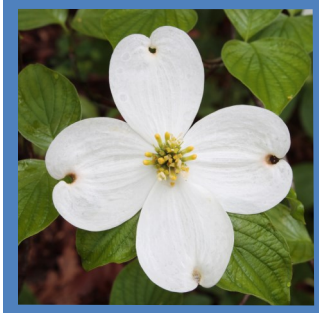


SECRETARY OF FINANCE

REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2017

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AUDIT SUMMARY

This report summarizes our fiscal year 2017 audit results for the following four agencies under the Secretary of Finance (Secretary):

- *Department of Accounts*
- *Department of Planning and Budget*
- *Department of Taxation*
- *Department of the Treasury and the Treasury Board*

Our audits of these agencies arise from our work on the Commonwealth's Comprehensive Annual Financial Report (CAFR). Overall, we found the following:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth's accounting and financial reporting system, each agency's accounting records, and other financial information reported to the Department of Accounts;
- twelve internal control or compliance findings that require management's attention. Of these, one is considered to be a material weakness at the Department of the Treasury;
- one risk alert, which represents an issue that is beyond the corrective action of the affected agency and requires the cooperation of other involved agencies to address the risk; and
- adequate corrective action with respect to audit findings reported in the prior year that are not referenced in this report.

This report also includes information on several significant initiatives for agencies under the Secretary, including the status of system development projects, modernization of the financial reporting processes, and reporting changes of other postemployment benefits.

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SIGNIFICANT INITIATIVES

The following section provides updates on major Commonwealth initiatives affecting Secretary of Finance agencies.

Status of System Development Projects

Applicable to: *Secretary of Finance and Department of Accounts*

Commonwealth's Accounting and Financial Reporting System

During fiscal year 2017, the Department of Accounts (Accounts) officially implemented a modern, enterprise-wide system as the Commonwealth's system of financial record. Accounts successfully produced its first Comprehensive Annual Financial Report for the fiscal year ended June 30, 2017, using data from the new system and other supporting documents. Accounts continues to provide post-production support for the system while working on the build phase of their project to replace the Commonwealth's current payroll system.

Commonwealth's Payroll System Project

In August 2016, Accounts launched a Payroll project, which will result in the replacement of the Commonwealth's existing payroll system. The current payroll system has been in place since 1986, and currently 200 state agencies use the system for payroll and/or leave tracking purposes. Accounts originally scheduled to complete the Payroll project during 2018 to coincide with the time sensitive availability of vendor software support for the existing payroll system. However, due to unexpected system modifications, complexity among the way agencies process payroll, and delayed data configurations from statewide systems that support the payroll process, Accounts extended the implementation date to June 2019. The vendor of the Commonwealth's existing payroll system extended its software support through the end of the new implementation timeline. Accounts will deploy the Payroll project in two releases. The first release is set for September 2018 and will include ten percent of state employees. The second release is set for March 2019 and will include the remaining state employees. Upon completion of the second release, the Commonwealth's existing payroll system will be fully decommissioned.

Accounts has estimated a total cost of $43 million to implement the Payroll project. The project scope includes implementation of the following modules: payroll, time and labor, absence management, limited human resource functions, and view capabilities for earnings, benefits, and leave information. In addition, the project scope includes integration with the Commonwealth's accounting and financial reporting system. Accounts' Payroll project should reduce risks associated with an aging payroll system and meet the majority of the Commonwealth's payroll requirements. Further, by integrating payroll and financial system modules, the Commonwealth will have a variety of reporting capabilities available.

However, as with all projects, Accounts continues to face risks while implementing the Payroll project. Though the existing vendor of the Commonwealth's payroll system extended availability of vendor software support to align with the Commonwealth's updated project schedule, there is still a restrictive implementation timeline. In addition, although Accounts is familiar with the software product, their experience has been limited to the financial module; therefore, the new payroll subject matter inherently poses additional risks.

Additionally, there continues to be external risks to the Payroll project, such as the need for all agencies that use the Commonwealth's payroll system to maintain involvement and stay diligent in meeting the existing timeline so the project can achieve the planned schedule. This risk also extends to the Department of Human Resource Management (Human Resource Management) as the Commonwealth's human resource system owner. Any delays in completing required data configurations for the Payroll project could have a significant impact in the project's implementation timeline.

Accounts, Human Resource Management, and all agencies that use the Commonwealth's payroll system will need to continue to devote key personnel and technology resources to mitigate the risks associated with the implementation plan of the Payroll project.

Modernization of Financial Reporting Processes

Applicable to: *Department of Accounts*

The Commonwealth's accounting and financial reporting system is a modern system and provides the flexibility and technology needed to make financial reporting more efficient. Fiscal year 2017 marked the first year the Commonwealth issued the annual financial report produced primarily from financial data residing within the system. Accounts now has the opportunity to further examine, with the benefit of this experience, and improve the Commonwealth's financial reporting process. Therefore, we continue to emphasize the importance of Accounts re-examining the Commonwealth's entire financial reporting process. This re-examination should include identifying opportunities for leveraging the use of technology, how to best communicate with agencies, and the overall analysis of financial activity. In light of a changing accounting and regulatory environment, this analysis is essential to Accounts continued issuance of accurate financial reports.

Other Postemployment Benefits Reporting Changes

The Governmental Accounting Standards Board (GASB) issued two new standards related to accounting and reporting for postemployment benefits other than pensions (OPEB). The first is GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* which covers accounting and reporting of postemployment benefit plans other than pension plans. This Statement was effective for fiscal year 2017 and had a minimal impact on other postemployment benefit information included in the Commonwealth's financial statements.

The second standard is GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* which is effective for fiscal year 2018 and covers participating employer accounting and reporting of postemployment benefits other than pensions. This standard will have a major impact on the Commonwealth's fiscal year 2018 financial report, significantly increasing OPEB liabilities reported in the financial statements.

The Commonwealth currently has six OPEB plans, including Group Life Insurance, the Retiree Health Insurance Credit Program, the Disability Insurance Trust Fund, the Line of Duty Death and Disability Program, the Virginia Local Disability Program, and the Pre-Medicare Retiree Healthcare Program. The Virginia Retirement System (the System) administers all programs except Pre-Medicare Retiree Healthcare, which Human Resource Management administers. Additionally, some state agencies administer and participate in other plans not administered centrally, and those agencies will be responsible for ensuring compliance with the new standards.

As with pensions, under the new standards the Commonwealth will report OPEB liabilities as employees earn benefits by providing services. The Commonwealth is allowed to offset the OPEB liabilities by the assets it has accumulated to fund the benefits. This offset is currently not possible for the Pre-Medicare Retiree Healthcare program, as it operates on a "pay as you go" basis; and therefore, has no accumulated assets. Lastly, under the new standards, there will be a significant increase in the required financial statement disclosures discussing OPEBs. As with the change in reporting for pensions, we continue to emphasize that Accounts, the System, and Human Resource Management continue to work together extensively to meet all new reporting requirements for other post-employment benefits. We also encourage Accounts to provide reporting guidance to state agencies that administer and participate in plans not centrally administered by the Commonwealth.

INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

This section is organized by agency and each finding reported includes information on the type of finding and the severity classification for the finding. The severity classifications are discussed in more detail in the section titled "Independent Auditor's Report." In addition, those findings that report on issues that were not resolved from our previous audit and are repeated in this report are also designated.

Department of Accounts

Ensure all Nonexempt Active Vendors in the Commonwealth's Accounting and Financial Reporting System Have a Form W-9

Type: Internal Control
Severity: Significant Deficiency
Repeat: No

Accounts' Commonwealth Vendor Group (CVG) does not have Form W-9s for all nonexempt active vendors in the Commonwealth's accounting and financial reporting system. A significant amount of vendors resided within the Commonwealth's accounting and financial reporting system prior to the creation of the CVG department at Accounts. CVG considers these vendors and those included in the conversion load from the decommissioned accounting and reporting system as grandfathered into the Commonwealth's current system. CVG allows grandfathered vendors to remain active in the Commonwealth's accounting and financial reporting system without a Form W-9.

Per the Internal Revenue Service (IRS), entities are required to report payments of $10 or more in gross royalties, or $600 or more in rents or compensation on Form 1099-MISCs. Additionally, the Commonwealth Accounting Policies and Procedure Topic 20320 states Form W-9 or the Commonwealth's Substitute Form W-9 supports IRS Information Returns, including Form 1099-MISCs. CVG maintains the vendor database within the Commonwealth's accounting and financial reporting system and has responsibility for ensuring the receipt of Form W-9s for all nonexempt active vendors.

Not having Form W-9 on file for all nonexempt vendors in the Commonwealth's accounting and financial reporting system could result in agencies reporting inaccurate or incomplete tax information on Form 1099-MISC. Prior to the establishment of Accounts' CVG, the Virginia Department of Transportation added vendors in the Commonwealth's accounting and financial reporting system. In 2015, Accounts performed a mass mailing to 5,000 vendors requesting Form W-9s; however, due to the volume of vendors, CVG has not been able to obtain or follow-up with all vendors that did not provide a Form W-9 in response.

Accounts should allocate additional resources or prioritize existing resources to obtain Form W-9s for nonexempt vendors active in the Commonwealth's accounting and financial reporting system. Additionally, Accounts should consider deactivating the nonexempt active vendors who do not provide Form W-9s in response to Accounts' outreach efforts.

Improve Database Security

Type: Internal Control and Compliance
Severity: Significant Deficiency
Repeat: No

Accounts has not implemented some of the minimum security controls supporting the Commonwealth's financial management system required by the Commonwealth's Information Security Standard, SEC501 (Security Standard) and industry best practices.

We communicated the control weaknesses to management in a separate document marked Freedom of Information Act Exempt (FOIAE) under §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 database's settings and configurations with best practices, Accounts cannot ensure the confidentiality, integrity, and availability of data within the database or the information it reports.

Accounts 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.

Department of Taxation

Background Information on Recent Information System Access Changes at Taxation

During fiscal year 2017, Taxation made significant changes to address previously identified internal control weaknesses over system access to their financial accounting and reporting system. Taxation undertook two significant initiatives to strengthen their system access management. They implemented a new access management system and reconfigured their access structure.

Taxation implemented a new access management system that went live early in fiscal year 2017. This system manages most access granted to employees and contractors, including information system access as well as other types of access, such as building or email. The new access management system is an integrated system, meaning it has the ability to interface directly with Taxation's applications to grant, change, or delete system access. Currently, most significant applications are managed with the new access management system, and it is Taxation's intent that eventually all applications will be added. Applications that are not integrated are referred to as "disconnected" applications.

Throughout fiscal year 2017, Taxation also implemented changes to their access structure to allow for a role-based access approach. Role-based access is a method of granting access where access security roles are designed to meet the needs of a single position within an agency. Taxation's former access structure included less granular security roles that included access for a group of positions, rather than a single position. Transitioning to more refined access groupings has involved several phases, extensive planning, and input from business owners across the agency.

Taxation has devoted a significant amount of resources to these access changes. Many of the issues noted below are related to the technical challenges that arise during a period of transition, and Taxation is working to address these.

Strengthen Access Controls

Type: Internal Control and Compliance
Severity: Significant Deficiency
Repeat: No

Taxation management needs to strengthen system access controls over their financial accounting and reporting system to ensure access granted adheres to the principle of least privilege and enforces proper segregation of duties. Although Taxation has various compensating controls in place, they did not adhere to the principle of least privilege in granting the following access:

- four out of 25 (16%) security roles have access functions in excess of the job duties of the employees assigned to these roles;

- four out of 63 (6%) users had access to security roles that were not required based on their job functions;

- the read-only security role includes access functions such as post online return and adjust abatement, inadvertently granting these abilities to its 106 users;

- nine out of 129 (7%) security roles include the ability to approve a journal voucher, which was not required by the users to perform their job responsibilities; and

- 124 out of 129 (96%) security roles include the ability to run a batch process that loads cigarette tax bills into the application. This function was created to facilitate a one-time import of bills and is no longer needed.

Additionally, Taxation management does not have a process in place to communicate access functions that create segregation of duties issues to their Office of Technology (Technology). Further, Technology does not have a process to identify requested changes to security roles that violate previously identified segregation of duties combinations.

The Security Standard requires an organization to employ the principle of least privilege when granting access to ensure users only have the minimum access that is necessary to accomplish their assigned tasks. The Security Standard also requires Taxation to segregate duties of individuals as necessary to prevent unauthorized activity (*Security Standard sections: AC-5 Separation of Duties & AC-6 Least Privilege*).

As discussed, Taxation made significant changes to their access structure during the year. While some of these system access issues were remnants of the previous access structure, most were caused by business owners not properly identifying the minimum access required by their staff. During the process of changing the access structure, business owners were also instructed to consider combinations of access functions that would create segregation of duties violations to ensure current roles don't violate these combinations. However, Technology did not request that the business owners communicate which access functions create segregation of duties violations and, as a result, Technology is not able to determine if future security role change requests will create a violation of segregation of duties.

When access granted violates the principle of least privilege or segregation of duties, there is an increased risk that users can circumvent other compensating controls and perform unauthorized transactions.

Business owners should work with Technology to ensure that the security roles they are responsible for grant only the minimum required access. They should also identify combinations of access functions that create potential segregation of duties violations and communicate these to Technology. Technology should create a process to review all requested security role changes to ensure they do not create potential segregation of duties violations as defined by the business owners.

Technology should also continue communicating the importance of granting only the minimum required access to business owners and managers across the agency.

Improve Service Account Management

Type: Internal Control and Compliance
Severity: Significant Deficiency
Repeat: No

Taxation needs to improve their management of service accounts, which are non-user accounts with privileges to perform specific application functions. Taxation is using temporary controls to manage the accounts, but they have not yet implemented a long-term solution for managing these accounts. Additionally, Taxation does not consistently document service accounts in their system security plans. We communicated the specific control weaknesses to management in a separate document marked FOIAE under §2.2-3705.2 of the Code of Virginia due to it containing descriptions of security mechanisms.

The Security Standard requires Taxation to document account management practices for all agency created service accounts, including, but not limited to, granting, administering, and terminating accounts (*Security Standard section: AC-2-COV Account Management*). Additionally, Taxation's internal policy (Policy) requires documentation of all service accounts in the appropriate system security plan (*Policy section: 8.1 Access Control*).

Taxation developed a temporary approach for managing these accounts so that they could focus resources on resolving other higher priority issues from the new access management system implementation. Taxation also indicated that non-production and test service accounts were intentionally not documented in the system security plans; however, Taxation's internal policy requires the documentation of all service accounts with no differentiation between various service account types.

Without adequate service account management practices, Taxation cannot verify that the accounts are required, configured properly, and reviewed appropriately. Additionally, without documenting all of the service accounts in each associated system security plan, Taxation may not properly configure the accounts to perform their approved system functions.

Taxation should implement corrective actions to mitigate the specific weakness communicated in the FOIAE document. Additionally, Taxation should enforce its Policy to define all service accounts in the appropriate system security plan.

Address Uncorrelated Accounts

Type: Internal Control and Compliance
Severity: Significant Deficiency
Repeat: No

Technology needs to address uncorrelated accounts in their access management system. Uncorrelated accounts represent an access account to a particular application that is not assigned to an individual user in the access management system. As of August 2017, there were a significant number of uncorrelated accounts, including non-user service accounts with privileges to perform specific application functions; accounts related to Taxation's financial accounting and reporting system or an application that supports it; and accounts related to systems that contain sensitive information.

The Security Standard and Taxation's Policy require proper access management controls to reduce risks associated with inappropriate system access (*Security Standard section: AC-2-COV Account Management; Policy section: 8.1 Access Control*). This includes associating all access accounts with group membership, recertifying all access accounts at least annually, and documenting the process for administering service accounts.

Taxation unintentionally creates uncorrelated accounts because their access management system is not configured to properly associate these accounts to unique identities. When the access management system reads information from an application and cannot correlate that access to an individual user, it creates an uncorrelated account.

Uncorrelated accounts may represent legitimate application access; however, without being correlated to an individual identity, Taxation may not be able to verify whether the accounts are required, configured properly, included in Taxation's annual access review process, or reflect the actual access privileges in the application. Without configuring the access management system to properly correlate these accounts, current uncorrelated accounts will persist in the system and new ones will be created with each refresh and import process. These weaknesses can lead to a user obtaining and retaining inappropriate access over an extended period of time, increasing the risk of unauthorized use of that access.

Technology is in the process of addressing these uncorrelated accounts and should continue with these efforts. Technology should correlate each account in the access management system with a unique identity and improve the correlation process during the refresh and import processes. Additionally, Taxation should develop a process to mitigate future uncorrelated accounts that includes identification, investigation, allocation, and exception documentation for uncorrelated accounts.

Improve Documentation over Financial Reporting System Security Functions and Features

Type: Internal Control
Severity: Significant Deficiency
Repeat: No

Technology needs to enhance documentation surrounding the financial accounting and reporting system. There is a lack of documentation over various aspects of the system, from descriptions of security roles and access functions to detailed procedures. Technology has invested significant resources in improving the access structure for this system and, now that these changes have been largely completed, Technology needs to revisit the documentation surrounding these changes and related processes.

Taxation's system environment has undergone significant changes and the priority has been on making the required changes to support the modification of the access structure. Technology risks losing valuable information and creating inefficiencies as more time passes by not improving their documentation. In addition, the lack of adequate system documentation has caused some system access issues that may have been avoided if adequate documentation over these processes existed:

- Seven out of 19 (37 percent) new access functions were improperly classified as either read or update because there is no documented process for evaluating this classification.

- One new resource in this system was created that duplicated one that already existed. This was not identified in the database change review process.

- A user was granted access to a super user security role because Technology could not identify the access functions the user required to perform their job duties.

Technology should document policies and procedures related to the security functions and features of their financial accounting and reporting system, as needed. Written documentation will create efficiencies for Technology and keep the staff responsible for maintenance of the system's logical access well-informed over time. Quality written documentation also reduces the impact that turnover has on institutional knowledge, makes information more readily available, and serves as a tool for setting expectations related to the process.

Perform Annual Access Review

Type: Internal Control and Compliance
Severity: Significant Deficiency
Repeat: No

Taxation has not performed an annual access review in accordance with the Security Standard and Policy. While Taxation has performed access reviews for specific applications, such as their financial accounting and reporting system, a complete review of all systems has not been performed since Fall 2015. In addition, the access review currently underway will not include all accounts, such as uncorrelated accounts, since these are not associated with a specific user.

The Security Standard requires Taxation to review accounts for compliance with account management requirements on an annual basis or more frequently if required to address an environmental change (*Security Standard section: AC-2 Account Management*). Additionally, Taxation's Policy requires responsible parties to review system user account access on an annual basis (*Policy section: Required Security Reviews, Audits and Evaluations*).

As discussed, Taxation has recently undergone significant access management changes and management decided it would not be effective or efficient to perform a complete access review in 2016. Instead, Taxation chose to focus on enhancing the recertification process and limited the actual reviews to only key financial reporting systems. Without reviewing all accounts on an annual basis, Taxation cannot verify that each user's access is appropriate based on job functions, does not violate the principles of least privilege or separation of duties, and is configured appropriately. Lack of an access review increases the risk that a user retains inappropriate access, which could lead to unauthorized access to sensitive taxpayer information.

Taxation should address this issue in conjunction with the corrective actions described in the finding entitled "Address Uncorrelated Accounts." Additionally, Taxation should perform a full access recertification to verify that users' access is appropriate and in compliance with requirements. If any accounts are excluded from the recertification process, Taxation should implement alternate procedures to review the access permissions for these accounts.

Department of the Treasury

Improve Financial Reporting of Unclaimed Property Activity

Type: Internal Control
Severity: Material Weakness
Repeat: No

The Unclaimed Property Division (Unclaimed Property) of the Department of the Treasury (Treasury) lacked sufficient financial reporting knowledge to appropriately research a changing financial reporting structure and apply the applicable accounting standards in compiling the financial activity for the Unclaimed Property program for submission to Accounts within the required timeframe for inclusion in the CAFR. As a result, Unclaimed Property had multiple material misstatements in their template, including the following:

- The omission of the $417.9 million long-term portion of estimated future claims to be paid;
- improper classification of financial activity ranging from $5 million to $142 million related to multiple line items including Literary Fund transfers, claims liability, and investment income; and
- the omission of $9.3 million of securities receipts and claims.

Additionally, Unclaimed Property had to revise the long-term claims liability estimate methodology multiple times until it was reasonable and reliable for use.

The Comptroller's Directive establishes compliance guidelines and addresses financial reporting requirements for state agencies to provide information to Accounts for the preparation of the CAFR as required by the Code of Virginia. Unclaimed Property must present the financial statement template in accordance with the instructions provided by Accounts as well as accounting principles generally accepted in the United States of America. Inaccurate compilation of financial statement amounts submitted to Accounts could result in the material misstatement of unclaimed property activity presented in the CAFR.

Beginning in fiscal year 2017, there was a change in the reporting structure of Unclaimed Property's activity in the CAFR and most of the adjustments were related to not properly implementing this change. In addition, miscommunications occurred between Unclaimed Property and Accounts related to the reporting of certain items.

Treasury submits a substantial amount of financial information to Accounts for inclusion in the CAFR related to its various activities including cash and investments, debt, unclaimed property, and risk management. Accounting standards are constantly evolving and have become more complex in recent

years. This makes it more difficult for staff who function primarily in an operations role to keep up-to-date on the current accounting and financial reporting standards.

Treasury should consider creating a dedicated financial reporting resource to assist with all of its financial reporting functions throughout its various divisions, including researching accounting issues, educating staff, coordinating with Accounts, and preparing year-end financial reporting submissions. Furthermore, Unclaimed Property should continue its efforts to improve its process for developing and analyzing the long-term liability related to estimated claims.

Improve Accounting and Financial Reporting Control Environment of Trust Accounting

Type: Internal Control
Severity: Significant Deficiency
Repeat: Yes

Current workloads and turnover in key positions within the Trust Accounting section of the Treasury have made it difficult for Treasury to fully implement and maintain its succession plan. Further, the current workload of multiple positions overextends the Trust Accounting staff, forcing the prioritization of their daily tasks and resulting in staff regularly working overtime to ensure continuity of operations.

Trust Accounting performs many critical functions of statewide significance including, but not limited to, the accounting and reporting functions of the Virginia College Building Authority, Virginia Public Building Authority, Virginia Public School Authority, and Local Government Investment Pool; debt service payments on bond issuances; payment of insurance claims and receipt of insurance premiums; preparation of many key documents to support the compilation of the CAFR; and accounting and reporting functions for the General Account of the Commonwealth of Virginia. Currently, a few highly qualified and experienced staff, who work overtime regularly, perform many of these functions. In addition, Treasury has experienced regular turnover of staff within Trust Accounting which has made it challenging to cross-train duties for key positions.

Turnover coupled with current staff workloads increases the risk that Trust Accounting will not be able to follow proper internal control procedures, especially in peak times or in the event of the loss of staff in key positions. Further, key positions will be exceedingly difficult to replace given the in-depth, agency-specific knowledge, and current workload that is required for these positions. Not being able to maintain a viable succession plan for key positions increases the risk of improper recording of financial information along with late or inaccurate submission of required items to Accounts, resulting in possible delays in preparing the CAFR.

In the last year, Treasury has requested and received approval for a senior level accounting position for the Trust Accounting section through a budget decision package. Additionally, Treasury has added performance requirements for management as part of its efforts to implement an adequate succession plan and successfully cross-train staff in Trust Accounting.

Treasury's Trust Accounting section should continue its efforts to fully cross train key positions and consider restructuring responsibilities to ensure it maintains an adequate control environment throughout the year and ensure continuity of operations in the event of the loss of key staff. Treasury submits a substantial amount of financial information to Accounts for inclusion in the CAFR related to its various activities. Accounting standards are constantly evolving and have become more complex in recent years, resulting in the need to spend more time on these activities. As recommended in the previous finding, in order to help reduce the workload of Trust Accounting staff, Treasury should consider creating a dedicated financial reporting resource to assist with all of its financial reporting functions throughout its various divisions including researching accounting issues, educating staff, coordinating with Accounts, and preparing year-end financial reporting submissions.

Improve Database Security

Type: Internal Control and Compliance
Severity: Significant Deficiency
Repeat: No

Treasury has not implemented one of the minimum security controls required by the Security Standard and industry best practices for a sensitive system's database.

We communicated the control weakness to management in a separate document marked FOIAE under § 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 database's settings and configurations with best practices, Treasury cannot ensure the confidentiality, integrity, and availability of data within the database or the information it reports.

Treasury should dedicate the necessary resources to implement, in a timely manner, the control discussed in the communication marked FOIA Exempt in accordance with the Security Standard and industry best practices.

Improve Information System Access Controls

Type: Internal Control and Compliance
Severity: Significant Deficiency
Repeat: No

Unclaimed Property does not have appropriate policies and procedures for assigning access to two of its information systems used to administer unclaimed property. We identified the following issues during the course of test work:

- Roles and workflow definitions and descriptions are inadequate.

- There is an unclear correlation in assigning roles and access for the two systems.

- The principle of least privilege was not appropriately considered when granting access, resulting in five employees having access to roles that were unrelated to their current job duties.

- Three employees working on a special project were granted access to a securities related accounting role; however, no detective control was implemented to ensure the three employees were appropriately using their access.

- Unclaimed Property did not adequately consider separation of duties when granting access, resulting in five employees with the ability to approve their own transactions.

- Unclaimed Property did not adequately consider removal of functionality related to its legacy information system.

The Security Standard requires that Unclaimed Property employ the principle of least privilege when granting access *(Security Standard section: AC-6 Least Privilege)*. When access is not based on the principle of least privilege, it increases the risk that employees may misuse their access (either intentionally or unintentionally), and compromised accounts are more likely to have access to critical functions.

Additionally, the Security Standard requires that Unclaimed Property define and assign system access to support separation of duties. Separation of duties reduces the risk of fraud and errors *(Security Standard section: AC-5 Separation of Duties)*. The ability to approve their own transactions allows employees to process claims without the benefit of another reviewer. Unclaimed Property may remit properties to the wrong claimant without sufficient access controls.

Unclaimed Property should adequately document roles and workflow descriptions. In addition, Unclaimed Property should evaluate business needs as well as employees' overall access to ensure system access is appropriate. To ensure that proper separation of duties is present, Unclaimed Property should develop a mechanism to prevent employees from approving their own transactions, or to detect and review claims processed by the same employee and take corrective action, if needed.

Improve Compliance with Prompt Pay Provisions

Type: Compliance
Severity: Not Applicable
Repeat: No

Treasury's Risk Management Division (Risk Management) is not adequately monitoring or ensuring compliance with the prompt pay provisions of the Virginia Public Procurement Act. Risk Management staff do not record receipt dates of invoices for legal and related expenses. This impairs the ability to effectively monitor and ensure timely payment of invoices. For one out of ten (10 percent) invoices sampled, documentation was not sufficient to confirm whether the payment was timely due to lack of documentation. Additionally, Risk Management paid three significant lawyer bills tested late, from 45 to 133 days after the invoice date.

The Code of Virginia §2.2-4347 states that agencies are required to pay invoices no later than 30 calendar days after the receipt of the goods, services, or invoice, whichever is later, or the due date specified in the vendor's contract. Not following prompt pay requirements established by the Commonwealth may harm the Commonwealth's reputation as a buyer, damage relationships with vendors, and result in late fees.

Risk Management's untimely payments are a result of several factors. Management altered the process for approving lawyer bills due to staffing vacancies. Additionally, Risk Management staff misplaced several of the tested invoices prior to payment. Finally, Risk Management does not have a consistent process in place to document the receipt date of lawyer invoices or when contesting invoiced costs.

Risk Management should strengthen its processes to ensure compliance with the prompt pay provisions. To minimize the risk of noncompliance, Risk Management should establish a process to document invoice receipt dates and the timeline of contested invoices.

RISK ALERT

During the course of our audit, we encountered an issue that is beyond the corrective action of agency management alone and requires the action and cooperation of the Virginia Information Technologies Agency (VITA). The following issue represented such a risk to the agency and the Commonwealth during fiscal year 2017. While this risk alert has been issued each fiscal year since 2015, it should be noted that progress has been made on this issue since we initially reported on it.

Department of Taxation

Mitigate Server Vulnerabilities

The Commonwealth's Information Technology (IT) Infrastructure Partnership with Northrop Grumman (Partnership) provides agencies with installation, maintenance, operation, and support of IT infrastructure components, such as servers, routers, firewalls, and virtual private networks. As part of this, Taxation relies on the Partnership for the installation of security patches in systems that support Taxation's operations. During our review, we found that the Partnership is not performing timely security patching in accordance with the Security Standard.

The Security Standard requires the installation of security-relevant software updates within 90 days of release (*Security Standard section: SI-2 Flaw Remediation*). The Security Standard allows for varying time periods depending on factors, such as the criticality of the update, but generally the Partnership is using a 90-day window from the date of release as its standard for determining timely implementation of security patches.

As of September 2017, the Partnership had not applied a significant number of critical and highly important security patches to Taxation's server environment, including a number of patches exceeding the 90-day mark and some exceeding one-year. The systems missing critical security updates are at an increased risk of cyberattack, exploit, and data breach by malicious parties.

Taxation is working with the Partnership to ensure that all servers have all critical and highly important security patches installed. Additionally, our separate audit of the Commonwealth's IT Partnership contract administrator, VITA, will include a contract performance review regarding this risk alert. We anticipate this report will be issued in Winter 2018.

FINANCE SECRETARIAT OVERVIEW

The Secretary assists the Governor in the management and direction of the finance agencies and performs program coordination, policy planning, and budget formulation activities. To accomplish this, the Secretary oversees four agencies, which perform critical functions in the Commonwealth's statewide financial management system. These agencies are the Departments of Accounts, Planning and Budget, Taxation, and the Treasury and the Treasury Board.

The individual audits of these agencies primarily support the audit of the CAFR for the fiscal year ended June 30, 2017, and this report is intended to report on the results of this work. Our office also issues another report related to the Secretary of Finance. The "Office of the Governor and Cabinet Secretaries" report, which summarizes activities of the Cabinet Secretaries, including the Secretary of Finance, was issued on October 6, 2017.

These four agencies work closely together in the budgeting, managing, and reporting of the Commonwealth's financial resources. They handle all of the financial transactions of the Commonwealth, from collecting taxes to paying bills to distributing aid to localities. Their primary responsibilities include:

- forecasting and collecting revenues;
- preparing and executing the Commonwealth's budget;
- managing the Commonwealth's cash and investments;
- issuing bonds on behalf of various boards and authorities;
- administering the Commonwealth statewide accounting and payroll systems;
- overseeing the Commonwealth's financial reporting processes; and
- making strategic financial plans.

These agencies primarily serve other agencies within the Commonwealth in a central support capacity. The operations of these four agencies are primarily funded with general funds. Table 1 summarizes the original and final operating budgets, as well as expenses for all finance agencies except the Treasury Board. The Treasury Board's financial activity is not included since its activities consist primarily of the payment of debt service on general obligation debt rather than administrative expenses.

Summary of Budget and Expenses for Fiscal Year 2017

Table 1

	Original Budget	Final Budget	Expenses
Secretary of Finance	$ 488,354	$ 1,129,258	$ 537,172
Department of Accounts	40,146,534	64,788,719	59,717,623
Department of Planning and Budget	8,144,587	7,469,345	6,052,816
Department of Taxation	109,040,448	108,529,618	104,225,267
Department of the Treasury	23,033,369	23,067,451	20,634,518
Total – Finance Agencies	**$180,853,292**	**$204,984,391**	**$191,167,396**

Source: Commonwealth's accounting and financial reporting system

The most significant budgetary changes within the Finance agencies took place in Accounts. The $24.6 million increase in Accounts' final budget includes an $11.5 million Working Capital Advance to assist with the replacement of the Commonwealth's payroll system. Additionally, Accounts received a $10.8 million Working Capital Advance for the update of Commonwealth's accounting and financial reporting system.

RETAIL SALES AND USE TAX COLLECTION AND DISTRIBUTION

In accordance with §30-133.2 of the Code of Virginia, we perform work related to retail sales and use tax distributions as part of our annual audit of Taxation. Our review covers retail sales and use tax with a focus on the collection and distribution of local sales and use taxes. As part of our initial review, we reviewed activity for fiscal years 2009 through 2012 and established a benchmark by which to evaluate errors in the process.

In fiscal year 2017, Taxation collected approximately $6.3 billion in retail sales and use taxes, with $1.2 billion of these revenues being distributed to localities as a one percent local option tax. Taxation collects the tax and determines the local portion, which is distributed to the locality where the sale or activity occurred.

The sales and use tax distribution process requires a joint effort between Taxation, localities, and businesses. There are a number of controls and processes in place to help ensure that locality distributions are accurate and made to the correct locality. When an error is detected, Taxation processes an adjustment to correct the distribution and transfer the funds to the correct locality. Errors most frequently occur because a taxpayer does not allocate the proper amounts to the locality or a taxpayer has a liability in more than one locality.

Table 2 shows the local distribution amount for retail sales and use tax, as well as the amount and rate of distribution errors identified and corrected by Taxation in each of the last three fiscal years.

Error Rate for Local Sales Tax Distributions

Table 2

	2015	2016	2017
Local distribution amount	$1,143,329,727	$1,188,704,491	$1,213,928,644
Errors identified and corrected	$11,255,590	$7,830,223	$4,904,027
Error rate	0.98%	0.66%	0.40%

Source: Taxation's financial accounting and reporting system

As shown above, the error rate for fiscal year 2017 was 0.40 percent. This is within the one percent benchmark established and a decrease from the fiscal year 2016 error rate of 0.66 percent. Based on these results, it appears that the error rate is within the established benchmark, and Taxation is properly distributing the local portion of the retail sales and use tax. We do not recommend any changes in the established benchmark.

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

January 29, 2018

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
Vice Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the agencies under the Secretary of Finance 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 Objectives

Our primary audit objectives for the audit of the Departments of Accounts, Planning and Budget, Taxation, and Treasury for the fiscal year ended June 30, 2017, include the following:

- to evaluate the accuracy of financial transactions related to tax collections including accounts receivable, deferred revenues and taxes, accounts payable and other liabilities, tax abatements, and tax and interest revenue as reported in the Commonwealth's accounting and financial reporting system and Taxation's accounting and financial reporting system and in supplemental information prepared by Taxation;

- to evaluate the accuracy of financial transactions related to cash and cash equivalents, investments, debt, risk management, and unclaimed property activity, which is controlled by Treasury as reported in the Commonwealth's accounting and financial reporting system, Treasury's internal systems and accounting records, and in supplemental information prepared by Treasury (including the activity of the Treasury Board, the Local Government Investment Pool, the Virginia College Building Authority, the Virginia Public School Authority, and the Virginia Public Building Authority);

- to evaluate whether the budget approved by the General Assembly is appropriately recorded in the Commonwealth's accounting and financial reporting system and controls in this system are adequate to ensure program expenses do not exceed appropriations;

- to determine whether management has established and maintained internal controls over the Commonwealth's financial reporting and other central processes and the centralized services provided to agencies and institutions in support of the preparation of the financial statements as indicated in the Audit Scope and Methodology Section of this report;

- to determine whether management has established and maintained adequate operating and application system controls over the Commonwealth's accounting and financial reporting, payroll, budget, fixed asset, and lease accounting systems and other internal systems as referenced in the Audit Scope and Methodology Section;

- to determine whether the agencies have complied with applicable laws, regulations, contracts, and grant agreements; and

- to review corrective actions related to audit findings from the prior year report.

Audit Scope and Methodology

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 and regulations.

We reviewed and gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following processes and systems.

Department of Accounts

Financial reporting*
Commonwealth's accounting and financial reporting system
Commonwealth's payroll system
Commonwealth's fixed asset system
Commonwealth's lease accounting system
Administrative activities

Department of Planning and Budget

Budget execution
Commonwealth's budgeting system

Department of Taxation

Financial reporting
Tax return processing
Tax revenue collections
Taxation's accounting and financial reporting system

Department of the Treasury (including Treasury Board operations)

Financial reporting*
Bond issuance
Debt service expenses
Investment trading
Investment accounting
Investment accounting system
Bank reconciliation system
Trust accounting
Check processing system
Risk management claim system
Unclaimed property management system
Administrative activities

*including preparation of the Comprehensive Annual Financial Report and Schedule of Expenditures of Federal Awards by Accounts and the preparation of financial statements of the Local Government Investment Pool, the Virginia College Building Authority, the Virginia Public Building Authority, and the Virginia Public School Authority by Treasury.

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

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

Audit Conclusions

We noted certain matters at Accounts, Taxation, and Treasury involving internal control and compliance with applicable laws and regulations that are required to be reported under Government Auditing Standards that are described in the section entitled "Internal Control and Compliance Findings and Recommendations."

Our consideration of internal control was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; and therefore, material weaknesses and significant deficiencies may exist that were not identified. However, as described in the section titled "Internal Control and Compliance Findings and Recommendations," we identified a deficiency in internal controls that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies in internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial information will not be prevented, or detected and corrected on a timely basis. We have explicitly identified one finding in the section titled "Internal Control and Compliance Findings and Recommendations" as a material weakness for the Commonwealth.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We have explicitly identified eleven findings in the section titled "Internal Control and Compliance Findings and Recommendations" as significant deficiencies for the Commonwealth.

As the findings noted above have been identified as material weaknesses or significant deficiencies for the Commonwealth, they will be reported as such in the section "Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards" included in the Commonwealth of Virginia Single Audit Report for the year ended 2017.

We found that Taxation properly stated, in all material respects, the financial records reviewed in support of the tax collections activity detailed in the audit objectives as reported in the Commonwealth's accounting and financial reporting system, Taxation's accounting and financial reporting system, and supplemental information.

We found that Treasury properly stated, in all material respects, the financial records reviewed in support of the cash and investments, securities lending, debt, risk management, and unclaimed property activity reported in Commonwealth's accounting and financial reporting system, Treasury's internal systems and accounting records, and supplemental information.

We found that the budget approved by the General Assembly is appropriately recorded in the Commonwealth's accounting and financial reporting system, and controls in this system were adequate to ensure program expenses do not exceed appropriations.

We found that Accounts properly stated, in all material respects, the financial and budgetary transactions related to their administrative activities recorded and reported in the Commonwealth's accounting and financial reporting system.

The agencies of the Secretary of Finance have taken adequate corrective action with respect to audit findings reported in the prior year that are not referenced in this report.

Exit Conference and Report Distribution

We discussed this report with management of the respective agencies of the Secretary of Finance and have included their responses at the end of this report. We did not audit management's responses and, accordingly, we express no opinion on them. We redacted certain information included in the response from Taxation management in accordance with § 2.2-3705.2 of the Code of Virginia due to it containing descriptions of security mechanisms.

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

AUDITOR OF PUBLIC ACCOUNTS

LCW/clj

COMMONWEALTH of VIRGINIA

DAVID A. VON MOLL, CPA
COMPTROLLER

Office of the Comptroller

P. O. BOX 1971
RICHMOND, VIRGINIA 23218-1971

January 29, 2018

Ms. Martha S. Mavredes
Auditor of Public Accounts
James Monroe Building
101 N. 14th Street
Richmond, Virginia 23219

Dear Ms. Mavredes:

The Department of Accounts (Accounts) appreciates the opportunity to respond to the *Internal Control and Compliance Findings and Recommendations* contained in your 2017 Secretary of Finance Audit Report. We give your comments the highest level of importance and consideration as we continue to review and improve our current practices.

Internal Control and Compliance Findings and Recommendations

Ensure all Nonexempt Active Vendors in the Commonwealth's Accounting and Financial Reporting System Have a Form W-9

Accounts acknowledges that the Commonwealth Vendor Group (CVG) does not have Form W-9s for all nonexempt active vendors in Cardinal. Vendors created prior to the creation of the vendor group and those included in conversion loads from CARS are considered grandfathered vendors in Cardinal. CVG has allowed grandfathered vendors to remain active in Cardinal without a Form W-9 to avoid the disruption of business activities of state agencies across the Commonwealth.

CVG also acknowledges that not having Form W-9 for all nonexempt vendors in Cardinal could result in agencies reporting inaccurate or incomplete tax information on Form 1099-Misc. However, Accounts believes this risk is mitigated by additional agency-level controls. It is each state agency's responsibility to ensure they are executing 1099-Misc reporting accurately. The grandfathered vendors in Cardinal were established from lists provided by state agencies. Given the relatively low control risk related to these vendors, Accounts focused limited CVG resources on ensuring W-9s were obtained for new vendors and did not determine if agencies had W-9s for grandfathered vendors prior to making any payments. Currently, Cardinal has over 200,000 approved vendors. Of this amount, less than one percent received a payment within the past 10 months that had not yet provided a W-9 to CVG.

As you mention, Accounts performed a mass mailing to 5,000 vendors requesting Form W-9 and continues to make efforts to obtain Form W-9s from grandfathered vendors. Accounts plans to work closely with paying agencies to target specific vendors that received recent payments for Form W-9 collection in

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the next few months. In addition, Accounts plans to deactivate vendors that have not received a payment in the last 12 months and have not provided a Form W-9.

Improve Database Security

Accounts acknowledges the importance of protecting, auditing, and monitoring the Oracle databases that underlie the Cardinal application according to documented standards and best practices. Accounts will continue to pursue improvements and implement necessary tools and processes to support this goal. The specific corrective action has been communicated in a separate document.

Significant Initiatives

Status of System Development Projects

Commonwealth's Accounting and Financial Reporting System

Accounts appreciates the recognition of the successful enterprise-wide accounting and reporting system implementation and Comprehensive Annual Financial Report completion.

Commonwealth's Payroll System Project

Accounts agrees with the system summary and acknowledges that all agencies will need to remain diligient to ensure the successful system completion within established timeframes.

Modernization of Financial Reporting Processes

Accounts recognizes the need to evaluate the financial reporting process to identify opportunities to leverage the use of technology. Accounts is evaluating reporting options and will strive to modify its processes where feasible while appropriately incorporating change management.

Other Postemployent Benefits Reporting Changes

Accounts agrees that GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, will have a significant impact on the Commonwealth's reporting. Accounts has previously met with personnel from both the Virginia Retirement System and Department of Human Resource Management to discuss the impact of this statement and begin implementation planning. Accounts will continue to coordinate with both agencies as this GASB statement is implemented in fiscal year 2018. Additionally, the information required from agencies administerting and participating in stand-alone plans will be captured and reported begining in fiscal year 2018.

Sincerely,

David A. Von Moll

Copy: The Honorable Aubrey L. Layne, Jr., Secretary of Finance
Lewis R. McCabe, Jr., Deputy State Comptroller

COMMONWEALTH of VIRGINIA

Department of Taxation

January 26, 2018

Ms. Martha S. Mavredes
Auditor of Public Accounts
James Monroe Building
101 N. 14th Street
Richmond, Virginia 23219

Dear Ms. Mavredes:

Below are the Department of Taxation's responses to the audit for the fiscal year ended June 30, 2017. I appreciate the opportunity to respond and the professionalism of your staff in the performance of the audit.

As you acknowledge in the background section, Virginia Tax previously identified these issues for remediation. However, we have not been able to address them in the timeframe we expected given the difficulty allocating sufficient resources from the existing agency budget. As a result, Virginia Tax requested new funding in the fall 2017 budget development process to help us expedite implementation of corrective actions and that funding was included in the budget introduced in December 2017. While these issues will take an extended period to correct completely, progress going forward should accelerate given the additional funding and staff resources included in the introduced budget. Virginia Tax will implement the following corrective actions to address the noted issues as follows:

Strengthen Access Controls

As noted, Virginia Tax began the process to strengthen our computer access control structure during FY 2017. In addition, the comment acknowledges that we have compensating controls in place to prevent unauthorized transactions. However, we anticipate that in the long term it would increase the transparency of our control structure if we implement (to the degree practical) the principle of least privilege. Virginia Tax will initiate a project that documents combinations of access functions that create potential segregation-of-duties violations. From the documentation, Virginia Tax staff will determine if the potential segregation-of-duties violation should be controlled via an application access security rule or some other compensating control. We will initiate this project by June 30, 2018 with an estimated completion date of December 31, 2018. A product of this project will be a list of access functions that create segregation-of-duties violations so that user management does not request such access nor does Technology or the access control system grant such access if requested.

Address Service Account Management

Virginia Tax will document all service accounts in the system security plans by September 30, 2018. In addition, we will implement a tool to facilitate the management of service accounts by April 30, 2019.

Address Uncorrelated Accounts

Virginia Tax will correlate each account in the access management system with a unique identity and establish a continuing process to ensure the correlation of all accounts by July 31, 2019.

Improve Documentation over Financial Reporting System Security Functions and Features

Virginia Tax will more fully document policies and procedures related to the security functions and features of our financial accounting and reporting system (Advantage Revenue) by September 30, 2018.

Perform Annual Access Review

This corrective action has two key milestones. By December 31, 2018, Virginia Tax will complete an access review for all technology resources currently controlled via our Identity Management System. By December 31, 2020, we will complete a project so that our Identity Management System manages all technology resources.

Risk Alert

While I appreciate the acknowledgment that Virginia Tax is not responsible for the issues outlined in the Risk Alert, I have two significant concerns. First, this alert does not adequately express the repeated actions we have taken to prompt the "Partnership" to complete action on this important issue noted in the risk alert. Second, the Risk Alert does not fully describe the powerless position of Virginia Tax in the relationship. Quarterly, we formally communicate the status of this issue with Virginia Information Technologies Agency executive management. Although the issue has significantly improved, just one weakness in this area can put Virginia Tax's information at risk. The most recent communication on the same issues raised by APA is attached.

Again, thank you for the opportunity to respond to your report. The Department strives to maintain strong internal controls and business processes that ensure high standards of integrity, efficiency, and control.

Sincerely,

Craig M. Burns
Tax Commissioner

Cc: The Honorable Aubrey L. Layne, Jr., Secretary of Finance

Attachment

COMMONWEALTH of VIRGINIA

Department of Taxation

January 16, 2018

Mr. Nelson Moe
Chief Information Officer
Commonwealth of Virginia
11751 Meadowville Lane
Chester, Virginia 23836

Dear Nelson,

This is a follow up regarding the Auditor of Public Accounts' (APA) FY16 audit points for the Department of Taxation. As you know, one of the points included an Agency Risk Alert titled *Mitigate Server Vulnerabilities*. As part of our process to document the progress of VITA/NG in remediating the Risk Alert, our Office of Technology compiles an inventory of servers requiring up-to-date patches. The results of our assessment as of December 31, 2017 are:

[redacted]

I have asked our Technology staff to provide this information to your staff as well to compare and correct as warranted.

We appreciate the efforts of you and your staff have undertaken to address patching. However, as you know this remains an extremely important issue. I have asked our Office of Technology to provide patching statistics to me quarterly which I will continue to share with you and your staff. If you or your staff have any questions, comments or concerns about the data, [redacted]. Thank you again for your responsiveness in addressing this very important issue.

Sincerely

Craig M. Burns
Tax Commissioner

Cc: The Honorable Aubrey L. Layne, Jr., Secretary of Finance
[redacted]

Save Time, Go Online - Visit www.tax.virginia.gov

COMMONWEALTH of VIRGINIA
Department of the Treasury

MANJU S. GANERIWALA
TREASURER OF VIRGINIA

P.O. BOX 1879
RICHMOND, VIRGINIA 23218-1879
(804) 225-2142
FAX (804) 225-3187

January 26, 2018

Ms. Martha Mavredes
Auditor of Public Accounts
101 N. 14th Street, 8th Floor
Richmond, VA 23219

Dear Ms. Mavredes,

The Department of the Treasury (Treasury) appreciates the opportunity to respond to the findings and recommendations in your Report on the Audit of the Agencies of the Secretary of Finance for the fiscal year ended June 30, 2017. Your findings and recommendations are appreciated and given the highest level of consideration by Treasury as we continually strive to improve our processes.

Comments to Management

Improve Financial Reporting of Unclaimed Property Activity

Over the last two years, due to extensive changes required in financial reporting, Unclaimed Property staff worked with the Department of Accounts (DOA) to develop a financial reporting template. Due to complexities presented by the Unclaimed Property program, the template required extensive research and a considerable amount of time to be finalized. Now the template has been finalized, Unclaimed Property will ensure the financial templates are completed in accordance with accounting principles generally accepted in the United States of America and a reasonable and reliable method is utilized to estimate the long-term unclaimed property claims liability. Additionally, Treasury will evaluate the need for a dedicated resource to research and provide guidance on changes in financial reporting standards.

Improve Accounting and Financial Reporting Control Environment of Trust Accounting

Over the last several years, the workload in the accounting and reporting unit has increased considerably due to growth in programs, higher levels of debt issuances and refundings, and implementation of new accounting standards. Three years ago to help address the staffing shortfall, Treasury used funding from other areas in its budget to establish and fill a

senior-level accountant position. Additionally during that time, Treasury on three occasions has requested additional positions and funding through the budget process. The first two requests for a new position were not approved; however, the most recent Governor's Proposed Budget included funding for a new position in the accounting and reporting unit.

During this same time, the accounting and reporting unit also experienced turnover of several of its accounting staff, which only compounded the issue of succession planning. Turnover in accounting positions is a statewide concern. Going forward, incorporation of the new resource through cross training and succession planning will be a key priority.

Improve Database Security

Treasury is committed to ensuring all minimum security controls are in place. Treasury will develop procedures to ensure the minimum security control is in place and functioning effectively.

Improve Information System Access Controls

Treasury will improve its policies and procedures for assigning access to two of its information systems related to Unclaimed Property to address the findings noted in the report.

Improve Compliance with Prompt Pay Provisions

Risk Management will ensure compliance with the prompt pay provisions of the Virginia Public Procurement Act. Additionally, Risk Management will record receipt dates for invoices to ensure bills are paid in a timely manner.

Sincerely,

Manju S. Ganeriwala

cc: The Honorable Aubrey Layne, Secretary of Finance

SECRETARY OF FINANCE AGENCY OFFICIALS

As of June 30, 2017

Richard D. Brown
Secretary of Finance

David A. Von Moll
Comptroller

Daniel S. Timberlake
Director of the Department of Planning and Budget

Craig M. Burns
Tax Commissioner

Manju S. Ganeriwala
Treasurer