



DEPARTMENT OF FORESTRY

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS AS OF MAY 2020

Auditor of Public Accounts
Martha S. Mavredes, CPA

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Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

June 11, 2020

Rob Farrell, State Forester
Virginia Department of Forestry
900 Natural Resources Drive
Charlottesville, Virginia 22903

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire, completed on May 5, 2020, for the **Department of Forestry** (Forestry). 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 Forestry 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 Forestry. 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 Forestry'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; contract 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:

- Forestry does not have formal up-to-date policies and procedures over all critical business areas. We noted the following items related to policies and procedures:
 - There were no internal policies and procedures for several areas including retirement benefits system reconciliations, capitalization and useful life, and contract management.
 - Policies over numerous significant fiscal processes were in draft form and did not contain evidence of management's review and approval.
 - Forestry has not updated policies and procedures over inventory in several years, with the most recent revision date of November 2014 and the oldest May 2003.
 - Forestry's practice is to send past due notices 30 days after the invoice due date and again after 60 days before receivable accounts are turned over to collections. However, this practice is not documented in written policies and procedures over billing and collections.

Management should establish formal documented procedures over all critical business processes in order to maintain an effective control environment. Further, management should review and approve all policies and procedures periodically and maintain documentation of the review and approval process.

- Forestry is not retaining enough documentation to show compliance with retirement benefits system reconciliations as required by Commonwealth Accounting Policies and Procedures (CAPP) Manual Topic 50410. During the review, we were not able to reasonably determine the following functions were performed:
 - Reconciliation of creditable compensation;
 - Reconciliation or review of the required data elements;
 - Review of the human resources Cancelled Records Report; and
 - Review of the exceptions received from Payroll Service Bureau.

Additionally, Forestry confirmed the accuracy of retirement data late four out of twelve months during fiscal year 2019. Forestry should ensure that these processes are documented and performed timely, and prior to confirming the data.

- Forestry's physical inventory process requires employees to submit a listing of assets assigned to them to the Inventory Administrative Specialist. During review, evidence showed several employees did not return their form and there was no follow up. Additionally, review of forms showed no evidence that inventory was actually counted. CAPP Manual Topic 30505 requires each agency's physical inventory to include verification of the physical existence of assets. Forestry should develop procedures to ensure all employees with assigned assets return inventory count forms. Additionally, Forestry should ensure that documentation includes verification that assets exist and are in good condition.
- Forestry is not completing employee exit checklists timely. Items requiring sign off were signed and dated after the date the employee's supervisor signed the checklist as completed. Additionally, it appeared that not all items were checked to ensure access removal, such as for the email account. It was noted that the policies and procedures regarding employee separation have been updated since the employee separation selected for review; however, the requirements and procedures for completing the checklist remain unclear. Forestry should revise the policy and procedures to establish clear timelines for completing the employee exit checklist and ensure items are returned and system access is removed in a timely manner in accordance with the Commonwealth's Information Security Standard (SEC 501).

We discussed these matters with management on May 28, 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

JDE\clj



COMMONWEALTH of VIRGINIA

Department of Forestry

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July 1, 2020

Martha S. Mavredes
The Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23218

Dear Ms. Mavredes:

We are providing you this letter in connection with the review results from the Internal Control Questionnaire the Department of Forestry completed on March 2, 2020. The review results are listed below, along with management responses:

FINDING:

Forestry does not have formal up-to-date policies and procedures over all critical business areas. We noted the following items related to policies and procedures:

- There were no internal policies and procedures for several areas including retirement system reconciliations, capitalization and useful life, and contract management.
- Policies over numerous significant fiscal processes were in draft form and did not contain evidence of management's review and approval.
- Forestry has not updated policies and procedures over inventory in several years, with the most recent revision date of November 2014 and the oldest May 2003.
- Forestry's practice is to send past due notices 30 days after the invoice due date and again after 60 days before receivable accounts are turned over to collections. However, this practice is not documented in written policies and procedures over billing and collections.

Management should establish formal documented procedures over all critical business processes in order to maintain an effective control environment. Further, management should review and approve all policies and procedures periodically, and maintain documentation of the review and approval process.

MANAGEMENT RESPONSE:

Related to policies not currently in place (retirement system reconciliations, capitalization and useful life and contract management), the Agency will draft policies, review them with key stakeholders and implement them by December 31, 2020 (Q2, FY2021)

Related to policies in draft form:

The following policies have now been reviewed and approved:

- AP, processing invoices
- AP, reforestation of timberlands cost share
- AP, SPCC Administration
- 1099s
- Fixed Asset Reconciliation
- MELP
- Payroll Processing

The following policies are currently being reviewed. The review and approval process will be completed by December 31, 2020 (Q2, FY2021)

- Grants
- Deposits
- Accounts Receivable

Related to inventory, the Department of Forestry will evaluate current processes and establish new methodologies to achieve compliance with CAPP Manual Topic 30505. The new process will include sample counts done at field offices and yearly physical inventory validated / signed off by Director of Finance. The new process and updated policies will be in place by June 30, 2021 (Q4, FY2021).

Related to past due notices not being documented in procedures, this documentation is now in place and the full policy is being reviewed. The review and approval process will be completed by December 31, 2020 (Q2, FY2021)

FINDING:

Forestry is not retaining enough documentation to show compliance with retirement system reconciliations as required by Commonwealth Accounting Policies and Procedures (CAPP) Manual Topic 50410. During the review, we were not able to reasonably determine the following functions were performed:

- Reconciliation of creditable compensation;
- Reconciliation or review of the required data elements;
- Review of the human resources cancelled records report; and
- Review of the exceptions received from Payroll Service Bureau.

Additionally, Forestry confirmed the accuracy of retirement data late four out of twelve months during fiscal year 2019. Forestry should ensure that these processes are documented and performed timely, and prior to confirming the data.

MANAGEMENT RESPONSE:

The Office of Human Resources has begun a rapid revision of VDOF Policy and Procedure 8-3, Compensation Policy, to incorporate a VRS reconciliation section, renaming policy to the Compensation and Retirement Administration Policy. This new revision will capture the central elements of CAPP Manual Topic 50410 to enforce compliance, records retention, and internal controls. The updated policy shall be published no later than July 31, 2020 (Q1, FY2021).

FINDING:

Forestry's physical inventory process requires employees to submit a listing of assets assigned to them to the Inventory Administrative Specialist. During review, evidence showed several employees did not return their form and there was no follow up. Additionally, review of forms showed no evidence that inventory was actually counted. CAPP Manual Topic 30505 requires each agency's physical inventory to include verification of the physical existence of assets. Forestry should develop procedures to ensure all employees with assigned assets return inventory count forms. Additionally, Forestry should ensure that documentation includes verification that assets exist and are in good condition.

MANAGEMENT RESPONSE:

As mentioned above, the Department of Forestry will evaluate current processes and establish new methodologies to achieve compliance with CAPP Manual Topic 30505. The new process will include sample counts done at field offices and a yearly physical inventory validated / signed off by Director of Finance. The new process and updated policies will be in place by June 30, 2021 (Q4, FY2021).

FINDING:

Forestry is not completing employee exit checklists timely. Items requiring sign off were signed and dated after the date the employee's supervisor signed the checklist as completed. Additionally, it appeared that not all items were checked to ensure access removal, such as for the email account. It was noted that the policies and procedures regarding employee separation have been updated since the employee separation selected for review, however, the requirements and procedures for completing the checklist remain unclear. Forestry should revise the policy, procedures to establish clear timelines for completing the employee exit checklist and ensure items are returned, and system access is removed in a timely manner in accordance with the Commonwealth's Information Security Standard (SEC 501).

MANAGEMENT RESPONSE:

The Office of Human Resources will initiate a rapid-review of VDOF Policy and Procedure 8-2 to establish clear guidance for timely completion of Employee Exit Checklist in a manner that expedites off-boarding, yet ensures general alignment with the Commonwealth's Information Security Standard. This revision shall be published no later than September 30, 2020 (Q1, FY2021).

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

Sincerely,

A handwritten signature in black ink, appearing to read 'R. Farrell', is written over a horizontal line.

Robert W. Farrell
State Forester