



DEPARTMENT OF CONSERVATION AND RECREATION

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS AS OF MAY 2019

Auditor of Public Accounts
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Commonwealth of Virginia

Auditor of Public Accounts

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June 21, 2019

Clyde Cristman, Executive Director
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INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire, completed on May 21, 2019, for the **Department of Conservation and Recreation** (Conservation and Recreation). The purpose of this review was to evaluate if the agency has developed adequate internal controls over significant organizational areas and activities and not to express an opinion on the effectiveness of internal controls. Management of Conservation and Recreation is responsible for establishing and maintaining an effective control environment.

The Auditor of Public Accounts has developed a new process for auditing agencies that are not required to have an audit every year, which we refer to as "cycled agencies." Traditionally, we audit these agencies at least once every three years. We now employ a risk-based approach to auditing the cycled agencies. Under this approach, annually we will perform a risk analysis for all of the cycled agencies considering certain criteria and divide the agencies into two pools. One pool will receive an annual audit and the other pool will be subject to review in a special project focused on one area of significance as well as a review of internal controls in the form of a questionnaire. Our intent is that all cycled agencies will complete an internal control questionnaire at least once every three years. This letter is to communicate the results of the Internal Control Questionnaire review.

Review Process

During the review, the agency completes an Internal Control Questionnaire that covers significant organizational areas and activities including payroll and human resources; revenues and expenses; procurement and contract management; capital assets; grants management; debt; and information technology and security. The questionnaire focuses on key controls over these areas and activities.

We review the agency responses and supporting documentation to determine the nature, timing, and extent of additional procedures. The nature, timing, and extent of the procedures selected depend on our judgment in assessing the likelihood that the controls may fail to prevent and/or detect events that could prevent the achievement of the control objectives. The procedures performed target risks or

business functions deemed significant and involve reviewing internal policies and procedures. Depending on the results of our initial procedures, we may perform additional procedures including reviewing evidence to ascertain that select transactions are executed in accordance with the policies and procedures and conducting inquiries with management. The “Review Procedures” section below details the procedures performed for Conservation and Recreation. The results of this review will be included within our risk analysis process for the upcoming year in determining which agencies we will audit.

Review Procedures

Due to the implementation of the new statewide accounting system, we reviewed a selection of system and transaction reconciliations in order to gain assurance that the statewide accounting system contains accurate data. The definitive source for internal control in the Commonwealth is the Agency Risk Management and Internal Control Standards (ARMICS) issued by the Department of Accounts (Accounts); therefore, we also included a review of ARMICS. The level of ARMICS review performed was based on judgment and the risk assessment at each agency. At some agencies only inquiry was necessary; while others included an in-depth analysis of the quality of the Stage 1 Agency-Level Internal Control Assessment Guide, or Stage 2 Process or Transaction-Level Control Assessment ARMICS processes. Our review of Conservation and Recreation’s ARMICS program included a review of all current ARMICS documentation and a comparison to statewide guidelines established by Accounts. Further, we evaluated the agency’s process of completing and submitting attachments to Accounts.

We reviewed the Internal Control Questionnaire and supporting documentation detailing policies and procedures. As a result of our review, we performed additional procedures over the following areas: payroll and human resources; revenues and expenses; and information technology and security. These procedures included validating the existence of certain transactions; observing controls to determine if the controls are designed and implemented; reviewing transactions for compliance with internal and Commonwealth policies and procedures; and conducting further review over management’s risk assessment process.

As a result of these procedures, we noted areas that require management’s attention. These areas are detailed in the “Review Results” section below.

Review Results

We noted the following areas requiring management’s attention resulting from our review:

- Conservation and Recreation has formal, documented policies and procedures over most of its significant business processes. However, management has not updated some of these procedures within the three to five year timeframe required by Conservation and Recreation’s internal policy. During our review, management had already begun a comprehensive review of its procedures, but we noted some procedures that were outdated. Conservation and Recreation should complete its review of these procedures to bring them into compliance with this internal policy and ensure they include current and accurate information.

- Conservation and Recreation did not fulfill all requirements of ARMICS as promulgated by Accounts. ARMICS requires the completion of a “Strengths, Weaknesses, Opportunities and Threats (SWOT) Analysis” as part of the risk assessment process. As Conservation and Recreation has not updated this analysis for several years, Conservation and Recreation should update its SWOT Analysis to include relevant risks to the agency. This will assist in the appropriate design of internal controls and bring Conservation and Recreation into compliance with ARMICS.
- Conservation and Recreation experienced insufficient cash flows at the end of fiscal year 2018, which led to non-compliance with § 2.2-4350 of the Code of Virginia (Prompt payment of bills by state agencies). Conservation and Recreation generates a large portion of its revenues from campsites and outdoor activities, which are easily affected by inclement weather. As this weather led to the shortfall in 2018, Conservation and Recreation should implement budgetary monitoring controls to anticipate and plan for these events. This will help to ensure there are sufficient cash flows throughout the fiscal year and maintain compliance with the Code of Virginia.
- Conservation and Recreation did not remit sales taxes to the Department of Taxation (Tax) in a timely manner due to a lack of staff and the lack of formally designated backup personnel. The monthly invoice provided by Tax gives a 30-day time period to remit the sales and use taxes it collects from customers. Conservation and Recreation remitted payment past these due dates for six out of 12 months during fiscal year 2018. Conservation and Recreation should properly remit its sales tax collections to Tax within the specified time frame and formally designate backup personnel to perform this function if the primary person is unavailable.
- Conservation and Recreation does not have a written procedure to ensure it terminates users’ access to a sensitive information system in a timely manner. Section 2.7 of the Commonwealth’s Information Security Standard, SEC 501 (Security Standard) requires system owners to “develop policies and procedures required to protect the system.” Conservation and Recreation should develop and implement a written procedure over the timely removal of access to this system.
- Conservation and Recreation is not logging or monitoring for unauthorized activity in one of its sensitive information systems. As Section AC-2 of the Security Standard requires agencies to “monitor information system accounts for atypical or suspicious usage,” Conservation and Recreation should monitor login attempts and other activity for sensitive systems and take action as necessary. This will reduce the risk of unauthorized access to the systems. Conservation and Recreation has a draft policy that covers logging and monitoring activity, but should finalize and implement this policy to ensure compliance with the Security Standard.

We discussed these matters with management on June 13, 2019. Management's response to the findings identified in our review is included in the section titled "Agency Response." We did not validate management's response and, accordingly, cannot take a position on whether or not it adequately addresses the issues in this report.

This report is intended for the information and use of management. However, it is a public record and its distribution is not limited.

Sincerely,

Auditor of Public Accounts

JDE/vks

Matthew J. Strickler
Secretary of Natural Resources

Clyde E. Cristman
Director



COMMONWEALTH of VIRGINIA
DEPARTMENT OF CONSERVATION AND RECREATION

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June 27, 2019

Ms. Martha S. Mavredes
Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23218

Dear Ms. Mavredes:

The Department of Conservation and Recreation (DCR) appreciates the opportunity to respond to the Results of the Internal Control Questionnaire Review performed by the Auditor of Public Accounts. Correcting these issues identified by your office will help strengthen the control environment at the DCR. Each response below addresses, in order, the issues identified in your Results Letter.

- The DCR has rescinded all outdated policies at this time and is ensuring a timely review of all active policies.
- The DCR is planning to perform a Stage 1 – Agency Level Controls review for this year's ARMICS report that will include the completion of a SWOT Analysis.
- Issues effecting prompt pay occur one month out of the year (June) due to the potential for State Parks fluctuating revenue (although this did not occur in the current year). The DCR Budget Manager does actively monitor cash balances, which is how we were able to identify previous year cash flow issues. To comply with the Prompt Pay Act in the future, the DCR is building a cash reserve to address this issue. In addition, should revenues lag expenditures to the extent they exceed our cash reserves; the agency has a treasury loan that can be utilized to pay vendors. Finally, based on the Comptroller's Quarterly Report, the agency has not fallen below the annual 95% prompt pay percentage standard since 2016 when it was 94.7%.
- The DCR anticipates that when the Division of Finance is fully staffed, the task of calculating and submitting sales tax to the Department of Taxation will be performed by the Revenue Manager.
- The DCR Division of Human Resources (HR) has developed an electronic Employee Checkout Sheet that, once HR are notified of an employee's planned or unplanned separation from the agency, is used to ensure timely removal of access to sensitive information systems. This process is documented in HR Policy #324 – Employee Removals.

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*State Parks • Soil and Water Conservation • Outdoor Recreation Planning
Natural Heritage • Dam Safety and Floodplain Management • Land Conservation*

- The DCR will implement a process for logging and monitoring for login attempts and other unauthorized activities in the Agriculture Application Suite. Once completed, the DCR IT Security Policy will be updated to reflect the new process.

The DCR would like to thank you and your staff for their efforts and professionalism during this review. We look forward to working with your office again in the future.

Sincerely,



Clyde E. Cristman
Director