



# DEPARTMENT OF GENERAL SERVICES' DIVISION OF REAL ESTATE SERVICES

## REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2016

Auditor of Public Accounts  
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## AUDIT SUMMARY

Our audit of operating and capital leases administered by the Department of General Services' Division of Real Estate Services for the fiscal year ended June 30, 2016, found:

- proper recording and reporting of all transactions, in all material respects, in the Integrated Real Estate Management System, COVA Trax, Lease Accounting System, and Department of Accounts Attachment 11;
- a matter considered to be a material weakness involving data migration from the Integrated Real Estate Management System to COVA Trax necessary to bring to management's attention;
- an instance of noncompliance with applicable laws and regulations or other matters that is required to be reported; and
- adequate corrective action with respect to audit findings reported in the prior year.

## –TABLE OF CONTENTS–

	<u>Pages</u>
AUDIT SUMMARY	
AUDIT FINDINGS AND RECOMMENDATIONS	1-2
AGENCY HIGHLIGHTS	3
INDEPENDENT AUDITOR’S REPORT	4-6
MANAGEMENT’S RESPONSE	7-8
AGENCY OFFICIALS	9

## AUDIT FINDINGS AND RECOMMENDATIONS

### **Improve Data Migration Process and Documentation Retention**

The Department of General Services (General Services) could not provide evidence that they validated all current and future lease payment information at the point of conversion from the old real estate management system (IREMS) to the new real estate management system (COVA Trax). General Services validated record counts and current year payments at conversion, but did not retain evidence of the record count validation. General Services did not validate other payment information, such as quarterly and annual lease payments and future lease obligations.

During system implementation, validation of the migrated data is essential to ensure the data is complete, accurate, and properly formatted. This is particularly important when the data in the system is used for financial reporting purposes, as COVA Trax is used for reporting operating leases for the Commonwealth's Comprehensive Annual Financial Report. Documentation of this validation should include detailed tie outs, clearance of reconciling items, reports used from each system, and final business owner sign off. The Commonwealth's Information Technology Resource Management Project Management Guideline CPM 110-03 section 5.3.1 indicates that project records such as technical documents, files, program, and tools should be stored following Commonwealth of Virginia record retention guidelines. In addition, Commonwealth Accounting Policies and Procedures (CAPP) Manual Topic 21005 Record Retention requires a minimum retention period for agency level copies required for audit to be retained for three years after the fiscal year of creation, or until audit of the agency by the Auditor of Public Accounts, whichever is longer.

Although General Services was able to verbally describe and provide a written summary of the process used for its data migration, General Services was not able to provide evidence it followed the provided process at the date and time the data migration occurred. The inability of General Services to provide such evidence diminished the reliability of the data migration process. As a result, we consider this to be a material weakness in internal controls. To ensure that the lease information for the Commonwealth's Comprehensive Annual Financial Report is materially accurate, we obtained documents and reports from General Services that allowed us to verify that the payment data in COVA Trax materially agrees to what was in IREMS at conversion. We did not validate non-financial fields.

The Commonwealth plans to use COVA Trax to replace other critical financial systems in the future. When implementing these replacements, General Services should perform data validation at a detailed level and retain all project data documentation to ensure that the financial information migrated properly at conversion and can be relied on for financial reporting purposes.

### **Improve Oversight of Third-Party Providers**

General Services is not gaining assurance that their third-party providers have secure information technology (IT) environments to protect Commonwealth data. General Services obtained either the Service Organization Control Report or ISO/IEC 27001:2013 standard certification

for each of the third-party providers related to COVA Trax; however, General Services did not formally review and evaluate the reports in compliance with the Commonwealth Security Standard SEC 501-09 (Security Standard) and Hosted Environment Information Security Standard SEC 525-02. The Security Standard considers third-party providers to be organizations that perform outsourced business tasks or functions on behalf of the Commonwealth. General Services has outsourced a critical business function by the replacement of IREMS with COVA Trax. In addition, in the fiscal year 2013 to 2015 General Services Audit Report, we issued a similar finding and recommendation related to the oversight of other third-party providers General Services uses.

Section 1.1 of the Security Standard states that Agency Heads remain accountable for maintaining compliance with the Security Standard in instances where IT equipment, systems, and services are outsourced to third-party service providers, and must enforce compliance with the Security Standard through documented agreements and oversight of the services provided. SEC 525-02 Section SA-9-COV-3 states that each agency shall perform an annual security audit of the environment or review the annual audit report of the environment conducted by an independent, third-party audit firm on an annual basis. In addition, as of September 2015, Topic 10305 of the CAPP Manual requires agencies to have adequate interaction with their third-party service providers in order to gain an understanding of the service provider's control environment.

By not enforcing compliance with the Security Standard and not having a process to gain assurance over outsourced services, General Services cannot gain assurance that the service provider's internal control environment is operating effectively and adequately protecting Commonwealth data and processes. COVA Trax may also replace other critical financial systems throughout the Commonwealth; therefore, not gaining adequate assurance could affect these systems in the future.

General Services has not been gaining assurance of third-party providers control environments because it has not established a formal process in its information security program for establishing agreements with each service provider and implementing appropriate oversight of the services provided.

General Services should develop and implement policies and procedures for reviewing and documenting evaluations of Service Organization Control reports or other forms of assurance reports to ensure that the third-parties' security controls comply with the requirements described in the Security Standard. In order to meet the requirements, General Services should be documenting final decisions and action items that come as a result of the service organization report evaluation process. Further, General Services should maintain oversight over this process to confirm compliance with the requirements in the CAPP Manual and Security Standard.

## AGENCY HIGHLIGHTS

Real Estate Services is the Commonwealth of Virginia's provider of real estate services to state agencies. Some of Real Estate Services responsibilities include:

- management of the Commonwealth's real estate portfolio;
- comprehensive transactional support for negotiating, leasing, and acquiring space;
- transactional documentation guidance; and
- real estate information database maintenance and enhancement.

Real Estate Services is a division of the Department of General Services. Real Estate Services leases about 13 million square feet of rental space in over 1,500 locations. In fiscal year 2016, Real Estate Services managed 13 master capital leases and 472 master operating leases. Real Estate Services makes all lease payments to the lessor on behalf of the state agencies. In fiscal year 2016, Real Estate Services paid \$60.1 million in lease payments and had \$286.7 million in future obligations.

### Lease Payments and Future Obligations

Type of Lease	Fiscal Year 2016 Payments	Future Obligations (2017 – 2046)
Capital	\$ 2,978,129	\$ 31,506,931
Operating	\$ 57,124,107	\$ 255,198,931

Source: COVA Trax and Lease Accounting System

During the year, Real Estate Services changed real estate management systems for tracking operating and capital leases from IREMS to COVA Trax, which operates in a hosted environment. Real Estate Services transitioned to COVA Trax on February 1, 2016, running IREMS and COVA Trax parallel until decommissioning IREMS on April 15, 2016. COVA Trax is developed and serviced by Trimble Navigation Ltd (Trimble). Trimble outsources some services used by COVA Trax to Computer Sciences Corporation (CSC). Since both Trimble and CSC are third party service providers, Real Estate Services must gain assurance that the third party providers have secure information technology environments to protect Commonwealth data.

Real Estate Services maintains capital leases in Lease Accounting System (LAS) and operating leases in COVA Trax. Real Estate Services provides Fiscal Services with financial reporting data for operating and capital leases from LAS and COVA Trax to report to Departments of Accounts in support of the Commonwealth's Comprehensive Annual Financial Report.



Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

December 1, 2016

The Honorable Terence R. McAuliffe  
Governor of Virginia

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

We have audited the operating and capital leases administered by the **Department of General Services' Division of Real Estate Services** for the year ended June 30, 2016. 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 audit's primary objective was to evaluate the accuracy of Real Estate Services' financial transactions related to operating and capital leases that they administer as reported in the Comprehensive Annual Financial Report for the Commonwealth of Virginia for the year ended June 30, 2016. In support of this objective, we evaluated the accuracy of recorded financial transactions in the Integrated Real Estate Management System, COVA Trax, Lease Accounting System, and Department of Accounts Attachment 11; reviewed the adequacy of Real Estate Services' internal control; tested for compliance with applicable laws, regulations, contracts, and grant agreements; and reviewed corrective actions of audit findings from prior year reports.

## **Audit Scope and Methodology**

Real Estate Services' management has responsibility for establishing and maintaining internal control and complying with applicable laws, regulations, and lease 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, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

- Capital leases
- Operating leases
- Rent, insurance, and other related charges
- Information system security over COVA Trax
- Systems access controls over COVA Trax

We performed audit tests to determine whether Real Estate Services' 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 lease agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of Real Estate Services' operations. We tested details of lease classifications and performed analytical procedures.

A nonstatistical sampling approach was used. Our samples 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.

## **Conclusions**

We found that Real Estate Services properly stated, in all material respects, the amounts recorded and reported in the Integrated Real Estate Management System, COVA Trax, Lease Accounting System, and Department of Accounts Attachment 11. Real Estate Services records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Lease Accounting System and COVA Trax.

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 or significant deficiencies may exist that were not identified. However, as described in the section entitled "Audit Findings and Recommendations," we identified a deficiency in internal control that we consider to be a material weakness.

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 consider the deficiency entitled "Improve Data Migration Process and Documentation Retention," which is described in the section titled "Audit Findings and Recommendations," to be a material weakness.

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 consider the deficiency entitled "Improve Oversight of Third-Party Providers," which are described in the section titled "Audit Findings and Recommendations," to be significant deficiencies.

The results of our tests of compliance with applicable laws, regulations, contracts, and lease agreements disclosed one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards. This matter is entitled "Improve Oversight of Third-Party Providers," which is described in the section entitled "Audit Findings and Recommendations."

Real Estate Services has taken adequate corrective action with respect to the audit finding reported in the prior year.

#### **Exit Conference and Report Distribution**

We discussed this report with management on December 1, 2016. Management's response to the findings identified in our audit is included in the section titled "Management's Response." We did not audit management's response and, accordingly, we express no opinion on it.

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

DBC/alh



**COMMONWEALTH of VIRGINIA**  
*Department of General Services*

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December 14, 2016

**TO:** Martha Mavredes  
Auditor of Public Accounts

**FROM:** Christopher Beschler, Director  
Department of General Services

A handwritten signature in black ink, appearing to be "C Beschler", written over the "FROM:" line.

**SUBJECT:** RESPONSE TO FY16 OPERATING AND CAPITAL LEASE AUDIT

The following is the Department's response to the audit points contained in our FY 16 audit of operating and capital leases administered by the Department of General Services' Division of Real Estate Services:

**Point #1**

**Improve Data Migration Process and Documentation Retention**

General Services now has a better understanding of expectations of the controls that need to be in place during the migration process and the documentation retention requirements. DGS will monitor actions of other agencies as they migrate and validate their data into the COVA Trax system and maintain records as provided by those agencies.

DGS will discuss with each agency prior to their migration of data how they will document the successful migration and validation and ask for their documentation to include in our COVA Trax files.

The DGS ISS Project Manager will be responsible for tracking and maintaining the project records while the system is being configured and agency data is added to the system.

This will be an on-going responsibility until the COVA Trax project is completed and fully implemented by the Commonwealth.

**Point#2****Improve Oversight of Third Party Providers**

General Services will comply with SEC 501-09, Section 1.1, where it states that the agency head is accountable for outsourced systems and services. DGS will comply with the Hosted Environment SEC 525-02 standard for all remaining aspects of the COVA Trax application environment. DGS will create and implement a policy and procedure to address this requirement.

In addition, we acknowledge the General Services obtained the required security audit reports for the outsourced systems. However, General Services did not conduct a detailed analysis of the reports to determine the implications of the audit results on their system and where it required any action.

**DEPARTMENT OF GENERAL SERVICES  
DIVISION OF REAL ESTATE SERVICES**

As of June 30, 2016

Christopher L. Beschler  
Director, Department of General Services

Joseph Damico  
Deputy Director, Department of General Services

Bryan W. Wagner  
Controller, Department of General Services

Holly L. Eve  
Director, Division of Real Estate Services