

HOUSE COMMITTEE ON AUDITS

March 17, 2005 Hearing Room D

8:30 A.M. Tapes 43 - 44

MEMBERS PRESENT: Rep. Jerry Krummel, Chair

Rep. Tom Butler, Vice-Chair

Rep. Diane Rosenbaum, Vice-Chair

Rep. Alan Brown

Rep. Jackie Dingfelder

STAFF PRESENT: Jim Keller, Committee Administrator

Kellie Whiting, Committee Assistant

MEASURES/ISSUES HEARD:

**Department of Administrative Services' Internal Audit –
Informational Meeting**

These minutes are in compliance with Senate and House Rules. Only text enclosed in quotation marks reports a speaker's exact words. For complete contents, please refer to the tapes.

TAPE/#	Speaker	Comments
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TAPE 43, A

003	Chair Krummel	
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Calls the meeting to order at 8:35 a.m. and opens the informational meeting on the Department of Administrative Services' Internal Audit.

**DEPARTMENT OF ADMINISTRATIVE SERVICES' INTERNAL AUDIT –
INFORMATIONAL MEETING**

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| 011 | Laurie Warner | Acting Director, Department of Administrative Services. States the internal audit function is valuable in regards to advice, recommendations and it provides ethical foundations to the department. |
| 044 | George Dunford | Internal Audit Manager, Department of Administrative Services. Reiterates the value of the internal audits and notes the department audited acknowledges flaws and continues to work to address the problems. States there is an internal audit committee within the department and he answers to both the department and to the committee. Notes the internal audit committee is one that is unique to other departments. Comments the committee generally meets every quarter and when an issue comes up. Notes they are responsive. |
| 113 | Dunford | Explains that risk assessments are involved and are started with an in-depth survey. States the responses reflect the missions and goals of the agencies. Comments the responses are then put into a matrix to determine the risks and the level of risk and impact. |
| 177 | Rep. Butler | Inquires about protecting the loss of the information database. |
| 193 | Dunford | Responds the loss of information would be detrimental, including having information in third party hands. |
| 208 | Rep. Butler | Inquires about the steps to protect authorized information. Comments there should be procedures in place in regards to intrusions and unauthorized accesses. |
| 262 | Chair Krummel | Comments on the issue of a third party having access. Notes in 2002 the Department of Human Services came under fire due to breaches in the system and there are steps taken to prevent that type of situation from happening. Notes that hackers are more predominant and the tools are more sophisticated. Comments attacks on databases are not uncommon. Comments the only way to prevent it would be to disconnect from the network. |

- 357 Dunford Responds the department takes the issue very seriously. Concurs with the comments made by Rep. Krummel.
- 374 Rep. Butler Comments on the resources and time expended in regards to the mentioned issue.
- 394 Chair Krummel Inquires about the risk identified in regards to the state owning property versus property owned by the private sector.
- 414 Dunford Responds it is not arrayed in the survey. Comments the risk factors would reflect on the financial status.

TAPE 44, A

- 007 Dunford Explains the review of the Human Resource Management Division. Notes they found procedural and process problems. Comments the department anticipates they will find fewer problems in that area. Notes another problem is delegation of tasks.
- 040 Chair Krummel Inquires about the issue of the testing endured by potential employees. Asks if the issue has been reviewed to determine if the testing actually reflects the objective and is worthwhile.
- 053 Dunford Responds he has not looked at the issue. Comments it is looked at within the Department of Human Resource Division. Explains the findings of the review conducted on the Information Resource Management Division. Notes it was an extensive review. States there have been changes made due to the review.
- 091 Chair Krummel Inquires how staff and management perceive the audits.
- 102 Dunford Responds feelings are mixed. Comments they are generally welcomed.
- 116 Dunford Presents the internal audit conducted on the Operations Division. Comments they found that documentation was more difficult to find and the practices have been changed to have information readily available. Comments on the findings in regards to the requirements of the Accounting Manual.
- 161 Chair Krummel Inquires about the management signature control procedure.

180	Dunford	Responds there is an instant decision made but it is important to document that the purchase was used for the appropriate services. Explains the three levels of reviews in regards to card purchases.
203	Rep. Butler	Comments on the issue of presenting the wrong credit card.
208	Dunford	Responds there is a reimbursement procedure and documentation policy for the purchases.
211	Chair Krummel	Inquires about the signature authority on the credit cards.
215	Dunford	Responds it is generally not over a \$1,500 limit. States contract procurement issues are frequent findings in the audits.
255	Chair Krummel	Inquires if the contract issues include personal and business items. Inquires if it includes the procurement contract with Silver Oak. Asks if the Silver Oak contract has been reviewed in terms of performance and savings to the state.
271	Dunford	Concurs the contracts include personal, business related items and the contract with Silver Oak. Responds he met with the owner of Silver Oak to validate savings and discuss the contract. Notes a thorough investigation was conducted in terms of savings.
291	Chair Krummel	Explains the contract between Virginia and Silver Oak. Inquires if there are penalties or reward stipulations in the contract in regards to performance.
330	Dunford	Responds he only reviewed the savings portion and did not review the entire contract.
346	Warner	Responds the Silver Oak contract will be in discussion in the next biennium and notes the discussion already conducted has been a success for the state.
383	Chair Krummel	Expresses his interest in the quality of the product.
393	Warner	Responds it is a learning process and providing quality is their intention.

406 Dunford Comments they are still conducting fieldwork in regards to Motor Pool, Fleet, Information Resources Management Division and Uniform Rent.

421 Chair Krummel Inquires about Shared Client Services.

TAPE 43, B

002 Dunford Explains the different sections within the Shard Client Service Department. States they reviewed workload, purchasing, contracts, budgeting, personnel and changes have been made as a result of the review.

038 Chair Krummel Inquires if they decided to go to a cash or accrual basis.

039 Dunford Responds they went to a cash basis and states there was a bond payment missed in the report. States the review was complicated and there was no indication of fraud.

059 Rep. Rosenbaum Inquires about the public assistance program and asks if they could collect the information in regards to recipients who are employed.

066 Dunford Suggests talking with the Department of Human Services Internal Audit section.

068 Rep. Rosenbaum Asks if he knows if there would have to be legislative direction to receive the information. Clarifies she would like information regarding employees receiving public assistance rather than going through their employers.

086 Dunford Responds the aggregated information should be accessible through the Department of Human Services.

087 Chair Krummel Clarifies disaggregated information would be confidential.

092 Rep. Butler Inquires if vendor collected administrative fees have greater utilization now, to attempt to fund activity based services. Expresses he would like assurance that the fess are being audited and supervised within the Department of Administrative Services. States they should be monitored closely in the budget process.

154	Dunford	Responds he will look at that issue.
158	Warner	Responds the State Services Division is the only department that uses the purchasing program in the budget process.
173	Chair Krummel	States the issue of vendor collected administrative fees (VCAF) could be a discussion they would like to have in committee.
195	Rep. Butler	Responds there needs to be a review of the VCAFs imposed on agencies in a transparent way. Reiterates his concern.
262	Dunford	Inquires if the concern is because it is off the budget documents.
270	Rep. Butler	Responds that they should know how much it costs to run each department within state government and the concern is that another state agency can impose more fees with out legislative oversight.
301	Warner	States non-limited expenditure limitations are approved by the Ways and Means process and it is difficult to predict the volume as well as the factors contributing to what will be spent. States the amounts are based on past practices and usage. Comments a VCAF is to provide a cost effective way to fund administrative costs and to have a fair share of costs paid by all that are using the system.
351	Rep. Butler	Comments his concern about transparency in regards to notification of the fees imposed.

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012	Warner	Responds Mr. Dunford will work on that.
016	Chair Krummel	Comments on the requirement that vendors have to pay the VCAF before being paid for the service. Closes the informational meeting on the Department of Administrative Services' Internal Audit and adjourns the meeting at 10:04 a.m.

EXHIBIT SUMMARY

A. None Submitted