



VIRGINIA EMPLOYMENT COMMISSION

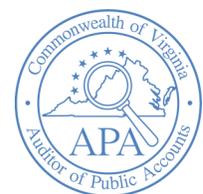
REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2023

Auditor of Public Accounts

Staci A. Henshaw, CPA

www.apa.virginia.gov

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AUDIT SUMMARY

Our audit of the Virginia Employment Commission (Commission) for the fiscal year ended June 30, 2023, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth's accounting and financial reporting system, the Commission's benefits and tax, and financial systems, and supplemental information and attachment submitted to the Department of Accounts;
- one matter involving internal control and its operation necessary to bring to management's attention that also represents an instance of noncompliance with applicable laws and regulations or other matter that is required to be reported; and
- adequate corrective action with respect to prior audit findings identified as complete in the [Findings Summary](#) included in the Appendix.

In the section titled "Internal Control and Compliance Finding and Recommendation" we have included our assessment of the conditions and causes resulting in the internal control and compliance finding identified through our audit as well as recommendations for addressing the finding. Our assessment does not remove management's responsibility to perform a thorough assessment of the conditions and causes of the finding and develop and appropriately implement adequate corrective actions to resolve the finding as required by the Department of Accounts in Section 10205 – Agency Response to APA Audit of the Commonwealth Accounting Policies and Procedures Manual. Those corrective actions may include additional items beyond our recommendations.

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INTERNAL CONTROL AND COMPLIANCE FINDING AND RECOMMENDATION

Improve Change Control Process

Type: Internal Control and Compliance

Severity: Significant Deficiency

The Commission does not define whether certain types of changes are exempt from certain elements of its information technology (IT) change control process. As a result, the Commission does not consistently follow its Configuration Management Policy and Procedures (Configuration Management Policy) and the Commonwealth's Information Security Standard, SEC 501 (Security Standard). Specifically, the following weaknesses exist:

- The Commission does not perform an explicit evaluation of change requests from a security perspective, commonly referred to as a security impact analysis, for changes to some of its systems and applications. For all 50 changes we selected for review, the Commission could not provide evidence that it performed a security impact analysis. The Configuration Management Policy requires the Commission's Information Security Officer (ISO) or designee to perform a security impact analysis for proposed changes, document the findings, and attach the documentation to the change request. Additionally, the Security Standard requires the Commission to approve or deny change requests with explicit consideration for security impact analyses. Without conducting and documenting a security impact analysis for each requested change, the Commission may not detect and prevent changes that could compromise the security of the IT environment (*Configuration Management Policy Section 3.b Security Impact Analysis; Security Standard Sections CM-3 Configuration Change Control and CM-4 Security Impact Analysis*).
- The Commission did not perform pre-implementation testing for 34 out of 50 changes sampled (68%). The Configuration Management Policy requires the Commission to test, validate, and document changes to the information system before implementing the changes on the operational system. Without performing pre-implementation testing to validate a change, the Commission increases the risk that a change may compromise security of the IT environment without being detected and prevented (*Configuration Management Policy Section 2.a.9 Configuration Change Control; Security Standard Section CM-3 Configuration Change Control*).

The Commission not documenting whether specific types of changes are exempt from certain aspects of its formal change management process or should follow a different process caused it not to consistently perform pre-implementation testing. Additionally, the Commission did not enforce its Configuration Management Policy, which also led to it not formally documenting a security impact analysis for each change.

The Commission should define and formally document the different change types and whether the type of change is exempt from aspects of its formal change management process. Additionally, the Commission should conduct and document its analysis of security impacts for each change request prior to approval and implementation to the production IT environment. These actions will help ensure the confidentiality, integrity, and availability of sensitive and mission critical data.



Staci A. Henshaw, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

February 7, 2024

The Honorable Glenn Youngkin
Governor of Virginia

Joint Legislative Audit
and Review Commission

Demetrios Melis, Commissioner
Virginia Employment Commission

We have audited the financial records, operations, and federal compliance of the **Virginia Employment Commission** (Commission) including federal programs for the year ended June 30, 2023. We conducted this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, in support of the Commonwealth's Annual Comprehensive Financial Report and Single Audit. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objective was to evaluate the accuracy of the Commission's financial transactions as reported in the Annual Comprehensive Financial Report for the Commonwealth of Virginia and test federal compliance in support of the Commonwealth's Single Audit for the year ended June 30, 2023. In support of this objective, we evaluated the accuracy of recorded financial transactions in the Commonwealth's accounting and financial reporting system, the Commission's accounting and financial reporting system, the Commission's benefits and tax, and financial systems, and supplemental information and attachment submitted to the Department of Accounts; reviewed the adequacy of the Commission's internal control; tested for compliance with applicable laws, regulations, contracts, and grant agreements; and reviewed corrective actions with respect to audit findings and recommendations from prior year reports.

Audit Scope and Methodology

The Commission’s management has responsibility for establishing and maintaining internal control and complying with applicable laws, regulations, contracts, and grant agreements. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over and compliance for the Unemployment Insurance federal grant program and the Coronavirus State and Local Fiscal Recovery Funds in support the of the Commonwealth’s Single Audit, and the following significant cycles, classes of transactions, and account balances:

Unemployment Compensation, a major enterprise fund in the Annual Comprehensive Financial Report for the Commonwealth of Virginia:

Cash with the U.S. Department of the Treasury, Unemployment Trust

Benefit eligibility determination and payment

Revenue collections, reimbursement for services and taxes

Receivables

Due to employers and other governments

Information system security

Federal grant revenues and expenses:

Contractual expenses

Payroll expenses

We performed audit tests to determine whether the Commission’s controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Commission’s operations. We performed analytical procedures, including budgetary and trend analyses, and tested details of transactions to achieve our audit objectives. We also confirmed cash with the federal government.

A nonstatistical sampling approach was used. Our samples were designed to support conclusions about our audit objectives. An appropriate sampling methodology was used to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. We identified specific attributes for testing each of the samples and, when appropriate, we projected our results to the population.

Our consideration of internal control over financial reporting and federal compliance (internal control) was for the limited purpose described in the section “Audit Objectives” and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies

and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control titled “Improve Change Control Process,” which is described in the section titled “Internal Control and Compliance Finding and Recommendation,” that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements or noncompliance on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements or material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Conclusions

We found that the Commission properly stated, in all material respects, the amounts recorded and reported in the Commonwealth’s accounting and financial reporting system, the Commission’s benefits and tax, and financial systems, and supplemental information and attachment submitted to the Department of Accounts.

We noted a certain matter involving internal control and its operation and compliance with applicable laws, regulations, contracts, and grant agreements that requires management’s attention and corrective action. This matter is described in the section titled “Internal Control and Compliance Finding and Recommendation.”

The Commission has taken adequate corrective action with respect to prior audit findings and recommendations identified as complete in the [Findings Summary](#) included in the Appendix.

Since the finding noted above has been identified as a significant deficiency, it will be reported as such in the “Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards” and the “Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance,” which are included in the Commonwealth of Virginia’s Single Audit Report for the year ended June 30, 2023. The Single Audit Report will be available at www.apa.virginia.gov in February 2024.

Exit Conference and Report Distribution

We provided this report to management on February 7, 2024, for their review. Government Auditing Standards require the auditor to perform limited procedures on the Commission’s response to the findings identified in our audit, which is included in the accompanying section titled “Agency Response.” The Commission’s response was not subjected to the other auditing procedures applied in the audit and, accordingly, we express no opinion on the response.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

GDS/vks

FINDINGS SUMMARY

| Finding Title | Status of Corrective Action | First Issued |
|---|-----------------------------|--------------|
| Comply with Employment Eligibility Requirements | Complete | 2019 |
| Submit Required Reports Timely | Complete | 2020 |
| Comply with Federal Requirements for Review of the Tax Performance System | Complete | 2021 |
| Submit Accurate Special Reports to Department of Labor | Complete | 2022 |
| Upgrade End-of-Life Technology | Complete | 2022 |
| Improve Database Security | Complete | 2022 |
| Properly Update and Review System Access | Complete | 2022 |
| Notify Finance of System Adjustments Affecting Benefit Payments | Complete | 2022 |
| Improve Change Control Process | Ongoing | 2023 |



COMMONWEALTH of VIRGINIA
Virginia Employment Commission

Demetrios J. Melis
Commissioner

Post Office Box 26441
Richmond, VA 23261-6441

February 9, 2024

Ms. Staci Henshaw
Auditor of Public Accounts
Post Office Box 1295
Richmond, Virginia 23218

Dear Ms. Henshaw:

Thank you for the opportunity to respond to your Audit Report of the Virginia Employment Commission (VEC) for the year ended June 30, 2023. We are pleased that your audit found that our financial activities were properly recorded and reported, and prior audit findings were adequately resolved. This demonstrates the commitment and diligent efforts of our staff.

We concur with the finding and recommendation and will take appropriate actions to remediate the concerns. We give your recommendations the highest level of importance and consideration.

The VEC remains committed to improving internal controls and compliance while furthering our goal of becoming the best-in-class Employment Commission in the nation.

Please let us know if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Demetrios Melis", with a long horizontal flourish extending to the right.

Demetrios Melis

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E-Mail: CustomerService@vec.virginia.gov

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