



DEPARTMENT OF JUVENILE JUSTICE

INTERNAL CONTROL QUESTIONNAIRE

REVIEW RESULTS

AS OF

APRIL 2020

Auditor of Public Accounts
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April 2, 2020

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INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire, completed on February 12, 2020, for the **Department of Juvenile Justice** (Juvenile Justice). 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 Juvenile Justice 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; and debt. 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 Juvenile Justice. 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 reviewed a selection of system and transaction reconciliations in order to gain assurance that the statewide accounting system contains accurate data. The definitive source for internal control in the Commonwealth is the Agency Risk Management and Internal Control Standards (ARMICS) issued by the Department of Accounts (Accounts); therefore, we also included a review of ARMICS. The level of ARMICS review performed was based on judgment and the risk assessment at 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. Our review of Juvenile Justice's ARMICS program included a review of all current ARMICS documentation and a comparison to statewide guidelines established by Accounts. Further, we evaluated the agency's process of completing and submitting attachments to Accounts.

We reviewed the Internal Control Questionnaire and supporting documentation detailing policies and procedures. As a result of our review, we performed additional procedures over the following areas: payroll and human resources; revenues and expenses; procurement and contracts management; and capital assets. These procedures included 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.

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:

- Juvenile Justice did not maintain documented and up-to-date policies and procedures, showing evidence of management's approval for all critical business areas. During our review, we noted the following items related to policies and procedures:
 - Juvenile Justice has not update several of its policies and procedures for more than five years prior to the date of our review;
 - There were no internal policies and procedures for several processes including payroll certifications, hiring new employees, job transfers, and the filing of statement of economic interest forms; and
 - Several policies did not contain evidence of management's review and approval.

Topic 20905 and other sections of the Commonwealth Accounting Policies and Procedures (CAPP) Manual states that each agency needs to, "publish its own policies and procedures documents, approved in writing by agency management." Management should establish formally documented procedures over all critical business processes and update them regularly

in order to maintain an effective control environment.

- Juvenile Justice did not implement corrective action from a previous review by obtaining and reviewing a Service Organization Control (SOC) report for the administrator of its healthcare benefits program for direct-care youth. Topic 10305 of the CAPP Manual requires agencies to maintain oversight over third-party service providers and provide the Commonwealth assurance over outsourced operations. Juvenile Justice should obtain and review SOC reports for all significant third-party service providers.
- Although Juvenile Justice had completed its transaction level control assessments as required by ARMICS, Juvenile Justice had not completed its agency-level analysis by performing detailed assessments of each component of its control environment. Topic 10305 requires agencies to document, evaluate, and test agency level controls and to assess each element of the control environment. Juvenile Justice should perform this agency-wide assessment and regularly update it.
- Juvenile Justice's procedures on employee separations include a checklist to ensure the removal of systems access. However, this checklist does not provide a timeframe for the system access removal. The Commonwealth's Information Security Standard, SEC 501 Section PS4, requires the disabling of information system access within 24-hours of employment termination. Juvenile Justice should update its procedure to include the removal of system access within this timeframe.
- Juvenile Justice did not maintain consistent documentation to show the execution and review of certain payroll certification reports for a selection of pay periods. Topics 50810 through 50820 of the CAPP Manual outline which reports agencies must run and review before and after certifying the payroll. Juvenile Justice should include a listing of reports required to certify the payroll within its certification procedures and retain these reports within the certification files. Juvenile Justice should also ensure there is adequate documentation of review and resolution of reconciling items.
- Juvenile Justice did not maintain documentation of supervisory approval of bank account reconciliations. Juvenile Justice's internal process requires different individuals to perform and review the bank reconciliations, but these responsibilities are not clearly defined in an established policy. During our review, there was no evidence of supervisory review and no sign-off to show who performed the reconciliation selected. Therefore, there was no evidence that a proper separation of duties was in place. Juvenile Justice should require individuals involved in this process to sign off on their portions of the reconciliations to ensure the appropriate individuals perform each function. Juvenile Justice should also document which positions are responsible for these tasks within its reconciliation procedures.
- Juvenile Justice's fixed assets procedures do not include a comparison of assets' actual useful lives to the useful lives recorded in the fixed assets system. Topic 30605 of the CAPP Manual

requires agencies to perform a periodic review and update of assets' useful lives to ensure the recorded useful life mirrors the actual lives of the assets. Juvenile Justice should update its procedures to include this review and update all assets with useful lives that are different than initial estimates.

- Juvenile Justice does not monitor to ensure existing employees who file Statements of Economic Interest take the required orientation training every two years. During our review, Juvenile Justice could not provide evidence to show that two selected employees had completed this training. Section 2.2-3130 of the Code of Virginia requires state filers to complete an orientation ethics course every two calendar years. Juvenile Justice should ensure that filers of economic interest forms complete this training semi-annually as required.

We discussed these matters with management on March 6, 2020. Management's response to the findings identified in our review is included in the section titled "Agency Response." We did not validate management's response and, accordingly, cannot take a position on whether or not it adequately addresses the issues in this report.

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

Sincerely,

Martha S. Mavredes
Auditor of Public Accounts

BDH/vks



Valerie P. Boykin
Director

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May 1, 2020

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The Auditor of Public Accounts
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Dear Ms. Mavredes:

We are providing this letter in connection with the review results from the Internal Control Questionnaire the Department of Juvenile Justice (Juvenile Justice) completed on February 12, 2020. As noted in your report, the areas needing attention in the review results are listed below with management responses following.

FINDING: Juvenile Justice did not maintain documented and up-to-date policies and procedures, showing evidence of management's approval for all critical business areas. During our review, we noted the following items related to policies and procedures:

- Juvenile Justice has not updated several of its policies and procedures for more than five years prior to the date of our review.

MANAGEMENT RESPONSE: Juvenile Justice's Accounting Unit will work with the agency's Policy Unit to ensure all policies related to accounts payable and accounts receivable are updated, and reflect the Cardinal process. Once Cardinal payroll goes live, the payroll policies will be updated as well. Juvenile Justice's Accounting Unit follows DOA's CAPP procedures for processing accounts payable, accounts receivable, payroll, FAACS, CAFR, and EOY reporting. Juvenile Justice's internal desk procedures have been updated and detail the process of how each task is performed.

FINDING: There were no internal policies and procedures for several processes including payroll certifications, hiring new employees, job transfers, and the filing of statement of economic interest forms.

MANAGEMENT RESPONSE: Juvenile Justice's Accounting Manager and Payroll Manager will document internal policies for payroll certification. Once Juvenile Justice goes live with the new payroll system, new payroll desk procedures will be developed to detail the new payroll process.

Juvenile Justice's Director of Human Resources will document policies and procedures on hiring new employees, job transfers, and filing of statement of economic interest forms.

FINDING: Several policies did not contain evidence of management's review and approval.

MANAGEMENT RESPONSE: In updating policies for reconciliations and all payroll certifications, the manager's review and approval process will be documented.

FINDING: Topic 20905 and other sections of the Commonwealth Accounting Policies and Procedures (CAPP) Manual states that each agency needs to, "publish its own policies and procedures documents, approved in writing by agency management." Management should establish formally documented procedures over all critical business processes and update them regularly in order to maintain an effective control environment.

MANAGEMENT RESPONSE: As previously stated, Juvenile Justice's Accounting Unit will work with the agency's Policy Unit to ensure all policies related to accounts payable and accounts receivable are updated, and reflect the Cardinal process. Once Cardinal payroll goes live, the payroll policies will be updated as well. Juvenile Justice's Accounting Unit follows DOA's CAPP procedures for processing accounts payable, accounts receivable, payroll, FAACS, CAFR, and EOY reporting. Juvenile Justice internal desk procedures have been updated with desk procedures, which detail the process of how each task is performed.

FINDING: Juvenile Justice did not implement corrective action from a previous review by obtaining and reviewing a Service Organization Control (SOC) report for the administrator of its healthcare benefits program for direct-care youth. Topic 10305 of the CAPP Manual requires agencies to maintain oversight over third-party service providers and provide the Commonwealth assurance over outsourced operations. Juvenile Justice should obtain and review SOC reports for all significant third-party service providers.

MANAGEMENT RESPONSE: Juvenile Justice will officially request Anthem Healthcare to submit for review the most recent SOC report for DJJ's Anthem Healthcare Benefits Program.

FINDING: Although Juvenile Justice had completed its transaction level control assessments, Juvenile Justice had not completed its agency-level analysis by performing detailed assessments of each component of its control environment. Topic 10305 requires agencies to document, evaluate, and test agency level controls and to assess each element of the control environment. Juvenile Justice should perform this agency-wide assessment and regularly update it.

MANAGEMENT RESPONSE: Juvenile Justice Internal Audit Unit will work in consultation with any third party ARMICS assessment providers to document, evaluate, and test agency level controls across the five components of internal controls. Once the process is successfully implemented, the agency's Internal Audit Unit will review annually to refine or make updates as necessary. The annual review will be properly documented. This will be implemented no later than the next ARMICS certification date, September 30, 2020.

FINDING: Juvenile Justice's procedures on employee separations includes a checklist to ensure the removal of system access. However, this checklist does not provide a timeframe for the system access removal. The statewide information security policy, SEC 501, Section PS4 requires the disabling of information system access within 24-hours of employment termination. Juvenile Justice should update its procedure to include the removal of system access within this timeframe.

MANAGEMENT RESPONSE: Juvenile Justice will ensure its checklist and policies are updated to reflect this requirement. Juvenile Justice will work with the agency's Information Technology staff to ensure notification is made in a timely manner for all employee departures. Juvenile Justice will make the necessary changes to its checklist and internal practices immediately. Policy updates will be completed by the end of the calendar year 2020.

FINDING: Juvenile Justice did not maintain consistent documentation to show the execution and review of certain payroll certification reports for a selection of pay periods. Topics 50810 – 50820 of the CAPP manual outline which reports agencies must run and review before and after certifying the payroll. Juvenile Justice should include a listing of reports required to certify the payroll within its certification procedures and retain these reports within the certification files. Juvenile Justice should also ensure there is adequate documentation of review and resolution of reconciling items.

MANAGEMENT RESPONSE: In order to comply with the APA findings, the agency's Payroll Unit will do the following:

Payroll Unit will compose a checklist of required reports for pre-certification. Reports will include (but not limited to):

- Report 10 (company page total required to certify)
- Employees Diagnostic Listing Report – U109
- Reports 852, 906, 907
- Salary Rate and Reg Pay Comp Report (PAT)
- Special Pays Listing
- Deduction Amount Change
- State and Federal Tax Withholding Comp
- Rate Amount Change

Payroll Unit will compose a checklist listing reports required for post-certification. Reports will include (but not limited to):

- Certification Report – U102
- Employees Diagnostic Listing Report – U109
- Gross Pay Differences – U118
- Report 14 Deductions Not Taken Register
- Report 10 Comp Report (PAT)
- Check Issued Register – Report 15
- Employees who did not have Direct Deposit in this Payroll – Report 831
- Composite Tax Report – Report 33
- Gross Pay Limit Exceeded – Report 59
- Payroll and Deduction Register – Report 10
- Recycled Pending Transactions – 2007
- 3rd Party Check Register – U003
- Update Register – Report 46
- Report 822 – Employees with buyback ending in 30 days
- Report 114 – Deferred Compensation Remittance File
- Report U182 – Hybrid Retirement Remittance File Detail Report

PAT quarterly report control totals and Report 33 are ran after each pay period and are balanced, checked, and signed to ensure the payroll totals balance to the quarter and YTD totals for accuracy reporting to DOA. 10/33 Compare Report is performed after each payroll to ensure proper balancing of FIT, SIT, and FICA taxes.

In addition to the pre- and post-certification checklists, Juvenile Justice will provide a signature sheet listing the person(s) responsible for the review and resolution of payroll items. Copies and backup documentation may also be included in the payroll packet.

FINDING: Juvenile Justice did not maintain documentation of supervisory approval of bank account reconciliations. Juvenile Justice's internal process requires different individuals to perform and review the bank reconciliations, but these responsibilities are not clearly defined in an established policy. During our review, there was no evidence of supervisory review and no sign-off to show who performed the reconciliation selected. Therefore, there was no evidence that a proper separation of duties was in place. Juvenile Justice should require individuals involved in this process to sign off on their portions of the reconciliations to ensure the appropriate individuals perform each function. Juvenile Justice should also document which positions are responsible for these tasks within its reconciliation procedures.

MANAGEMENT RESPONSE: Going forward, Juvenile Justice will ensure that the Fiscal Tech(s) who prepare(s) the bank reconciliation(s) and the Bon Air Business Manager who reviews the bank reconciliations will sign-off to ensure separation of duties. Desk procedures will document this separation to ensure functions are appropriate and acceptable. Guidance referencing the new reconciliation process is outlined as follows:

Updated policies and procedures will address roles and responsibilities by position and separate the bank reconciliation process from the financial statement accountability preparation.

The preparer (Fiscal Tech) will present a reconciliation package monthly to the reviewer (Business Manager). A cover sheet will capture summarized information. For example:

Bank Statement Balance as of {*Month-End Date*}
Add: Outstanding Deposits
Deduct: Outstanding Checks and Adjusted Balance

Spreadsheet Balance as of {*Month-End Date*}
Add: Bank Interest
Deduct: Bank Service Charges/Fees and Adjusted Balance

Where the "Adjusted Balances" should match.

The reconciliation package should include the cover sheet, bank statement, and supporting documentation ("___ Resident Account Balance" tracking spreadsheet).

Ultimately, the information provided on the bank reconciliation will aid in the preparation of the Balance Sheet and Income (P&L) Statement (Financial Statement Accountability).

The acting Business Offices Supervisor is tracking the progress of this project, and will train the new Business Manager accordingly.

FINDING: Juvenile Justice's fixed assets procedures do not include a comparison of assets' actual useful lives to the useful lives recorded in the fixed assets system. Topic 30605 of the CAPP Manual requires agencies to perform a periodic review and update of assets' useful lives to ensure the recorded useful life mirrors the actual lives of the assets. Juvenile Justice should update its procedures to include this review and update all assets with useful lives that are different from initial estimates.

MANAGEMENT RESPONSE: Going forward, Juvenile Justice will perform a yearly review of the asset useful life to ensure that the useful life mirrors the actual life of the asset. Juvenile Justice will review the master asset listing for useful life along with input from the field office to determine likelihood of extending an assets life. If it is determined an assets life will be usable for a longer period, the Sr. Accountant will make changes to the identified asset(s) useful life in FAACS during inventory or at the point of transferring an asset to another Juvenile Justice location. This process will be documented and maintained in the file.

FINDING: Juvenile Justice does not monitor to ensure existing employees who file statements of economic interest take the required orientation training every two years. During our review, Juvenile Justice could not provide evidence to show that two selected employees had completed this training. Section 2.2-3130 of the Code of Virginia requires state filers to complete an orientation ethics course every two calendar years. Juvenile Justice should ensure that filers of economic interest forms complete this training semi-annually as required.

MANAGEMENT RESPONSE: Juvenile Justice will ensure that individuals who file statements of economic interest complete the statutorily required ethics course upon hire and every two calendar years thereafter. Juvenile Justice will document that training was completed in the Virginia Learning Center. Juvenile Justice estimates these requirements will be put in place within the next six (6) months.

Please feel free to contact us if you need any further responses, or if you have additional questions or concerns.

Sincerely,



Valerie P. Boykin