



# VIRGINIA RACING COMMISSION

## INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS AS OF JULY 2023

Auditor of Public Accounts  
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# Commonwealth of Virginia

## Auditor of Public Accounts

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March 25, 2024

David Lermond, Executive Secretary  
Virginia Racing Commission  
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### INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire for the **Virginia Racing Commission** (Commission). We completed the review on July 14, 2023. The purpose of this review was to evaluate if the agency has developed adequate internal controls over significant organizational areas and activities and not to express an opinion on the effectiveness of internal controls. Management of the Commission is responsible for establishing and maintaining an effective control environment.

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

#### **Review Process**

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

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

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

### **Review Procedures**

We evaluated the agency’s corrective action for the finding in the report titled “[Virginia Racing Commission Report on Audit for the year ended June 30, 2019.](#)”

We reviewed a selection of system and transaction reconciliations in order to gain assurance that the statewide accounting system contains accurate data. The definitive source for internal control in the Commonwealth is the Agency Risk Management and Internal Control Standards (ARMICS) issued by the Department of Accounts (Accounts); therefore, we also included a review of ARMICS. The level of ARMICS review performed was based on judgment and the risk assessment at the Commission. Our review of the Commission’s ARMICS program included a review of all current ARMICS documentation and a comparison to statewide guidelines established by Accounts. Further, we evaluated the Commission’s process of completing and submitting attachments to Accounts.

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

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

### **Review Results**

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

- **Partial Repeat** - The Commission should continue to improve the Employment Eligibility Verification Form (I-9) process to comply with the applicable laws for employees hired. The Immigration Reform and Control Act of 1986 requires employers to complete and the employee to sign Section 1 of Form I-9 by the first day of employment. For one out of two (50%) forms reviewed the employee did not sign the form by the first day of employment. To reduce the risks associated with non-compliance with federal regulations, the Commission should implement corrective action to ensure the employee signs the Form I-9 timely.

- The Commission is not properly implementing security controls for one sensitive system. The Commission did not properly identify the system as a sensitive system and as a result, the Commission does not have appropriate monitoring and audit trail controls in place to monitor for unauthorized activity. In addition, the Commission lacks a System and Organization Controls (SOC) report or Virginia Information Technology Agency audit, as well as other required internal controls such as a risk assessment over the system. The Commission should implement the proper controls over this system as required by the Commonwealth's Information Security Standard, SEC 501 (Security Standard).
- The Commission does not have an up-to-date Continuity of Operations Plan (COOP) or a Disaster Recovery Plan (DRP). The Security Standard requires agencies to periodically review, reassess, test, and revise the DRP to reflect changes in mission essential functions, services, information technology system hardware and software, and personnel. In addition, the Security Standard requires agencies to review the COOP on an annual basis or more frequently if required to address an environmental change. The Commission should review, reassess, and test the COOP and DRP to ensure compliance with these requirements.
- The Commission does not have proper separation of duties within information system security responsibilities. One individual is the Commission's Chief Information Officer, Chief Information Security Officer, and Agency Information Technology Representative. The Security Standard requires proper segregation of duties between these roles and responsibilities. The Commission should ensure the role assignments provide adequate separation of duties, provide adequate protection against the possibility of fraud, and do not lead to a conflict of interests.
- The Commission does not have documented security administration processes to ensure that management approves all network and applications access. In addition, the Commission is not periodically reviewing users that have system access to ensure it is reasonable. The Security Standard requires the Commission to review all users access at least annually. The Commission should document and retain evidence of granting and terminating access and periodically review all users' access to ensure network and applications access is reasonable and properly approved.
- The Commission did not obtain the SOC report for a provider that processes sensitive information and as such, did not document an evaluation of the SOC report and the complimentary user entity controls described within the report. Commonwealth Accounting Policies and Procedures (CAPP) Manual Topic 10305 and the Security Standard require agencies to have an adequate level of interaction with third-party providers to give agencies an understanding of the providers' internal control environments and any complementary controls the agency must implement. Agencies must also maintain oversight over the provider to gain assurance over outsourced operations. The Commission should develop policies and procedures over the review of SOC reports and obtain and comprehensively evaluate SOC reports timely.

- The Commission does not have formal, documented policies and procedures over many of its significant business processes. During our review, we identified several business areas where the Commission should develop policies and procedures to maintain an effective control environment. The Commission outsources multiple controls to other agencies such as Department of Accounts, Payroll Service Bureau, and Department of Human Resource Management; however, there are significant controls, including review and approval processes, that the Commission must perform. Even though the Commission outsources some significant controls, they are responsible for ensuring the information is accurate and reasonable. For business areas the Commission has contracted out to another party, the Commission should have policies and procedures that cover the portion of the process that the Commission performs such as approval of transactions or providing information to the third party. CAPP Manual Topic 20905 and other sections of the CAPP Manual require each agency to “publish its own policies and procedures documents, approved in writing by agency management.” Management should ensure detailed policies and procedures exist for all critical business areas and should continue to develop a process to review and approve all policies and procedures either annually or as needed and maintain documentation of the process.
- The Commission does not meet the minimum requirements of Accounts’ ARMICS standards and CAPP Manual Topic 10305. The Commission did not document or assess key elements of the control environment or agency-level control activities. In addition, the Commission did not test all transaction-level controls for all significant fiscal processes performed by the Commission. The Commission should develop and implement proper ARMICS policies and procedures and ensure ARMICS documentation meets the minimum requirements issued by Accounts.
- The Commission does not have proper segregation of duties over revenue processes. One individual is responsible for billing, collecting, and depositing revenue. The Commission should have proper segregation of duties or compensating controls between these duties to lower the risk of error or fraud in revenue processes.
- The Commission does not have proper contract management processes to monitor contractor’s performance or periodic review of contracting activities as required by the Agency Procurement and Surplus Property Manual. The Commission uses statewide contracts and has some agency specific contracts with vendors. The Commission should properly develop and implement contract management policies and procedures and retain documented support over all contracts used by the Commission.
- The Commission is not properly identifying and accounting for leases in accordance with Governmental Accounting Standards Board (GASB) Statement No. 87. The Commission has a Memorandum of Understanding (MOU) with Accounts to assist in recording leases in the lease accounting system. As part of the MOU, the Commission is responsible for providing lease-related information such as identifying potential leases, lease interest rate, and potential lease asset grouping to Accounts for recording in the system. The Commission did

not properly evaluate all contracts to identify all potential leases in accordance with GASB Statement No. 87 and the MOU with Accounts. The Commission also did not consider the potential for grouping leased assets with the same contracted vendor, lease term, and interest rate. In addition, the Commission did not follow the correct procedure for determining the correct interest rate to provide Accounts. CAPP Manual Topic 31200, which references GASB Statement No. 87 for leases, requires agencies to properly identify leases and group leases for recording in the lease accounting system to ensure proper classification of long-term and short-term leases, and to evaluate explicit, implicit, and incremental borrowing rates before resorting to using the prime rate for a reasonable and accurate interest rate. Management should develop and implement a process to accurately identify leases and provide all relevant lease information to Accounts to properly record and classify leases in the lease accounting system.

We discussed these matters with management on August 29, 2023. Management's response to the findings identified in our review is included in the section titled "Agency Response." We did not validate management's response and, accordingly, cannot take a position on whether or not it adequately addresses the issues in this report.

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

Sincerely,

Staci A. Henshaw  
Auditor of Public Accounts

JDE/clj



**COMMONWEALTH of VIRGINIA**  
*Virginia Racing Commission*

Stephanie B. Nixon, Chairman  
Stuart C. Siegel  
John F. Tanner Jr.  
Bette Brand  
Gillian Gordon-Moore

David S. Lermond, Jr.  
Executive Secretary

April 3, 2024

Staci Henshaw  
Auditor of Public Accounts  
P.O. Box 1295  
Richmond, VA 23218

Dear Ms. Henshaw,

Thank you for the opportunity to comment on the Auditor of Public Accounts Results letter dated March 25, 2024. The Virginia Racing Commission (VRC) very much appreciated the efforts and professionalism of your staff during the review process.

The VRC has begun to address some of the areas of concern outlined in the letter and plans on having all the concerns fully addressed withing the next two years.

Sincerely,

A handwritten signature in blue ink, appearing to read "DL", with a stylized flourish extending to the right.

David Lermond  
Executive Secretary