



VIRGINIA DEPARTMENT OF STATE POLICE

AUDIT OF SELECT BUSINESS CYCLES FOR THE YEAR ENDED JUNE 30, 2017

Auditor of Public Accounts
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AUDIT SUMMARY

We audited the Virginia Department of State Police's (State Police) internal controls and compliance over information technology, fixed assets, procurement, purchase and sworn charge cards, federal grants accounting, cash management, accounts receivable, Commonwealth accounting and reporting system reconciliations, and retirement benefits system reconciliations for the fiscal year ended June 30, 2017. We also followed up on all prior audit findings. We found:

- matters involving internal control and its operation necessary to bring to management's attention;
- instances of noncompliance with applicable laws and regulations or other matters that are required to be reported; and
- inadequate corrective action with respect to prior audit findings as indicated in the section titled "Audit Scope Overview and Findings by Area."

As our audit scope was limited to those areas described above, this report only includes internal control and compliance matters we identified as related to the scope. Next year's audit scope will include new audit areas that may identify additional internal control and compliance matters not included in this report.

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AUDIT SCOPE OVERVIEW AND FINDINGS BY AUDIT AREA

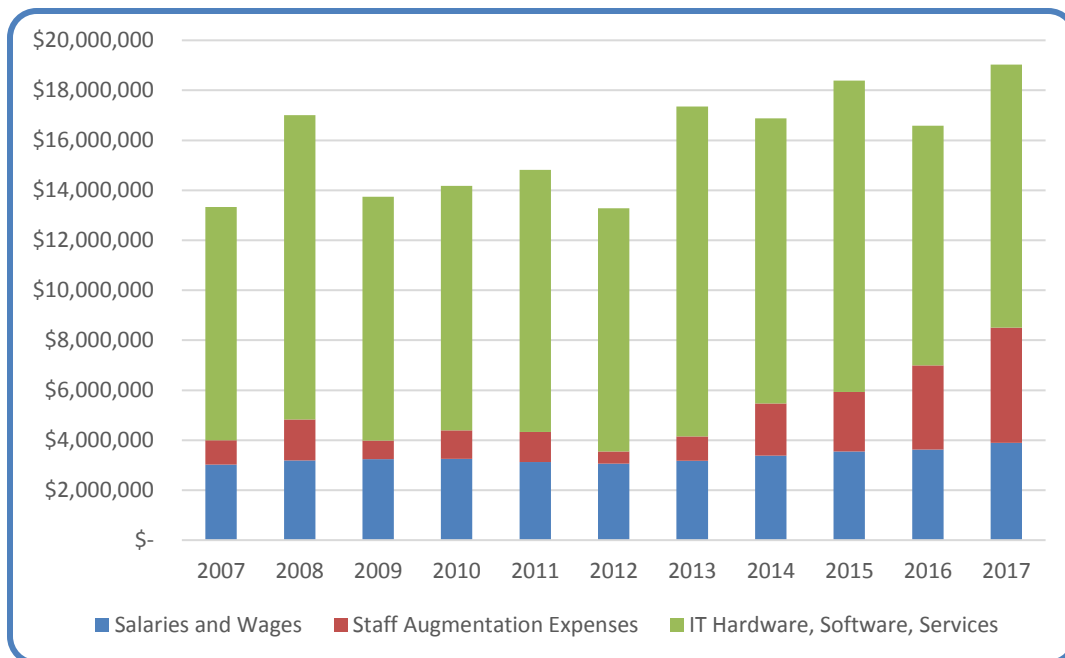
The State Police provides services to the public, other law enforcement, and criminal justice agencies. It is organized into three bureaus: the Bureau of Criminal Investigation, the Bureau of Field Operations, and the Bureau of Administrative and Support Services (BASS). BASS includes the Information Technology (IT) and Property and Finance divisions, which manage the areas within our audit scope of information technology, fixed assets, procurement, purchase and sworn charge cards, federal grants accounting, cash management, accounts receivable, and Commonwealth accounting and reporting system and retirement benefit system reconciliations. We describe each of these areas in more detail below.

Information Technology Division

State Police's IT assets are vital to its mission and include systems that allow law enforcement to effectively coordinate and communicate, and support its financial and administrative operations. State Police has elected to exclude most of its IT assets from the Virginia Information Technologies Agency (VITA) and Northrop Grumman Partnership (Partnership) and instead manage them in-house. Although it is operating outside of the Partnership, State Police must still adhere to the Commonwealth's Security Standards promulgated by VITA. Chart 1 below shows the amount that State Police has spent for each of the past ten fiscal years to manage and upgrade its technology.

Annual IT Expenditures
For Fiscal Years 2007 - 2017

Chart 1



Source: State Police's accounting and reporting system

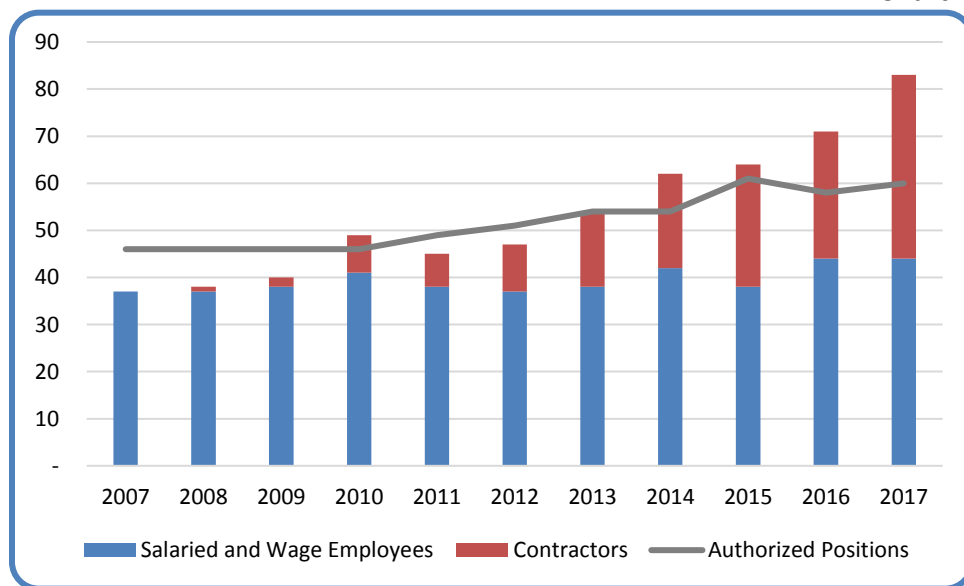
Salaries and wages are comprised of the fully burdened cost for its IT employees, meaning the cost of salaries, wages, and benefits, and this amount increased by \$870,000 over the ten-year period. The average cost per IT employee increased by eight percent over the ten-year period, from \$81,500 in 2007 to \$88,400 in 2017. Considering only inflation, the 2007 cost would equal \$97,900 in 2017 dollars and this indicates that State Police's IT salaries have not kept pace with inflation, making it more difficult to remain competitive for hiring and retaining employees.

Staff augmentation expenditures are comprised of contractors hired to temporarily perform duties of vacant IT positions or work in a specialized area. These expenditures ranged from a low of \$500,000 in 2012 to a high of \$4.6 million in 2017. On average, State Police paid \$118,000 for each contractor position, which is approximately \$30,000 more than the average fully burdened cost of its IT employees.

Chart 2 below shows the average number of full-time IT employees and contractors compared to the number of authorized positions for each of the past ten fiscal years. Over this time, the number of authorized positions has grown from 46 to 60, but State Police has filled these positions with contractors rather than significantly increasing its full-time employees.

**Number of IT Staff and Contractors
Compared to Authorized Positions**
For Fiscal Years 2007 - 2017

Chart 2



Source: Virginia State Police

IT Hardware, Software, Services, shown in Chart 1 above, are comprised of all the non-personnel related expenditures and the amount varied between \$9.3 million to \$13.1 million over the ten year period, averaging around \$11.8 million annually. The types of expenditures in this category include new technology components, software licenses, and technology service vendors, such as telecommunications.

State Police has 63 sensitive systems that support its mission and many of them rely on technologies that run on software components that have reached their end-of-life. Outdated technologies increase risk to State Police's sensitive systems because they no longer receive patches for known security vulnerabilities and malicious attackers can exploit the vulnerabilities, leading to a data breach. In recent years, State Police has been upgrading some of these software components, but it did so without a formal IT governance structure that prioritized the required projects. State Police's Chief Information Officer noted management recognizes the value in IT governance and will be creating a body and policies to support it. In addition, he noted that State Police is evaluating options for transitioning from 100 percent in-house managed systems to VITA offered solutions, as they are rolled-out.

Our previous audit noted internal control weaknesses and non-compliance relative to the Commonwealth's security standards and user access controls. Additionally, in April 2017, malware infected the State Police's email system and the agency shut down the service for a week, taking months to resolve completely. These reasons, including the increased use of consulting staff who may be unfamiliar with the Commonwealth's security standards, support our decision to include a review of IT controls and compliance in our audit scope.

Information Technology Division Findings

Continue to Upgrade and Replace End-of-Life Technology

Type: Internal Control and Compliance

Repeat: Yes (first issued in 2013)

Prior Title: Continue to Upgrade Database System Software

State Police continues to use end-of-life technologies in its IT environment. State Police's Information and Communication Technologies Division (IT Division) is reducing its number of end-of-life technologies, but continues to maintain server operating systems and databases that use software versions the vendors no longer support. In addition, State Police does not have approved security exceptions from the Commonwealth's Chief Information Security Officer for the applications using end-of-life technology. State Police has plans in place to upgrade, replace, and decommission the remaining end-of-life technologies by 2019.

The Commonwealth's Information Security Standard, SEC 501 (Security Standard), Section SI-2-COV, prohibits the use of software products that the software publisher has designated as end-of-life or end-of-support. State Police's use of end-of-life server operating systems and databases increases the risk that known vulnerabilities will persist in these systems without the potential for patching or mitigation. These unpatched vulnerabilities increase the risk of cyberattack, exploit, and data breach by malicious parties. Additionally, vendors do not offer operational and technical support for operating systems designated as end-of-life or end-of-support, which increases the difficulty of restoring system functionality if a technical failure occurs. The applications using end-of-life technologies support mission essential functions that help to protect citizens in the Commonwealth.

The IT Division does not have sufficient personnel and monetary resources to maintain their sensitive applications as well as perform the work necessary to upgrade and replace them to current

technologies. State Police also had a malware attack during 2017 that took resources away from upgrading and replacing end-of-life technologies.

The IT Division should continue to upgrade and replace the applications using end-of-life technologies and dedicate the resources needed to complete their efforts by 2019. State Police may need to reevaluate its budget to ensure that it can dedicate sufficient resources to complete these upgrades as soon as possible. In the meantime, the IT Division should also seek security exceptions from the Commonwealth's Chief Information Security Officer for the end-of-life technologies. Upgrading and replacing the end-of-life technologies will help to protect the confidentiality, integrity, and availability of sensitive and mission essential data.

Align Information Technology Security Audits with Current Sensitive Systems

Type: Internal Control and Compliance

Repeat: No

State Police's IT Audit Plan does not align with the current sensitive system listing. For example, the IT Audit Plan includes systems that the State Police decommissioned or no longer uses, and includes multiple legacy systems that the agency plans to replace in 2018.

The Commonwealth's IT Security Audit Standard (Security Audit Standard), SEC 502, Section 1.4, requires that IT systems containing sensitive data, or reside in a system with a sensitivity of high on any of the criteria of confidentiality, integrity, or availability, receive an IT security audit at least once every three years. An inaccurate IT Audit Plan will result in insufficient audit coverage over State Police's sensitive systems. Additionally, since State Police is contracting these audit services to the Virginia Information Technologies Agency's (VITA) IT Security Audit Services at a price exceeding \$530,000, an inaccurate IT Audit Plan may not provide sufficient coverage to realize the most value from this investment.

State Police's Internal Audit and IT divisions did not communicate and reconcile the systems on the IT Audit Plan to the current sensitive systems to ensure it is accurate. The Internal Audit and IT divisions should collaborate to produce an accurate listing of sensitive systems that require an IT security audit. Internal Audit should reconcile the list to the existing IT Audit Plan and modify it accordingly to ensure VITA's IT Security Audit Services perform IT security audits that provide value. In addition, State Police should modify the contract with VITA's IT Security Audit Services and only conduct audits for their current and future sensitive systems.

Perform Information Technology Security Audits

Type: Internal Control and Compliance

Repeat: No

State Police is not performing timely IT security audits of its more than 60 sensitive systems. The last audit performed on any of them was in 2015. State Police has recently contracted with VITA's IT Security Audit Services to perform audits for their sensitive systems and VITA plans to perform audits beginning in March 2018 through August 2020.

The Commonwealth's Security Audit Standard, Section 1.4, requires that IT systems containing sensitive data, or residing in a system with a sensitivity of high on any of the criteria of confidentiality, integrity, or availability, receive an IT security audit at least once every three years. Without conducting IT security audits timely, State Police increases the risk that IT staff will not detect and mitigate weaknesses in its sensitive systems, which increases the risk of malicious parties compromising sensitive and confidential data. State Police has experienced staffing shortages in its IT auditor position and has not had the financial resources to pay a third-party vendor to complete the audits.

State Police should continue to work with VITA's IT Security Audit Services to ensure they perform IT security audits according to the audit plan and maintain compliance with the with the Security Audit Standard.

Improve Business Impact Analysis

Type: Internal Control and Compliance

Repeat: No

State Police's Business Impact Analysis (BIA) is not current and references applications the agency has decommissioned and no longer uses. The BIA is an essential security program document and serves as the primary input for the IT system and data classification process, risk assessments, and the continuity of operations and disaster recovery plans. State Police has a contract with VITA's Information Security Officer (ISO) Services to have them assist in developing and documenting a BIA.

The Commonwealth's Security Standard, Section 3 Business Impact Analysis, requires State Police to identify their business functions, identify those agency business functions that are essential to an agency's mission, and identify the resources that are required to support these essential agency business functions and document them in the BIA. The Security Standard also requires State Police to conduct annual reviews of the agency BIAs, and conduct a full revision at least once every three years.

Without a current BIA, the IT Division may not properly identify sensitive systems to ensure they have adequate security controls to protect the availability, integrity, and confidentiality of sensitive and mission critical applications. In addition, the IT Division may not have the proper recovery time objectives to ensure proper restoration and recovery procedures are in place to ensure the safety of their officers and citizens in the Commonwealth. The BIA is not current because the IT Division lacks resources and a 2017 malware attack was a priority over updating the BIA.

The IT Division should work with VITA's ISO Services to complete the BIA and ensure it contains the necessary information to update their risk management and contingency management programs. The IT Division should also develop a process to review and update the BIA annually to ensure they are properly identifying systems that support mission essential functions. Doing this will help ensure the confidentiality, integrity, and availability of sensitive and mission critical data.

Improve Disaster Recovery Plan

Type: Internal Control and Compliance

Repeat: No

State Police's Disaster Recovery Plan (DRP) is not current and the IT Division could not provide evidence they are performing annual disaster recovery tests. State Police's DRP is from 2015 and does not reflect their current IT environment because the agency has replaced and decommissioned many of its legacy applications since then. In addition, the IT Division did not provide evidence they are performing annual tests against the DRP to ensure they can recover mission critical systems and data according to recovery point and recovery time objectives.

The Commonwealth's Security Standard, Section CP1-COV-2, requires State Police to develop and maintain a DRP that supports the restoration of mission essential functions and dependent business functions. The Security Standard also requires State Police to periodically review, reassess, test, and revise the DRP to reflect changes in the mission essential functions, services, IT system hardware and software, and personnel. State Police's Commissioner also must approve the DRP.

The outdated DRP increases the risk that the IT Division may not be able to recover sensitive and mission critical systems in a timely manner in the event of a disaster. In addition, by not testing the DRP annually, personnel may not know their roles and responsibilities to restore applications that help to protect the Commonwealth's citizens. The DRP is not current because the IT Division lacks resources and a 2017 malware attack was a priority over updating the DRP.

The IT Division should update the DRP to reflect its current IT environment. Further, they should create a schedule to perform annual tests against their sensitive systems to ensure they can recover them according to recovery time objectives. This will help to ensure the availability of critical applications the State Police relies on to protect the Commonwealth's citizens.

Improve Risk Assessments

Type: Internal Control and Compliance

Repeat: No

State Police does not have current Risk Assessments (RA) for their sensitive systems. The RA's are from 2015 and the IT Division has not performed annual self-assessments to ensure their validity. RA's are essential security program documents that allow the IT Division to identify potential threats and vulnerabilities and implement controls to mitigate their likelihood. State Police has a contract with VITA's ISO Services to have them assist the agency develop and document RA's for sensitive systems.

The Commonwealth's Security Standard, Section 6 Risk Assessment, requires State Police conduct and document a RA for each sensitive system as needed, but not less than once every three years. The Security Standard also requires State Police to conduct and document an annual self-assessment to determine the continued validity of the RA.

Without complete and current RA's for each sensitive system, the IT Division increases the risk it will not identify and mitigate existing vulnerabilities and increases the chance a malicious attacker could exploit a known vulnerability. A successful attack could disrupt the availability of systems State Police uses to protect citizens in the Commonwealth. The RA's are not current because the IT Division lacks resources and had a malware attack during 2017 that was a priority over updating the RA's.

The IT Division should work with VITA's ISO Services to update and complete RA's for all sensitive systems and develop a process to perform annual self-assessments to ensure the validity of the RA's. Doing this will help ensure the confidentiality, integrity, and availability of sensitive and mission critical data.

Continue to Improve Web Application Security

Type: Internal Control and Compliance

Repeat: Yes (first issued in 2013)

State Police does not secure a web application with some of the minimum-security controls the Commonwealth's Security Standard requires. State Police has remediated six out of eight weaknesses identified during the previous audit, but two weaknesses remain in the environment.

We communicated the two remaining control weaknesses to management in a separate document marked Freedom of Information Act Exempt (FOIAE) under Section 2.2-3705.2 of the Code of Virginia due to it containing descriptions of security mechanisms. The Security Standard requires the implementation of certain controls that reduce unnecessary risk to data confidentiality, integrity, and availability in systems processing or storing sensitive information. By not meeting the minimum requirements in the Security Standard and aligning the web application's settings and configurations with best practices, State Police cannot ensure the confidentiality, integrity, and availability of data.

State Police should dedicate the necessary resources to implement the controls discussed in the communication marked FOIA Exempt in accordance with the Security Standard and best practices in a timely manner.

Obtain, Review, and Document Service Organization Control Reports of Third-Party Service Providers

Type: Internal Control and Compliance

Repeat: No

The Assistant Property and Finance Officer has not reviewed its third-party service providers' Service Organization Control report. A Service Organization Control report provides an independent description and evaluation of the provider's internal controls. Management should regularly review Service Organization Control reports and document the results of its review in order to ensure the effectiveness of the providers' controls.

Section 1.1 of the Security Standard states that agency heads remain accountable for maintaining compliance with the Security Standard for information technology equipment, systems, and services procured from providers, and that agencies must enforce the compliance requirements through

documented agreements and oversight of the services provided. Additionally, the Commonwealth Accounting Policies and Procedures Manual (CAPP Manual) Topic 10305 requires agencies to have adequate interaction with providers to appropriately understand the providers' internal control environment. Agencies must also maintain oversight over providers to gain assurance over outsourced operations.

Without performing a review of Service Organization Control reports, State Police cannot ensure that the providers' controls are designed, implemented, and operating effectively. The Assistant Property and Finance Officer has not reviewed the report because they have not obtained the reports from the provider. According to the Assistance Property and Finance Officer, State Police is in the process of completing a non-disclosure agreement in order to obtain the report.

The Assistant Property and Finance Officer should complete the necessary requirements to obtain the Service Organization Control report. Once he obtains the report, the Assistant Property and Finance Office should review it to evaluate if the service providers' controls are designed, implemented, and operating effectively and document the results of the review. If his review identifies weaknesses in Service Organization Control report, State Police should implement complementary controls to mitigate the risk to the Commonwealth until the provider corrects the deficiency.

Strengthen User Access Policies and Procedures

Type: Internal Control and Compliance

Repeat: Yes (first issued in 2013)

Prior Title: Improve Financial Management System Controls

State Police does not have a user access control policy that addresses the purpose, scope, roles, responsibilities, and management's commitment to maintaining access controls. Additionally, undocumented procedures exist regarding how the agency initiates and approves user access privileges, assigns user roles, conducts annual reviews, and handles account terminations. Finally, although written instructions exist to show the security officer how to add, modify, and terminate user access in the accounting system, the security officer just recently updated the procedures that were more than three years old.

The Commonwealth's Security Standard, Access Control Policies and Procedures (AC-1), requires organizations to develop, document, and disseminate to all organizational personnel:

- an access control policy that addresses purpose, scope, roles, responsibilities, management commitment, and compliance;
- procedures to facilitate the implementation of the access control policy and associated access controls; and
- updates to the access control policy and procedures annually, or more frequently if required to address and environmental change.

Without a regularly updated and formal user access policy, State Police cannot effectively communicate its user access requirements to protect inappropriate access to its systems. Additionally, without written procedures that support the policy, State Police may not apply its user access requirements completely and consistently, potentially resulting in unauthorized access to systems, among other risks. The Property and Finance Commander has not undertaken a project to develop a written policy and the Property and Finance Officer for Finance has not committed his informal procedures to writing.

The Property and Finance Commander should require his division to develop and implement a formal user access control policy and require all employees to document their procedures supporting the policy.

Timely Remove Terminated Employee Access to the Commonwealth's Lease Accounting System

Type: Internal Control and Compliance

Repeat: No

State Police did not timely remove terminated employee access to the Commonwealth's lease accounting system. Two terminated employees were among the eight users with system access, and these employees had terminated their employment for five months and twelve months, respectively, before the Department of Accounts (Accounts) deleted them as part of their inquiry.

The lease accounting system access request form requires State Police to maintain internal controls over access to prevent unauthorized access. Further, the Commonwealth's Security Standard, Access Control Policies and Procedures (AC-1), requires an access control policy and procedures to facilitate the implementation of the access control policy and associated access controls.

Without a formal user access policy and procedures, it is likely that terminated employees will continue to have access to systems. The Property and Finance Commander has not undertaken a project to develop a written policy and departments have not committed procedures to writing.

The Property and Finance Commander should require his division to develop and implement a formal user access control policy and procedures, which includes notifying Accounts timely when an employee terminates and State Police wants to deactivate access.

Timely Remove Terminated Employee Access to the Commonwealth's Fixed Asset System

Type: Internal Control and Compliance

Repeat: No

State Police did not timely remove terminated employee access to the Commonwealth's fixed asset system. Two terminated employees were among the eight users with system access, and these employees had terminated their employment for five months and twelve months, respectively, before Accounts deleted them as part of their inquiry.

The fixed asset system access request form requires State Police to maintain internal controls over access to prevent unauthorized access. Further, the Commonwealth's Security Standard, Access Control Policies and Procedures (AC-1), requires an access control policy and procedures to facilitate the implementation of the access control policy and associated access controls.

Without a formal user access policy and procedures, it is likely that terminated employees will continue to have access to systems. The Property and Finance Commander has not undertaken a project to develop a written policy and departments have not committed procedures to writing.

The Property and Finance Commander should require his division to develop and implement a formal user access control policy and procedures, which includes notifying the Accounts timely when an employee terminates and State Police wants to deactivate access.

Timely Remove Terminated Employee Access to the Commonwealth's Purchasing System

Type: Internal Control and Compliance

Repeat: No

State Police did not timely remove terminated employee access to the Commonwealth's purchasing system. Two terminated employees were among the 17 users who State Police assigned as dollar threshold approvers, and these employees had been terminated for 15 days and four months, respectively, as of the date the auditor ran a security roles report. In addition, three contract employees had terminated between two to five months prior to our review and their access remained active.

The Purchasing System Security Standard, Section 2.10, requires agencies to deactivate terminated employee access immediately. Further, the Commonwealth's Security Standard, Access Control Policies and Procedures (AC-1), requires an access control policy and procedures to facilitate the implementation of the access control policy and associated access controls.

Without a formal user access policy and procedures, it is likely that terminated employees will continue to have access to systems. The Property and Finance Commander has not undertaken a project to develop a written policy and departments have not committed procedures to writing.

The Property and Finance Commander should require his division to develop and implement a formal user access control policy and procedures, which includes deactivating terminated employee accounts timely.

Deactivate Access to the Commonwealth's Purchasing System

Type: Internal Control and Compliance

Repeat: No

State Police did not timely deactivate users who had not logged into the Commonwealth's purchasing system for at least 90 days. Thirteen of 76 users had not logged into the systems between 65 and 841 days beyond the 90-day threshold.

The Purchasing System Security Standard, Section 2.10, requires agencies to deactivate user accounts when the account has not be accessed for more than 90 days. Further, the Commonwealth's Security Standard, Access Control Policies and Procedures (AC-1), requires an access control policy and procedures to facilitate the implementation of the access control policy and associated access controls.

Without formal user access policies and procedures, it is likely that employees who have not logged into the purchasing system beyond 90 days will continue to have access to system. The Property and Finance Commander has not undertaken a project to develop a written policy and departments have not committed procedures to writing.

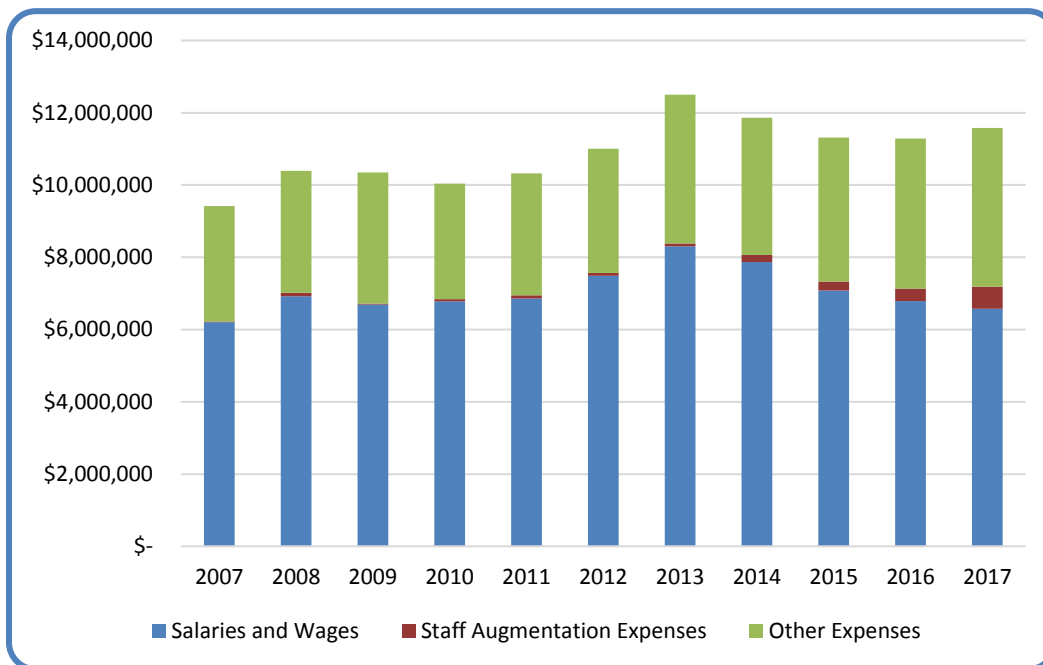
The Property and Finance Commander should require his division to develop and implement a formal user access control policy and procedures, which includes monitoring and deactivating purchasing system accounts.

Property and Finance Division

The Property and Finance Division (Property and Finance) oversees financial functions, fiscal duties, and property management. Chart 3 below shows the amount that State Police has spent for each of the past ten fiscal years relative to the programs within this division.

Annual Administration and Support Expenditures
For Fiscal Years 2007 - 2017

Chart 3



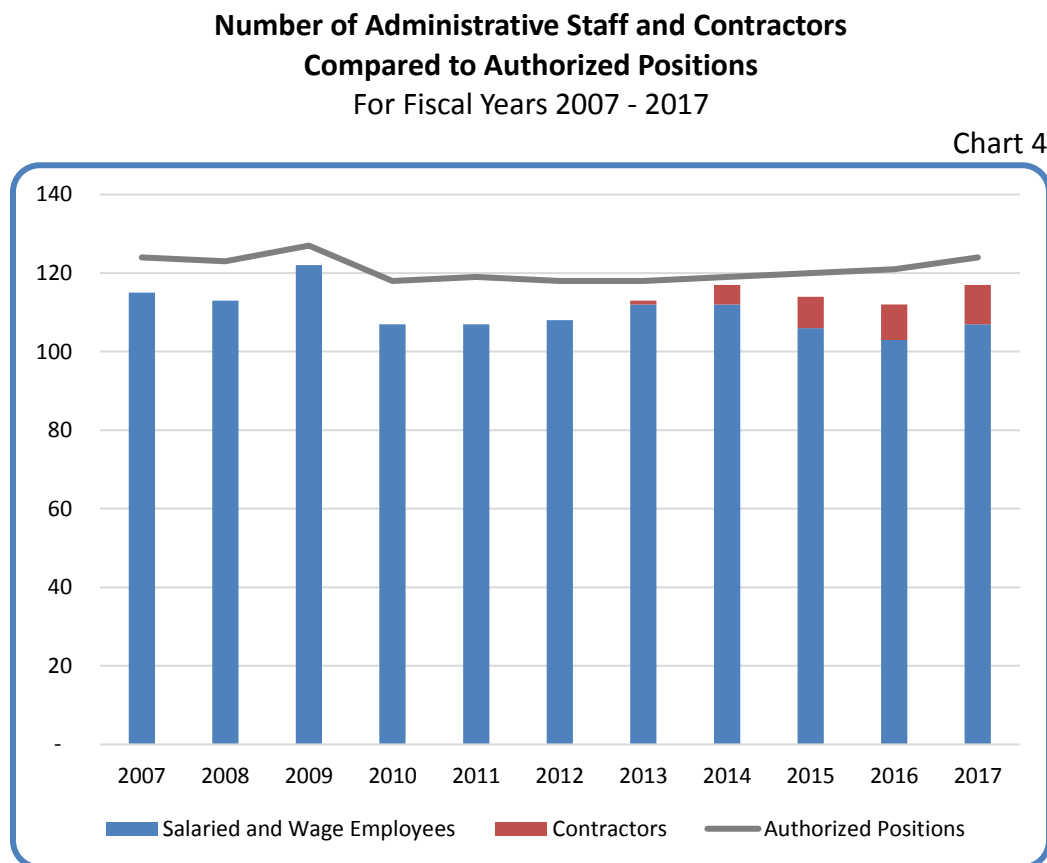
Source: State Police's accounting and financial reporting system

Salaries and wages are comprised of the fully burdened cost of employees in this division and it increased over ten years from \$6.2 million in 2007 to \$6.6 million in 2017. The average cost per

administrative employee increased by 14 percent, from \$53,900 in 2007 to \$61,400 in 2017, but this increase did not keep pace with the rate of inflation. An analysis by administrative function shows the average cost per employee in 2017 was as follows: \$81,500 for general management and direction; \$54,900 for accounting and budgeting; \$58,600 for human resources; and, \$40,600 for procurement and distribution services.

State Police rarely used staff augmentation services, also known as contractors, for its administrative functions until 2013. Since that time, its use has grown from one staff to ten, with expenditures in 2017 totaling \$610,800. In 2017, the accounting and budgeting function used six contractors at an average cost of \$59,200, which is approximately \$4,300 higher than the average cost of a salaried employee. Similarly, the human resources function used three contractors at an average cost of \$79,000, which is \$20,400 higher than the average cost of a salaried employee.

Chart 4 below shows the average number of those full-time and contractors compared to the authorized number of positions for each of the past ten fiscal years.



Source: Virginia State Police

Staff augmentation is an effective way to hire temporary employees or to acquire expertise needed for a specific project. However, since these employees may come and go, it is important that management establish comprehensive policies and procedures to provide clear guidance regarding its internal control expectations and compliance requirements. For this reason, our audit of each of the

areas described below will incorporate a review of the applicable policies and procedures for clarity, completeness, and correctness.

Fixed Assets

State Police uses the Commonwealth's fixed asset system to account for its capital and controllable assets and employs other internal systems to help track asset locations to facilitate required inventories. State Police follows the CAPP Manual and agency procedures relative to asset capitalization threshold, useful lives, asset additions, monitoring, and deletions. Table 1 below presents the categories and balances of its fixed assets.

Fixed Assets
For Fiscal Year 2017

Table 1

Category	Description	Balance	Net Balance
Land	Land associated with buildings		\$ 466,982
Construction in Progress			43,944,658
Buildings	Headquarters, academy, area offices	\$ 78,794,405	
Less Depreciation		<u>(24,011,518)</u>	
Net Building			54,782,887
Infrastructure	Towers, antennas for radio system	115,513,182	
Less Depreciation		<u>(23,717,634)</u>	
Net Infrastructure			91,795,548
Equipment	Vehicles, computers, weapons	455,345,223	
Less Depreciation		<u>(253,645,616)</u>	
Net Equipment			<u>201,699,607</u>
Total			<u><u>\$392,689,682</u></u>

Source: Commonwealth's accounting and financial reporting system

Our prior audit noted that State Police entered assets into four separate systems, but did not reconcile them to ensure they were accurate and complete. In addition, State Police did not inventory its equipment as required, did not remove all disposed assets, and did not periodically re-evaluate the useful lives it assigns to assets. The Agency Risk Management and Internal Controls Standards (ARMICS) corrective action plan that State Police submitted to the Department of Accounts in March 2018, continues to cite control deficiencies in the areas we reported previously. Given the significance of these assets and the lack of compliance and controls cited previously and in the ARMICS corrective action plan, we included fixed assets in the scope of the audit.

Align Fixed Asset Accounting Policies with Code of Virginia and CAPP Manual Best Practices

Type: Internal Control

Repeat: Yes (first issued in 2013)

Prior Title: Improve Fixed Asset Internal Controls and Processes

Property and Finance has omitted key internal controls from its fixed asset accounting policies and procedures including procedures to ensure it acquires all assets using an acceptable acquisition method, records them timely, and accounts for them properly. Specific omissions include:

Salvage Values

State Police's policies and procedures do not provide any guidance for estimating salvage values based on the type of asset, its obsolescence and the degree of usefulness at disposal, and the nature of the disposal process.

Useful Lives

State Police's policies and procedures refer to the CAPP Manual's fixed asset nomenclature codes (which correspond to pre-set useful lives) established by Accounts, but does not offer any guidance for selecting useful lives based on State Police's historical use of similar assets. Additionally, State Police does not require the periodic review of the useful lives of assets already placed into service.

Reconciliations

State Police's policies and procedures do not address reconciling information in Commonwealth's fixed asset system against amounts recorded in the Commonwealth's financial accounting system, as well as any other relevant agency-based system, such as State Police's inventory system.

Non-Purchased Assets

State Police General Order No. ADM 11.0 established a policy for the acceptance of gifts, but does not prescribe a process for communicating the acceptance of gifts to Property and Finance. State Police's policies and procedures do not address how they capitalize donated or seized assets, including valuing such assets or how departments should alert Property and Finance of their existence.

Unclaimed Property

State Police has not developed adequate policies and procedures to comply with Code of Virginia §52-11.4 and §52-11.5 regarding the disposition of unclaimed personal property and

seized weapons. General Order No. OPR 6.0 requires compliance with the Code of Virginia; however, there are no detailed policies and procedures to ensure compliance.

The absence of adequate written policies and procedures increases the likelihood that State Police will not properly account for fixed assets. Additionally, the lack of a detailed process for ensuring compliance with the Code of Virginia increases the likelihood of noncompliance. The Property and Finance Commander has not ensured that fixed asset-related policies and procedures adequately reflect CAPP Manual and Code of Virginia requirements.

Property and Finance staff should review the CAPP Manual and revise its policies and procedures to ensure its internal control structure considers the CAPP Manual best practices. Additionally, Property and Finance should regularly review and update its fixed asset policies and procedures to ensure that they remain up-to-date and reflect changes to the agency's fixed assets environment. Finally, Property and Finance staff should revise its policies regarding the disposition of unclaimed property to be in compliance with §52-11.4 and §52-11.5 of the Code of Virginia.

Enter Assets into the Commonwealth's Fixed Asset System in a Timely Manner

Type: Internal Control

Repeat: No

The Fixed Asset Accountant does not enter assets into the Commonwealth's fixed asset system timely. We found that 389 of the 558 (69.7%) assets capitalized during fiscal year 2017 were entered 32 or more days after their acquisition, primarily because the Fixed Assets Accountant did not begin entering assets acquired throughout the year until April 2017.

State Police's policy requires the Fixed Asset Accountant to enter assets by the end of the month in which the invoice was processed. Entering fixed assets untimely increases the likelihood that the Fixed Asset Accountant will inappropriately capitalize assets. Additionally, capitalizing assets at the end of the year means that the accountant must review a year's worth of purchases in a relatively short amount of time, increasing the likelihood that she will make careless errors. Finally, extended periods of time between an asset's receipt and final capitalization increase the probability that relevant parties will not be able to respond to questions about the purchase.

State Police does not dedicate sufficient resources to fixed assets accounting. The Fixed Assets Accountant is the only position dedicated to accounting for fixed assets, which is significant given that State Police's assets are located across the Commonwealth, and she has several additional responsibilities that management has made a priority.

The Fixed Asset Accountant should enter all assets into the Commonwealth's fixed asset system timely. The Property and Finance Commander should dedicate the necessary resources to account for State Police's fixed assets. If more resources are unavailable, the Property and Finance Commander and his staff should consider assigning fixed assets responsibilities to several individuals to ensure that all facets of the role are performed, including the capitalization of fixed assets consistent with its policy.

Capitalize Fixed Assets in Accordance with Commonwealth and State Police Policy

Type: Internal Control

Repeat: No

The Fixed Assets Accountant does not consistently capitalize assets in accordance with State Police policy. We found two instances where the Fixed Asset Accountant capitalized warranties and service agreements; and we understand the Fixed Asset Accountant typically capitalizes those items whenever they are included on an asset's purchase order. These costs represent prepaid expenses and she should not capitalize them. In addition, the Fixed Assets Accountant does not consistently work with end users or the individuals placing those orders to determine if she should capitalize items on a purchase order together or separately.

State Police's policy defines an asset's acquisition cost as the purchase price or construction cost, as well as costs incurred to place an asset in its intended location and in operable condition. The policies and procedures further state that the Fixed Assets Accountant should determine whether an item is a 1) separate piece of equipment having its own recorded cost and description, or 2) component and included as part of the cost and description of the overall asset.

Incorrectly capitalizing items may result in the inaccurate reporting of State Police's fixed assets, make it impossible to track assets for inventory control purposes, and increase the probability of not detecting the theft of assets. The Fixed Asset Accountant was not aware that she should not capitalize expenses relating to product warranties and service agreements. This resulted from insufficient training and inadequate oversight, as the Financial Reporting Manager's review did not detect improper capitalization. Additionally, while State Police's fixed asset policies and procedures state that the Fixed Assets Accountant is responsible for determining what items she should capitalize separately or as part of a larger asset; they do not provide any guidance as to how she should make that determination.

The Fixed Asset Accountant should capitalize all assets in accordance with State Police policies. The Fixed Asset Accountant should receive training on these policies and the Financial Reporting Manager should perform a thorough review to ensure that they are consistent with the CAPP Manual requirements.

Complete Fixed Assets Physical Inventories

Type: Internal Control

Repeat: Yes (first issued in 2013)

Prior Title: Improve Fixed Asset Internal Controls and Processes

State Police does not periodically inventory its fixed assets. Our last audit of State Police, for the fiscal year ended 2013, identified that physical inventories were not completed. Since that time, State Police has still not completed the required physical inventory.

State Police's Inventory of Office Equipment and Assets policy requires it to complete a physical inventory of fixed assets at least once every two years. Physical inventories provide valuable feedback regarding which assets are actually in the agency's possession and in use. Failure to periodically

inventory fixed assets leaves open the possibility that State Police would not detect the theft or loss of fixed assets. Additionally, physical inventories provide an opportunity to systematically review fixed asset useful lives and assess impairment or obsolescence.

It is impossible to ensure that State Police is accurately accounting for and tracking its fixed assets without periodically inventorying them. Furthermore, State Police's fixed assets are reported in the Commonwealth's Comprehensive Annual Financial Report (CAFR); therefore, the failure to complete such inventories may result in inaccurate information on the Commonwealth's financial statements.

State Police has not dedicated resources to perform the required physical inventories, nor has the agency made completing physical inventories a priority. Furthermore, the Property and Finance Commander is not enforcing and ensuring compliance with fixed asset physical inventory policies and procedures.

The Property and Finance Commander should require a complete physical inventory of the agency's assets and ensure it is conducted every two years.

Develop a Methodology for Estimating Useful Lives

Type: Internal Control

Repeat: No

Property and Finance does not have an appropriate methodology for estimating an asset's useful life and instead relies on assigning a nomenclature code. When assigning assets nomenclature codes, the Fixed Asset Accountant does not evaluate the use patterns of similar assets. For 17 of 30 assets reviewed (57% and all of which were vehicles) the accountant assigned a nomenclature code corresponding to a useful life of four years; however, on average, State Police uses vehicles for eight years. Additionally, the accountant capitalizes all fixed assets purchased for the Aviation Unit, regardless of what the asset is, with the nomenclature code corresponding to aircraft, which assigns a useful life of ten years.

CAPP Manual Topic 30605 suggests that agencies develop and periodically update a methodology for assigning asset useful lives. Agencies should consider actual use patterns for different types of assets and take into account the actual length of time the agency has used different assets over time in the past. Assigning an inappropriate useful life results in inaccurate depreciation expense and net asset balances.

State Police's policies and procedures do not provide guidance for estimating an asset's useful lives. We have addressed deficiencies with the agencies policies and procedures in the finding entitled "Align Fixed Asset Account Policies with Code of Virginia and CAPP Manual Requirements." The fixed asset policies and procedures refer to nomenclature codes, which correspond to pre-established useful lives, but do not provide guidance related to State Police's historic experience with various asset types. Furthermore, the Fixed Asset Accountant utilizes the nomenclature codes that the CAPP Manual provides without assessing and evaluating asset's usage patterns to select an appropriate nomenclature code.

The Property and Finance Commander should require the Fixed Asset Accountant to develop and periodically update a methodology for assigning useful lives. The methodology should consider the agency's actual use patterns for different types of assets and take into account the actual length of time the agency has used similar assets. Finally, the Fixed Assets Accountant should begin treating fixed assets purchased for the Aviation Unit the same as the assets purchased by any other unit or division, establishing useful lives based on the type of asset.

Develop a Method for Estimating Salvage Value

Type: Internal Control

Repeat: No

State Police capitalizes all assets with an assumed salvage value equal to 18 percent of its cost. There is no consideration of the asset type or the historical salvage value of similar assets. State Police uses many of its assets for their entire useful lives or sells them for well below 18 percent of their original cost. As a result, assigning a salvage value of 18 percent for all assets does not properly reflect State Police's actual practice.

CAPP Manual Topic 30210 suggest that agencies develop and periodically update a methodology for estimating salvage value based on the type of asset, its obsolescence and degree of usefulness at disposal, and the nature of the disposal process. Further, agencies should base this estimate on actual values received.

Assets with unrealistic salvage values understate annual depreciation expense and inflates the value of fixed assets remaining in use. State Police's policies and procedures do not address salvage values. In the absence of guidance, the assessment of 18 percent salvage values has become the norm.

The Property and Finance Commander should ensure that the division establishes a methodology for estimating salvage values. Salvage values should be consistent with the CAPP Manual recommendations. We have addressed deficiencies with the policies and procedures in the recommendation entitled, "Align Fixed Asset Accounting Policies with Code of Virginia and CAPP Manual Best Practices."

Update the Commonwealth's Fixed Assets System to Reflect Asset Disposals

Type: Internal Control

Repeat: Yes (first issued in 2013)

Prior Title: Improve Fixed Asset Internal Controls and Processes

State Police only updates the Commonwealth's fixed assets system for the disposal of automobiles sold at auctions. They do not update it for the disposal of other assets, including non-automobile vehicles and automobiles that they did not sell at auctions.

CAPP Manual Topic 30805 suggests that agencies adopt policies and procedures to update the Commonwealth's fixed assets system when assets are sold, abandoned, lost/stolen, transferred out, cannibalized, or otherwise disposed of. Not updating records for all disposed assets prohibits the Fixed

Asset Accountant from completing accurate physical inventories and makes the process more complex and inefficient. We have addressed physical inventory deficiencies in the recommendation entitled “Complete Fixed Asset Physical Inventories.” Additionally, since the Commonwealth’s fixed asset system is used to report fixed asset values in the Commonwealth’s Comprehensive Annual Financial Report, failing to remove assets that no longer exist could affect the accuracy of the CAFR.

State Police’s asset disposal processes are inadequate and staff do not follow current policies. Fixed asset policies and procedures contained in the Fixed Asset Accountant’s desk procedures, requires divisions to notify the Fixed Asset Accountant prior to an asset’s disposal and offers several methods of providing notification. Since these policies and procedures are delineated in the Fixed Asset Accountant desk procedures, it is likely that employees across the agency are not aware of their responsibility for communicating asset disposals to the Fixed Assets Accountant. We have addressed additional fixed asset policy and procedures deficiencies in the recommendation entitled “Align Fixed Asset Accounting Policies with Code of Virginia and CAPP Manual Requirements.”

State Police should ensure that they communicate responsibilities regarding asset disposals to all relevant parties within the agency. The Property and Finance Commander should consider whether the current process for notifying the Fixed Assets Accountant of disposals is effective. Regardless of the approach chosen, State Police should ensure that all capital assets are being appropriately disposed of in the Commonwealth’s fixed asset system.

Adequately Document Fixed Asset Reconciliations

Type: Internal Control

Repeat: Yes (first issued in 2013)

Prior Title: Improve Fixed Asset Internal Controls and Processes

A State Police Senior Accountant and the Property and Finance Officer did not consistently date the completion and review of fixed asset reconciliations. There were no completion or review dates documented on three of the four reconciliations reviewed; therefore, we could not evaluate the whether reconciliations were completed timely. In addition, the Senior Accountant and Property and Finance Officer completed the fourth reconciliation late, more than 30 days after the end of the month.

CAPP Manual Topic 30905 suggests that agencies adopt policies and procedures to perform, document, and certify reconciliations to the Comptroller, on a monthly basis. Without dating fixed asset reconciliations, Property and Finance cannot demonstrate the timeliness of reconciliations. Property and Finance does not have internal policies and procedures for documenting fixed asset reconciliations, as a result there is no formalized policy requiring that they date reconciliations.

The Property and Finance Commander should require that the Senior Accountant and Property and Finance Officer update the policies and procedures to require them to date all reconciliations they complete and review.

Procurement

State Police follows the Virginia Public Procurement Act, the Department of General Services' (General Services) Agency Procurement and Surplus Property Manual (Procurement Manual), and VITA's Procurement Policy to guide its procurement decisions. In late calendar year 2017, State Police began using the Commonwealth's purchasing system agency-wide to requisition and order most of its goods and services. Prior to that date, a limited number of employees could order in the purchasing system with the remainder of employees making paper requisitions to the few who had access. Rolling out the system agency-wide allows employees to replace its paper requisition process with an electronic requisition that uses workflow and electronics approvals to improve efficiency. According to the Commonwealth's purchasing system, State Police processed orders totaling \$61 million during fiscal year 2017 and Table 2 below shows the top ten commodities and the total value of their orders:

Commodities Ordered through the Commonwealth's Purchasing System
For the Fiscal Year 2017

Table 2

Commodity	Order Amount
Computer Software Consulting	\$ 5,407,072
Automobiles, Police and Security Equipped	4,928,664
Two-Way Radio Receivers, Transmitters, Transceivers	4,154,330
Software Maintenance/Support	4,115,573
Radio Communication Equipment, Accessories and Supplies	2,826,062
Microcomputers, Handheld, Laptop, and Notebook	2,757,292
Building Construction, Non-Residential	2,600,311
Servers, Mini/Mainframe Computer	1,362,114
Aircraft and Airport Equipment, Parts, and Supplies	1,307,857
Emergency Radio/Telephone Systems	1,202,027
Police and Prison Equipment and Supplies	1,013,998
All Other	29,061,471
Total	\$60,736,771

Source: Commonwealth's purchasing system

State Police placed about \$8.5 million in orders to one of its largest vendors, Motorola, who is under contract for State Police's statewide radio system. The system enables communications to occur between state and local safety officials that were not possible prior to its implementation. In addition, State Police awarded 90 sole source awards and four emergency procurements during fiscal year 2017. Many of the sole source awards represent software and hardware maintenance contracts, which are typical given the proprietary nature of these items.

In June 2017, State Police's Internal Audit Department issued a procurement practices report that included findings over solicitations, public postings, emergency procurements, vehicle purchases, user roles and workflows, open orders, and outdated policies and procedures. Given these deficiencies and the recent agency-wide roll out of the purchasing system, and since procurement has not been

subject to our audit for several cycles, we chose to include controls and compliance over the procurement process in the scope of the audit.

Procurement Findings

Publish Updated Internal Procurement Policies and Procedures Manual

Type: Internal Control and Compliance

Repeat: No

The Bureau of Administrative and Support Services has not published or distributed an updated procurement policies and procedures since August 20, 2010. General Services' Procurement Manual, Section 1.2, requires agencies to develop local written procedures.

Not publishing or distributing the current procurement policies and procedures may cause the Property and Finance staff to be unaware of updates since 2010. This lack of awareness may prevent the staff from following current policies and procedures and increases State Police's susceptibility to noncompliance, fraud, and abuse.

While the Procurement Director has updated the procurement policies and procedures and the Assistant Property and Finance Officer has approved the changes, the Bureau of Administrative Support Services has not approved, published, or distributed the procedures since 2010.

The Bureau of Administrative Support Services should review, approve, and publish procurement policies and procedures to ensure that staff are using up-to-date procedures that adhere to Procurement Manual requirements.

Improve Documentation of Sole Source Contract Procurements

Type: Internal Control and Compliance

Repeat: No

State Police's Procurement Department could not provide adequate documentation to demonstrate that sole source procurements were made in accordance with the Procurement Manual and the Virginia Information Technologies Agency Buy IT Manual (VITA Manual). For five out of nine (56%) sole source procurements reviewed, the contract files did not contain sufficient documentation to support the selection of the sole source procurement method.

Procurement Manual, Chapter 8, and VITA Manual, Chapter 16, require that sole source documentation include explanations of why a product is the only product that meets a need, why the vendor is the only practicable source to provide the product, and an explanation of price reasonableness.

Without adequate procurement documentation, State Police cannot demonstrate that it adheres to the Procurement Manual and VITA Manual requirements. This could result in allegations of bias within the procurement process.

Procurement staff did not complete all required documentation when making sole source purchases. The Procurement Department has experienced staff turnover and in some cases, the staff were unaware of documentation required by VITA.

The Procurement Director should ensure that all sole source procurements occur according to Procurement Manual and VITA Manual guidelines. Contract files should be retained and documentation should be detailed enough to support contract award decisions. Further, the Procurement Director should evaluate whether his staff should attend training on the Commonwealth's procurement requirements and consider providing training for all new staff.

Perform Contract Management Responsibilities

Type: Internal Control and Compliance

Repeat: No

State Police's Procurement Department used an expired sole source term contract to procure goods for two years and four months after the contract expired. As a result, State Police exceeded its delegated purchasing authority.

The Procurement Manual, Chapter 8, requires that General Services approve sole source procurements for non-technology goods and services over \$50,000 prior to commencement of the actual procurement. Once written approval has been given, agencies are delegated the authority to proceed with awarding the contract

The Procurement Department did not obtain General Services' approval for purchases that, when aggregated, would exceed the agency's delegated purchasing authority. Additionally, the Procurement Department did not create or retain any of the documentation required by the Procurement Manual to justify the use of sole source procurement because the agency believed that they were making purchases using an approved contract. The Procurement Department would have been unable to enforce contract terms on the expired contract.

The Procurement Department did not maintain an updated comprehensive listing of all of its contracts and; therefore, was not aware the contract had expired. Nor was there a contract administrator assigned to monitor the contract's expiration.

The Procurement Department has already begun to utilize a contract management tool in the Commonwealth's purchasing system. They should enter all term contracts into this tool and ensure that it adequately manages all established contracts for compliance and monitors expiration dates. Finally, the Procurement Department should also assign contract administrators to ensure that contracts are adequately monitored.

Table 3 below shows State Police’s fiscal year 2017 cash basis expenditures by major account category:

Cash Basis Expenditures
For the Fiscal Year 2017

Table 3

Major Account	Description	Expenditures
Personal Services	Employee salaries, wages, benefits, and special payments	\$248,382,972
Contractual Services	Service expenditures related to telecommunications, vehicle repair and maintenance, computer hardware, and software maintenance	33,868,864
Supplies and Materials	Administrative supplies, gasoline, vehicle repair and maintenance supplies, and law enforcement supplies	12,471,550
Transfer Payments	On behalf of payments and aid to local governments	2,642,888
Continuous Charges	Insurance for aircraft, automobiles, property, buildings and equipment, utilities, and leases	6,794,773
Property and Improvements	Property and improvement acquisition, natural resource acquisition, and site development	63,749
Equipment	Vehicles, law enforcement equipment, computers, electronics, office, and specific use equipment	31,368,055
Plant and Improvements	Infrastructure acquisition and improvement	2,965,324
Total		\$338,558,175

Source: Commonwealth’s accounting and financial reporting system

Personal services represent \$248 million, or 73 percent, of State Police’s 2017 cash basis expenditures and State Police uses the Commonwealth’s Payroll Service Bureau to process employee paychecks and related benefits. The Auditor of Public Accounts audits the internal controls surrounding the Payroll Service Bureau managed by the Department of Accounts and; therefore, we consider the payroll area as risk low and out of scope for purposes of this audit.

Of the remaining \$90 million (27%) in expenditures, State Police processed \$78.6 million using traditional vouchers and \$11.4 million using purchase cards issued to over 2,000 employees. We have previously audited traditional vouchers and noted no reportable concerns; therefore, we have excluded them from the scope of the audit. Our prior audit of purchase cards, however, included concerns over

transaction limits and insufficient supervisory reviews. Given that credit cards are inherently risky, we included purchase cards in the scope of the audit.

State Police uses purchase and sworn charge cards to streamline the procedures for paying for goods and services. Property and Finance is responsible for the purchase card program and ensuring cardholders comply with the CAPP Manual and State Police policies. According to Bank of America's Works system, there were over 2,019 active purchase cards with expenditures totaling over \$11.4 million for fiscal year 2017. Table 4 summarizes purchase and sworn card activity for fiscal year 2017.

Purchase and Sworn Charge Cards – Number and Related Expenditures
For Fiscal Year 2017

Table 4

Type of Card	Number of Cards	Number of Transactions	Expenditures
Small Purchase and Gold	51	7,935	\$ 6,802,390
Sworn	1,968	21,642	4,565,787
Total	2,019	29,577	\$11,368,177

Source: Bank of America Works System

State Police issues small purchase cards to employees for purchasing goods and services less than \$5,000 per transaction, and gold cards to a few procurement professionals who have higher transaction limits. It issues sworn cards to law enforcement employees for items such as vehicle repairs, travel, and small and emergency purchases.

Purchase and Sworn Charge Cards Findings

Align Internal Purchase Card Policies with CAPP Manual Best Practices

Type: Internal Control

Repeat: No

State Police's Purchase Card Program Administrators have omitted key CAPP Manual best practices from its internal purchase and sworn charge card policies and procedures. Specifically, policies and procedures for the sworn charge card program omit or do not adequately address:

- Cardholder, supervisor, and program administrator training requirements;
- Program Administrator responsibilities;
- Purchase card request procedures;
- Split purchases; and
- Accounts' certification requirements.

Additionally, State Police's policies and procedures for the purchase and gold card programs omit:

- Program Administrator training requirements;
- Program Administrator responsibilities; and
- Accounts' certification requirements.

CAPP Manual Topic 20355 suggests that agencies develop and document internal control procedures that incorporate the CAPP Manual best practices. Without adequate written policies and procedures, cardholders, supervisors, and Program Administrators may not be aware of all of the best practices set forth by the CAPP Manual. This lack of awareness may cause noncompliance and increases State Police's susceptibility to fraud and abuse.

While written procedures exists, the Program Administrators have not ensured that the procedures adequately reflect CAPP Manual suggested best practices and have not updated them since 2014. Program Administrators should ensure that written policies and procedures.

Perform Purchase Card Program Administrator Responsibilities

Type: Internal Control

Repeat: Partial (first issued in 2013)

Title: Improve Small Purchase Charge Card Controls

Purchase card Program Administrators have not performed administrator responsibilities. Specifically, Program Administrators did not:

- Monitor transactional data, at least monthly;
- Perform and document an annual analysis of cardholder's usage and limits;
- Review merchant category code restrictions at a minimum of monthly;
- Promptly cancel cards for terminated employees;
- Ensure that all cardholders completed annual cardholder training; or
- Complete the annual cardholder review certification.

The CAPP Manual Topic 20355 suggests that agencies develop internal control policies and procedures that require program administrators to monitor transactional data, perform and document an annual analysis of cardholder usage, promptly cancel cards, and review merchant category codes.

Without a process to monitor purchase card transactions regularly, the Program Administrator cannot ensure that cardholders are complying with purchase card requirements and increases State Police's susceptibility to fraud and abuse. In addition, not performing and documenting an analysis of cardholder transactions could result in cardholders having a monthly purchase limit that exceeds the cardholders' actual purchasing needs. In fiscal year 2017, 48 cardholders averaged less than 20 percent utilization for the fiscal year, indicating that their limits may be too high.

The Program Administrators have not developed and implemented a process to perform the best practices suggested in the CAPP Manual. Specifically, policies and procedures do not address program administrator responsibilities and, in some cases, the Program Administrators rely on Accounts' reviews as a monitoring tool. With more than 2,000 cardholders, Program Administrators have difficulty managing the purchase card program and competing work priorities. In addition, Program Administrators do not use management information reports available in Bank of America's online program management system that will enable them to monitor cardholder usage and policy compliance.

The Program Administrators should develop and implement a process that will fulfill the CAPP Manual suggested program administrator responsibilities, including documenting their responsibilities as a part of the purchase card policies and procedures. In addition, they should use Bank of America's online program management system to better monitor and manage the purchase card program. Lastly, Property and Finance management should consider if additional staffing is needed to monitor the purchase card program.

Retain Adequate Documentation to Support Purchase Card Program

Type: Internal Control

Repeat: No

The Program Administrator did not retain adequate documentation to support the purchase card program. There was no documentation of the following:

- Charge card request forms for nine of 17 (53%) cardholders reviewed;
- Justification for changes in the merchant category code restrictions for six of 17 (35%) cardholders reviewed;
- Purchasing Card Employee Agreement for one of 17 (6%) cardholders reviewed; and
- Support to verify that two of nine (22%) purchases reviewed were not split purchases.

CAPP Manual Topic 20355 recommends that State Police develop internal control policies and procedures that include maintaining copies of expenditure documentation for three years after the end of the fiscal year. Without adequate documentation, the Program Administrator cannot provide audit evidence that they have implemented adequate internal controls over the purchase card program.

Program Administrators do not have an adequate mechanism to track and retain documentation to support the purchase card program. In some instances, Program Administrators use email to retain

program documentation and with the recent transition to a new email system, administrators were unable to locate some of the program documentation.

Program Administrators should retain adequate documentation to support the purchase card program. Program Administrators should develop a more effective way of tracking and retaining program documentation, including electronic documentation. Furthermore, Program Administrators should ensure that they understand the Commonwealth's record retention requirements.

Complete Purchase Card Reconciliations Timely

Type: Internal Control

Repeat: No

Cardholder's immediate supervisors did not timely review and approve eight of the 30 (27%) purchase card reconciliations reviewed. State Police's purchase card policies and procedures require that cardholders' immediate supervisors review and approve reconciliations before the last day of each month.

Delaying the approval of cardholder reconciliations could affect the Accounts Payable Department's ability to reconcile cardholder statements to the Bank of America payment. Due to competing work priorities, cardholder's supervisors do not always prioritize their workloads and approve reconciliations in a timely manner. Furthermore, the purchase card Program Administrators have not effectively enforced compliance with the policies and procedures.

Cardholder supervisors should review and approve purchase card reconciliations by the last day of each month, as required by the policies and procedures. In addition, Program Administrators should monitor and enforce compliance with the policies and procedures.

Complete Cardholder and Supervisor Training Annually

Type: Internal Control

Repeat: No

Five of 17 (29%) purchase cardholders and one of 30 (3%) sworn charge card cardholders reviewed did not complete the required annual cardholder training. In addition, one of four (25%) supervisors reviewed did not complete the annual supervisor/reviewer training. Furthermore, the Program Administrator certified to Accounts that all cardholders and supervisors had completed the required training when not all of them had.

State Police's internal policies and procedures state that all cardholders and supervisors should complete annual cardholder training in the Commonwealth's Learning Center. It also requires Program Administrators to complete the cardholder training certification form annually. Cardholders and supervisors may not be aware of proper card usage, security, or procurement guidelines if they do not complete the annual cardholder training.

Program Administrators have not developed an effective manner to ensure that all cardholders complete the annual cardholder training. Furthermore, Program Administrators have a difficult time ensuring that cardholders have satisfied the training requirements because there are over 2,000 cardholders at State Police. We have addressed deficiencies related to the program administrator's monitoring activities in the finding entitled, "Perform Purchase Card Program Administrator Responsibilities."

All cardholders should complete the annual cardholder training in the Commonwealth's Learning Center. Program Administrators should develop a process to ensure that all cardholders and supervisors complete the annual training or take action to deactivate cards or remove supervisor authority if training is not complete. Program Administrators should only complete the training certification form once they have verified that all cardholders and supervisors have completed the required training.

Federal Grants Accounting

In fiscal year 2017, State Police spent \$12.6 million in federal funds. Table 5 below shows a breakdown of these grant expenditures by federal program.

Federal Grant Expenditures by Federal Program
For Fiscal Year 2017

Table 5

Catalog of Domestic Assistance Grant Number	Federal Program Name	Expenditures
20.218	National Motor Carrier Safety	\$ 4,817,889
16.922	Equitable Sharing	2,207,729
97.067	Homeland Security Grant	1,700,763
20.607	Alcohol Open Container Requirements	1,088,899
Various	12 other programs	2,832,437
	Total	\$12,647,717

Source: State Police's Schedule of Federal Expenditures for Fiscal Year 2017

All of State Police's grants are on a reimbursement-basis, which means State Police first incurs the expense and then requests reimbursement from the federal government. Expenditures eligible for reimbursement vary by grant and some grants require State Police to match the federal funds with a percentage of state funds. In addition, the Homeland Security Grant and the Alcohol Open Container Grant are pass-through grants from the Department of Emergency Management and the Department of Motor Vehicles, respectively. Although all of these grants are below the Commonwealth's Single Audit threshold for major programs, they are a significant source of funds for State Police.

State Police's ARMICS corrective action plan cited deficiencies in grant controls including not requesting grant reimbursements timely. Given these deficiencies and since the accounting for grants has not been subject to audit for several cycles, we chose to include controls and compliance over indirect cost recoveries and the drawdown of funds in the scope of the audit.

Submit Indirect Cost Rate Proposals Timely

Type: Internal Control and Compliance

Repeat: No

The Assistant Property and Finance Officer submitted the indirect cost rate proposals for fiscal years 2017 and 2018 to the United States Department of Justice (Department of Justice) on July 21, 2016, and October 13, 2017, which were seven and ten months later than required, respectively. Additionally, Property and Finance has not created policies and procedures that describe the submission process including timeliness of proposal submissions.

The Department of Justice requires the State Police to submit the indirect cost rate proposal no later than six months after the close of the fiscal year for which the proposal was based. For fiscal year 2017, the proposal was due by December 31, 2015, and for the fiscal year 2018, proposal was due by December 31, 2016.

The Department of Justice approved the fiscal year 2017 rate on January 11, 2017, and approved the fiscal year 2018 rate February 5, 2018. As a result, State Police was required to use the previously approved indirect cost rates, which caused it to overcharge indirect costs to its federal grants. The Assistant Property and Finance Officer adjusted subsequent reimbursements to correct for the overcharge, but he could have avoided this additional work by submitting the proposals timely. The Assistant Property and Finance Officer has not established and executed procedures that will enable State Police to submit indirect cost proposals timely.

The Property and Finance Commander should require the Assistant Property and Finance Officer to submit indirect cost proposals timely. Furthermore, the Assistant Property and Finance Officer should establish procedures that will ensure he submits indirect cost rate proposals timely.

Cash Management and Accounts Receivable

State Police receives revenue from general fund appropriations, federal grants, and fees from items such as state inspection stickers, criminal record inquiries, central registry searches, concealed weapon permits, and firearm dealers. State Police's ARMICS corrective action plan cited deficiencies in the cash receipting process including untimely deposits, lack of reconciliations, and no aging of accounts receivable.

In our prior audit, we cited deficiencies in State Police's work zone billings. Specifically, State Police was not adequately tracking work zone projects and billing the Department of Transportation for overtime officers worked to patrol and monitor construction and maintenance work zones. Not billing for these items can put a financial strain on State Police's general funds that initially pay for the overtime.

State Police obtains an annual treasury loan to provide cash to pay for federal expenditures until they receive reimbursement. Most agencies use general fund monies for this purpose, so we found State

Police's use of treasury loans to be unique. In addition, State Police's ARMICS corrective action plan cited untimely federal reimbursement requests and lack of follow-up on requested reimbursements. For fiscal year 2017, State Police's outstanding treasury loan was \$1.4 million, which represents 11 percent (or nearly one month's worth) of the total fiscal year grant expenditures shown above in Table 5.

Given the concerns over cash management including accounts receivable and untimely grant reimbursements, we chose to include controls and compliance over cash management in the scope of the audit.

Cash Management and Accounts Receivable Findings

Document Treasury Loan Policies and Procedures

Type: Internal Control

Repeat: No

The Assistant Property and Finance Officer and Grants Manager have not documented internal policies and procedures to ensure that the agency complies with Accounts' requirements for applying for and repaying treasury loans.

CAPP Manual Topic 20805 recommends that agencies implement internal control procedures over treasury loans including application, use, accounting and reporting, and repayment policies and procedures that are in accordance with State requirements and clearly stated and systematically communicated through manuals, handbooks, or other media.

Without documented internal policies and procedures, the Assistant Property and Finance Officer and Grants Manager cannot ensure that the treasury loan application and repayment process meets the best practices recommend in the CAPP Manual. State Police's fiscal year 2017 treasury loan application did not include prior year monthly revenue and expenditure reports, the most recent grant award notices, the relevant documents it used in developing projections, techniques for requesting and receiving funds, and the confirmation that it is recovering indirect costs to the fullest extent possible.

The Assistant Property and Finance Officer and Grants Manager have not undertaken a project to develop a written policy for applying for and repaying treasury loans. Typically, loan request forms are completed and submitted to Accounts and no other information is provided unless Accounts specifically requests it.

The Property and Finance Commander should require that the Assistant Property and Finance Officer and Grants Manager create and document treasury loan policies and procedures that are consistent with CAPP Manual Topic 20805.

Align Internal Policies and Procedures with the Virginia Debt Collection Act and Commonwealth Accounting Policies and Procedures

Type: Internal Control and Compliance

Repeat: No

Property and Finance's accounts receivables desk procedures are inconsistent with requirements and recommended collection procedures outlined in the Virginia Debt Collection Act (Debt Collection Act) and the CAPP Manual. The desk procedures do not:

- require Property and Finance to refer receivables to the Attorney General or Commonwealth's Debt Setoff Program until they are at least 120 days past due;
- discuss garnishments, liens, collection agencies, or credit reporting bureaus as a means of collecting receivables; and
- address charging interest or fees on past due accounts, collection efforts when debtors make periodic payments, and collection effort guidelines by age and amount of accounts.

The Debt Collection Act, Code of Virginia §2.2-4800, requires agencies to develop internal policies and procedures for the management and collection of accounts receivable that are in accordance with regulations in the CAPP Manual. Specifically, the Debt Collection Act requires agencies to refer receivables to the Attorney General or the Commonwealth's Debt Setoff Program when they are 60 days or more past due. In addition, the Debt Collection Act allows agencies to charge interest and fees on past due accounts. CAPP Manual Topic 20505, includes suggested collection guidelines based on the age and amount of the past due accounts.

Without desk procedures that are consistent with the Debt Collection Act and CAPP Manual, Property and Finance may not take appropriate and cost-effective action to collect aggressively all accounts receivables. Property and Finance has not updated internal desk procedures, nor do they have a process to ensure that internal procedures align with the Debt Collection Act and CAPP Manual.

Property and Finance should update desk procedures to align with the requirements and recommendations outlined in the Debt Collection Act and CAPP Manual. If Property and Finance does not implement recommended procedures, they should document an explanation of why they did not implement them.

Improve Accounts Receivable Collection Process

Type: Internal Control and Compliance

Repeat: No

The Accounts Receivable Accountant has not implemented adequate collection processes to ensure that State Police collects past due accounts. Our review of the Accounts Receivable Accountant's collection efforts revealed there were no past due accounts referred to the Office of the Attorney General or private collection agencies, no collection efforts on accounts that were 31-60 days past due,

and past due accounts were not referred to the debt set-off program in a timely manner. In addition, we found instances of there being no collection efforts, untimely collection notices, and no additional follow up after the issuance of late notices.

The Debt Collection Act, Code of Virginia §2.2-4806, requires agencies to take appropriate and cost-effective actions to aggressively collect accounts receivable. The Debt Collection Act outlines collection efforts for past due accounts. In addition, the CAPP Manual Topic 20505, includes suggested collection guidelines based on the age and amount of the past due accounts. Without taking appropriate and cost-effective action, the Accounts Receivable Accountant is not collecting on amounts owed to the agency.

Property and Finance's internal policies and procedures do not align with the Debt Collection Act. We have addressed deficiencies related to State Police's internal policies and procedures in the finding entitled "Align Internal Policies and Procedures with the Virginia Debt Collection Act and Commonwealth Accounting Policies and Procedures." Furthermore, the Accounts Receivable Accountant has competing job priorities and is unable to devote the necessary time to implement adequate collection activities.

The Property and Finance Commander should determine if additional resources are needed to ensure that collection activities are implemented. The Accounts Receivable Accountant should update her desk procedures to align with the requirements and recommendations outlined in the Debt Collection Act and CAPP Manual and implement those procedures.

Improve Accounts Receivable Tracking Process

Type: Internal Control

Repeat: No

Property and Finance does not have adequate internal controls to ensure the proper recording, aging, or accounting for receivable transactions. The Accounts Receivable Accountant obtains receivable information from invoices and from other divisions and uses Microsoft Excel to manually track and age receivables. During our review, we could not determine if the Accounts Receivable Accountant updated the tracking spreadsheets timely. Additionally, we found she did not maintain federal employer identification and social security numbers for tracking purposes and no one reviewed the tracking spreadsheet. Finally, there is no process to determine whether all divisions have reported receivable information for inclusion in the tracking spreadsheet and the Accounts Receivable Accountant was unable to provide supporting documentation for some of the receivables included in the tracking spreadsheet.

Property and Finance's internal policies and procedures require the Accounts Receivable Accountant to update the tracking spreadsheet within 30 days of service completion, maintain federal employer identification and social security numbers, and that the Controller review the tracking spreadsheet. Additionally, CAPP Manual Topic 20505 requires agencies to have a manual or automated process in place to properly account for and manage receivables, and that the agency maintain federal employer identification and social security numbers.

Without an adequate tracking process, receivables information could be inaccurate and this could result in ineffective collection efforts. We discuss deficiencies in the collection process in the finding entitled, “Improve Accounts Receivable Collection Process.”

The Accounts Receivables Accountant has not implemented a receivables tracking processes that ensures adherence to internal or CAPP Manual policies. Furthermore, internal policies are dated 2017; however, those policies do not reflect the processes currently used by the Accounts Receivable Accountant. According to the Accounts Receivable Accountant, some of the documentation requested was stored in the basement and was inaccessible during the audit.

The Property and Finance Commander should evaluate the current accounts receivables tracking processes to ensure that the agency is properly recording, aging, and accounting for receivable transactions. Additionally, he should evaluate whether Microsoft Excel is effective for tracking receivables. Furthermore, the Accounts Receivable Accountant should track receivables timely and record all required information. Lastly, audit documentation should be readily accessible for audit purposes.

Improve Processes over Work Zone Project Billings

Type: Internal Control

Repeat: Yes (first issued in 2013)

Property and Finance has not created internal processes to track the highway construction/maintenance work zone projects to ensure that it bills all projects appropriately. State Police has an Interagency Work Zone Safety Patrol Enforcement Agreement with the Virginia Department of Transportation where State Police officers work paid overtime to patrol and/or monitor traffic within specific construction/maintenance areas.

According to the Work Zone Safety and Private Security Services Policies, invoicing is based on billing information collected at the division offices and Property and Finance oversees the timely invoicing and collection of monies relating to work zone and security services. Without a tracking process, or a way to verify information from the division offices, State Police leaves itself prone to errors and risks billing third parties incorrectly. Specifically, State Police would incur expenses that it does not bill to the third party or it could overbill third parties.

Property and Finance has not undertaken a project to create internal processes to track highway construction/maintenance work zone projects and intends to use the Commonwealth’s new payroll system to assist with automating billing processes. Property and Finance expects to implement the new payroll system in March 2019, and as a result, they do not anticipate addressing issues noted in prior year’s audit until sometime in fiscal year 2020.

The Property and Finance Commander should require his division to have internal processes to track the highway construction/maintenance work zone projects to ensure that it bills all projects appropriately. Furthermore, procedures should verify information from the divisions to ensure that the division correctly bills third parties.

Commonwealth Accounting and Financial Reporting System Reconciliations

Since our prior audit, the Commonwealth replaced its legacy accounting and financial reporting system with a new system. This introduced risk since transaction and reconciliation processes changed as a result. State Police's ARMICS corrective action plan cited Property and Finance staffing shortages and a lack of knowledge of the Commonwealth's new system. Given these deficiencies and risks associated with changes that resulted from a new system, we chose to include State Police's reconciliation to the Commonwealth's new accounting and financial reporting system in the scope of the audit.

Commonwealth Accounting and Financial Reporting System Reconciliations Finding

Document Detailed Reconciliation Policies and Procedures

Type: Internal Control

Repeat: No

Property and Finance has not documented reconciliation policies and procedures that allow the Accountant Senior and Assistant Property and Finance Officer to meet reconciliation requirements, nor do policies and procedures promote adequate internal controls. Current policies and procedures do not require the preparer and review to sign off and date reconciliations when they are complete or the Accountant Senior to perform all reconciliations required by Accounts, nor do they address the agency head or his designee's responsibility to certify reconciliations. Finally, policies and procedures do not identify the financial system reports that preparers should use to perform reconciliations or address the timing of when they should complete the reconciliations.

CAPP Manual Topic 20905 suggests that agencies have detailed written procedures for meeting all Cardinal reconciliation requirements. Without detailed policies and procedures, there is an increased risk that Property and Finance will not properly perform reconciliations. Further, the Property and Finance Commanders may be unable to hold employees responsible for properly completing reconciliations. The Accountant Senior and Assistant Property and Finance Officer have not undertaken a project to develop detailed procedures that consider CAPP Manual Topic 20905.

The Property and Finance Commander should require that the Accountant Senior and the Assistant Property and Finance Officer document detailed reconciliation policies and procedures.

Retirement Benefits System Reconciliations

In support of the Auditor of Public Accounts audit of the Virginia Retirement System, we have included procedures in the scope of the audit to examine State Police's compliance with requirements to review and certify employee census data and reconcile data in the Commonwealth's retirement benefits system.

Confirm Retirement Contribution Snapshots Timely

Type: Internal Control

Repeat: No

The Accounts Payable Manager did not confirm retirement contribution snapshots timely ten out of 36 times (28%) during fiscal year 2017. Accounts' Payroll Bulletin Volume 2013-02 requests that agencies certify the contributions snapshot by the tenth of the following month, as it becomes the official basis for Virginia Retirement System's billing amounts once certified.

Untimely certification at the agency level affects Accounts ability to process inter-agency transfers for any differences between the amounts confirmed in the Commonwealth's retirement benefits system and the retirement contributions actually withheld and paid for all agencies across the Commonwealth. Human Resources staff have to reconcile human resource and retirement benefits system data prior to the Accounts Payable Manager confirming the snapshot. Typically, delays in the human resource and retirement benefits reconciliation process causes delays in confirming the snapshot. Furthermore, the Accounts Payable Manager and Human Resources staff have not developed a timeline that addresses when Human Resources should complete its reconciliations in order for the Accounts Payable Manager to confirm the contribution snapshot timely.

Human Resource staff should complete reconciliations timely so the Accounts Payable Manager can confirm retirement contribution snapshots timely. In addition, the Accounts Payable Manager and Human Resources staff should develop a timeline that clarifies when Human Resources should complete its reconciliations.

Document Retirement Benefits System Reconciliations

Type: Internal Control

Repeat: No

State Police does not have adequate controls in place to ensure that retirement information for employees is accurate. Human Resources has not adequately documented the reconciliations between its internal human resource records and the retirement benefits system, which contains essential retirement data for State Police employees. While discussions with the Human Resource Manager and Senior Class Compensation Analyst indicate that they perform reconciliations, there is little documentation of the reconciliation activities. Additionally, Human Resources and Property and Finance have not cleared exceptions identified on the Commonwealth's payroll systems automated reconciliation reports timely. Finally, Human Resources has not created adequate policies and procedures that describe documenting reconciliations, reviewing of creditable compensation, completing timely reviews, or retaining reconciliation documentation

CAPP Manual Topic 50410 suggests that agencies develop policies and procedures to maintain employee enrollment information and any supporting documentation for five years or until audited, whichever is later. Further, Accounts Payroll Bulletin Volume 2013-02 requests that agencies review the

automated reconciliation reports after the monthly snapshot and make corrections for those items appearing on the reports.

Since the VRS actuary uses the retirement benefits system data to calculate the Commonwealth's pension liabilities, inaccurate data due to leaving exceptions unresolved could result in a misstatement in the Commonwealth's financial statements. Additionally, without sufficient documentation, there is no audit trail to support the reconciliation's completion and Human Resources cannot provide evidence that employee records in the Commonwealth's retirement benefits system are accurate.

Human Resources procedures do not adequately describe the entire process, deadlines, or the requirements to create and maintain documentation of the review process and any resulting adjustments. Additionally, Human Resources indicated that many outstanding exceptions are a result of Property and Finance not correcting errors that are their responsibility.

State Police's Human Resources Division should modify its policies and procedures to incorporate CAPP Manual Topic 50410. Additionally, the Human Resources Division should document and retain reconciliations. Finally, the Property and Finance Commander should require that all errors be cleared and addressed in a timely manner.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

June 15, 2018

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission

We have audited the Department of State Police's (State Police) internal controls and compliance over information technology, fixed assets, procurement, purchase and sworn charge cards, federal grants accounting, cash management, accounts receivable, Commonwealth accounting and reporting system and retirement benefits system reconciliations, and followed up on all prior audit findings for the year ended June 30, 2017. We conducted this performance audit in accordance with generally accepted government auditing standards. 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 Scope and Objectives

Our audit's primary objectives with regard to the information technology, fixed assets, procurement, purchase and sworn officer charge cards, federal grants accounting, cash management, accounts receivable, and Commonwealth accounting and reporting system and retirement benefits system reconciliations were to review the adequacy of State Police's internal controls, test compliance with applicable laws, regulations, contracts, and grant agreements, and review corrective actions of audit findings from prior year reports.

Audit Methodology

State Police'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, as they relate to the audit objectives, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. We performed audit tests to determine the adequacy of State Police's controls and to evaluate whether divisions were following them. Our audit also included tests of compliance with provisions of applicable laws, regulations, contracts, and grant agreements as they pertain to our audit objectives. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of State Police's operations. We performed selected analytical procedures and tested details of transactions to achieve our objectives.

We used a non-statistical sampling approach and designed our samples to support conclusions about our audit objectives. Further, we used an appropriate sampling methodology to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. Finally, we identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Conclusions

We noted certain matters involving internal control and its operation and compliance with applicable laws, regulations, contracts and grant agreements that require management's attention and corrective action pertaining to information technology, fixed assets, procurement, purchase and sworn charge cards, federal grants accounting, cash management, accounts receivable, and Commonwealth accounting and reporting system and retirement benefits system reconciliations. These matters are described in the section entitled "Audit Scope Overview and Findings by Audit Area."

State Police has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this letter. Uncorrected prior audit findings are identified as repeat findings in the section entitled "Audit Scope Overview and Findings by Audit Area."

Exit Conference and Report Distribution

We discussed this report with management on July 11, 2018. Management's response to the findings identified in our audit is included in the section titled "Agency Response." We did not audit management's response and, accordingly, we express no opinion on it.

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.

AUDITOR OF PUBLIC ACCOUNTS

KKH/clj



Colonel Gary T. Settle
Superintendent

(804) 674-2000

COMMONWEALTH OF VIRGINIA

DEPARTMENT OF STATE POLICE

7700 Midlothian Turnpike, Richmond VA 23235

Lt. Colonel Tracy S. Russillo
Deputy Superintendent

July 24, 2018

Martha S. Mavredes, CPA
Auditor of Public Accounts
P. O. Box 1295
Richmond, Virginia 23218

Dear Ms. Mavredes:

We appreciate the opportunity to review the Department of State Police's Audit of Select Business Cycles for the Fiscal Year ended June 30, 2017. Thank you for the recommendations on our information technology, financial accounting and control operations as well as the professionalism of your staff throughout the engagement. We have discussed with your staff the specific items mentioned in the report throughout the course of your review.

We will prepare a detailed corrective action plan addressing all of the findings in the report. We will track the progress to completion of the internal desk procedures and auditable documentation affecting the strong internal controls necessary to safeguard the Commonwealth's assets. Where possible, we will realign staff and automation with an emphasis on strengthening internal policies and procedures to document compliance with applicable laws and regulations. We are committed to ensuring the full implementation of all recommendations documented in the report in a timely manner.

We give your comments the highest level of consideration as we continue to improve our practices and compliance with the Commonwealth's Fiscal Policies, Regulations, Laws, and Security Standards. We remain committed to focusing staff and resources prudently as we execute the Department's Public Safety mission.

Sincerely,

Superintendent

GTS/FDG/jpd

C: The Honorable Brian J. Moran
Secretary of Public Safety and Homeland Security

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VIRGINIA DEPARTMENT OF STATE POLICE

As of June 30, 2017

Brian J. Moran
Secretary of Public Safety and Homeland Security

Colonel W. Steven Flaherty
Superintendent

Lieutenant Colonel Kirk Marlowe
Director of Bureau of Administrative and Support Services