

AUDIT SUMMARY

Our audit of the Department of General Services for the year ended June 30, 1998, found:

- no internal control matters that we consider material weaknesses; however, we did identify one matter that we consider a reportable condition;
- no instances of noncompliance that are required to be reported; and
- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System.

Our audit finding is included in the section entitled, "Internal Control Finding and Recommendation."

- TABLE OF CONTENTS -

AUDIT SUMMARY

INDEPENDENT AUDITOR'S REPORT

AGENCY HIGHLIGHTS

INTERNAL CONTROL FINDING AND RECOMMENDATION

February 19, 1999

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Richard J. Holland
Chairman, Joint Legislative Audit and
Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Department of General Services** (General Services) for the year ended June 30, 1998. We conducted our audit in accordance with generally accepted government auditing standards, and included such tests of the accounting records and other auditing procedures as we considered necessary in the circumstances.

Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to review General Services' internal control structure, test compliance with applicable laws and regulations, and evaluate accuracy of financial transactions on the Commonwealth Accounting and Reporting System.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of General Services' operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Expenditures	Accounts Payable
Revenue	Accounts Receivable
Fixed Assets	Inventory

We obtained an understanding of the relevant policies and procedures for these internal accounting controls. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether General Services' policies and procedures 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.

General Services' management has responsibility for establishing and maintaining an internal control structure and complying with applicable laws and regulations. The objectives of an internal control structure are to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are processed in accordance with management's authorization, properly recorded, and comply with applicable laws and regulations.

Our audit was more limited than would be necessary to provide an opinion on the internal control structure or on overall compliance with laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of the internal control structure to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Audit Conclusions

We found that General Services properly stated, in all material respects, the amounts recorded and reported in the 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 generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System or General Services' actuarial report for the year ended June 30, 1998.

We noted a matter involving the internal control structure and its operation that we considered to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect General Services' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. The reportable condition is discussed in the section entitled, "Internal Control Finding and Recommendation." We do not believe the reportable condition included in this report is a material weakness.

The results of our tests of compliance found no instances of noncompliance that are required to be reported under generally accepted government auditing standards.

EXIT CONFERENCE

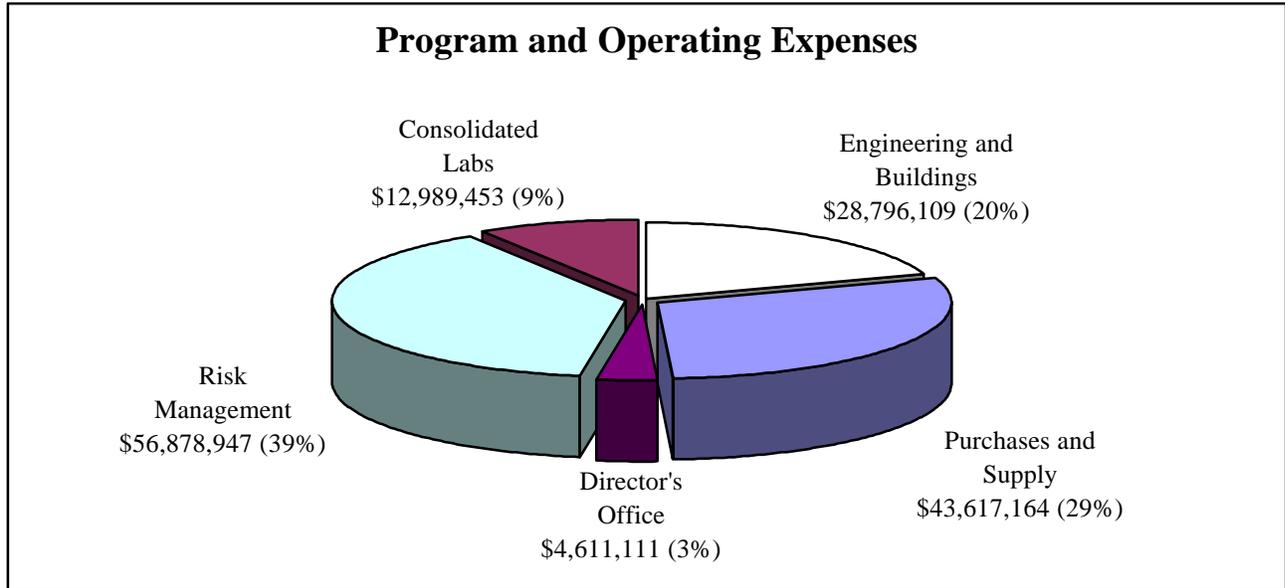
We discussed this report with management at an exit conference held on March 26, 1999.

AUDITOR OF PUBLIC ACCOUNTS

JBS:pym
pym:30

AGENCY HIGHLIGHTS

The Department of General Services (General Services) provides support services to other agencies and local governments and prescribes agency procurement policies and procedures. General Services' expenses totaled \$146.8 million for fiscal year ending June 30, 1998. General Services recovers the majority of these expenses through charges to its customers. General Services accomplishes its mission through the Director's Office and four other functional divisions.



DIRECTOR'S OFFICE

The Director's Office provides overall administration and support services for the other divisions. These services include accounting, internal audit, information systems, purchasing, and human resources.

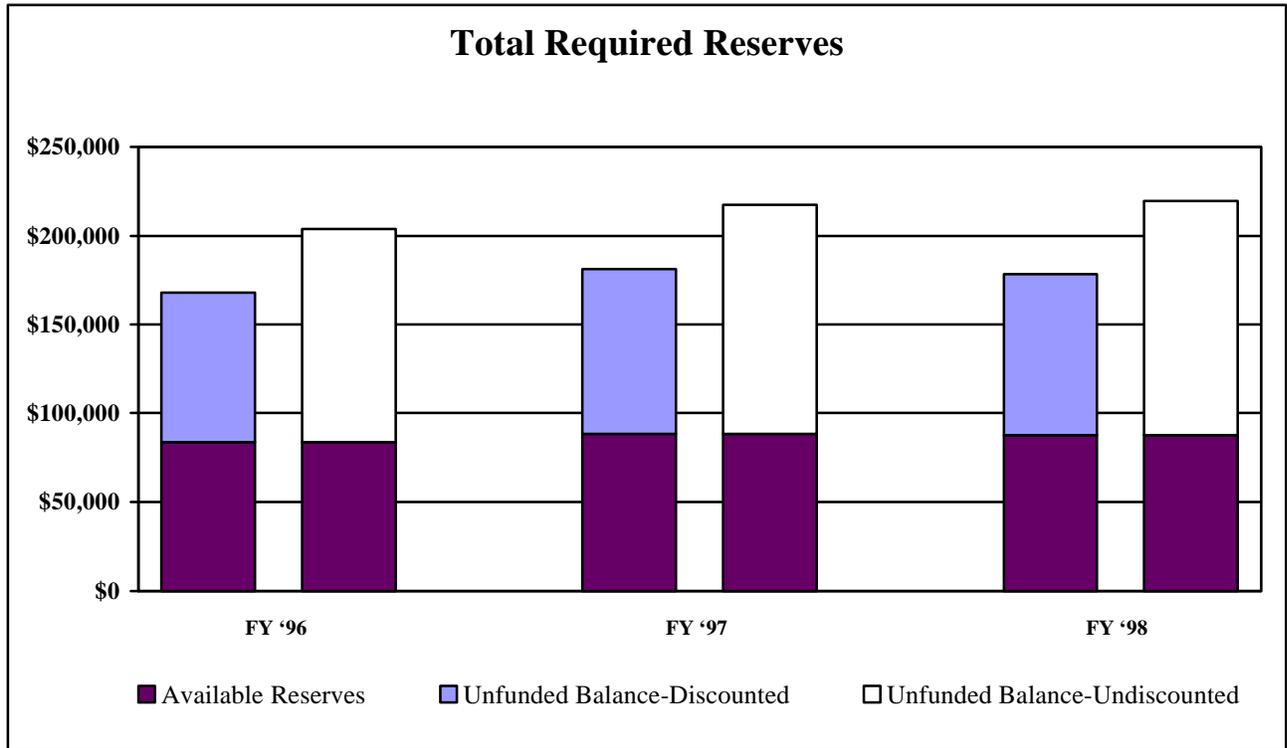
During 1998, General Services implemented PeopleSoft Financials to provide better financial information and resolve Year 2000 issues with their previous system. As of November 1998, the implemented modules included general ledger, accounts payable, and accounts receivable. Management plans on adding the purchasing module in the Spring of 1999.

General Services has begun implementing other new systems to address remaining Year 2000 issues. All systems, with the exception of the new distribution center inventory management system, will be Year 2000 compliant. General Services is evaluating bids for the new distribution center inventory management system and has not awarded the contract yet. There is some question if General Services can meet its deadline of procuring, properly installing, and fully testing this inventory system before the year 2000.

DIVISION OF RISK MANAGEMENT

Risk Management provides state insurance protection to employees, properties, and various participating local governments through a variety of insurance programs. These programs include property, motor vehicle, workers' compensation, public liability, employee blanket surety bond, medical malpractice, and similar liability insurance for local governments and constitutional officers. Risk Management bills state agencies, the Compensation Board, and local governments for insurance premiums to cover current and future claims.

In total, the Insurance Trust Funds are under-funded. This under-funding is due primarily to the Workers' Compensation Program, as shown below.



REQUIRED RESERVES: Total reserves required to cover actual and expected accidents as calculated by the actuary.

AVAILABLE RESERVES: Funds available to meet the reserve requirements.

DISCOUNTED: An amount that has been adjusted to reflect the time value of money.

UNDISCOUNTED: An amount that has not been adjusted to reflect the time value of money.

Adding to the under-funded status, the General Assembly has required several transfers over the past seven years to the General Fund from retained earnings in the Insurance Trust Funds creating a liability due the Federal government. Based on the amounts of the transfers to the General Fund, General Services has reserved portions of the remaining retained earnings to reimburse the Federal government. As of February 1999, General Services has paid \$8.6 million of the balance due the Federal government. Negotiations are ongoing concerning the remaining balance due from these transfers.

During fiscal 1999, General Services is being directed to transfer \$4.2 million from the retained earnings of the Virginia Distribution Warehouse, Surplus Property, Division of Consolidated Laboratories, and Building and Maintenance Internal Service funds and the Property, Boiler, and Machinery Insurance fund to the General Fund, creating an additional liability to the Federal government.

Effective May 1, 1998, General Services out-sourced the management of the Worker's Compensation Program. Managed Care Innovations (MCI) has assumed all functions previously done by Risk Management. However, the Department's managerial structure within Risk Management remains intact to monitor MCI's contract compliance. Management will be analyzing the cost/benefit of this action during 1999 and will consider similar action for other internally managed insurance programs based on these results.

DIVISION OF CONSOLIDATED LABORATORY SERVICES

Consolidated Laboratory Services provides analytical testing services to the Commonwealth. The Division authenticates winning lottery tickets; examines human specimens for disease control; and tests and analyzes products, foods, and materials regulated by state and federal laws. They also inspect and certify laboratories performing tests in accordance with the Safe Drinking Water Act and FDA dairy regulations. Consolidated Laboratory Services primarily serves the Departments of Agriculture and Consumer Services, Environmental Quality, Health, Labor and Industry, Alcoholic Beverage Control, and the State Police. The Division also provides services to poison control centers, hospitals, waterworks, law enforcement agencies, and others.

DIVISION OF PURCHASES AND SUPPLY

Purchases and Supply establishes state policies and procedures for purchasing goods and services. They assist agencies with the purchases of high-dollar goods and non-professional services as well as establish statewide goods and service contracts. Purchase and Supply operates the Virginia Distribution Center, which stocks over 950 food and nonfood items for resale to state agencies, local governments, and public schools. Finally, they also manage the state and federal surplus property programs, deliver mail between state agencies, and publish the *Virginia Business Opportunities* newsletter.

DIVISION OF ENGINEERING AND BUILDINGS

Engineering and Buildings provides architectural and property management services through three Bureaus: Capital Outlay Management, Real Property Management, and Facilities Management. Services include reviewing construction and renovation designs; developing master plans to address the Richmond area's building and facility needs; maintaining and operating facilities; and renting parking spaces to state employees.

Additionally, the Bureau of Facilities Management has connected state office buildings within the Capitol complex with a fiber optic cable system called the Campus Network. This allows the high-speed exchange of data between connected agencies and provides Internet access without using independent providers. The Information Systems and Services area under the Director's Office maintains the firewall for the Campus Network. Agencies connecting to the Campus Network are responsible for securing their local area networks from the campus network.

INTERNAL CONTROL FINDING AND RECOMMENDATION

Improve Efficiency of Operations within Fiscal Services

Although Fiscal Services recently redefined its organizational structure with the creation of teams, each team has not received a clear definition of its specific responsibilities. In addition, Fiscal Services continues to encounter problems recruiting qualified candidates for its five authorized, but unfilled positions, which therefore causes staffing resource issues. This situation is similar to other departments and agencies throughout state government.

The lack of written procedures within teams and continual vacancies in critical positions place unnecessary burdens on existing personnel, which could compromise the quality and adequacy of Fiscal Services operations. Furthermore, the emphasis placed on internal controls may suffer due to time pressures resulting from this situation.

Fiscal Services is a vital function of General Services for processing, recording, accumulating, and reporting financial and accounting information. Therefore, management should develop and enforce written policies and procedures for each Fiscal Service team. Furthermore, management should work with Fiscal Services to assist in filling vacant positions, especially those critical within the Fiscal Services' operations.