



VIRGINIA DEPARTMENT OF AVIATION

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS AS OF JUNE 2017

Auditor of Public Accounts
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October 19, 2017

Randall P. Burdette, Director
Virginia Department of Aviation
5702 Gulfstream Road
Richmond, VA 23250

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire, completed on June 13, 2017, for the **Virginia Department of Aviation** (Aviation). 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 Aviation is responsible for establishing and maintaining an effective control environment.

The Auditor of Public Accounts has developed a new process for auditing agencies that are not required to have an audit every year, which we refer to as "cycled agencies." Traditionally, we audit these agencies at least once every three years. We now employ a risk-based approach to auditing the cycled agencies. Under this approach, annually we will perform a risk analysis for all of the cycled agencies considering certain criteria and divide the agencies into two pools. One pool will receive an annual audit and the other pool will be subject to review in a special project focused on one area of significance as well as a review of internal controls in the form of a questionnaire. All agencies will undergo an Internal Control Questionnaire review at least once every three years. This letter is to communicate the results of the Internal Control Questionnaire review.

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; 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 Aviation. 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 did not review any controls related to Aviation’s oversight of grantees. These controls were reviewed in a report dated May of 2017 by the Office of the State Inspector General and 19 recommendations were included in their report.

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 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: the small purchase charge card program, information security and technology, payroll, and grant accounting. 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:

- Aviation does not have documented policies and procedures for all critical processes. Aviation has some documented procedures, however; the procedures that are available are not comprehensive or detailed enough to allow an individual with no prior knowledge of the agency to execute the procedures or to prevent/detect errors in a timely manner. Aviation should create and document policies and procedures to ensure significant business processes are identified, documented, consistent and reasonable.

- Aviation does not have sufficient controls in place to ensure adequate coordination between the grants management department and the fiscal department. We conducted a walk-through to observe a transaction that originated with the Grant Coordinator through the completion with the Controller and noted control deficiencies specifically related to the transfer of responsibilities from the Grant Coordinator to the Controller. We noted instances where it was apparent the two departments were not communicating effectively with one another and as a result were not fully knowledgeable of each other's roles and processes. The lack of coordination efforts can lead to errors and improper reporting in the financial systems. Aviation should reassess the relationship and roles between the Grant Coordinator and the Fiscal Division and ensure the Fiscal Division has an active role in monitoring the financial aspects of the various grants and programs in order to ensure proper stewardship of Commonwealth funds. Aviation should also ensure that responsibilities of each role are adequately documented.
- Aviation is not performing reconciliations between internal records and the Commonwealth's accounting and financial reporting system in accordance with the Commonwealth Accounting Policies and Procedures (CAPP) Manual Topic 20905. In addition, Aviation does not currently have documented policies and procedures for the reconciliations. Aviation should develop policies and procedures for completing the reconciliations and ensure that the reconciliations are completed at the level of detail required in the CAPP manual.
- Aviation did not have adequate supporting documentation, or procedures, to allow us to verify that the payroll certification process is in compliance with the CAPP Manual for any activities outside of the Payroll Service Bureau scope. Aviation should develop policies and procedures for the payroll certification process and ensure the payroll reconciliations are completed timely and contain sufficient evidence.
- Aviation does not have sufficient controls in place over the small purchase charge card (SPCC) program. The desktop procedures in place are not sufficient to ensure proper administration of the program and that the controls for voucher processing are designed and implemented to ensure compliance with SPCC program requirements. The process is also very manual which adds unnecessary risk for error. Aviation should utilize Microsoft Excel more efficiently to lower the risks of errors that stem from manually sorting transactions. In addition, Aviation is not retaining documentation to show that the SPCC administrator responsibilities are consistently being performed. These responsibilities include establishing and reviewing purchasing limits; ensuring that an annual analysis of each cardholder's card usage and card limits is performed and documented; training cardholders annually; and other significant monitoring activities. Aviation should consistently monitor the SPCC program and retain documentation of the monitoring.
- Aviation's Agency Risk Management and Internal Control Standards (ARMICS) documentation is not in compliance with the Department of Accounts' recommendations per the CAPP Manual Topic 10305. Aviation's ARMICS process did not encompass an agency-level assessment of each of the five internal control components, including a risk assessment

matrix. In addition, the quality of the process-level and transaction-level control assessment and tests cannot be verified due to the lack of internal policies and procedures. Aviation should complete the agency-level risk assessment and reevaluate the key business processes to ensure there are well established policies and procedures that are shared throughout the agency.

- Aviation does not have information security policies and procedures that are in line with the current Commonwealth standards. Aviation's information technology documents state requirements that correspond with the Commonwealth's superseded Information Security Standard, SEC 501-08. Although Aviation has documented annual reviews of the manual in 2015 and 2016, Aviation did not revise the requirements to reflect the controls in SEC 501-09, which is the most recent version of the Commonwealth's Information Security Standard (Security Standard). Aviation should revise its policies and procedures to be in line with the current Security Standard.
- Aviation needs to update the Information Technology Risk Management and Contingency documents to ensure that the information among the documents correlates and to adequately secure information systems and data. In addition, Aviation needs to update and approve their System Security Plans to reflect the current environment in order to effectively and adequately assign security controls.
- Aviation had external audits of their sensitive systems in January of 2016. As of the time of our review, there were numerous findings for significant issues that had not been fully addressed. Aviation should devote resources to ensuring that these deficiencies are addressed in order to ensure it is in compliance with the Security Standard.

We discussed these matters with management on October 12, 2017. 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 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,

Auditor of Public Accounts

JDE/clj



COMMONWEALTH of VIRGINIA

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November 14, 2017

Ms. Martha S. Mavredes
Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23219

Dear Ms. Mavredes:

The following is in response to your Internal Control Questionnaire Review Results of the Virginia Department of Aviation dated October 13, 2017. We appreciate your review and will ensure that your recommendations are addressed over the next several months. Below are our responses to each of the Results.

I am particularly proud that the Department has not had a single finding from the APA during my time at the agency (2004-present). During that time we were leaders in process mapping as we were one of only two agencies in the Commonwealth that had earned the ISO 9001 certification which requires the mapping and annual audits of key business practices many of which were our financial processes. As you are aware, the deployment of Cardinal as the new Enterprise financial management system had a significant impact on each agency to learn new procedures and revise its existing policies and processes in response to the new application. This has proven to be extremely challenging in a small organization like Aviation. In addition, we experienced turnover in two of our three fiscal positions during 2017, which necessitated that we focus our efforts on daily transaction processing while updating policies and procedures as time permitted. Thanks to the efforts of our new controller (who began work at the Department two weeks prior to the commencement of your field work), we have already addressed several of your recommendations and are continuing to make progress on the others, as you will see from our responses.

Result

Aviation does not have documented policies and procedures for all critical processes. Aviation has some documented procedures however, the procedures that are available are not comprehensive or detailed enough to allow an individual with no prior knowledge of the agency to execute the procedures or to prevent/detect errors in a timely manner. We recommend Aviation create and document policies and procedures to ensure significant business processes are identified, documented, consistent and reasonable.



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Agency Response

Aviation concurs with the recommendation, and is currently updating all agency policies and procedures.

Result

Aviation does not have sufficient controls in place to ensure adequate coordination between the grants management department and the fiscal department. We conducted a walk-through to observe a transaction that originated with the Grant Coordinator through the completion with the Controller and noted control deficiencies specifically related to the transfer of responsibilities from the Grant Coordinator to the Controller. We noted instances where it was apparent the two departments were not communicating effectively with one another and as a result were not fully knowledgeable of each other's roles and processes. The lack of coordination efforts can lead to errors and improper reporting in the financial systems. Aviation should reassess the relationship and roles between the Grant Coordinator and the Fiscal division and ensure the Fiscal Division has an active role in monitoring the financial aspects of the various grants and programs in order to ensure proper stewardship of Commonwealth funds. Aviation should also ensure that responsibilities of each role are adequately documented.

Agency Response

We have worked with the grant program area to ensure effective communications and knowledge of roles and processes for staff involved with the grants. We will ensure that policies and procedures are documented and reconciliation of grants are in compliance with applicable regulations and CAAP manual.

Result

Aviation is not performing reconciliations between internal records and the Commonwealth accounting and reporting system in accordance with the Commonwealth Accounting Policies and Procedures (CAPP) Manual Topic 20905. In addition, Aviation does not currently have documented policies and procedures for the reconciliations. Aviation should develop policies and procedures for completing the reconciliations and ensure that the reconciliations are completed at the level of detail required in the CAPP manual.

Agency Response

Aviation concurs with the recommendation. We have subsequently updated our monthly reconciliation process to include all requirements as noted in the CAPP manual, and are performing reconciliations at the required level of detail.

Result

Aviation did not have adequate supporting documentation, or procedures, to allow us to verify that the payroll certification process is in compliance with the CAPP Manual for any activities outside of the Payroll Service Bureau scope. Aviation should develop policies and procedures for the payroll certification process and ensure the payroll reconciliations are completed timely and contain sufficient evidence.

Agency Response

Aviation concurs with the recommendation. We are developing desktop policies and procedures for the required process and required supporting documentation for payroll certification process as stated in the CAAP manual, and will ensure that the reconciliations are performed timely with sufficient evidence.

Result

Aviation does not have sufficient controls in place over the small purchase charge card (SPCC) program. The desktop procedures in place are not sufficient to ensure proper administration of the program and that the controls for voucher processing are designed and implemented to ensure compliance with SPCC program requirements. The process is also very manual which adds unnecessary risk for error. Aviation should utilize excel more efficiently to lower the risks of errors that stem from manually sorting transactions. In addition Aviation is not retaining documentation to show that the SPCC administrator responsibilities are consistently being performed. These responsibilities include establishing and reviewing purchasing limits; ensuring that an annual analysis of each cardholder's card usage and card limits is performed and documented; training cardholders annually; and other significant monitoring activities. Aviation should consistently monitor the SPCC program and retain documentation of the monitoring.

Agency Response

Aviation concurs with the recommendation. We have developed procedures to ensure proper program administration and compliance. We will also retain documentation to demonstrate that SPCC administrator responsibilities are performed, including reviewing purchasing limits, analyzing card usage, and cardholder training.

Result

Aviation's Agency Risk Management and Internal Control Standards (ARMICS) documentation is not in compliance with the Department of Accounts' recommendations per the CAPP Manual Topic 10305. Aviation's ARMICS process did not encompass an agency-level assessment of each of the five internal control components, including a risk assessment matrix. In addition, the quality of the process-level and transaction-level control assessment and tests cannot be verified due to the lack of internal policies and procedures. Aviation should complete the agency-level risk assessment and reevaluate the key business processes to ensure there are well established policies and procedures that are shared throughout the agency.

Agency Response

Aviation concurs with the recommendation. Because of changes in personnel, systems and business processes, we will complete an agency-level risk assessment and reevaluate business processes in compliance with CAAP Manual Topic 10305.

Result

Aviation does not have information security policies and procedures that are in line with the current Commonwealth standards. Aviation's information technology documents state requirements that

correspond with the Commonwealth's superseded Information Security Standard, SEC501-08. Although Aviation has documented annual reviews of the manual in 2015 and 2016, Aviation did not revise the requirements to reflect the controls in SEC501-09, which is the most recent version of the Commonwealth's Information Security Standard (Security Standard). Aviation should revised its policies and procedures to be in line with the current Security Standard.

Agency Response

The Department of Aviation has completed a review and update of all information security policies and procedures and implemented revised procedures as necessary to ensure compliance with the current information security standard (SEC501-09). The Agency has documented management's approval of the updated documents and will continue to annually review and revise the documents as needed to remain compliant with current standards.

Result

Aviation needs to update the Information Technology Risk Management and Contingency documents to ensure that the information among the documents correlates and to adequately secure information systems and data. In addition, Aviation needs to update and approve their System Security Plans to reflect the current environment in order to effectively and adequately assign security controls.

Agency Response

DOAV is currently reviewing its Information Technology Risk Management and Contingency documentation to ensure currency and revise where necessary. This action will be completed within 60 days. Upon completion of this review, System Security Plans will be immediately updated as needed.

Result

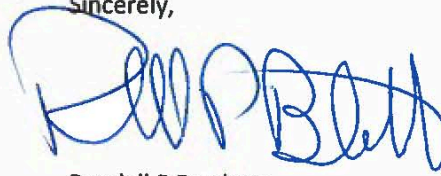
Aviation had external audits of their sensitive systems in January of 2016. As of the time of our review there were numerous findings for significant issues that had not been fully addressed. Aviation should devote resources to ensuring that these deficiencies are addressed in order to ensure it is in compliance with the Security Standard.

Agency Response

DOAV is consistently working open issues from sensitive system audits as technology and resources are available. All audit findings are updated quarterly in reporting to Commonwealth Security, and the Agency will ensure continued progress toward resolution of open issues.

In closing, thank you for the opportunity to respond to the results of your review. Please feel free to contact us if you have any additional questions or concerns.

Sincerely,

A handwritten signature in blue ink, appearing to read "Randall P. Burdette", written in a cursive style.

Randall P Burdette
Executive Director

C: Roger L. Bowling, Director of Finance and Administration
Roberta C. Gargiulo, Controller