnover at January 31, 2009
City of Lynchburg – for year ended June 30, 2008

Counties:

County of Arlington – for year ended June 30, 2008
County of Buchanan – for year ended June 30, 2008

County of Dickenson – for year ended June 30, 2008
County of Dickenson – turnover for year ended June 30, 2008
County of Lee – for year ended June 30, 2008
County of Loudoun – for year ended June 30, 2008
County of Russell – for year ended June 30, 2008
County of Sussex – turnover for year ended June 30, 2008
County of Washington – for year ended June 30, 2008
County of Wise/Norton – for year ended June 30, 2008

*Denotes management control finding