

DEPARTMENT OF GENERAL SERVICES

REPORT ON AUDIT

FOR THE PERIOD

JULY 1, 2007 THROUGH JUNE 30, 2008

APA
**Auditor of
Public Accounts**
COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Department of General Services for the period of July 1, 2007, through June 30, 2008, found:

- proper recording and reporting of all transactions, in all material respects, in the PeopleSoft Financial and Commonwealth Accounting and Reporting Systems;
- certain matters involving internal control and its operations necessary to bring to management's attention which are discussed in the section entitled Audit Findings and Recommendations; and
- certain instances of noncompliance with applicable laws and regulations or other matters that are required to be reported which are discussed in the section entitled Audit Findings and Recommendations.

Audit of the Enterprise Vehicle Rental Contract

Earlier in the year we conducted an audit of the Enterprise Vehicle Rental contract, the results of which are contained herein. The objectives of this review were to determine if the Enterprise contract has led to reduced trip-pool and personal vehicle expenses; Fleet Management ensures any additional cost incurred from Enterprise equipment, storage and maintenance are monitored and limited; Commonwealth agencies fully utilize the contract to maximize savings, if they exist; and the Enterprise contract saves time and provides users convenience.

Our audit found that while there is not sufficient evidence to conclude that the Enterprise contract is saving the Commonwealth money overall, there is no additional cost for keeping the contract available in situations where it does benefit the Commonwealth financially. Enterprise vehicles appear to only be viable alternatives to permanently assigned and personal vehicles on trips of long distance (generally over 100 miles) and short duration (one to three days).

Agencies are generally satisfied with Enterprise. State travel policy does limit the use of personal vehicles when it is more cost-beneficial to utilize Enterprise vehicles, although the time an employee takes to reserve a vehicle is not part of the cost comparison computation. Further discussion and analysis of the Enterprise contract may be found on pages three through six of this report.

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AUDIT FINDINGS AND RECOMMENDATIONS

Improve Information System Application Controls

The Department of General Services (General Services) does not adequately monitor application access for its critical applications to prevent or detect unauthorized access to those systems timely. Our test of 15 employees with access to PeopleSoft (DGS' accounting system) found three employees who continued to have access after leaving employment. Furthermore, we found two users who had authorization within the system exceeding the operating authority given to them by management.

Our test of 17 employees with access to CIPPS (the Commonwealth's payroll system) found two employees with access to payroll records for over one year after leaving employment. General Services did not delete these former employees' access until General Services prepared and returned its annual security report to the Department of Accounts.

Our test of 17 employees with access to eVA (the Commonwealth's procurement system) found four employees with access to the purchasing system beyond the 24-hour period allowed by the "eVA Electronic Procurement System Security Standard" after leaving employment. De-activation of these users ranged from three days to one-week after leaving.

Further, we found that the eVA Security Officer performs only an annual certification of eVA user accounts while the "eVA Electronic Procurement System Security Standard" requires at least quarterly account reviews. More frequent reviews of user accounts allow system administrators to better monitor users' responsibilities, ensuring the appropriate assignment of roles and prompt removal of terminated employees' access. Continuous monitoring of access to information systems which are critical to the agencies' financial operations helps to prevent errors and fraud.

We recommend General Services implement policies and procedures to ensure continuous review of all systems access to ensure the appropriateness of the access granted to users and ensure the timely de-activation of users when their employment ends.

Improve Contract Management – Security Services

The contract administrator does not review American Security Group's invoices for accuracy or to determine the performance and delivery of contracted security services for Department-owned buildings. General Services requires security guards to record their hours and sign the backs of building log-sheets; however the contract administrator does not review this documentation. The contract administrator should use these logs to corroborate with contractor invoices before authorizing payment. Invoices may contain errors, and if not reviewed for accuracy these errors can lead to inaccurate payments.

Enforce Controls over Purchase Card Use

General Services does not adequately enforce compliance with its charge card usage and review policies. Our test of 26 monthly cardholder statements found six cardholders' monthly reconciliations not reviewed or approved by the cardholders' supervisor. Purchasing charge card policies require supervisors to review and approve reconciled statements before forwarding them to the accounts payable department for payment. Supervisors need to review statements to ensure that cardholders made only reasonable charges during the month.

Our test also found that four cardholders did not sign their purchase log certification indicating they reconciled their purchase log and supporting documentation. Purchasing charge card policies require cardholders to forward their purchase logs with a written certification to their supervisors in addition to their monthly statements. Cardholders need to perform monthly charge card reconciliations to ensure there are no improper charges and the company recorded all charges at the appropriate amounts.

Our test also found charges on the monthly statement that included taxes; since the Commonwealth is tax exempt, the cardholder should have informed the vendor at the time of purchase not to include taxes. However, we could not identify which cardholder or supervisor failed to inform the vendor, since neither indicated who incurred the charges.

We recommend management periodically review for cardholder compliance with policies and procedures and take appropriate corrective action on cardholders and supervisors who do not follow the control measures that management has put in place. The performance of charge card reconciliations and supervisory review are the only methods of controlling charge card spending by management.

Improve Controls over Payroll Process

General Services does not reconcile the CIPPS to the Commonwealth's accounting system (CARS) after processing payroll transactions. State policies require agencies to perform a post-certification audit of payroll following the process to ensure the correct programmatic recording of activity in the accounting system for all payroll expenses. The reconciliation can reveal discrepancies or errors in one or both systems, which can cause budget issues by charging expenses to improper fund, program, or account codes.

We recommend General Services perform a reconciliation of the payroll and accounting systems after processing payroll to monitor their personnel expenses in accordance with state policy.

AGENCY HIGHLIGHTS

Overview

The Code of Virginia creates the Department of General Services and permits the Director to organize the divisions of the agency to best meet the needs of the Commonwealth and to promote effectiveness and efficiency. Currently, the agency is organized as follows:

Office of the Director
Division of Engineering and Buildings
Division of Real Estate Services
Division of Purchases and Supply
Division of Consolidated Laboratory Services

OFFICE OF THE DIRECTOR

In addition to providing executive management to General Services, the Office of the Director provides administrative services not only to the other divisions of the agency but also to other agencies of the Commonwealth.

Office of Fleet Management Services

The Office of Fleet Management Services (Fleet Management) provides both owned and leased vehicles as well as vehicle maintenance services to the agencies and institutions of the Commonwealth. Agencies and institutions pay a daily rate and mileage fee determined by vehicle class used. For spot usage of a vehicle, Fleet Management has entered into a contract with Enterprise Leasing Company for vehicles at reduced rates as discussed below. Employees and their supervisors must check to determine that the use of a privately owned vehicle is more economical than the use of a rental car from Enterprise before going on a trip for state business. Fleet Management has also negotiated a contract for the Voyager fuel charge card that automatically removes the excise tax from gasoline and diesel fuel used in state owned or leased vehicles. This fuel card contract also provides a reduced rate per gallon for the fuel as compared to the pump price per gallon.

Enterprise Vehicle Rental Contract

Fleet Management entered into a contract with Enterprise Leasing Company (Enterprise) in April, 2006. The initial contract covered a two- year period, with three one-year renewal options. Fleet opted to enact the first and second renewal options in March, 2008 and 2009, respectively.

The contract provides for preferential pricing for Commonwealth agencies to lease various classes of vehicles for travel, for as short as a day trip to more long-term travel spanning multiple weeks or months. The contract sought to reduce the size of the Commonwealth Fleet by eliminating the Commonwealth's Trip-Pool entirely.

Enterprise maintains a sufficient inventory to meet general and emergency needs of the five (5) regions of the Commonwealth; Northern Virginia, Central Virginia, Hampton Roads, Western Virginia and Southwest Virginia. All employees of any state agency can benefit from the contract, and may select a vehicle accessed from any Enterprise Rent-A-Car branch located in Virginia.

Fleet Management initially provided Enterprise with office and parking space at their facility in Richmond, but no longer provides this accommodation. However, Commonwealth agencies can pick up or drop off rental vehicles at any Enterprise location in the state. Each agency is responsible for setting up an account with Enterprise for direct billing of charges at a price not to exceed the negotiated price in the state-contract for each respective vehicle class.

We conducted a review of the use of the Enterprise contract to determine if:

1. Fleet Management ensures the Enterprise contract has led to reduced trip-pool and personal vehicle expenses.
2. Fleet Management ensures any additional costs incurred from Enterprise equipment, storage and maintenance are monitored and limited.
3. Commonwealth agencies fully utilize the contract to maximize available savings.
4. Enterprise vehicles save time and provide users convenience.

Reason for Contracting

General Services initially bid for rental vehicle companies in order to augment the Commonwealth's Trip-pool. State employees use trip-pool vehicles when conducting Commonwealth business. Fleet Management purchased, rented, and performed all maintenance for the approximate pool of 130 vehicles; essentially, the trip-pool operated as a rental car facility.

Fleet Management determined the trip-pool was not beneficial for the Commonwealth due to the following factors:

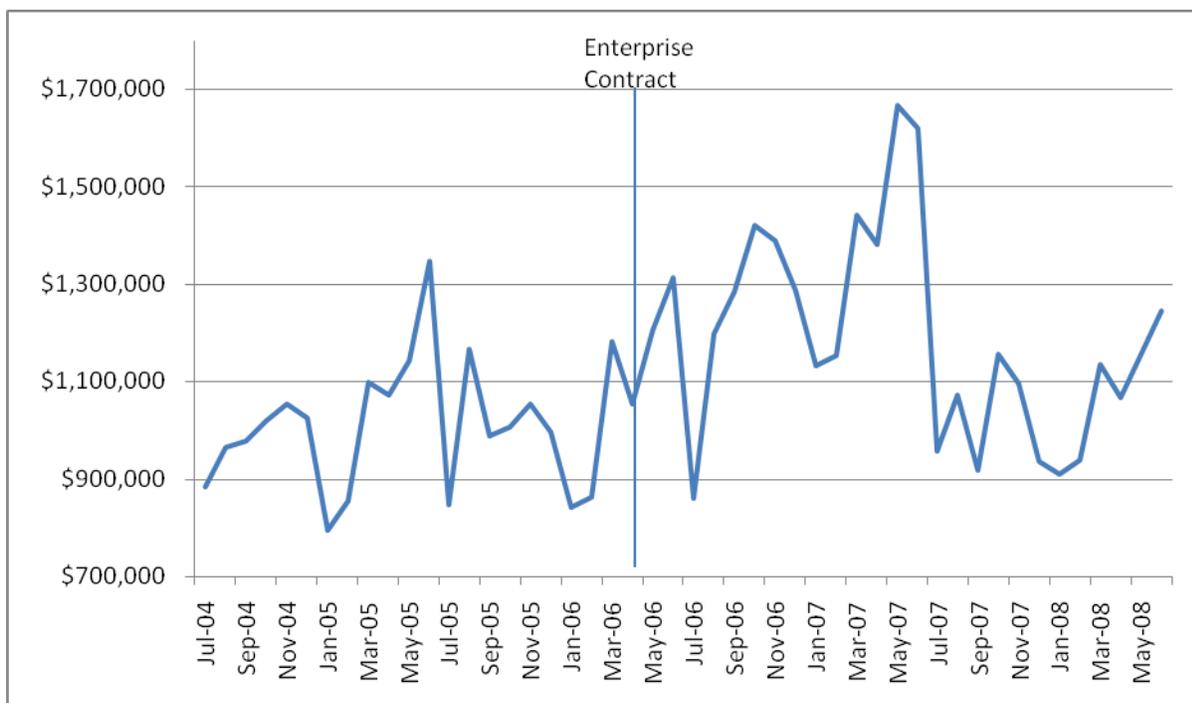
- Marginal revenue – The trip-pool flat rental rate was \$9.25 per day. Revenue generated from rentals did not benefit the State unless the user was going to put a large number of miles on the car.
- Irregular rentals – Agency use of the trip-pool fluctuates throughout the year. Vehicles sat idle for long periods of time throughout the year without generating any revenue to support their maintenance costs.
- Lack of convenience - Users of trip pool cars could only pick up and drop off OFMS vehicles on Leigh Street in Richmond; therefore, it only benefitted State employees in the Richmond area. State employees in other regions would have to use their personal vehicles and submit for mileage reimbursement.

- Policy restrictions/Additional expenses - Policy prevented Fleet Management from turning down a State employee's reservation. If reserved vehicles exceeded stock, Fleet Management would rent additional cars from rental companies in order to meet its demand while still only charging the agency the \$9.25 per day rate.
- Limited make/models of vehicles – Trip pool vehicles were limited to compact cars and a limited quantity of mini and cargo vans.

Reduction of Costs

We could not verify the actual reduction in fleet size and maintenance costs due to Fleet Management's data limitations on trip-pool vehicles prior to the beginning of the Enterprise contract. We did note that Fleet Management no longer provides trip-pool services to agencies. Per Fleet Management, General Services either permanently assigned all vehicles to an agency, or else the vehicle's condition resulted in them being declared surplus property.

We also analyzed agency personal use vehicle reimbursements using the Commonwealth Accounting and Reporting System. Our analysis consisted of the use of personal vehicles for non-training purposes, since travel reimbursements for training combine all related cost for hotel, meals, travel, and other expenses as one item in the Commonwealth Accounting and Reporting System. Below is our analysis.



Personal use reimbursements decreased substantially after signing the contract with Enterprise but shortly thereafter began to rise to their peak in May, 2007, most likely due to the increasing cost of fuel which drove higher mileage reimbursement rates; one year after the signing of the contract. Since that point, personal vehicle reimbursements have declined significantly, most likely due to the onset of state-wide budget cuts in 2007. Because we cannot analyze personal vehicle reimbursements as a result of employee training due to the data limitations mentioned above, we cannot conclude that the contract helped in reducing overall personal vehicle use costs in the Commonwealth.

Review of Contract Use

Our review included reviewing contract documents, and all change orders; interviewing Fleet Management staff; surveying agencies; and analyzing Enterprise billing and Commonwealth payment data. We surveyed 30 agencies, half of which had the most personal mileage reimbursements in the state during fiscal year 2008 and half of which had the largest fleet management expenses in the state during fiscal year 2008.

We found that every agency surveyed was aware of the state's contract with Enterprise. We found generally that agencies considered the use of Enterprise as convenient and cost effective only for those trips of long distance and relatively short duration. Every agency surveyed had at least one permanently assigned or agency-owned vehicle which was nearly always preferred over renting from Enterprise or the use of personal vehicles.

Generally, regardless of the size of an agency's permanently assigned fleet of vehicles, agencies find that renting vehicles from Enterprise is convenient, although not as convenient as using permanently assigned or personal vehicles. All agencies consider the cost of using an Enterprise vehicle versus a personal use vehicle, and State Policy requires that employees choosing to use their personal vehicle when it is more cost-effective to use an Enterprise vehicle will receive travel reimbursement at the substantially lower Enterprise mileage rate.

Conclusion

While there is not sufficient evidence to conclude that the Enterprise contract is saving the Commonwealth money overall, there is no additional cost for keeping the contract available for situations where it does benefit the Commonwealth financially. Enterprise vehicles appear to only be viable alternatives for permanently assigned and personal vehicles on trips of long distance (generally over 100 miles) and short duration (one to three days). Agencies are generally satisfied with Enterprise when use of their vehicles is viable to meet travel needs. State travel policy does limit the use of personal vehicles when it is more cost-beneficial to utilize Enterprise vehicles, although the time an employee takes to reserve a vehicle is not part of the cost comparison computation.

Surplus Property Management Office

The Surplus Property Management Office seeks to re-use surplus or used property, or to sell it to the public at competitive prices. General Services receives both state and federal surplus

equipment. The Surplus Property Management Office does not handle real property such as land and buildings; this responsibility belongs to the Division of Real Estate Services.

The State Surplus program provides a method for state agencies and institutions to get rid of equipment they no longer need. The agency can either dispose of the equipment with approval from the Surplus Office, or transfer it to one of the Surplus Warehouses in Richmond or Wytheville. The Warehouse staff price the equipment in order to recoup operating costs and make the equipment available for sale to other state agencies or political subdivisions. The agency must provide its own transportation of the items to the Warehouses because the Surplus Warehouses do not have trucks or the staffing to pick up items from the agencies.

The Federal Surplus Property program receives federal surplus and used assets from the U.S. General Services Administration. The federal government declares property not used within the federal system as surplus; a portion of the federal surplus is available to states for distribution to eligible participants. The law provides that public agencies, nonprofit health, and educational institutions may be eligible to receive federal surplus property, provided they meet certain criteria. The Surplus Property Management Office must return any federal surplus items that have not sold within a year to the U.S. General Services Administration. This program does not include weapons. There is an additional Federal Surplus Property program organized by the Department of Defense at the federal level and coordinated by Virginia State Police. Law enforcement agencies use the program coordinated by State Police to acquire federal military surplus items such as weapons, clothing, and office furniture. The Surplus Property Management Office program is not associated with the State Police program.

Fiscal Services Section

The Fiscal Services Section under the direction of the Controller uses PeopleSoft to not only provide fiscal management services to the department but also act as a fiscal service bureau for many smaller agencies, boards, commissions, and foundations of the Commonwealth. Internally, Fiscal Services uses twenty-nine funds to account for the General Services' revenues and expenses. Most notably, there are eight Special Revenue Funds and ten Internal Service Funds.

One of the three Enterprise Funds includes the collection of eVA fees, which dramatically increased in fiscal year 2007 as a result of a fee structure change by which vendors and agencies pay to cover the cost of the software owned and hosted by the eVA vendor and pay for General Services' operating expenses for the system. We discuss this change in more detail within the Division of Purchase and Supply, eVA section of the report below.

Fiscal Services within the Director's Office also provides administrative support for the following agencies:

- Department of Charitable Gaming
- Department of Employment Dispute Resolution
- Department of Minority Business Enterprises
- Council on Human Rights
- Virginia Office for Protection and Advocacy

Procurement Services Section

Procurement Services provides the internal purchasing of goods, non-construction and non-professional service contracting for General Services, and courier mail service for the Capital area. The Division of Engineering and Buildings handles procurement services for professional services for construction or maintenance.

Human Resource Management Section

The Human Resource Management Section handles the employment processing including vacancy management, application screening, employee hiring, processing and orientation, employee records management, leave tracking, and employee benefits. This section maintains records for over 600 classified and hourly employees.

Information Systems and Services Section

The Information Systems and Services Section provide security and oversight of the use of General Services multiple information system applications. They also assist other agencies with major system installations – most notably, the Department of Elections and the Commonwealth’s Enterprise Application Team. The Section also participates in the solicitation and evaluation process for any new applications that General Services may need.

Management Audit and Review Team

Management Audit and Review Team provides an internal audit function and reports directly to the Director of General Services. They conduct several audits in their work plan each year and act as the law enforcement liaison during fraud investigations.

Office of Graphic Communications

Graphic Communications provides the agencies of the Commonwealth with graphic design services. These services not only include the design of logos but also assistance with creating graphical presentations. Funding for graphic communications comes from fees charged to the agencies, and is less than one percent of the total budget for General Services in any given year.

DIVISION OF ENGINEERING AND BUILDINGS

Engineering and Buildings provides architectural and property management services through two bureaus: Capital Outlay Management and Facilities Management.

Capital Outlay Management

The Director of Capital Outlay Management is the Building Official for all construction projects on state-owned land. As such, Capital Outlay Management is also the sole issuer of building permits and certificates of use and occupancy for any buildings constructed on state-owned

land. Capital Outlay Management also grants other permits for items such as temporary structures, industrialized buildings, towers, antennae, and demolition. Capital Outlay Management must perform a substantial completion inspection for all capital projects; however, agencies can request Capital Outlay Management to perform other necessary inspections as well.

Capital Outlay Management performs cost and scope reviews of proposed state construction in coordination with the Department of Planning and Budget during the budgeting process. In addition, Capital Outlay Management develops and maintains the Commonwealth's policies and procedures for the procurement of professional and construction services. Capital Outlay Management provides training and assistance to state agencies, public bodies, and the private sector on the policies and procedures for procurement of construction and professional services and administers the Virginia Construction Contracting Officer exam and certification.

Capital Outlay Management does not perform project management duties over state construction projects; it is the agencies' responsibility to employ staff or hire consultants to perform these functions. However, Capital Outlay Management does provide the necessary project management policies and forms that help agencies manage projects properly and effectively.

Capital Outlay Management reviews capital project designs of state buildings for compliance with all applicable building code requirements during each of the three project design phases (schematics, preliminary drawings, and working drawings) and upon completion of construction. In addition, Capital Outlay Management also reviews construction designs to determine whether the design enables the project to comply with the Commonwealth's procurement regulations during construction bidding. Capital Outlay Management can recommend design changes to make the building more efficient and reduce costs.

However, Capital Outlay Management cannot require agencies to alter the design to reduce costs if funding is available. It is the owning agency's decision whether to incorporate the recommendations. These reviews also help avoid change orders due to design errors and omissions; although, change orders for other reasons are never completely avoidable. The result of these reviews is to have a code compliant capital project that is constructible within scope and budget and complies with the Commonwealth's procurement laws.

Bureau of Facilities Management

The Bureau of Facilities Management (Facilities Management) provides for the maintenance, repair, and operation of state-owned facilities in the Capitol Square Complex. The Capitol Square Complex includes approximately 40 office buildings, 20 parking facilities, and the Capitol Grounds. Facilities Management annually bills agencies using these facilities for rental costs, which covers normal expenses incurred for the maintenance and upkeep of the buildings. Facilities Management also performs maintenance and repair work for state-owned buildings not under the purview of General Services. These agencies pay General Services either annually or semi-annually for the work performed under negotiated service agreements. Finally, Facilities Management administers ongoing capital outlay projects assigned to General Services.

DIVISION OF REAL ESTATE SERVICES

The Division of Real Estate Services administers the acquisition, lease, and disposal of real property by state agencies and institutions. This includes 400,000 acres of land in over 1,200 locations and 117 million square feet of space in 12,000 buildings. Additionally, the Commonwealth leases approximately 13 million square feet of rental space in 1,500 locations.

General Services created Real Estate Services to fulfill the requirements of the Governor's 2004 real estate initiative, which directed the Secretary of Administration to make the Commonwealth's real estate management practices more consistent with those in the private sector and create a streamlined approach to replace inefficient, decentralized property systems. Real Estate Services' purpose is to re-engineer the Commonwealth's asset management processes, strengthen coordination and cooperation between state agencies and Real Estate Services, and provide responsiveness and expertise to the acquisition process.

To aid in the lease acquisition process, Real Estate Services formed the Bureau of Lease Acquisition and implemented a program that provides each agency with a designated Agency Relationship Manager. The Director of the Bureau of Lease Acquisition negotiates the more complex leases. The Agency Relationship Managers serve as the agency's contact at Real Estate Services. The Agency Relationship Managers understand their assigned agencies' unique requirements, issues, and objectives and help the agency select the most beneficial space available and negotiate the lease.

Real Estate Services contracted with Bricnet FM America to deliver a consolidated, fully integrated Real Estate Management System to manage the Commonwealth's real estate assets. The resultant system, IREMS (Integrated Real Estate Management System) is a flexible, web based system that allows access from any location and provides a wealth of property, lease and process information to authorized users.

DIVISION OF PURCHASES AND SUPPLY

Purchases and Supply establishes state policies and procedures for purchasing goods and services based on the Virginia Public Procurement Act. Furthermore, they establish statewide goods and service contracts and assist agencies with the purchase of high-dollar goods and non-professional services.

Electronic Procurement – eVA

Purchases and Supply maintains and manages the state web and fee based procurement system, eVA. Purchases and Supply contract with CGI, an international technology application service provider and consulting firm, to provide the hosted electronic procurement application and consult with Division management to provide technical support and periodic improvements to the application as required by the Commonwealth. The current five-year contract, negotiated in fiscal year 2007, requires the Division to collect fees from agencies and vendors using eVA to pay for the total cost of maintaining the application. The annual cost of the system, including DPS expenses and CGI contract support costs, is approximately \$18 million. In addition, there are costs for improvements and additional functionality as addressed below.

The Division funds the system through the collection of fees from agencies and registered vendors. The Division also provides local governments with access to use the system at no cost, in order to expand vendor fee revenue and to further subsidize the cost to state agencies. Fiscal year 2008 was the first year in which the Division collected more fees than was necessary to satisfy its actual expenses and budget for planned improvements.

As a result, the Division is giving state agencies and institutions a \$4.97 million credit to reduce future eVA bills. The Division based the allocation upon each agency's relative proportion of spending in eVA during the year.

While the Division collected a total of \$7.93 million in excess of its contractual commitments to CGI; the Division negotiated and scheduled system improvements totaling \$3.9 million with CGI for completion during fiscal year 2009. Beyond fiscal year 2009, the Division has scheduled an additional \$3.3 million in improvements and additional functionality.

Procurement Services

Purchases and Supply provides a number of procurement services to Commonwealth agencies and local governments including regular procurement training, procurement review services, and policy assistance and consulting. Purchases and Supply provides three separate certification programs for state and local government employees and provides the necessary training to maintain those certifications. Purchases and Supply also sponsors an annual Procurement Forum for buyers and vendors that do business with the Commonwealth in order to provide updated training on procurement in the Commonwealth.

Virginia Distribution Center

Purchases and Supply operates the Virginia Distribution Center, which is an economic order quantity purchasing and distribution operation for food and nonfood items for resale to state agencies, local governments, and public schools. The Distribution Center charges a twelve percent fee on the cost of goods sold, which covers purchasing, distribution and inventory management expenses. The Distribution Center is a mandatory source supplier for the items they stock. The stock includes, but is not limited to, frozen and staple food, food related items, housekeeping and janitorial supplies, paint, flags, and paper products such as toilet paper.

DIVISION OF CONSOLIDATED LABORATORY SERVICES

Consolidated Laboratories provides analytical testing services to the Commonwealth. Consolidated Laboratories examines air and water samples, infant blood samples as part of the Commonwealth's newborn screening program, and human specimens for disease control. Further, they test and analyze products, foods, and materials regulated by state and federal laws. Consolidated Laboratories also inspects and certifies laboratories performing tests in accordance with the dairy regulations of the Safe Drinking Water Act and Food and Drug Administration. Consolidated Laboratories has added a chemical and bio-terrorism response unit to assist other agencies in determining the proper response to such an incident.

Consolidated Laboratories primarily serves the Departments of Agriculture and Consumer Services, Environmental Quality, Health, Labor and Industry, Alcoholic Beverage Control, and State Police. Consolidated Laboratories also provides services to poison control centers, hospitals, waterworks, law enforcement agencies, and others.

Significant Fund Activity
For the Year Ended June 30, 2008

	<u>Net Revenue</u>	<u>Net Expenses</u>	<u>Net Transfers In/(Out)</u>	<u>Revenues In Excess of Expenses</u>
General Fund	\$ 50,183,320	\$ 39,688,632	\$ (7,764,079)	\$ 2,730,609
Parking Services	3,454,780	3,429,737	-	25,042
Other Special Revenue Funds	1,326,146	1,219,019	(105,508)	1,618
Consolidated Laboratory Services	9,910,417	8,774,044	(641,611)	494,761
eVA Procurement Program	28,238,498	15,545,737	-	12,692,761
Distribution Center	33,222,509	33,193,470	-	29,039
Real Estate Services	15,719,122	15,675,697	-	43,425
Graphics Communications	345,865	346,342	-	(477)
Surplus Property	3,009,314	2,600,766	-	408,548
Facilities Management	33,274,830	33,631,879	368,733	11,684
Capital Outlay Management	2,780,337	2,901,688	-	(121,351)
Fleet Management	18,475,962	16,727,580	-	1,748,382
VPBA Projects	10,039,218	7,065,326	-	2,973,892
Federal Trust Fund	565,980	5,649,621	4,742,583	(341,057)
Total	<u>\$ 210,546,296</u>	<u>\$ 186,449,539</u>	<u>\$ (3,399,882)</u>	<u>\$ 20,696,875</u>

Source: Commonwealth Accounting and Reporting System

Note: Activity is reflected on a cash basis and does not consider beginning fund balances or fixed assets. Expenses in excess of revenue in a single year does not indicate a shortfall of funds.



Commonwealth of Virginia

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

Walter J. Kucharski, Auditor

May 8, 2009

The Honorable Timothy M. Kaine
Governor of Virginia
State Capital
Richmond, Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited the financial records and operations of the Department of General Services for the period July 1, 2007 through June 30, 2008. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in the Commonwealth's Accounting and Reporting System and the PeopleSoft Financial System, review the adequacy of General Services' internal controls, test compliance with applicable laws and regulations and review corrective actions of audit findings from prior year reports.

Earlier in the year we conducted a performance audit of the Enterprise Vehicle Rental contract, the results of which are contained herein. The objectives of this review were to determine if the Enterprise contract has led to reduced trip-pool and personal vehicle expenses; Fleet Management ensures any additional cost incurred from Enterprise equipment, storage and maintenance are monitored and limited; Commonwealth agencies fully utilize the contract to maximize savings, if they exist; and the Enterprise contract saves time and provides users convenience.

Audit Scope and Methodology

General Services' management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, automated and manual, sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

- Revenues and Billings
- Cash, Credit Card and Online collections
- Contractual services expenditures
- Supplies and Materials expenditures
- Continuous Charges expenditures
- Capital Assets
- Leases
- Plant and Improvement expenditures
- Payroll expenditures
- Small purchase charge card
- Federal Surplus Property
- Systems Access

We performed audit tests to determine whether General Services' controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of General Services' operations. We tested transactions and performed analytical procedures, including trend analyses.

During our performance audit of the Enterprise Vehicle Rental contract we reviewed the contract and associated change orders; we analyzed vehicle rental expense and agency vehicle reimbursement expense data; we conducted inquiries of Fleet Management staff and surveyed transportation officers at 30 different agencies.

Conclusions

We found that General Services' properly stated, in all material respects, the amounts recorded and reported in the PeopleSoft Financial System and Commonwealth Accounting and Reporting System. General Services records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted certain matters involving internal control and its operation and compliance with applicable laws and regulations that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

Our performance audit of the Enterprise Vehicle Rental contract found that while there is not sufficient evidence to conclude that the Enterprise contract is saving the Commonwealth money overall, there is no additional cost for keeping the contract available in situations where it does benefit the Commonwealth financially. Enterprise vehicles appear to only be viable alternatives to permanently assigned and personal vehicles on trips of long distance (generally over 100 miles) and short duration (1-3 days). Agencies are generally satisfied with Enterprise when use of their vehicles is viable to meet travel needs. State travel policy is designed to limit the use of personal vehicles when it is more cost beneficial to utilize Enterprise vehicles, although the time an employee takes to reserve a vehicle may not always be considered.

General Services has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this letter.

Exit Conference and Report Distribution

We discussed this report with management on May 27, 2009. Management's response has been included at the end of this report.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

AWP/alh



COMMONWEALTH of VIRGINIA

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May 27, 2009

Mr. Walter J. Kucharski
Auditor of Public Accounts
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Dear Mr. Kucharski:

The Department of General Services (DGS) appreciates the time and effort the Auditor of Public Accounts (APA) staff spent reviewing its financial records for FY08 and concluding "proper recording and reporting of all transactions, in all material respects, in the PeopleSoft Financial and Commonwealth Accounting and Reporting Systems" In addition, DGS recognizes the internal control and noncompliance matters, identified by the APA staff, that require management attention and is appreciative of the recommendations for improvements.

I would like to take this opportunity to document some actions we have already taken and those planned in response to the APA findings and recommendations in this report:

MP 1 Improve Information System Application Controls

We recommend General Services implement policies and procedures to ensure continuous review of all systems access to ensure the appropriateness of the access granted to users and ensure the timely deactivation of users when their employment ends.

Response:

Due to termination, DGS has been without a full-time eVA Security Officer from April 2008 until November 2008. DGS Information System Services (ISS) hired its current eVA Security Officer in November 2008 who will be performing the Quarterly review of access going forward. DGS will establish a similar review process for other internal DGS applications by end of first quarter of FY10.

A working process is already in place and operating between Human Resources and the eVA Security Officer (who is part of the DGS Security distribution list) to immediately notify the eVA Security Officer and other interested parties of terminations. This immediate notification allows the eVA Security Officer to deactivate access within the 24 hour standard. The same process applies to other DGS applications.

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DGS Human Resources has updated and circulated for review revisions to its HR-2 Outprocessing policy document to clearly communicate the procedure for terminating all system access in a timely manner upon an employee's termination of employment from the agency.

MP 2 Improve Contract Management – Security Services

The contract administrator does not review American Security Group's invoices for accuracy or to determine the performance and delivery of services for the security services contract for Department-owned buildings. General Services requires security guards to record their hours and sign the back of building log sheets, however the contract administrator does not review this documentation. The contract administrator should use these logs to corroborate with contractor invoices before authorizing payment. Invoices may contain errors and if not reviewed for accuracy these errors can lead to inaccurate payments.

Response:

BFM will create a log sheet to track hours provided by American Security and compare the log sheet to hours billed on invoices beginning May 2009.

MP 3 Enforce Controls over Purchase Card Use

We recommend management periodically review for cardholder compliance with policies and procedures and take appropriate corrective action on cardholders and supervisors who do not follow the control measures management has put in place. The performance of charge card reconciliations and supervisory review are the only methods of controlling charge card spending by management.

Response:

Cardholders' supervisors shall be reminded of policy requirements and need to review statements to ensure reasonable charges. This requirement is and has been included in annual training requirements for all cardholders' supervisors and Department of Accounts CAPP Manual Topic 20355 training. DGS will reinforce this through inclusion in the supervisors' Employee Work Plans of all cardholders.

Cardholder supervisors will be required to re-review DGS Policy PR-2 Purchasing Charge Card Program. This requires both Cardholder and Supervisor to ensure the reconciliation log is signed by the Cardholder's Supervisor and to email, fax, or forward this by hardcopy to both DGS Fiscal Services and Central Procurement Unit by the 5th of each month. PR-2 also requires the Cardholder Supervisor to review and approve the cardholder's Monthly Transaction and Reconciliation Log and certify that documents have been reconciled and are in agreement, including any and all adjustments prior to approving/signing a cardholder's monthly payment request form.

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DGS will review the situation surrounding each of the six supervisors' failure to comply with applicable policies and procedures and for those where a violation has occurred, appropriate corrective action will be taken by the agency. Any future failures by supervisors' to review and approved reconciled statements prior to payment will result in the cancelation of the supervisor's subordinates' credit card.

Cardholders are being directed to manually sign the purchase logs. This requirement is currently included in annual training requirements for all cardholders' supervisors and Department of Accounts CAPP Manual Topic 20355. In future instances, DGS will review a change to provide an initial warning, followed by card suspension or cancellation if there is a reoccurrence.

DGS will review the situation surrounding each of the four cardholders' failure to comply with applicable policies and procedures and for those where a violation has occurred, appropriate corrective action will be taken by the agency. Any future failures by cardholders' to sign their purchasing log prior to payment will result in cancelation of the cardholders credit card.

The cardholder and supervisor were directed to recoup this tax. The vendor is mailing a check to the DGS Fiscal office for the amount that was taxed. The requirement to catch these charges is currently included in DGS Policy PR-2 and in annual training for all cardholders and their supervisors, as well as annual Department of Accounts (DOA) cardholder and supervisor review training.

DGS will inform all cardholders and their supervisors of the proper reconciliation process with the need to check for tax charges on invoices.

MP 4 Improve Controls over Payroll Process

We recommend the Department of General Services perform a reconciliation of the payroll and accounting systems after processing payroll to monitor their personnel expenses in accordance with state policy.

Response:

DGS is outsourcing its payroll and leave functions to the Payroll Service Bureau (PSB) beginning FY10. The PSB will be performing all reconciliations activities and CIPPS update processing on behalf of DGS.

Sincerely,


Richard F. Sliwoski, P. E.
Director

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