

**SPECIAL REPORT
CERTAIN FINANCIAL AND GENERAL MANAGEMENT CONCERNS
VIRGINIA INSTITUTE OF MARINE SCIENCE**

July 26, 1976

Joint Legislative Audit and Review Commission
823 East Main Street
Richmond, Virginia 23219



COMMONWEALTH of VIRGINIA

Joint Legislative Audit and Review Commission

Suite 200, 823 E. Main Street
Richmond, Virginia 23219
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July 26, 1976

The Honorable Mills E. Godwin, Jr.
Governor, Commonwealth of Virginia

Chairman Gilbert L. Maton
Board of Administration
Virginia Institute of Marine Science

Appropriate Commonwealth Officials

Gentlemen:

Under provisions of Section 30-58.1(c), *Code of Virginia*, a special report regarding certain financial and general management practices of the Virginia Institute of Marine Science is submitted for your attention. The report was initiated in April, 1976 as a result of conditions observed at the Institute.

Contents of the report were discussed by the Commission on June 9, 1976, and have been reviewed by appropriate agencies. Formal comments received to date are attached. Portions of this special report as well as other findings concerning program management will be contained in the Commission's evaluation of marine fisheries programs planned for submission to the General Assembly prior to its 1977 session.

Please note the actions of the Commission contained on pages 14 and 15. The Commission recognizes the valuable technical and scientific contributions made by the Institute to the Commonwealth. We believe, however, it is urgent that the financial and general management deficiencies noted in this special report be corrected at the earliest opportunity. On behalf of the Commission, I am

Sincerely yours,

Edward E Lane

Edward E. Lane
Chairman

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COPY

EDWARD E. LANE
Chairman
RICHMOND, VIRGINIA
JULY 26, 1976
GILBERT L. MATON
Chairman
Board of Administration
Virginia Institute of Marine Science
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SPECIAL REPORT
CERTAIN FINANCIAL AND GENERAL MANAGEMENT CONCERNS
VIRGINIA INSTITUTE OF MARINE SCIENCE

Concern about the adverse effects of water pollution on Virginia's fishing industries and the need to perform continuing research in marine science led to the establishment of the Virginia Fisheries Laboratory in 1940. Originally, the Laboratory was a cooperative research venture between the College of William and Mary and the Virginia Fisheries Commission. The Laboratory became an independent research and service agency in 1946, was moved from Yorktown to Gloucester Point in 1951, and was named the Virginia Institute of Marine Science (VIMS) in 1962.

The various duties assigned the Institute are contained in Section 28.1-195 *Code of Virginia* and generally include:

- studies of fishing resources and industries;
- research on the State's maritime problems, and in regard to marine pollution, cooperation with the State Water Control Board and Department of Health;
- research and education in the marine sciences; and,
- investigations and special studies concerning marine resources as requested by the Governor.

The Institute is governed by a nine member Board of Administration and is subject to provisions of the State personnel and appropriations acts. VIMS is required to make an annual report to the Governor and General Assembly.

Today, VIMS serves as the graduate school of marine science for the College of William and Mary, offering both a masters and doctorate degree. Marine research and resource development, however, still constitutes the principal workload of the Institute. In recent years, VIMS has become an increasingly important source of scientific knowledge to Virginia's maritime economy.

The Joint Legislative Audit and Review Commission staff became involved with VIMS during the conduct of an evaluation of marine fisheries management programs. That review is designed to assess the extent to which marine programs are consistent with legislative intent; and, the efficiency and effectiveness with which marine programs are carried out. Immediate concerns about certain VIMS financial management and administrative practices resulted in a special staff report to the JLARC Commission on June 9, 1976. This special report details those concerns and transmits specific recommendations made by the Commission. Agency responses are included as Appendix 5. The marine fisheries study is still in progress and scheduled to be presented to the Commission prior to the 1977 General Assembly session. Appropriate portions of this memorandum as well as other findings regarding program management, will be contained in the JLARC Commission's final report on Marine Fisheries Programs.

VIMS Financial Condition

VIMS operating budget has shown a significant growth since the early 1960's. As displayed in the exhibit below, biennial expenses have grown from just over \$918,000 to an estimated \$10.6 million for 1976-78. The proportion of special fund support, largely from contract and grant research, is now sixty percent of the total appropriation.

Exhibit 1

VIMS APPROPRIATIONS SUMMARY (Operating Expenses)

<u>Biennium</u>	<u>General Fund</u>	<u>Special Fund</u>	<u>Total</u>
1962-64	\$ 918,515	\$ ---	\$ 918,515
1964-66	977,300	---	977,300
1966-68	1,393,370	439,800	1,833,170
1968-70	1,949,180	706,545	2,655,725
1970-72	2,352,435	1,501,160	3,853,595
1972-74	2,781,005	3,053,310	5,834,315
1974-76	3,462,810	4,259,900	7,722,710
1976-78	4,227,165	6,383,265	10,610,430

Source: Budget summaries and appropriation acts, years indicated. (See Appendix 1 for annual detail.)

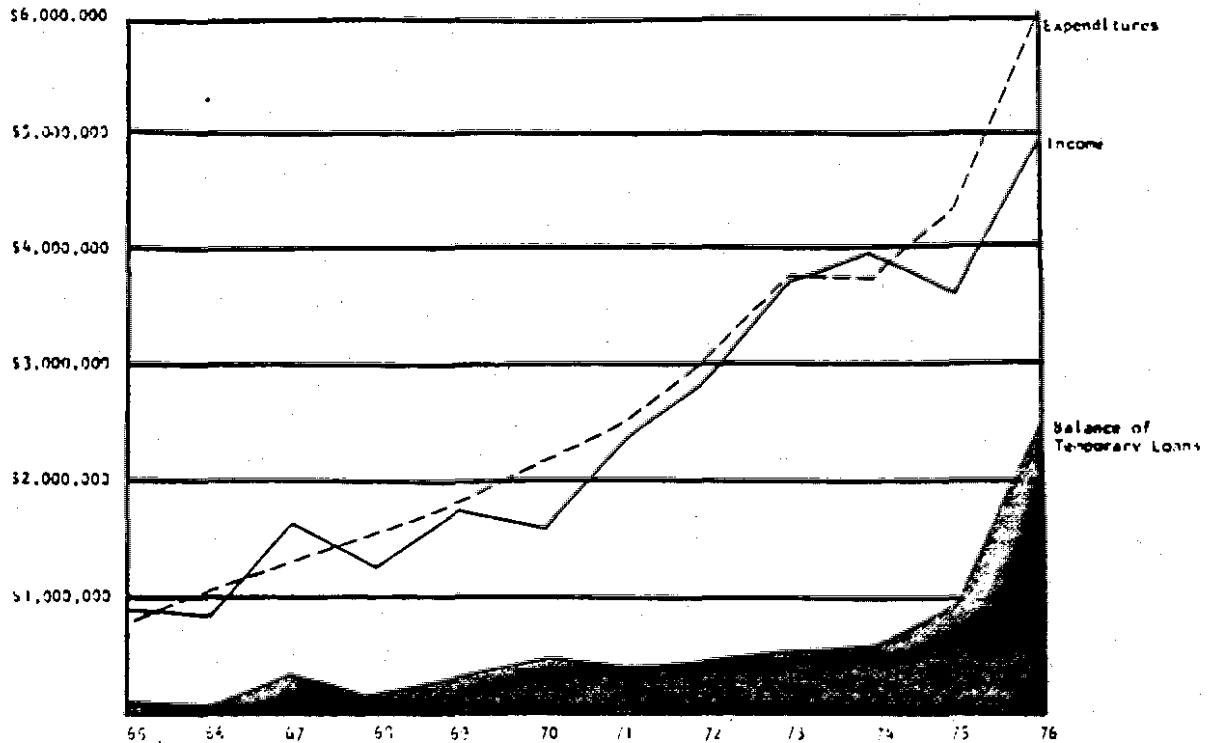
Because of the nature of VIMS research activities, and in accordance with accepted governmental accounting procedures, an appraisal of the Institute's financial condition is best obtained by considering assets and liabilities accrued as of a specific date. VIMS' liquid assets and short-term liabilities as of June 30, 1976 indicate the Institute is in a deficit position. Cash on hand and accrued receivables (\$1,551,377) fall short of liabilities¹ (loans payable - \$2,350,000) by about \$800,000. This finding is not surprising since VIMS has overspent money available from both general fund appropriations and special fund revenues in nine of the last twelve years. In fact, since 1968, income from all sources has consistently fallen short of expenditures as illustrated in Exhibit 2. Most of the shortfall is attributed to contract reimbursement procedures. Temporary loans were obtained from the general fund to cover the difference between income and expenditures.

Temporary Loans. Temporary loans are permissible under General Provisions of the appropriations act to pay for certain previously authorized obligations that are reimbursable from special revenues. Section 190 of the 1976-78 Appropriations Act provides:

"...any State agency may, with the prior written approval of the Governor, borrow the required sums on such terms and from such sources as may be approved by the Governor and the State Treasurer; such loans shall not exceed the amount of the anticipated collections of such special revenues and shall be repaid only from such special revenues when collected."²

Exhibit 2

INCOME, EXPENDITURE AND TEMPORARY LOAN BALANCES
Virginia Institute of Marine Science
(Fiscal 1965-1976)



Note: Income consists of general fund appropriations and special fund revenues.

Source: Department of Accounts.

Since 1965, VIMS has obtained a loan under this provision every year except 1974. Each loan was to have been repaid during a subsequent biennium. Unfortunately, expenses remained well ahead of income, some claims for reimbursement were disallowed, loans were not repaid on schedule, and the loan balance has continued to grow. As shown in Exhibit 3, the accumulated loan balance owed the State Treasury is \$2,350,000.

In August, 1975, the Division of the Budget notified VIMS of its concern that a half million dollars in temporary loans had been outstanding for fifteen months or more. Actually, an analysis of loans payable on July 1, 1975 (shown in Appendix 2) indicated some dated back to 1968. Moreover, VIMS had just received another loan of \$370,000 to cover its cash deficit as of June 30, 1975. Under terms and conditions of that loan, all current and overdue balances were to be repaid by June 30, 1976.

Exhibit 3

VIMS TEMPORARY LOANS
(1964-1976)

<u>Fiscal Year</u>	<u>Loan Balance (July 1)</u>	<u>New Loans</u>	<u>Payments</u>	<u>Loan B (June)</u>
1965	\$ 17,504	\$ 48,417	\$ 7,391	\$ 58,
1966	58,530	129,500	124,366	63,
1967	63,664	271,900	14,245	321,
1968	321,319	254,399	468,041	107,
1969	107,677	300,000	107,677	300,
1970	300,000	250,000	74,011	475,
1971	475,989	115,605	202,562	389,
1972	389,032	30,690	6,952	412,
1973	412,770	151,048	1,048	562,
1974	562,770	---	1,048	561,
1975	561,722	370,000	---	931
1976	931,722	2,350,000	931,722	2,350

Source: Department of Accounts.

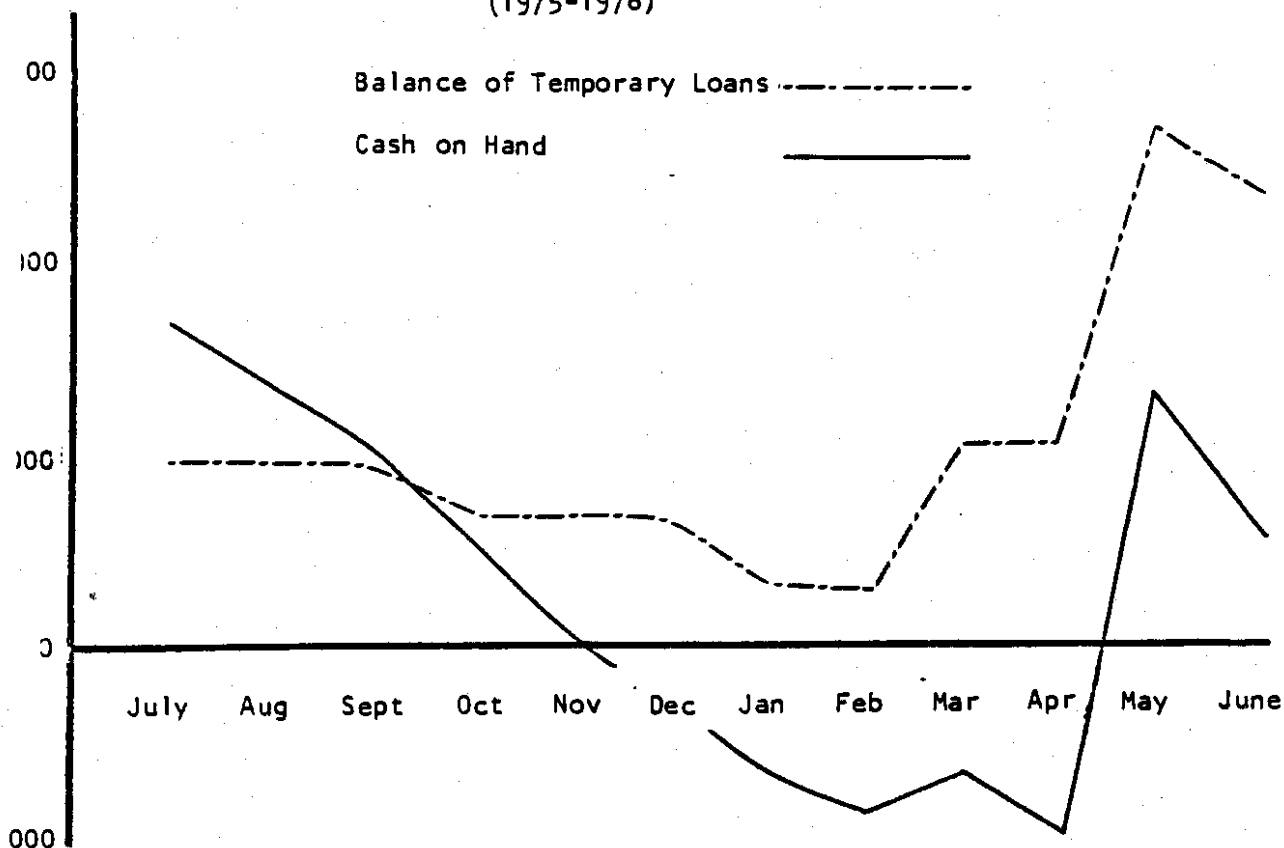
By February, 1976 the Institute did pay all past due loans and reduced the loan balance to \$290,000. However, as illustrated in Exhibit 4 Institute's cash account at that time had already been overdrawn for three months and these loan repayments merely resulted in increasing the agency cash deficit. VIMS immediately requested and received another loan of \$7 but it was not sufficient to make up the cash shortage. The Institute's position continued to deteriorate until finally an additional loan of \$1. was authorized in May, 1976. By that time, VIMS cash account had been over for six months.

It is clear that while VIMS justified loans from the general fund to provide money in advance for cost reimbursement research contracts, in fact the loans were necessary to cover a cash deficit at the end of the fiscal year. It is equally clear that loans have not been repaid on schedule and some repayments have been made by overdrawing a cash account already empty. These financing practices are not in line with sound financial management principles, violate provisions of the temporary loan terms and conditions and are in violation of deficit spending provisions of the appropriations act.

Deficit Spending. The General Assembly has, for many years, included specific provisions aimed at controlling deficit spending. Section of the 1976-78 Appropriations Act prohibits an agency from spending fund excess of its general fund appropriation and special fund revenues or at a rate that will exceed them, except in an emergency situation and then only with the prior written approval of the Governor. So far as can be determined VIMS has not obtained the required advanced approvals for deficit spending. If any emergency has been found to exist. Indeed, the temporary loan procedure seems to be a routine year-end fund balancing procedure.

Exhibit 4

BALANCE OF LOANS PAYABLE AND CASH ON HAND
 VIRGINIA INSTITUTE OF MARINE SCIENCE
 (1975-1976)



Source: Department of Accounts.

In addition to prohibiting deficit spending, the Act indicates the seriousness of overspending by identifying the kinds of action that might be taken when an unauthorized deficit occurs:

"...the Governor is hereby directed to withhold his approval of such excess obligation or expenditure. Further, there shall be no reimbursement of said excess, nor shall there be any liability or obligation upon the State to make any appropriations hereafter to meet such unauthorized deficit. Further, those members of the governing board of any such agency who shall have voted therefor, or its head if there be no governing board, making any such excess obligation or expenditure shall be personally liable for the full amount of such unauthorized deficit, and, in the discretion of the Governor, shall be deemed guilty of neglect of official duty, and be subject to removal therefor. Further, the Comptroller is thereby directed to make public any such unauthorized deficit, and the Director of the Division of the Budget is hereby directed to set out such unauthorized deficits in the next biennium budget."

The JLARC staff has found no evidence to indicate that any actions have been taken--including the requirements of public notice

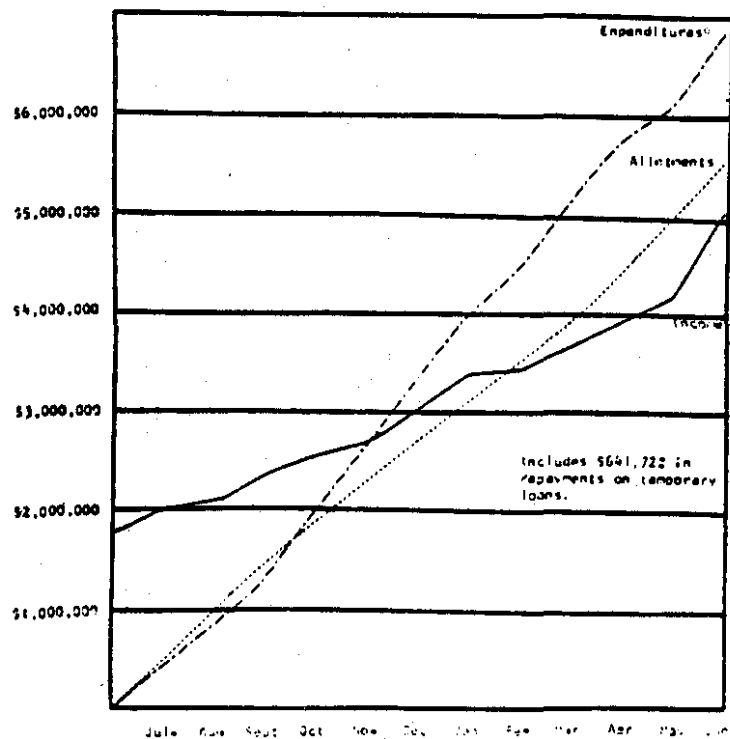
Allotments. The allotment process, administered by the Director of the Budget, is supposed to provide a tool for financial control of expenditures. The process allows the Governor to establish a level of expenditures on a quarterly basis which ensures spending is kept within appropriations and anticipated revenues. Section 2.1-224 *Code of Virginia*

"No appropriation to any department, institution, or other agency of the State government, ... shall become available for expenditure until the agency shall submit to the Director of the Department of the Budget quarterly estimates of the amount required for activity to be carried on, and such estimates shall have been approved by the Governor."

Clearly, VIMS did not exert sufficient financial control in the past year to ensure expenditures were within allotments. Expenditures exceeded allotments beginning early in the second quarter of 1975 and exceeded income about the same time. Expenditures for 1975-76 are shown in Exhibit 5.

Exhibit 5

INCOME, EXPENDITURES, AND ALLOTMENTS
Virginia Institute of Marine Science
(Fiscal 1975-1976)



Source: Department of Accounts. (See Appendices 3 and 4.)

The Division of the Budget and Department of Accounts, however, must also share part of the responsibility for VIMS' deficit spending. The Division of the Budget has authorized allotments without sufficient analysis of anticipated special fund revenue and, as a result, allotments for 1975-76 exceeded income by about \$600,000. In addition, the Division has not issued allotments on schedule. For example, the fourth quarter allotment, due before April 1, was not furnished to the Comptroller until June. The Department of Accounts, on the other hand, did approve expenditures in excess of allotments for the second, third, and fourth quarters although the Department has indicated that formal authorization was received for the increases. Moreover, the Comptroller reports having refused to make further payments against VIMS accounts until loan assurances were received. Nevertheless, checks were drawn against a depleted cash account for nearly six months and expenditures exceeded allotments by \$236,626.

Repayment of Loans. VIMS is now faced with temporary loans totalling \$1,350,000 which consists of \$750,000 due not later than November 1, 1976 and \$600,000 to be repaid not later than May 1, 1977. The likelihood that it can repay these loans from special fund revenues and continue to finance present levels of operation at the same time, depends on the Institute's current asset position. As of June 30, 1976, the Institute's cash account had a balance of \$551,377. This amount, combined with special revenues earned but not yet collected, determine the value of current assets. Unless the amount of special revenues earned makes up the difference between cash and loans payable--about \$1,800,000, the prospect that present loans can be repaid on schedule without adversely affecting the Institute's continued operation is highly doubtful. VIMS has estimated the value of special revenues earned but not collected at about \$1,000,000. If this estimate is correct, the Institute will fall short of meeting loans payable by about \$800,000 and will face another financial crisis during the forthcoming biennium.

Need for New Financial Controls. Based on a review of appropriations, allotments, income and anticipated revenue, VIMS has been and may still be in deficit position. A major problem with VIMS financial management practices has been commingling of General and Special funds. Research to be paid from special fund sources often must be completed before reimbursement is received. In the past, VIMS has charged its general fund account to complete special research and await reimbursement. Since the proportion of total special fund activity has increased significantly, and since contract management has become more and more complex, general fund and special fund obligations should be accounted for separately. Loans obtained in anticipation of special revenues should identify income from either a specific research project or a group of projects which will be used for repayment. The Institute and the State's financial control agencies must maintain sufficiently detailed records to continuously monitor and identify expenditures and income by specific research project. And, temporary loans ought to be requested, approved and recorded in advance as required by law. The Division of the Budget could prepare separate allotments for general and special fund expenditures and require accurate documentation of anticipated revenues prior to loan approvals. Finally, the Comptroller needs to ensure that Institute expenditures remain within allotments and available cash.

State Audits. Indications of VIMS financial difficulties were noticed as early as April, 1969, by the Auditor of Public Accounts. At that

time, an audit was released indicating a deficit of \$47,308 for the ending June 30, 1968. In addition, the auditor noted certain deficiencies in record-keeping. Audits covering fiscal 1970, 1972, and 1974 report annual deficits of \$572,231, \$526,592, and \$640,778, respectively.

It appears these warning signals did not attract agency attention until federal audits disclosed serious weaknesses in VIMS' accounting practices. The State audit released in June, 1975, pointed out: "...sums of federal reimbursements for costs claimed by the Institute withheld due to lack of adequate supporting documentation...Because of the manner in which the Institute's records had been maintained, we were unable to determine the amount(s) of federal reimbursements which might be ex-

Federal Audits. The Department of Interior conducted audits in 1970 and 1973 to validate project costs eligible for federal reimbursement. In 1970 through 1973, \$468,716 out of \$499,000 claimed by VIMS was charged. Deficiencies noted included:

- Lack of daily time and activity reports to support personnel charges charged directly and as part of boat rental charges;
- Lack of documented vessel acquisition and capital improvements to verify depreciation charges included in boat rental rates;
- Lack of documentation to verify costs of project office space.

Documentation of this sort is required under OMB Circular A-29 of 1969 and other federal regulations which provide uniform principles for determining costs under grants and contracts.

A January, 1974, Department of Commerce audit of Sea Grant activities disclosed further deficiencies in allocating and documenting indirect costs to be charged to the National Oceanic and Atmospheric Administration (NOAA). Although the Sea Grant Act of 1966 (PL 89-688) specifically prohibits grantees from claiming capital expenditures, the audit disclosed major costs had been charged to the Sea Grant program in VIMS' overhead rates. NOAA later found similar violations by Sea Grant institutions in other states. As a result, the Comptroller General decided in late 1975 to accept capital expenses charged to overhead.

The Sea Grant audit report issued in March, 1974, challenged the \$498,805 claimed by VIMS and noted proper care had not been taken to ensure that direct charges were not duplicated as indirect or overhead charges.⁵ According to federal regulations, direct costs must be documented in order to properly allocate an individual's time and effort to particular projects. In many instances such documentation was not available. As a result, the auditors charged VIMS was recovering certain costs twice, once on a direct as well as an indirect basis.

A number of other federal audits during this period involved challenges to VIMS' record-keeping and accounting procedures. While these challenges are still being negotiated, VIMS maintains it has recovered most of the funds originally withheld by federal agencies. In the interim, general funds must carry these reimbursements delayed principally by poor record-keeping practices.

Hurricane Agnes Audit. The latest report of the State Auditor released in March, 1976, found VIMS was unable to account for expenditures incurred during the aftermath of Hurricane Agnes. Between June and December 1972, VIMS was supposed to charge expenses for hurricane-related research to a special account. Instead, expenditures were charged to a number of existing accounts without proper identification. In late 1972, VIMS submitted a statement of its costs to the Office of Emergency Preparedness (OEP) for reimbursement. The Auditor of Public Accounts was responsible for denying the claim. Over half of the \$160,000 request was disallowed because of inadequate documentation.⁶

Operational Management

In addition to the serious financial problems which have plagued VIMS over the years, several other administrative areas have been identified requiring review including: the need for an agency organization tailored to better current Institute workload and programs; improved financial and personnel administration; work scheduling and project review that is better related to funding; review of funding for graduate education; and more detailed records regarding control and financing of vessel operations. The VIMS Board has acknowledged these areas have generally been set aside in a letter to the Governor dated June 8, 1976:

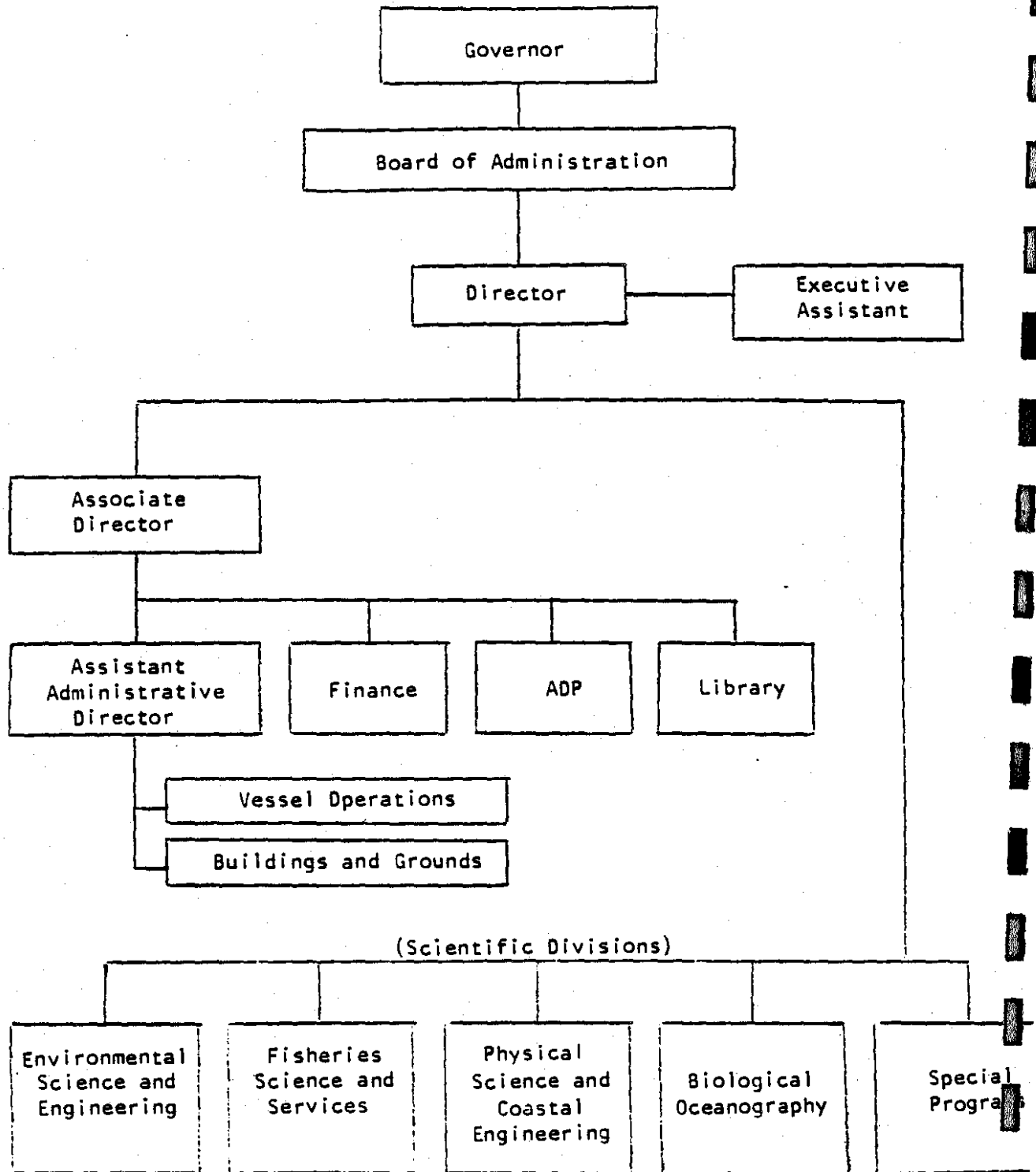
"A deliberate decision was made to emphasize the development of the scientific, engineering and academic programs on a priority basis. It was intended that development of non-scientific administration, which was primarily in the hands of others at that time, would be left until later. The first priority was to get the scientific and engineering information and capability for acquiring and imparting it. This was the plan. It was followed and it worked."⁷

There are few who would argue with the emphasis on program implementation; but, it is unfortunate that important administrative matters have been set aside for over a decade. Furthermore, it is unlikely that VIMS first priority can continue to be achieved effectively without greater attention to basic institutional management.

Organization and Personnel. The Board of Administration appointed the Governor, in turn appoints a Director responsible for overall agency management.⁸ The Institute's formal organization depicts the administrative support functions as assigned to an Associate Director, while research activities are supervised by five Assistant Directors each heading a specific scientific division (Exhibit 6). But the organization chart is misleading and does not reflect the actual lines of authority as well as personnel classification and compensation need additional internal review and Department of Personnel concurrence. The Associate Director position is designed to serve as the Institute's Deputy Director; however, he does not participate in day-to-day agency management which blocks potential effectiveness in that role. The Director personally supervises most of the functions assigned to the Associate Director and is also deeply involved in operating activities at the divisional level. The classification of the Associate Director position needs review.

Exhibit 6

VIMS ORGANIZATIONAL STRUCTURE



Source: Prepared by JLARC staff from information provided by VIMS.

The Assistant Administrative Director was formerly responsible for budget and financial matters but subsequent to federal audit reports in 1973 and 1974 a new position was established to supervise the financial area. Today, the Assistant Administrative Director's responsibilities are limited to building and grounds maintenance and vessel operations, yet the position title and classification have not been altered.

Several division heads complained during on-site agency visits that many job descriptions are outdated and other positions require a thorough classification review. For example, the Institute's ADP Director is classified as a Marine Scientist--a classification that carries a substantially higher level of compensation.

Financial Administration. The finance office has made a number of changes in accounting procedures to improve documentation required under federal auditing guidelines. A computerized system has been developed to account for direct costs by research project. However, there is still an excessive delay in billing due to manual allocation of indirect costs. In addition, there are a number of other areas which deserve management attention including:

- Development of comprehensive departmental and divisional budgets for both general and special funds;
- Development of automated monthly cost reports on all grants and contracts for management review;
- Development of an encumbrance procedure for accounts payable; and,
- Development of a cost accounting system for all auxiliary enterprises.

Planning and Control. VIMS does not have a comprehensive agency plan, work schedule, and information system for effective internal management. In an organization as complex as VIMS, planning, coordination and control are essential to ensure each of the various work programs are directed toward explicit organizational goals and objectives. While planning for scientific research may well need to be flexible, inadequate research progress information can seriously impair the Institute's financial stability as well as inhibiting adjustments of priorities to meet new conditions required by research contractors or by the Commonwealth.

The JLARC staff requested VIMS assemble information concerning the extent to which contract reports have been submitted on schedule over the past two years. The Director responded:

"...we are having some difficulty filling your request, since we keep no record which will readily give this information. It becomes, therefore, a matter of reviewing each contract individually.

I feel that any figures we might produce in response to your request would have little significance for the following reasons:

- Time for submission of reports is often extended telephonically as a result of conversations between the Principal Investigator (PI) and the contractor, thus leaving no record. Variations are also made by personal letter.
- Draft reports, which technically fulfill expectations of timing, are often held for a period of months by the contractor before being returned to the PI for completion.
- Often contract reporting requirements are changed at the request of the contractor to include elements not considered in the initial grant or contract document or not agreed to by the PI.⁹

While each point certainly seems reasonable, the Institute should have sufficient information to determine progress toward completing research projects and to fit that information into an ongoing agency status report. While much project detail may be available only in separate project files, the lack of ready access to supervisory kinds of data in a form useable for institutional decision-making is a serious shortcoming of agency management processes.

Funding Graduate Education

In the past, both the College of William and Mary and the University of Virginia have been funded for students enrolled at each respective institution but taking courses at VIMS. In addition, each school received the full tuition paid by VIMS students. VIMS also received general fund appropriations for instruction which resulted in double-funding marine science students. In November, 1969, the former Director of the Budget called the issue of double-funding to the attention of the presidents of William and Mary and the University of Virginia, and the Director of VIMS. The matter remained unresolved until the Director of the State Council of Higher Education raised the issue again in a November, 1973 letter to the Director of the Budget. The Council rediscovered the duplication of funding while reviewing the University of Virginia's participation in the marine science program. (The University subsequently agreed to terminate its program because of low degree productivity.)

The funding problem remained, however, because the two remaining institutions were unable to reach agreement on a mutually satisfactory solution. VIMS was reluctant to have its instructional budget dependent on faculty/student ratios based on projected enrollment, while William and Mary did not wish to lose the tuition generated by VIMS students. By early 1974, the Council of Higher Education acted to eliminate the double-funding in the 1974-76 budget during discussions before the House Appropriations Committee by reducing the William and Mary student count by a number equal to enrollment at VIMS. On March 1, 1976, a Memorandum of Agreement was approved between William and Mary and VIMS which provides that:

- FTE student enrollment for William and Mary is to be reduced by the number of students enrolled in the marine science program; and,

- Sixty percent of all application fees and tuition received by William and Mary from VIMS students is to be returned to VIMS.

In light of this agreement, the General Assembly should reassess the amount of general fund appropriation required to support graduate instruction at VIMS.

Review of VIMS' Instructional Budget. The instructional portion of VIMS' budget still is not developed on Council of Higher Education budget guidelines. In the past, VIMS argued its budget should not be tied to enrollment projections because its teachers are also research staff who spend only a small portion of their time in class. Recognizing that many other graduate degree programs involve a great deal of applied research but are still budgeted according to Council guidelines, it would appear reasonable that the marine science program could receive the same kind of budget review.

Application of the Council's graduate guidelines to the 1976-78 budget indicates VIMS has been generously funded for instruction. The Council of Higher Education has established standard faculty/student ratios for funding instructional positions on the basis of 1:10 for a first year graduate course, and 1:8 for advanced graduate courses. It may be that such ratios can not be applied uniformly to all programs and a thorough review of marine science instruction may be required to develop an appropriate ratio. However, if the 1:8 ratio had been applied to VIMS' FTE enrollment of 31 students in 1975-76, it would have been funded for 3.88 faculty positions. Using the average salary for a Marine Senior Scientist, the instructional budget would have been \$89,434 for personal services. Adding funds to pay for other VIMS' instructional expenses would bring the educational portion of the budget to just over \$104,000. Yet for 1975-76 VIMS was budgeted \$157,215 for instruction. Moreover, the budget has been increased to \$201,695 for 1976-77 with no expected increase in FTE enrollment.

Vessel Operations and Financing

VIMS' fleet includes a 57-foot research vessel, a landing craft on loan from NASA, and 34 other launches and outboard boats. VIMS had requested a capital appropriation for a large, seagoing research vessel for the past three biennia which was not approved. The 1976-78 budget did, however, recommend that federal funds be used to outfit, maintain, and operate such a vessel. On July 1, 1975, VIMS accepted a 144' minesweeper (named the Virginian Sea) from the U. S. Navy under a five-year, no-cost renewable lease. The Governor's office approved acceptance of the lease under the condition that no general fund monies would be obligated. It was understood that a sizable portion of the operating costs were to be recovered from fees charged to a Bureau of Land Management (Department of Interior) contract for research on the outer continental shelf. Numerous alterations were necessary to equip the vessel for research use and it did not become operational until almost one year after acceptance. In the meantime VIMS chartered another ship to carry out the research project.

VIMS reports approximately \$290,000 had been expended on the minesweeper as of late May, 1976. These costs were paid from the general fund account and coded as expenses chargeable to the Bureau of Land Management contract. However, these expenses may not be reimbursable under terms contained

n the Bureau contract and may be disallowed. VIMS may be able to recover a portion of the alteration costs over the remaining years of the lease by including depreciation charges in user fees. Nevertheless, at this time the condition that no general funds be obligated for the vessel has been circumvented. It should also be noted that expenditures for required capital improvements were made during the six months in which the Institute's cash account was exhausted. Deficit expenditures for capital projects are expressly prohibited by Section 189 of the 1974-76 Appropriations Act.

Commission Review and Action

The information contained in this memorandum was discussed by the Joint Legislative Audit and Review Commission on June 9, 1976. The following resolution and recommendations were adopted by unanimous vote of members present and are submitted for such consideration and action as is appropriately required by law.

With respect to State level controls on agency expenditures, a resolution was adopted that:

WHEREAS, it has been brought to the attention of the Joint Legislative Audit and Review Commission that expenditures by the Virginia Institute of Marine Science have exceeded both approved allotments and cash available during this fiscal year, and

WHEREAS, the Commission is concerned that this condition may exist in other State activities receiving funds appropriated by the General Assembly, and

WHEREAS, such practices are not in keeping with principles of sound financial management; now, therefore, be it

RESOLVED that the Joint Legislative Audit and Review Commission suggests the State Comptroller should take appropriate action to begin to ensure that expenditures for activities receiving appropriations do not exceed either approved allotments or cash on hand.

With respect to financial and general management deficiencies noted at the Virginia Institute of Marine Science, the Commission recommends:

1. That a copy of the report be transmitted to the Institute's Board of Administration advising them of the Commission's concern regarding the financial and management issues discussed in the report. Request the Commission be kept advised of the Board's actions.
2. That the Auditor of Public Accounts perform a comprehensive audit of VIMS with special attention to validation of anticipated revenues.
3. That the Comptroller establish necessary procedures to ensure that VIMS expenditures do not exceed allotments of funds available and advise the Commission of actions taken.

4. That the Division of the Budget (Department of Planning and Budget) ensure that allotments for the Institute are based on reliable estimates of special fund revenues anticipated during the allotment period. Further request allotments be provided to the Comptroller in advance of the allotment period.
5. That the State Council of Higher Education develop appropriate budget guidelines for the instructional portion of VIMS' budget and participate in the budget review process.
6. That the Department of Management Analysis and Systems Development undertake as high priority an organizational study of VIMS.
7. That the Governor be provided with an information copy of the report and that he be advised of the actions taken by the Commission.

END NOTES

1. A loan of \$750,000 was authorized on March 1, 1976, to be repaid no later than November 1, 1976. A loan of \$1,600,000 was authorized on May 26, 1976, to be repaid no later than May 1, 1977.
2. *Acts of Assembly, 1976*, Chapter 779, Section 190. Approved April 12, 1976. Also, specific terms and conditions are established for each loan as approved by the Governor's office.
3. Auditor of Public Accounts, *Report on Audit, Virginia Institute of Marine Science, For the Fiscal Year Ending June 30, 1974*. Richmond: June 24, 1975.
4. U. S., Department of Interior, Office of Audit and Investigations, *Audit of Bureau of Sport Fisheries and Wildlife Grants to VIMS*. Washington, D.C.: June 13, 1974.
5. U. S., Department of Commerce, Office of Audits, *Final Audit of Costs Claimed Under Sea Grant No. NG-5-72*. Washington, D.C.: March 13, 1974.
6. Auditor of Public Accounts, *Report on Audit, Virginia Institute of Marine Science, Relating to Damages Resulting from the Flood of June 21-25, 1972*. Richmond: March 16, 1974.
7. Letter from Dr. William J. Hargis, Jr., Director, Virginia Institute of Marine Science, dated June 8, 1976.
8. *Code of Virginia (1950)*, Section 28.1-197.
9. Letter from Dr. William J. Hargis, Jr., Director, Virginia Institute of Marine Science, dated June 15, 1976.

Appendix 1

INCOME, EXPENDITURES AND ACCUMULATED SURPLUS (DEFICIT)
Not Including Temporary Loans or Repayments
(Fiscal 1965-1976)

Fiscal Year	Income			Expenditures	Surplus (Deficit)	Accumulated Surplus (Deficit)
	General Fund	Special Fund	Total			
1965	\$ 723,900	\$ 160,164	\$ 884,064	\$ 773,944	\$ 110,120	\$ 110,120
1966	630,550	209,600	840,150	987,130	(146,980)	(36,860)
1967	1,355,600	278,400	1,634,000	1,247,655	386,345	349,485
1968	760,300	493,600	1,253,900	1,536,557	(282,657)	66,828
1969	1,157,500	587,500	1,745,000	1,786,000	(41,000)	25,828
1970	1,023,000	566,000	1,589,000	2,129,700	(540,700)	(514,872)
1971	1,178,000	1,134,300	2,312,300	2,501,010	(188,710)	(703,582)
1972	1,180,500	1,671,100	2,851,600	3,003,600	(152,000)	(855,582)
1973	1,831,000	1,915,500	3,746,500	3,747,000	(500)	(856,082)
1974	1,612,000	2,349,020	3,961,020	3,731,300	229,720	(626,362)
1975	1,842,000	1,762,485	3,604,485	4,348,947	(744,462)	(1,370,824)
1976	1,750,000	3,200,000	4,950,000	5,814,000	(864,000)	(2,234,824)
Total	\$15,044,350	\$14,327,669	\$29,372,019	\$31,606,843		

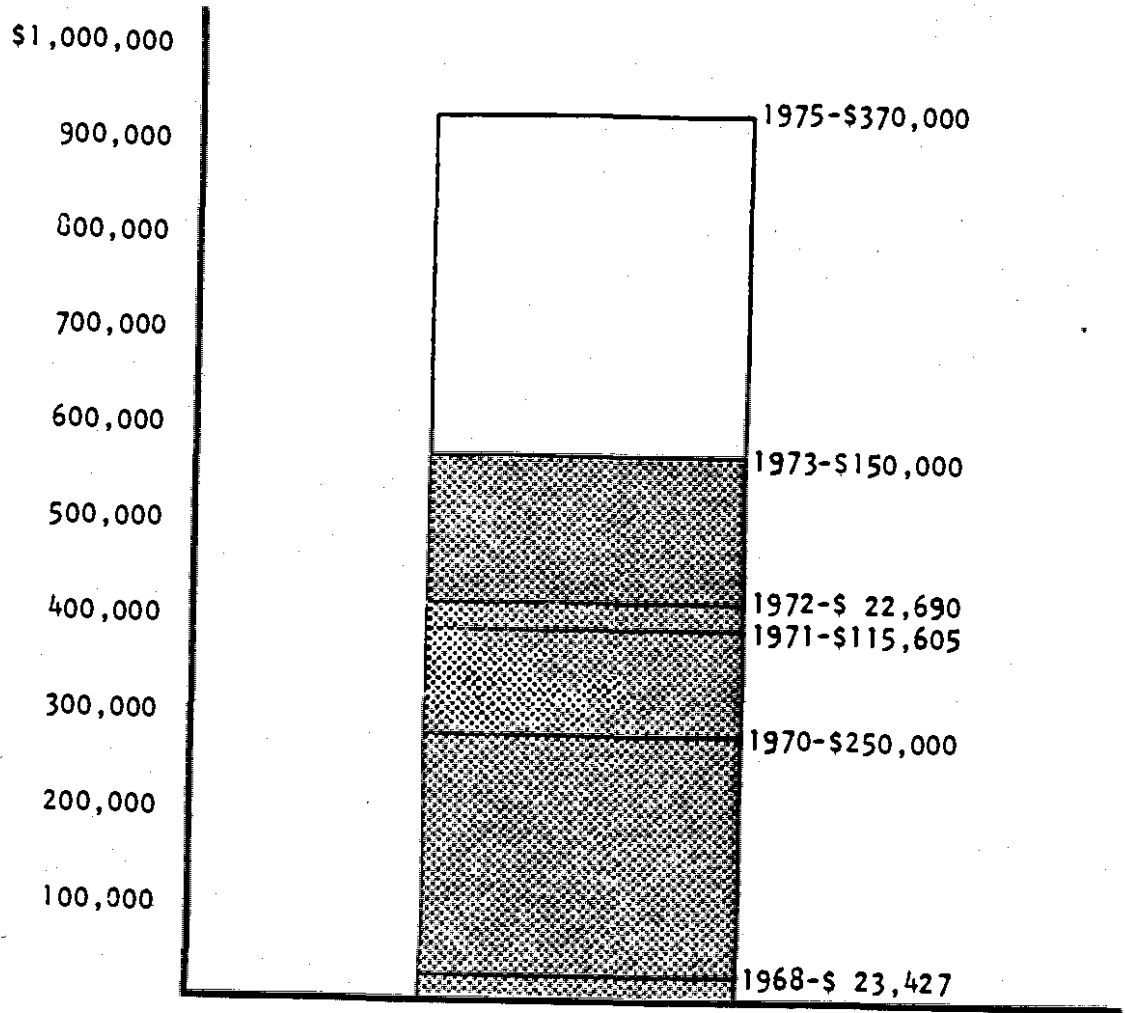
Source: Department of Accounts.

Special Note: Income and expenditure figures have been rounded to the nearest \$100 in many cases.

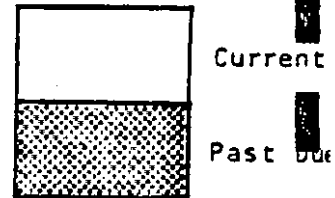
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Appendix 2

ANALYSIS OF VIMS' TEMPORARY LOANS DUE
(As of July 1, 1975)



Source: Division of the Budget.



Appendix 3

VIMS INCOME AND EXPENDITURES
(1975-76)

	Income			Expenditures		
	General Fund Appropriation	Special Revenues	Total Income ^a	Operating Expenses	Loan Payments	Total Expenditures ^a
July	\$1,752,005	\$ 227,428	\$1,979,433	\$ 392,902		\$ 392,902
August		91,408	2,070,841	449,641		845,543
September		244,981	2,315,822	441,920		1,284,463
October		204,675	2,520,497	485,267	\$ 241,722	2,011,452
November		149,591	2,670,088	506,840	80,000	2,598,292
December		316,008	2,986,096	623,398		3,221,690
January		357,921	3,344,017	458,099	320,000	3,999,789
February		165,699	3,509,716	351,818		4,351,607
March		93,057	3,602,773	701,701		5,053,308
April		316,328	3,919,101	600,415		5,653,723
May		81,971	4,001,072	369,755		6,023,478
June		943,022	4,944,094	432,240	290,000	6,745,718
Total	\$1,752,005	\$3,192,089	\$4,944,094	5,813,996	\$ 931,722	\$6,745,718

^aYear to date.

Source: Department of Accounts.

Appendix 4

VIMS' QUARTERLY ALLOTMENTS AND EXPENDITURES
(1975-76)

	Allotment	Year to Date	Expenditures			
			Not Including Loan Payments		Including Loan Payments	
			Expenditures	Year to Date	Expenditures	Year to Date
First	\$1,487,525	\$1,487,525	\$1,284,463	\$1,284,463	\$1,284,463	\$1,284,463
Second	1,225,200	2,712,725	1,615,505	2,899,968	1,937,227	3,221,690
Third	1,117,905	3,830,630	1,511,618	4,411,586	1,831,618	5,053,308
Fourth	1,678,462*	5,509,092	1,402,410	5,813,996	1,692,410	6,745,718

*Includes \$489,503 as a supplemental allotment for third quarter.

Source: Division of the Budget, Department of Accounts.

Appendix 5
AGENCY RESPONSES

Office of the Comptroller, Department of Accounts

Council of Higher Education

Department of Personnel and Training

Department of Planning and Budget

Board of Administration, VIMS

Virginia Institute of Marine Science (The Institute response also included an extensive commentary on each point raised in a preliminary staff report which may be inspected on request at the Commission offices.)

JUN 29 1976



COMMONWEALTH of VIRGINIA

Office of the Comptroller

June 28, 1976

P. O. BOX 611
RICHMOND, VIRGINIA 23215

MEMORANDUM

TO: Bill J. Kittrell
FROM: Charles B. Walker *CBW*
SUBJECT: VIMS - Comments

Please make mention in your report that the Comptroller did recognize this situation and took action on several occasions to bring about satisfactory solutions by involvement of the Budget Division. We were assured by Budget that action was being taken to clear necessary paperwork.

cc. John R. McCutcheon

JUN 30 1976

COMMONWEALTH of VIRGINIA

COUNCIL OF HIGHER EDUCATION

19th Floor, 911 East Broad Street, Richmond, Virginia 23219

(804) 770-2122

June 28, 1976

Mr. Billy J. Kittrell, Assistant Director
Joint Legislative Audit and Review Commission
Suite 200, 823 East Main Street
Richmond, Virginia 23219

Dear Mr. Kittrell:

Thank you for your letter of June 22 concerning the Virginia Institute of Marine Science. Your letter asks for comments on the preliminary report prior to July 2. I believe it would be consistent with the responsibilities of the Council to confine my remarks to pages 15-17 of the report and to the section entitled "Funding of Graduate Education."

I appreciate your bringing to the attention of the Commission the fact that the Council took action to eliminate the previous practice of double funding for students in marine science graduate programs at the Marine Science Institute. I would note that the Council took steps to remove the duplicate General Fund appropriation for the 1974-76 Biennium, repeated this action for the 1976-78 Biennium, and continued to encourage the Institute and The College of William and Mary to reach agreement on an appropriate allocation of student-generated special fund revenues.

I am certain you recognize that VIMS engages in instruction at a number of levels ranging from field trips for elementary and secondary students through the doctoral program in Marine Science at The College of William and Mary. The final dollar figure and staff requested for the instructional portion of the VIMS budget represents a combination of all of these instructional activities.

I would agree with the point made on page 16 of the report that "it is possible that such ratios (standard faculty/student ratios) should not be applied uniformly to all programs and a thorough review of marine science programs may be required to develop an appropriate ratio." If it is the wish of the Commission, the Council would be pleased to review the graduate instructional portion of the Institute's budget requests for future biennia. If I interpret the report correctly, such a recommendation is implied if not stated.

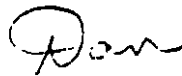
Mr. Billy J. Kittrell

- 2 -

June 28, 1976

We are pleased to have assisted in this work of the Commission and continue to be available to cooperate in every possible way on matters pertaining to higher education.

Sincerely,



Daniel E. Marvin, Jr.
Director

DEM/r

JUL 6 1976



COMMONWEALTH of VIRGINIA

Division of Personnel
302 State Finance Building

June 30, 1976

Post Office Box 5
Richmond, Virginia 23211
18041 786 2

Billy J. Kittrell, Assistant Director
Joint Legislative Audit and Review Commission
133 East Main Street, Suite 200
Richmond, Virginia 23219

Dear Mr. Kittrell:

I have the following comments pertaining to the areas of personnel management at the Virginia Institute of Marine Science, which are reviewed in your preliminary report dated June 21, 1976.

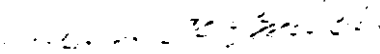
A position was classified as an Agency Personnel Supervisor A at the Virginia Institute of Marine Science in 1973 for the purpose of providing professional assistance to the Marine Institute Administrative Director in personnel administration. Emphasis, however, appears to have been given to record keeping and clerical processing aspects of the personnel process, rather than personnel management assistance. The positions of Marine Institute Administrative Supervisor and Marine Institute Associate Director also do not appear to have fulfilled personnel management responsibilities as would be expected.

Professional staff members from the Division of Personnel have met with and counseled VIMS' staff on needed personnel management improvement, particularly in the area of position classification. Initiative is needed at the agency level, however, in order to have the personnel function properly fulfilled.

Over the past years, Dr. Hargis has discussed some of these problems with us and has recently advised us that a plan is being developed to organize a personnel department at VIMS. In connection with this, we will be reviewing the Fiscal Officer position and the Marine Institute Administrative Supervisor position for their proper classifications as a result of the changes made in their assignments.

We are hopeful that the agency will place sufficient emphasis on personnel management so as to carry out a continuous program of services, particularly in the area of position classification.

Sincerely yours,


John W. Garber
Director of Personnel



COMMONWEALTH of VIRGINIA

Department of Planning and Budget

~~Division of the Budget~~

445 Ninth Street Office Building

POST OFFICE BOX 1422
RICHMOND, VIRGINIA 23211
1504-736-3154

July 2, 1976

r. Billy J. Kittrell, Assistant Director
Joint Legislative Audit and Review Commission
Suite 200, 823 East Main Street
Richmond, Virginia 23219

Preliminary Report on Selected Management Issues - The Virginia Institute of
Marine Science," Dated June 21, 1976

We understand from staff discussion that your June 22, 1976 request for
a reply to the referenced by July 2 designated a target date which could be
changed.

Accordingly, with this acknowledgement and to avoid a fragmented state-
ment, we ask your concurrence in our providing the full response when we
obtain fiscal information as of June 30, 1976 from the Institute and the
State Comptroller. This should be during July, but we should not interfere
with the Institute's biennium-closing activities.


John R. McCutcheon

JUL 6 '76

4525 Logsdon Drive
Annandale, Virginia 22003

June 30, 1976

Mr. Billy J. Kittrell
Assistant Director
Joint Legislative Audit
and Review Commission
Suite 200
823 E. Main Street
Richmond, Virginia 23219

Dear Mr. Kittrell:

Your letter and Preliminary Report on "Selected Management Issues - The Virginia Institute of Marine Science" was received on 25 June. It was apparently delayed having been mailed as third class book rate.

The Board of Administration of VIMS has instructed the Director of the Institute to staff a report analysis and to provide factual commentary to your office by 2 July 1976, as you have requested. Since your deadline does not provide the Board itself with adequate time to review, analyze, and conclude its own appraisal of your material and the to-be-prepared VIMS staff observations and commentary, the Board reserves the privilege for subsequent comment if needed.

It seems appropriate to note here that on the basis of a precursor review, the Preliminary Report could bear reorganization. It seems to me that the order ought to be reversed. First, the programs and their conformance to legislative intent should be presented. Next, presentation and discussion of the VIMS organization and procedures should logically follow. And, finally, the cost picture. This sequence makes more sense and would make the contents much more understandable.

I believe also that the words "deficit" and "loan balance" are used interchangeably. They have distinct and different meanings in my vocabulary and I expect in that of others.

You may be assured of our deep interest and full cooperation with you on this effort.

Very truly yours,



Gilbert L. Maton
Chairman of the Board
of Administration
Virginia Institute of
Marine Science



JUL 8 1976

COMMONWEALTH of VIRGINIA

Virginia Institute of Marine Science

Gloucester Point, Virginia 23062

Phone: (804) 642-2111

REG-5 JR

2 July 1976

Mr. Billy J. Kittrell
Assistant Director
Joint Legislative Audit and Review Commission
Suite 200, 823 E. Main Street
Richmond, Virginia 23219

Dear Mr. Kittrell:

Mr. Gilbert A. Maton, Chairman of the Board of the Virginia Institute of Marine Science, has asked me to respond to the draft of the preliminary staff progress report on the Virginia Institute of Marine Science. I am doing so, although as of 1930 hrs. 24 June, he had not received the copy mailed to him by book post.

This report came to my attention on 23 June 1976 via telephone. As soon as I became aware of its existence, I called for the various Institute officers involved to "staff-it-out." That process is still in progress. I did not actually see the report until 24 June, when I returned to my office. Since then, several administrative staff meetings have been held and I have communicated with you twice by phone.

You indicated in the first of those telephone conversations that the response date of July 2 requested in your letter of transmittal was based upon an earlier operational decision of the Commission to require a 10-day response time of everyone. You also indicated that, where complete information such as financial data would not be available until after the books are closed, we should respond with what we could, and indicate that the rest is to be supplied later. As we agreed, it will not be possible for us to supply detailed fiscal data for the current fiscal year or the biennium, to which much of the JLARC preliminary staff progress report is devoted, until the a) books are closed, b) Comptroller's Report is received, c) VIMS review is completed, and d) VIMS has reported to the Comptroller as required on 15 August. I also informed you at the same time that other elements of the report, such as a detailing of the research programming procedures and the educational activities--which require considerable compilation, review and thought--

Mr. Billy J. Kittrell
2 July 1976
Page 2

likely could not be prepared and transmitted by July 2.

Concerning these two important items, we are convinced from the statements made in the report that we failed to make the JLARC representatives who visited here fully aware of the details relating to those activities.

Incidentally, from the 22nd (the date of preparation of your letter) to the 2nd of July is 8 working days, even allowing for no time in transit. In order to examine carefully each item and develop a reasonable response, I have sought input from all of the administrative persons involved. The attached response, while still quite rough due to the lack of time, incorporates a number of thoughts from others besides myself.

The draft of the preliminary staff progress report as it stands does not constitute a balanced review of the Virginia Institute of Marine Science! It does not ". . . assess the extent to which agency programs are consistent with legislative intent and the efficiency and effectiveness with which these programs are being carried out." Of this you are already aware since the JLARC Report indicates in its first page that these are "issues" which the JLARC staff "feels deserve attention before the evaluation of all Marine Institute management programs is completed."

Unfortunately, this preliminary draft progress report in its present form has been distributed and has caused difficulties. Most of the "issues" selected for attention deal with topics of which VIMS management has been aware for some time. In fact, on most, steps have been taken to reduce or remove procedural and other management difficulties.

The financial analysis used to develop the several points about an unfavorable financial condition is based upon concepts and interpretations foreign to VIMS financial managers. Apparently, we have failed to make clear the nature of grant and contract funding and the financial phenomena related thereto. No one can reasonably expect there not to be a gap (if this be called a deficit) between expenses and income at any point in time where growth is due to grant and contract activities and income therefrom.

VIMS does not anticipate an actual or true deficit for FY 1975-76, except where emergency operations and inflation have run expenditures higher than expected. Remedies for such deficits

Mr. Billy J. Kittrell
2 July 1976
Page 4

indeed, be flexible! Also it must be done but it must be done realistically.

A detailed work schedule which will cover all of the primary basic functions of the Institute and all of the programs and projects required is not possible. Development of such a document would be time consuming, costly, and, likely, of little continuing value.

The Section on Education is composed of incomplete, inadequate, or untimely information. Many of the comments about the universities and colleges involved, have little to do with VIMS and are beyond our ken. We do not understand why they are included.

We have evidently failed to clearly explain the origin, rationale behind, and nature of VIMS budget for Instruction (02) which is not solely for graduate education and cannot for many reasons be related to FTE or any other externally-developed formula. Guidelines of the Council of Higher Education, cannot be applied to the instructional portion of VIMS budget, since graduate education is just one part of the total budget for Instruction (02). VIMS has not been excessively funded for instruction!

The section on vessel operations and funding is also outdated and incomplete. The VIRGINIAN SEA is operational and has been out. Conversion took longer than expected--vessels are vessels. On them, Murphy's Law operates very effectively, but it has been out and earned money.

We did not agree nor contend that BLM would pay the full costs of the vessel. Nor have we circumvented the condition that no General Funds be used to cover the costs of conversion and operation. Instead Special Funds are and will be used. We have borrowed money to bring the conversion as far along as it has been possible. It is our intention to pay it back.

Using temporary loans to create service centers or provide other types of front-end money is the only way VIMS has to accomplish these objectives or to cover emergencies. We have sought advanced appropriations to allow establishment of a "cash reserve" from the General Fund appropriation to VIMS but have never been successful in our plea.

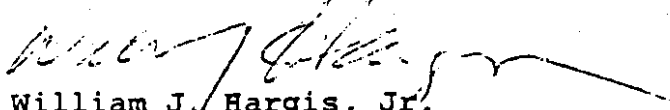
Accumulation of Special Funds, in significant quantity has been impossible, since all income is used to cover the costs

Mr. Billy J. Kittrell
2 July 1976
Page 6

We will be available to the JLARC staff so that it may accomplish the goals it has in mind. Please do not hesitate to call me for whatever additional help is required.

With best wishes to you, I am

Sincerely yours,


William J. Hargis, Jr.
Director

WJHJr:cw

Enclosure