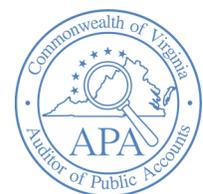




JOINT LEGISLATIVE AUDIT
AND
REVIEW COMMISSION

QUARTERLY REPORT SUMMARY
OCTOBER 1, 2016 THROUGH DECEMBER 31, 2016

Auditor of Public Accounts
Martha S. Mavredes, CPA
www.apa.virginia.gov
(804) 225-3350



QUARTERLY REPORT SUMMARY - OCTOBER 1, 2016, TO DECEMBER 31, 2016

Audit Activities

The [Summary of Reports Issued](#) section at the end of this report lists all reports issued by the Auditor of Public Accounts or our contracted firms during the period October 1, 2016, to December 31, 2016. Below are highlights from select reports issued during the period. All reports listed in this document are available at our website at http://www.apa.virginia.gov/APA_Reports/Reports.aspx.

Special Reports

Review of Bristol Virginia Utilities Authority – October 2016

The Auditor of Public Accounts performed an audit of the Bristol Virginia Utilities Authority (BVU Authority) as directed by Chapters 74 and 75 of the 2016 Acts of Assembly. This legislation made multiple changes to the [Code of Virginia](#) that established the BVU Authority due to an ongoing criminal investigation that began in 2013. This investigation has resulted in the conviction and sentencing of nine individuals on multiple felony charges, including, but not limited to, falsified invoices, kickbacks, bribes, tax evasion, false income tax filings, wire fraud, mail fraud, and perjury. The BVU Authority Board and management created the opportunity for fraud to occur by not developing, implementing, and enforcing good internal controls. In addition, since management was involved in the fraud there was collusion and management override of any existing controls. Our report includes 56 recommendations for the BVU Authority to consider as they develop and implement internal controls.

The BVU Authority's OptiNet Division has a potential going concern issue, as it appears that they do not have the resources to continue operating without cross-subsidization, which the [Code of Virginia](#) prohibits. The BVU Authority has cross-subsidized services within OptiNet over the years by not properly allocating interest and principle debt payments across OptiNet services, by improperly writing off \$13.7 million of interfund debt between OptiNet and the Electric Division, and by not paying OptiNet's share of pole attachment fees. If the BVU Authority does not sell the OptiNet Division under the current proposal, they will need to either put the division up for sale to another entity or find options, such as legalizing cross-subsidization, to make OptiNet profitable so they can continue to operate it. Access the [Full Report](#) Full Report or [Executive Summary](#) on our website.

Review of Capital Project Cash Flow Requirements

This is the Auditor of Public Accounts' third annual report on the adherence to the cash flow requirements for projects within Chapter 806 of the 2013 Acts of Assembly (Chapter 806). The capital project cash flow requirements process is effective. The Department of Planning and Budget's processing time for CO-2s improved in fiscal year 2016. The Six-Year Capital Outlay Advisory Committee did not meet quarterly during fiscal year 2016; however, there is a process in place to advance projects between meetings that prevented any delays. The Departments of Planning and Budget, General Services, and the Treasury are monitoring the \$250 million annual debt limit, and to

date Chapter 806 capital project expenditures have not exceeded the limit. We did not review the Central Capital Planning Fund because no Chapter 806 projects received funding this year. However, we recommend Planning and Budget should do an analysis of upcoming projects that will need planning funds and their estimated timing to determine if there is adequate funding available within the Central Capital Planning Fund. If the analysis determines funding to be inadequate, Planning and Budget could make a recommendation to the General Assembly for how much the fund needs to prevent delays due to the availability of planning funds. The [Full Report](#) is available on our website.

Agency Reports

Department of Alcoholic Beverage Control

Our audit of the [Department of Alcoholic Beverage Control](#) (ABC) for the fiscal year ended June 30, 2016, included several internal control and compliance recommendations related to ABC's information technology. Many of ABC's sensitive systems rely on technologies that run on software components that have reached their end-of-life. Outdated technologies increase risk to ABC's sensitive systems because they no longer receive patches for known security vulnerabilities and malicious attackers can exploit the vulnerabilities, leading to a data breach. Over the past ten years, ABC's information technology related position growth and investment has not kept pace with its revenue and profit growth, suggesting ABC may have avoided or delayed updating the technologies to achieve the profit levels mandated in the Appropriation Act.

Department of Emergency Management

Our audit of the Department of Emergency Management (Emergency Management) resulted in two reports. Our performance report covers [agency operations](#) for the period of July 1, 2013, through January 31, 2016. We also issued a separate report, which covers [federal compliance work](#) for the Disaster Grants – Public Assistance (Presidentially Declared Disasters) federal program for fiscal year 2016.

In May 2014, the Governor appointed a new State Coordinator and Deputy State Coordinator. Since then, management has evaluated and revised its organizational structure in an effort to become more effective and efficient. While our reports includes several internal control and compliance findings, the severity and scope of the current findings is less than in our previous audits; and we observed overall improvements in the fiscal functions.

We identified four internal control findings, two of which are also compliance findings, requiring attention from management. Emergency Management needs to improve time and effort reporting for federal grants to ensure salary charges accurately reflect the work performed by their employees. Emergency Management is not reviewing sub-grantee Single Audit reports and as a result is not issuing management decisions on audit findings in a timely manner. They are also not completing sub-grantee risk assessments in a timely manner for their preparedness grants. Lastly, they need improve control over agency transaction vouchers. With the transition to Cardinal in fiscal

year 2016, it is important that Emergency Management update their procedures to include more detailed guidance and provide training on agency transaction vouchers.

[Department of General Services Division of Real Estate Services](#)

Our audit of the [Department of General Services Division of Real Estate Services](#) (General Services) for the year ended June 30, 2016, found General Services could not provide evidence that they validated all current and future lease payment information at the point of conversion from their old real estate management system (IREMS) to the new real estate management system (COVA Trax). The inability of General Services to provide such evidence diminished the reliability of the data migration process. As a result, we consider this to be a material weakness in internal controls. To ensure that the lease information for the Commonwealth's Comprehensive Annual Financial Report is materially accurate, we performed additional work to verify that the payment data in COVA Trax materially agrees to what was in IREMS at conversion. In addition, General Services obtained security audit reports for COVA Trax, but did not review and evaluate the reports for compliance with the Commonwealth's Security Standard.

Higher Education Institution Reports

[University of Virginia](#)

Our audit of the [University of Virginia](#) (UVA) for the year ended June 30, 2016, found the University should continue to implement corrective action to address prior year recommendations related to Virtual Private Network controls and controls for granting and restricting elevated workstation privileges. We are satisfied with the progress the University has made to date to address these findings and we will continue to follow-up on these recommendations during our fiscal year 2017 audit. In addition, the University should work to improve its security awareness training program, requiring a periodic training requirement and monitoring process to ensure completion by all employees.

We also re-issued a previous finding related to the UVA Medical Center's reconciliation of retirement data to the Virginia Retirement System's *myVRS* Navigator system. The Medical Center should work with the University to implement a process to ensure accuracy of retirement information and subsequently, retirement contributions. Lastly, the University should communicate to individual departments that sole source procurement will not be used as a means to address delays in communication of construction project timing to the University's Facilities Planning and Construction Department. The Facilities Planning and Construction Department should reinforce that the sole source procurement method will only be used under limited circumstances when a project meets specific predefined criteria.

[Virginia Community College System](#)

Our audit of the [Virginia Community College System](#) for the year ended June 30, 2015, includes recommendations in several areas related to internal control and compliance deficiencies across multiple colleges and the System Office. We noted several findings related to information

technology for the System Office including its oversight of third-party service providers, vulnerability scanning program, operating system security, and administrative information system access controls. Below is a summary of the internal control and compliance areas at the individual community colleges.

Control and/or Compliance Area	Number of Community Colleges
Compliance over Enrollment Reporting*	8
Systems Access Controls	6
Employee Separation Procedures	3
Fixed Assets Inventory and Tracking	3
Return of Title IV Calculations*	3
myVRS Navigator Reconciliation Process	2
Notification of Awards to Students*	2
Reconciliation of Direct Loans*	2
Reconciliation of Federal Fund Accounts*	2
Reporting to the Common Origination and Disbursement System*	2
Accounts Receivable Reporting	1
Contract Monitoring	1
Document Retention for Financial Schedules	1
Documentation of Policies and Procedures	1
Journal Entry Approval	1

*Indicates federal finding related to student financial aid.

Other Reports

During the quarter, we issued the [2016 Annual Report of the Auditor of Public Accounts](#). This report provides an overview of some of the more significant activities and results of audits from the past year.

We also issued our report on [Revenue Stabilization Fund Calculations](#) for the year ended June 30, 2016, which includes calculations for the Revenue Stabilization Fund as required by Article X, Section 8 of the Virginia Constitution and Section 2.2-1829 of the [Code of Virginia](#). As of June 30, 2016, the balance in the Revenue Stabilization Fund was \$235.5 million. During fiscal year 2016, a withdrawal from the fund in the amount of \$235.5 million occurred, which represented exactly one-half the balance of the fund. There were no required deposits made to the fund. Additionally, based on fiscal year 2016 certified tax revenues, the General Assembly is not required to make a mandatory deposit to the Revenue Stabilization Fund in fiscal year 2018; however, a deposit of \$605.6 million is required to be made into the Fund for fiscal year 2017 based on fiscal year 2015 certified tax revenues.

Finally, during this quarter we completed our audit of the [Commonwealth's Comprehensive Annual Financial Report](#), issuing an unmodified opinion on the Commonwealth's financial statements.

Other Activities

Monitoring Accounting and Auditing Standards

During the quarter, our Office reviewed several documents issued for comment by a standard setting entity that governs the accounting standards that Virginia state and local governments must follow when reporting their financial activity. Being a part of this process allows us to stay informed of upcoming changes so that we can provide technical advice to state and local governments in the Commonwealth. In addition, by providing feedback to the standard setting bodies on proposed changes we help protect the interests of the Commonwealth in circumstances where we do not agree with the proposed changes. Below are the documents that we reviewed and provided responses to the applicable standard setting entity during this quarter.

Standard Setting Entity	Document Reviewed
GASB*	Exposure Draft: <i>Certain Debt Extinguishment Issues</i>
GASB*	Exposure Draft: <i>Omnibus 201X</i>
GASB*	Exposure Draft: <i>Implementation Guide No. 201X-X, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans</i>

*Governmental Accounting Standards Board

Participation with State, Local, and Other Groups

In addition to our audit activities, we participate in other activities to assist in our mission to improve accountability and financial management in the Commonwealth. During the quarter, we participated in the activities of various state, local, and other groups including providing information on a variety of topics and attending events as highlighted below.

State and Local Groups

Group	Presentation / Training Topic
Compensation Board New Officer Training	Presented information on financial oversight of the Commonwealth's local governments including current requirements and potential future requirements.
Department of Correction's Fiscal Officers Conference	Presented information to the fiscal staff of correctional facilities and Correction's central office staff including the role of the APA. We also provide information on Correction's annual audit including areas covered and recommendations for preparing for the audit.
Fiscal Officers of Colleges and Universities State Supported	Provided an update on college and university audits, common findings, and changes to accounting standards. In addition, discussed the impact of potential changes in federal student financial aid audit regulations on the timing and extent of audit procedures performed by the APA.
House Appropriations Committee Retreat	Provided information on financial oversight of the Commonwealth's local governments including current requirements and potential future requirements to assess local fiscal stress.
House Appropriations Committee Retreat	Presented the results of a survey, conducted in coordination with the State Council of Higher Education in Virginia, related to college and university cash, cash equivalents, and investment balances.
Virginia Community College System (VCCS) Administrative Services Conference	Discussed items expected to impact higher education institutions during the upcoming year and items unique to the audit of VCCS and its colleges.

Other Groups

Group	Presentation / Training Topic
Association of Government Accountants (AGA) 21 st Annual South Atlantic Professional Development Training	Provided training on free tools developed by the AGA Intergovernmental Partnership that government officials can use to ensure proper stewardship of public fund.
National Audit Office of Taiwan	Several members of the APA staff met with a senior auditor from the National Audit Office of Taiwan to discuss ways the APA fulfills its oversight functions as part of a study on how to enhance the oversight function of audit organizations and promote good governance in the public sector.
Virginia Accounting and Auditing Conference co-sponsored by Virginia Society of Certified Public Accountants and Virginia Tech (Virginia Beach)	Provided an update on prior and future studies of Single Audits and their impact on the profession. Also discussed new responsibilities for auditors and actions for enhancing audit quality.
Virginia Government Finance Officers' Association Fall 2016 Conference	Provided an update on various topics including the Commonwealth's new Cardinal accounting system, local government Comparative Report transmittal form process, updates to 2016 APA Specifications and the UFRM, results of quality control reviews over firms auditing Virginia's local governments, fiscal stress monitoring over localities, and upcoming Other Post-Employment Benefits (OPEB) accounting and financial reporting standards.

In addition to making presentations to various state, local, and other groups, our staff also participate in other activities of these groups that are opportunities for professional development as well as opportunities to have a voice in the activities that impact our Office and the entities that we audit. During this quarter, the Auditor of Public Accounts and several of her staff worked jointly with the National State Auditors Association in participating in discussions with the U.S. Department of Education concerning how their program specific rule requiring annual audits of all higher education institutions participating in the student financial assistance program can be reconciled with federal Uniform Guidance that allows a risk based approach in determining major programs.

SUMMARY OF REPORTS ISSUED

The following reports were released by this Office during the period October 1, 2016, to December 31, 2016. Those reports which included findings in the area of internal controls or compliance are indicated by an (*) asterisk.

Independent Agencies

Fort Monroe Authority for the year ended June 30, 2016*^
Virginia College Savings Plan for the year ended June 30, 2016

Administration

Department of General Services' Division of Real Estate Services for the year ended June 30, 2016*

Commerce and Trade

Department of Housing and Community Development for the period July 1, 2012, through January 31, 2016*
Virginia Biotechnology Research Partnership Authority for the year ended June 30, 2016
Virginia Economic Development Partnership for the year ended June 30, 2016
Virginia Removal or Rehabilitation of Derelict Structures Fund for the year ended June 30, 2015
Virginia Resources Authority for the fiscal year ended June 30, 2016 ^
Virginia Small Business Financing Authority for the year ended June 30, 2015

Colleges and Universities

University of Virginia for the year ended June 30, 2016*
Virginia Commonwealth University for the year ended June 30, 2016*
Virginia Community College System for the year ended June 30, 2015*
Virginia Polytechnic and State University for the year ended June 30, 2016

Public Safety and Homeland Security

Department of Alcoholic Beverage Control for the fiscal year ended June 30, 2016*
Department of Emergency Management for the period July 1, 2013, through January 31, 2016 *

Transportation

Virginia Commercial Space Flight Authority for the fiscal year ended June 30, 2016 ^
Virginia Port Authority for the year ended June 30, 2016* ^

Special Reports

2016 Annual Report of the Auditor of Public Accounts
General Assembly, Legislative Agencies, and Commissions of the Commonwealth of Virginia
Financial Report for the year ended June 30, 2016 ^
Report to the Joint Legislative Audit and Review Commission for the quarter July 1, 2016
through September 30, 2016
Revenue Stabilization Fund Calculations for the year ended June 30, 2016*
Review of Bristol Virginia Utilities Authority – October 2016*
Review of Capital Project Cash Flow Requirements for fiscal year 2016*

Clerks of the Circuit Courts

Counties:

Amelia – April 1, 2015, through September 30, 2016
Bland – January 1, 2015, through September 30, 2016
Botetourt – October 1, 2014, through September 30, 2016
Culpeper – January 1, 2015, through June 30, 2016
Hanover – October 1, 2014, through September 30, 2016
King George – January 1, 2015, through June 30, 2016*
Mecklenburg – January 1, 2015, through September 30, 2016
Northumberland – October 1, 2014, through June 30, 2016
Rappahannock – January 1, 2015, through September 30, 2016*
Wythe – October 1, 2014, through September 30, 2016*

State Accounts (for the year ended June 30, 2016)

Cities:

Alexandria	Fredericksburg	Portsmouth	Suffolk
Charlottesville*	Lynchburg	Richmond*	Virginia Beach*
Danville	Manassas Park	Roanoke*	Waynesboro
Fairfax	Martinsville	Salem*	Williamsburg
Falls Church	Petersburg	Staunton	Suffolk

Counties:

Amelia	Fairfax	King William	Richmond
Appomattox	Fauquier	Lee*	Russell*
Augusta	Giles	Loudoun	Scott*
Bath	Goochland	Louisa	Southampton
Bland*	Grayson*	Madison	Spotsylvania*
Buchanan	Greene	Nelson*	Stafford
Buckingham	Halifax*	Northumberland	Surry
Campbell	Hanover	Orange*	Sussex
Caroline	Henrico*	Page	Wise
Charles City	Henry	Patrick	York
Culpeper*	James City	Pittsylvania	
Dinwiddie	King and Queen	Prince Edward	
Essex	King George*	Prince George	

General Receivers (for the period July 1, 2015, through June 30, 2016)

Cities:

Charlottesville – July 1, 2014 - June 30, 2016* Lynchburg

Counties:

Albemarle – July 1, 2014 - June 30, 2016* Russell
Lee Wise/Norton

General District Courts (for the period July 1, 2015, – June 30, 2016)

Cities:

Fredericksburg Winchester

Counties:

Amherst*	Isle of Wight*	Spotsylvania
Appomattox	Mecklenburg	Wythe
Frederick	Roanoke*	
Halifax	Rockbridge*	

Combined General District Courts (for the period July 1, 2015, through June 30, 2016)

Cities:

Emporia

Salem

Counties:

Amelia
Botetourt

Charles City
Greensville

Powhatan
Rappahannock

Southampton

Juvenile and Domestic Relations Courts (for the period July 1, 2015, through June 30, 2016)

Counties:

Amherst*
Appomattox
Caroline*
Franklin*

Halifax
Mecklenburg
Pittsylvania*
Roanoke*

Rockbridge*
Wise

Magistrates (for the period July 1, 2015, through June 30, 2016)

District 23 (City of Roanoke; City of Salem; County of Roanoke)

*Denotes management control or other finding

^ Performed by a certified public accounting firm