



NEW COLLEGE INSTITUTE

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS AS OF JULY 2024

Auditor of Public Accounts
Staci A. Henshaw, CPA

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Commonwealth of Virginia

Auditor of Public Accounts

Staci A. Henshaw, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

August 8, 2024

Joe Sumner, Executive Director
New College Institute
191 Fayette Street
Martinsville, VA 24112

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire for the **New College Institute** (Institute). We completed the review on July 12, 2024. The purpose of this review was to evaluate if the Institute has developed adequate internal controls over significant organizational areas and activities and not to express an opinion on the effectiveness of internal controls. Management of the Institute is responsible for establishing and maintaining an effective control environment.

Review Process

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

We review the agency responses and supporting documentation to determine the nature, timing, and extent of additional procedures. The nature, timing, and extent of the procedures selected depend on our judgment in assessing the likelihood that the controls may fail to prevent and/or detect events that could prevent the achievement of the control objectives. The procedures performed target risks or business functions deemed significant and involve reviewing internal policies and procedures. Depending on the results of our initial procedures, we may perform additional procedures including reviewing evidence to ascertain that select transactions are executed in accordance with the policies and procedures and conducting inquiries with management. The "Review Procedures" section below details the procedures performed for the Institute. The results of this review will be included within our risk analysis process for the upcoming year in determining which agencies we will audit.

Review Procedures

We evaluated the agency's corrective action for all prior review findings. The agency has taken adequate corrective action with respect to review findings reported in the prior review that are not repeated in the "Review Results" section below.

We reviewed a selection of system and transaction reconciliations in order to gain assurance that the statewide accounting system contains accurate data. The definitive source for internal control in the Commonwealth is the Agency Risk Management and Internal Control Standards (ARMICS) issued by the Department of Accounts (Accounts); therefore, we also included a review of ARMICS. The level of ARMICS review performed was based on judgment and the risk assessment for the Institute. Our review of the Institute's ARMICS program included a review of all current ARMICS documentation and a comparison to statewide guidelines established by Accounts. Further, we evaluated the Institute'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; expenses; and information technology and security. These procedures included validating the existence of certain transactions; observing controls to determine if the controls are effectively designed and implemented; reviewing transactions for compliance with internal and Commonwealth policies and procedures; and conducting further review over management's risk assessment process.

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

Review Results

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

- **Repeat** – The Institute formally adopted an information security standard; however, the Institute has not formalized a structured approach to implement security controls or developed detailed policies and procedures to support its information security program. The Institute should document and approve information security policies and procedures and ensure they align with the control requirements in the adopted security standard. The Institute should also implement a process to ensure the policies and procedures remain current to help protect the confidentiality, integrity, and availability of mission-critical and sensitive data.
- **Repeat** – The Institute has formal, documented policies and procedures over many of its significant business processes. However, during our review, we identified several critical business areas where the Institute should develop or improve policies and procedures to maintain an effective control environment. Topic 20905 and other sections of the Commonwealth Accounting Policies and Procedures (CAPP) Manual requires each agency to

“publish its own policies and procedures documents, approved in writing by agency management.” Management should ensure detailed policies and procedures exist for all critical business areas. In addition, management should continue to develop a process to review and approve all policies and procedures either annually or as needed and maintain documentation of the process.

- **Repeat** – The Institute utilizes service provider agencies, the Department of Human Resource Management’s Shared Services Center and Accounts’ Payroll Service Bureau, to perform many payroll and human resource responsibilities. However, the Institute does not have proper controls in place to perform its retirement reconciliation responsibilities. The Institute’s process for confirming the accuracy of retirement data reported in the Commonwealth’s retirement benefits system is not in compliance with the CAPP Manual or the service provider agreements. The Institute does not review the Cancelled Records Report as required. The Institute is also not reviewing all necessary reports to properly reconcile creditable compensation and other data elements between the Commonwealth’s retirement benefits system and the Commonwealth’s human resource system. Furthermore, the Institute did not confirm the accuracy of retirement data in a timely manner for four out of 12 months during the fiscal year. Per CAPP Manual Topic 50470, agencies must reconcile retirement data and confirm its accuracy by the 10th of the following month. The Institute should complete the reconciliations in a timely manner and retain the documentation in accordance with the CAPP Manual.
- The Institute did not obtain the System and Organization Controls (SOC) report for a provider that processes sensitive information. As such, the Institute did not document an evaluation of the SOC report and the complementary user entity controls described within the report. CAPP Manual Topic 10305 requires agencies to have an adequate level of interaction with third-party providers to give agencies an understanding of the providers’ internal control environments and any complementary controls the agency would need to implement. Agencies must also maintain oversight over the provider to gain assurance over outsourced operations. The Institute should develop policies and procedures for the review of SOC reports and obtain and comprehensively evaluate SOC reports timely.
- The Institute did not submit two financial reporting attachments that Accounts requires. In addition, the Institute submitted eight attachments to Accounts late and one significant attachment required multiple revisions as late as 21 days after the due date. The Institute should complete financial reporting attachments accurately and submit them in a timely manner. If an extension is necessary, the Institute should obtain prior approval from Accounts.

We discussed these matters with management on July 25, 2024. Management's response to the findings identified in our review is included in the section titled "Agency Response." We did not validate management's response and, accordingly, cannot take a position on whether or not it adequately addresses the issues in this report.

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

Sincerely,

Staci A. Henshaw
Auditor of Public Accounts

JDE/vks



August 29, 2024

Staci A. Henshaw, CPA
Auditor of Public Accounts
PO Box 1295
Richmond, Virginia 23218

Dear Ms. Henshaw,

NCI is in receipt of the Review Results provided by the Auditor of Public Accounts related to the Internal Control Questionnaire completed on July 12, 2024 and finalized on August 8, 2024. The Results letter indicates the need for improvement in the following areas:

- Information security policies and procedures reflect a structured approach to implement security controls and to remain current.
- Improvement of internal policies and procedures detail regarding CAPP Topic 20905 and other sections of CAPP to ensure all critical business areas.
- Improvement with coordination with service provider agencies to ensure accurate reports are received and utilized for HR reconciliations.
- Improvement to obtain all Service Organization Control reports for providers that processes sensitive information.
- Improvement of verification of financial reporting submissions.

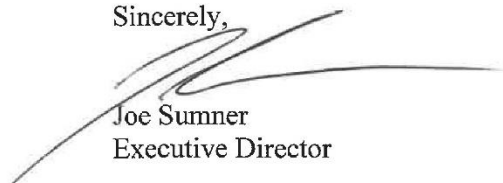
NCI has proactively initiated measures to address the improvements including, but not limited to the creation of an internal committee to review, revise, and create NCI's policies and procedures manuals. This will be a continued process to ensure that information is accessible and clear for all employees.

Individuals to receive the final report are as follows:

Joe Sumner, Executive Director
Christina Reed, Deputy Director

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Sincerely,



Joe Sumner
Executive Director

Opportunity. Growth. Success.

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