2017 INTERNAL CONTROL

QUESTIONNAIRE RESULTS

FOR THE PERIOD

JANUARY 1, 2017 THROUGH DECEMBER 31, 2017

Auditor of Public Accounts
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EXECUTIVE SUMMARY

The Auditor of Public Accounts (APA) has developed a new approach to auditing agencies that are not required to be audited every year. Agencies audited by the APA on a periodic basis are referred to as cycled agencies. Historically, the APA has audited cycled agencies at least once every three years. Beginning with fiscal year 2016 audits, the APA developed a risk-based approach for auditing cycled agencies. As part of the new approach, APA sends a questionnaire regarding internal controls to these agencies. All agencies will receive a questionnaire at least once every three years. We then review the responses to the questionnaire and design and perform procedures based on the results. At the conclusion of the review, we provide a letter to management stating the results and highlighting any key areas of interest. This report is to communicate the overall results of the reviews of internal controls performed during 2017 and to highlight common deficiencies identified across agencies.

The scope of our review included 19 agencies and as a result of our reviews, we issued recommendations for improvements in internal controls to 15 agencies. We were unable to perform any procedures at one of the agencies in our scope (Department of Fire Programs) due to inadequate staff in the fiscal department. We used a risk-based approach to determine what to review at each agency. The main areas we reviewed were information security, policies and procedures, statewide accounting system reconciliations, Agency Risk Management and Internal Control Standards (ARMICS), and small purchase charge cards (SPCC). The chart below shows how many agencies we reviewed for each area compared to the resulting areas with findings.

RECOMMENDATIONS FOR IMPROVEMENTS ISSUED TO 83% OF AGENCIES REVIEWED

Frequency of Findings

Chart 1
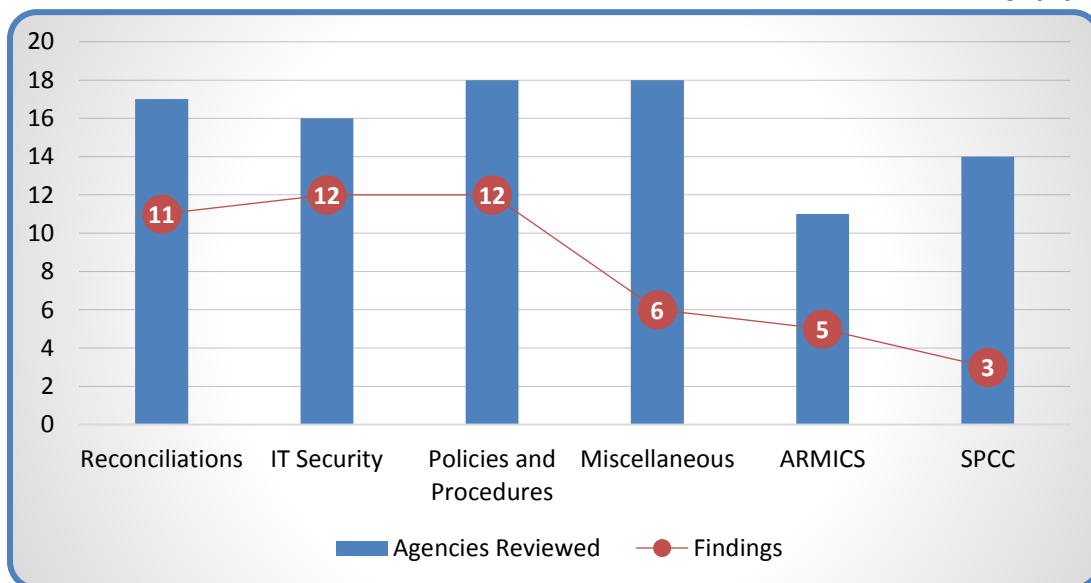
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INTRODUCTION

The Auditor of Public Accounts (APA), as required by the Code of Virginia, audits all Executive and Judicial branch Commonwealth agencies handling state funds. However, the Code of Virginia does not require audits of all agencies annually. Agencies audited by the APA on a periodic basis are referred to as cycled agencies. Historically, the APA has audited cycled agencies at least once every three years. Beginning with fiscal year 2016 audits, the APA developed a risk-based approach for auditing cycled agencies. As part of the new approach, APA sends a questionnaire regarding internal controls to these agencies. All agencies will receive a questionnaire at least once every three years. We then review the responses to the questionnaire and design and perform procedures based on the results. The purpose of the internal control reviews is to evaluate if the agencies have developed adequate internal controls over significant organizational areas and activities and not to express an opinion on the effectiveness of internal controls. At the conclusion of the review, we provide a letter to management stating the results and highlighting key areas of interest. The results of these reviews will be included within the risk analysis process for the upcoming year in determining which agencies APA will audit. This report is to communicate the overall results of the reviews of internal controls performed during 2017 and to highlight common deficiencies identified across agencies.

REVIEW PROCEDURES

During the reviews, the agencies completed an internal control questionnaire that covered significant organizational areas and activities including payroll and human resources; revenues and expenses; procurement and contract management; and information technology and security. The questionnaire focused on key controls over these areas and activities.

APA reviewed the agency responses to the questionnaire and supporting documentation to determine the nature, timing, and extent of additional procedures. The nature, timing, and extent of the procedures selected depended on 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 at each agency and involve reviewing internal policies and procedures. Based on the results of our review we determined if we needed to perform additional procedures. These procedures included inquiry, validating the existence of certain transactions; observing controls to determine if the controls are designed and implemented; reviewing transactions for compliance with internal and Commonwealth policies and procedures; and conducting further review over management's risk assessment process. Table 1 lists the agencies included in the scope of this year's internal control review.
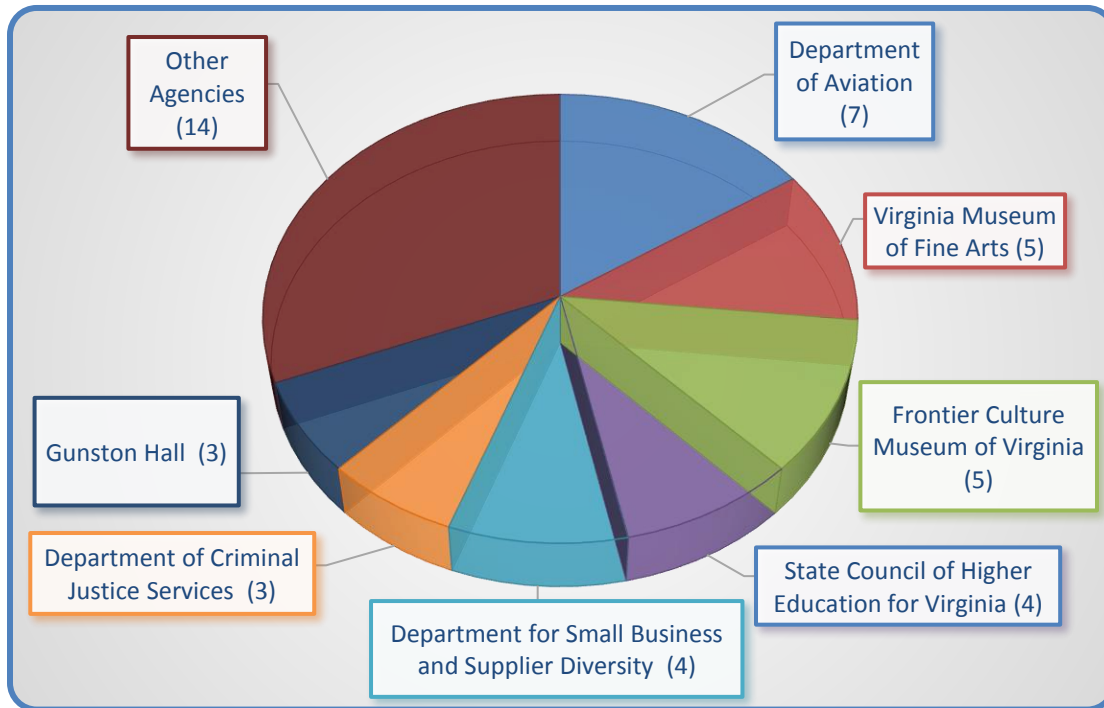
Agencies Included in the Review

Table 1

Department for Small Business and Supplier Diversity	Frontier Culture Museum of Virginia
Department of Aviation	Gunston Hall
Department of Criminal Justice Services	Indigent Defense Commission
Department of Environmental Quality	Jamestown-Yorktown Foundation
Department of Fire Programs	Motor Vehicle Dealer Board
Department of Forestry	Office of the State Inspector General
Department of Health Professions	State Council of Higher Education for Virginia
Department of Juvenile Justice	Virginia Museum of Fine Arts
Department of Military Affairs	Virginia Museum of Natural History
Virginia Workers' Compensation Commission ||

REVIEW RESULTS

As a result of our reviews, we issued recommendations to 15 out of 19 agencies. The following chart shows the total recommendations that were issued with the top seven agencies identified, not including Department of Fire Programs (Fire Programs). We were unable to perform any procedures at Fire Programs because Fire Programs has had high turnover in the fiscal department and did not have adequate staff in place to allow us to perform the review. In additional Department of Accounts had performed a quality assurance review that resulted in observations over many fiscal areas that management was still working to address. We will be revisiting Fire Programs to attempt another internal control review in the upcoming year.

Recommendations by Agency

Other Agencies (14)

Department of Aviation (7)

Virginia Museum of Fine Arts (5)

Gunston Hall (3)

Frontier Culture Museum of Virginia (5)

Department of Criminal Justice Services (3)

State Council of Higher Education for Virginia (4)

Department for Small Business and Supplier Diversity (4)

The main areas where recommendations were issued were information security, policies and procedures, statewide accounting system reconciliations, Agency Risk Management and Internal Control Standards (ARMICS), and small purchase charge cards (SPCC). The following chart depicts the total findings for all agencies grouped by type. Each area is described in further detail below.

Types of Findings

Chart 3

SPCC (3)

ARMICS (5)

Policies and Procedures (12)

Reconciliations (6)

Miscellaneous (6)

Information Security (12)
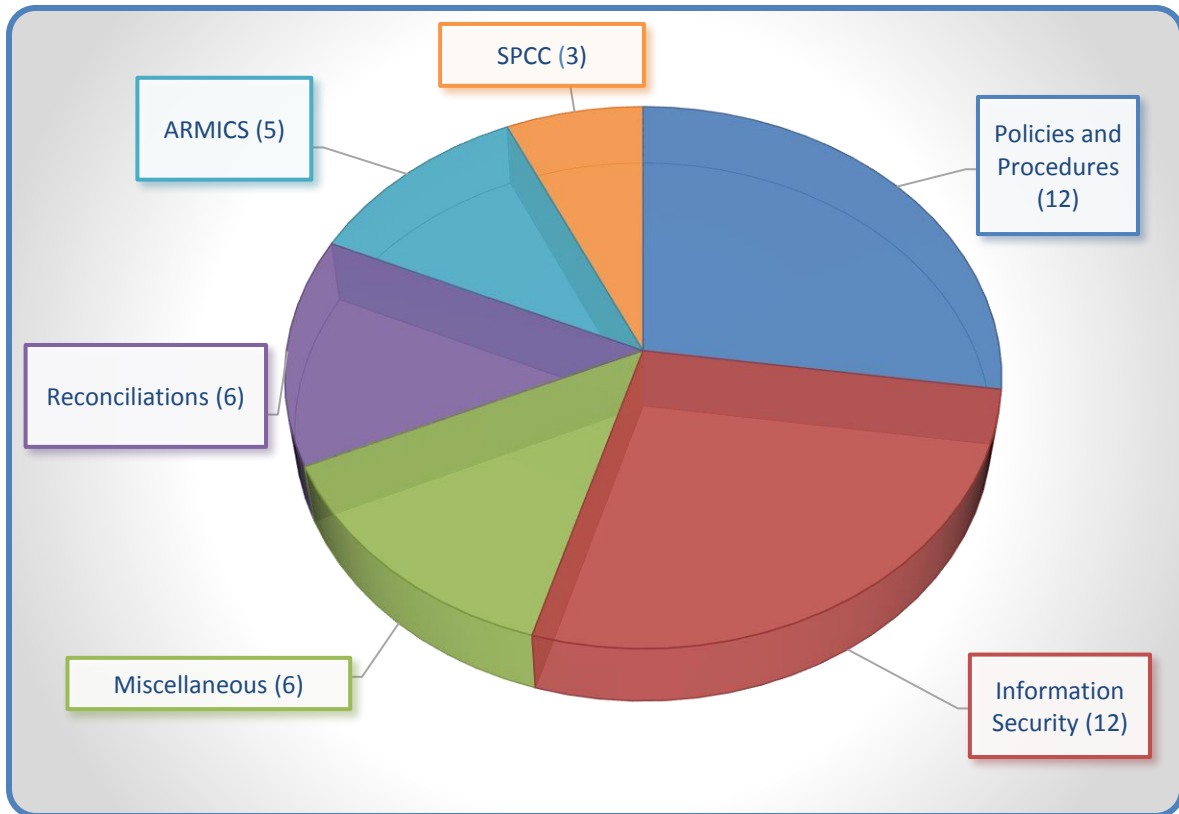
*The number of findings in each area will not necessarily agree to totals in Executive Summary or Table 2 because some issues were grouped together into individual findings when reported.

As noted previously, we did not review every area at every agency but rather used a risk-based approach to determine which areas to review. Table 2 below notes which areas we reviewed at each agency and which agency had findings related to that particular area. The ✓symbol indicates that the area was reviewed and no findings were issued. An X indicates that the area was reviewed and findings were included in the results letter. A blank indicates that the area was not reviewed. For details on the recommendations, see links to the individual results letters in the Appendix.

Areas Reviewed by Agency

Table 2

Agencies	Reconciliations	Information Security	Policies and Procedures	Miscellaneous	ARMICS	SPCC
Department for Small Business and Supplier Diversity	✓	X	X	X	X	✓
Department of Aviation	X	X	X	X	X	X
Department of Criminal Justice Services	X	X	X	✓	X	
Department of Environmental Quality	✓	X	✓	✓	✓	✓
Department of Fire Programs*						
Department of Forestry	X	X	X	✓		✓
Department of Health Professions	✓	X	✓	✓	✓	✓
Department of Juvenile Justice	X	X	X	✓	✓	✓
Department of Military Affairs	X		X	✓		✓
Frontier Culture Museum of Virginia	X	X	X	X		X
Gunston Hall	X	X	X	X		✓
Indigent Defense Commission	✓	✓	✓	✓		✓
Jamestown-Yorktown Foundation	X	✓	X	X	✓	✓
Motor Vehicle Dealer Board			✓	✓		
Office of the State Inspector General	✓	✓	X	X	✓	
State Council of Higher Education for Virginia	X	X	X	✓	X	✓
Virginia Museum of Fine Arts	X	X	X	✓	X	X
Virginia Museum of Natural History	X	X	✓	✓	✓	
Virginia Workers' Compensation Commission	✓	✓	✓	✓		✓

*As noted above, no procedures were performed at Fire Programs.

Information Security

We considered controls related to users such as establishing and maintaining access to critical systems and the adequacy and frequency of security awareness training as well as controls related to the overall security of sensitive systems. The findings in these areas related to security administration, continuity and contingency planning, information technology Audits, and compliance with Virginia Information Technologies Agency standards. We issued findings related to information security to 12 out of 16 agencies for whom this area was reviewed.

Policies and Procedures

Policies and procedures are a critical component to good internal controls; therefore, we reviewed policies and procedures for all agencies except Fire Programs, who was unable to provide any policies and procedures. We considered the design of policies and procedures and whether the procedures facilitated consistency and were sufficiently detailed. Establishing and implementing policies and procedures will ensure the control activities are consistently and effectively carried out. We issued findings for insufficient policies and procures to 12 out of 18 agencies.

Statewide Accounting System – Reconciliations

Due to the implementation of the new statewide accounting system, we reviewed system access and a selection of system and transaction reconciliations in order to gain assurance that the statewide accounting system contains accurate data. We noted no issues with system access at any of the 18 agencies reviewed. We reviewed access at all agencies except for Fire Programs. We issued recommendations related to the reconciliations at 11 out of 17 agencies reviewed. The recommendations ranged from not having sufficient policies and procedures for completing the reconciliation to not properly performing the reconciliation.

ARMICS

Risk management is a critical component to sound internal controls, as outlined in the statewide Agency Risk Management and Internal Control Standards (ARMICS). As ARMICS provides a basis for management to establish internal controls and assess that they are functioning, failure to complete the documentation and perform assessment tests increases the risk that internal controls may not exist or function adequately. The level of ARMICS review performed was based on judgment and the risk assessment at each agency. At some agencies only inquiry was necessary; while others included an in-depth analysis of the quality of the Stage 1 Agency-Level Internal Control Assessment Guide, or Stage 2 Process or Transaction-Level Control Assessment ARMICS processes. We issued recommendations related to ARMICS at 5 out of 11 agencies reviewed.

Small Purchase Charge Card

We reviewed the adequacy of SPCC policies and procedures to ensure that agencies were performing the necessary procedures and reconciliations to properly monitor the SPCC program. In some cases we also reviewed annual certifications of cardholder activity as well as monthly reconciliations. We issued recommendations related to SPCC to 3 out of 14 agencies reviewed.

Miscellaneous

Other miscellaneous control areas were assessed based on the responses to the internal control questionnaire and the nature of operations at each agency. Issues in the miscellaneous category were unique to each agency and included various agency-level and transaction-level controls. The findings are summarized in each agency's review results letter, and links to these letters are included in the Appendix.

Commonwealth of Virginia

Auditor of Public Accounts

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May 7, 2018

The Honorable Ralph S. Northam
Governor of Virginia

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

We are periodically reviewing the internal controls of cycled agencies and submit our report entitled **2017 Internal Control Questionnaire Results** for your review.

Based on the findings in our Internal Control Questionnaire Review Results Letters published during the period January 1, 2017, through December 31, 2017, this report provides a summary perspective of overall internal control weaknesses we identified.

We intend to continue to review cycled agencies and provide letters to management with our findings as the reviews are completed, as well as provide an annual summary report of our findings.

<u>Report Distribution</u>

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

AUDITOR OF PUBLIC ACCOUNTS

JDE/alh

APPENDIX

Links to Results Letters
Department for Small Business and Supplier Diversity
Department of Aviation
Department of Criminal Justice Services
Department of Environmental Quality
Department of Fire Programs
Department of Forestry
Department of Health Professions
Department of Juvenile Justice
Department of Military Affairs
Frontier Culture Museum of Virginia
Gunston Hall
Indigent Defense Commission
Jamestown-Yorktown Foundation
Motor Vehicle Dealer Board
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