



VIRGINIA DEPARTMENT OF FIRE PROGRAMS

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS AS OF JULY 2024

Auditor of Public Accounts
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Commonwealth of Virginia

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P.O. Box 1295
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September 13, 2024

Brad Creasy, Executive Director
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INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire for the **Virginia Department of Fire Programs** (Fire Programs). We completed the review on July 3, 2024. 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 Fire Programs is responsible for establishing and maintaining an effective control environment.

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 Fire Programs. 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 findings in the report titled "[Virginia Department of Fire Programs for the year ended June 30, 2020.](#)" The agency has taken adequate corrective action with respect to findings reported in the prior review that are not repeated in the "Review Results" section below.

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 for Fire Programs. Our review of Fire Programs' ARMICS program included a review of all current ARMICS documentation and a comparison to statewide guidelines established by Accounts. Further, we evaluated Fire Programs' 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; procurement and contract management; capital assets; grants 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:

- **Repeat** - Fire Programs continues to not implement certain audit logging and monitoring safeguards as required by the Commonwealth's Information Security Standard, SEC530 (Security Standard). Due to limited resources and the recent hiring of its information security officer, Fire Programs has not implemented the necessary safeguards to comply with the Security Standard. Fire Programs should implement the appropriate logging and monitoring controls for its business environment to reduce the risk to data confidentiality, integrity, and availability.
- Fire Programs has not conducted an information technology (IT) security audit over each of its sensitive systems at least once in the last three years. The Commonwealth's IT Security Audit Standard, SEC502, requires that IT systems containing sensitive data, or with a sensitivity rating of high on any of the criteria of confidentiality, integrity, or availability, shall receive an IT security audit at least once every three years. Management should evaluate

potential options and develop a formal process for conducting IT audits over each of the sensitive systems at least once every three years to help ensure the protection of sensitive and mission-critical data.

- Fire Programs indicated that it does not perform an annual system access review for the Commonwealth's financial and human resource systems or its other information systems as required by the Security Standard. While Fire Programs has approved system access and IT policies, Fire Programs has not yet implemented these procedures. Fire Programs should implement the controls outlined in these policies and the Security Standard to ensure consistent and appropriate account management.
- Fire Programs did not obtain the System and Organization Controls (SOC) report for a provider that processes sensitive information. As such, Fire Programs did not document an evaluation of the SOC report and the complementary user entity controls described within the report. Commonwealth Accounting Policies and Procedures (CAPP) Manual Topic 10305 requires 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 would need to implement. Agencies must also maintain oversight of the provider to gain assurance over outsourced operations. Fire Programs should develop policies and procedures for the review of SOC reports and obtain and comprehensively evaluate SOC reports timely.
- Fire Programs has formal, documented policies and procedures over many of its significant business processes. However, during our review, we identified several critical business areas where Fire Programs should develop or improve policies and procedures to maintain an effective control environment. 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. In addition, management 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.
- Fire Programs is not properly accounting for leases or identifying all required elements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 87. Fire Programs does not have an established process for ongoing identification of leases. CAPP Manual Topic 31200, which references GASB Statement No. 87, requires agencies to group leases for recording in the lease accounting system to ensure proper classification of leases as long-term and short-term; 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 update lease procedures to comply with GASB Statement No. 87 and properly record and classify leases in accordance with this standard.

- Fire Programs is not properly identifying or accounting for subscription-based information technology arrangements (SBITA) in accordance with GASB Statement No. 96. CAPP Manual Topic 31300, which references GASB Statement No. 96, requires agencies to determine and record the necessary accounting information in the Commonwealth's lease system based on the contract to ensure proper classification of long-term and short-term SBITAs; and to evaluate explicit, implicit, and incremental borrowing rates before defaulting to the prime rate for a reasonable and accurate interest rate. Management should develop SBITA procedures that comply with GASB Statement No. 96 and properly record and classify SBITAs in accordance with this standard.

We discussed these matters with management on July 19, 2024. 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 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 Department of Fire Programs

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EXECUTIVE DIRECTOR

Nicholas Nanna
DEPUTY DIRECTOR

September 23, 2024

Staci Henshaw
Auditor of Public Accounts
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Richmond, VA 23218

Dear Ms. Henshaw,

Thank you for the opportunity to comment on the Auditor of Public Accounts Results letter dated September 13, 2024. The Virginia Department of Fire Programs (VDFP) very much appreciated the efforts and professionalism of your staff during the review process.

The Virginia Department of Fire Programs has begun to address some of the areas of concern outlined in the letter and plans on having all fully addressed within the next two years.

Sincerely,


Brad Creasy
Executive Director

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