



DEPARTMENT OF GENERAL SERVICES

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2024

Auditor of Public Accounts
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AUDIT SUMMARY

Our audit of the real estate leases administered by the Department of General Services' (General Services) Division of Real Estate Services (Real Estate Services) and accounted for by the Office of Fiscal Services and the Epidemiology and Laboratory Capacity for Infectious Diseases federal grant program, administered by General Services' Division of Consolidated Laboratory Services (DCLS) for the year ended June 30, 2024, found:

- proper recording and reporting of all transactions, in all material respects, in the Real Estate Services' real estate management system and the Department of Accounts' (Accounts) Internal Service Fund Attachment, after adjustment for the misstatement noted in the finding titled "Improve Internal Controls over Financial Reporting of Leased Assets;"
- proper recording and reporting of all transactions, in all material respects, in relation to the federal grant program in the Commonwealth's accounting and financial reporting system;
- one matter involving internal control and its operation necessary to bring to management's attention, which is considered a material weakness;
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported; and
- corrective action on the prior audit finding remains ongoing as indicated in the [Findings Summary](#) included in the Appendix.

In the section titled "Internal Control Finding and Recommendation," we have included our assessment of the conditions and causes resulting in the internal control and compliance finding identified through our audit as well as our recommendation for addressing the finding. Our assessment does not remove management's responsibility to perform a thorough assessment of the conditions and causes of the finding and develop and appropriately implement adequate corrective action to resolve the finding as required by Accounts in Section 10205 – Agency Response to APA Audit of the Commonwealth Accounting Policies and Procedures Manual. The corrective action may include additional items beyond our recommendation.

General Services is one of several entities cited in a risk alert in the Department of Accounts' (Accounts) fiscal year 2024 audit report. The "Financial Reporting" risk alert identifies the increased risk that the Commonwealth may not meet the deadline for the Annual Comprehensive Financial Report, which could jeopardize the Commonwealth's bond rating, because multiple entities have increasingly submitted inaccurate and late financial information to Accounts over the past several fiscal years. As an entity that is contributing to this increased risk for the Commonwealth, General Services' corrective action to correct the issues in the finding titled "Improve Internal Controls over Financial Reporting of Leased Assets" is essential to reducing the risk to the Commonwealth.

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INTERNAL CONTROL FINDING AND RECOMMENDATION

Improve Internal Controls over Financial Reporting of Leased Assets

Type: Internal Control

Severity: Material Weakness

First Issued: Fiscal Year 2022

Prior Title: Improve Internal Controls over Financial Reporting of Leases under GASB Statement No. 87

As noted in previous reports, the Department of General Services' (General Services) Division of Real Estate Services (Real Estate Services) real estate management and leasing system is not fully compliant with Governmental Accounting Standards Board (GASB) Statement No. 87, Leases. The real estate management and leasing system continues to be deficient in the following areas:

- The system does not determine lease classification based on data inputs.
- The data from the system requires numerous manual manipulations outside the system to prepare the financial reporting information.
- The system does not record leases by asset categories, such as land and infrastructure associated with real estate leases.
- The system does not separate and record multiple asset components within a lease, such as a split lease containing land and building assets.

General Services' Office of Fiscal Services (Fiscal Services) and Real Estate Services implemented manual internal controls since the prior audit to compensate for the system deficiencies noted above, which prevented the recurrence of the financial reporting errors reported in fiscal years 2022 and 2023. Management did not implement improvements to the current system due to system limitations and capabilities. Therefore, the limitations and challenges of using the deficient real estate management and leasing system and the risk of the manual controls resulting in financial reporting errors persist. Management is researching other options to correct these issues, including potentially purchasing a stand-alone lease reporting system.

In addition to system deficiencies, Fiscal Services does not have documented procedures to verify the commitment date for leases beginning after fiscal year end or review the attachment for proper commitment disclosures. As a result of inadequate training, Fiscal Services improperly recorded the liability and asset for leases signed before year end that do not commence until after year end, overstating right to use assets and lease liabilities and understating future commitments by \$26.5 million. Fiscal Services made a similar error in the prior year but did not revise and implement internal controls or sufficiently train staff to prevent this error from occurring again. We consider the combination of the actual misstatement, the system deficiencies, and the risk of misstatement due to the manual controls to be a material weakness because it creates a reasonable possibility that a material

misstatement of financial information will not be prevented, or detected and corrected, on a timely basis.

Management is responsible for designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial information that is free from material misstatement, whether due to fraud or error. GASB Statement No. 87 prescribes the applicable accounting standards surrounding the proper accounting and financial reporting for leases. Commonwealth Accounting Policies and Procedures Manual Topics 31205 through 31220 state all agencies must follow guidelines as required by GASB Statement No. 87.

General Services management should prioritize and emphasize the need for and importance of preparing accurate financial information in accordance with generally accepted accounting principles. Real Estate Services and Fiscal Services should develop, implement, and regularly update policies and procedures over their lease process and provide adequate training to staff to ensure accurate and complete reporting, including controls over commitment disclosures. General Services management should research options to correct the real estate management and leasing system deficiencies and implement the selected corrective action. Fiscal Services should maintain support for and make certain that the calculations for the fiscal year lease line items, footnotes, and disclosures are accurate prior to submitting this information to the Department of Accounts (Accounts) for use in the Commonwealth's Annual Comprehensive Financial Report (ACFR).

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 buying, selling, leasing, and conveying real estate interests of the Commonwealth;
- transactional documentation preparation; and
- real estate information database maintenance, reporting, and enhancement.

Real Estate Services is a division of General Services. In fiscal year 2024, Real Estate Services managed 351 master long-term leases and 213 master short-term leases. Real Estate Services makes all lease payments on behalf of the state agencies leasing space from a private lessor. In fiscal year 2024, Real Estate Services paid \$71.1 million in lease principal and interest payments. Real Estate Services recorded a net of \$313.8 million in right-to-use assets and \$347.8 million in long-term lease liabilities, with \$16.3 million being due within one year. In addition, Real Estate Services has \$26.5 million in future commitments for leases starting in fiscal year 2025.

Real Estate Services provides Fiscal Services with lease data from its real estate management and leasing system. Fiscal Services uses the lease data to report the transactions and year end asset and liability balances related to short-term leases, long-term leases, and financed purchases on Accounts' Internal Service Fund Attachment, in compliance with GASB Statement No. 87. Fiscal Services submits this to Accounts in support of the Commonwealth's ACFR.

The Division of Consolidated Laboratory Services (DCLS) is a division of General Services that acts as Virginia's public health and environmental laboratory. DCLS performs over nine million tests annually to provide analytical testing services and support to state agencies, local governments, federal agencies, and other states to protect the health and safety of the public. The Virginia Department of Health provides federal pass-through funds to General Services for DCLS to administer the Epidemiology and Laboratory Capacity for Infectious Diseases program. DCLS spent \$13.5 million for this program during fiscal year 2024.



Staci A. Henshaw, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
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December 13, 2024

The Honorable Glenn Youngkin
Governor of Virginia

Joint Legislative Audit
and Review Commission

Margaret "Lyn" McDermid
Secretary of Administration

Banci Tewolde
Department of General Services

We have audited the financial records and operations related to real estate leases and federal compliance over the Epidemiology and Laboratory Capacity for Infectious Diseases federal grant program administered by the Department of General Services (General Services) for the year ended June 30, 2024. We conducted this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, in support of the Commonwealth's Annual Comprehensive Financial Report and Single Audit. 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 General Services' financial transactions related to real estate leases as reported in the Annual Comprehensive Financial Report for the Commonwealth of Virginia for the year ended June 30, 2024. In support of this objective, we evaluated the accuracy of recorded financial transactions in Real Estate Services' real estate management system and the Department of Accounts' (Accounts) Internal Service Fund Attachment; reviewed the adequacy of Real Estate Services' and Fiscal Services' internal control; tested for compliance with applicable laws, regulations, contracts, and grant agreements; and reviewed corrective actions with respect to the audit finding from the prior year's report.

Our audit's secondary objective was to audit the Epidemiology and Laboratory Capacity for Infectious Diseases federal grant program in support of the Commonwealth's Single Audit for the year ended June 30, 2024. We evaluated the accuracy of recorded financial transactions in the Commonwealth's accounting and financial reporting system and reviewed the adequacy of DCLS's internal controls over compliance with applicable laws, regulations, contracts, and grant agreements.

Audit Scope and Methodology

General Services' management has responsibility for establishing and maintaining internal control and complying with applicable laws, regulations, contracts, and grant 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 materiality 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.

- Leases
- Financed purchases
- Rent, insurance, and other related charges
- Interest expense
- Information system security over Real Estate Services' real estate management system
- System access controls over Real Estate Services' real estate management system
- Federal grant revenues, expenses, and compliance for the following federal program:
 - Epidemiology and Laboratory Capacity for Infectious Diseases

We performed audit tests to determine whether the Real Estate Services', Fiscal Services' and DCLS's 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 grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of Real Estate Services', Fiscal Services', and DCLS's operations. We performed analytical procedures, including budgetary and trend analyses, and tested details of transactions to achieve our audit objectives.

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.

Our consideration of internal control over financial reporting and federal compliance (internal control) was for the limited purpose described in the section "Audit Objectives" and 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 titled “Internal Control Finding and Recommendation,” 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 or noncompliance 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 statements or material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. 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 titled “Improve Internal Controls over Financial Reporting of Leased Assets,” which is described in the section titled “Internal Control Finding and Recommendation,” to be a material weakness.

Conclusions

We found that Real Estate Services and Fiscal Services properly stated, in all material respects, the amounts recorded and reported in Real Estate Services’ real estate management system and Accounts’ Internal Service Fund Attachment, after adjustment for the misstatement noted in the finding “Improve Internal Controls over Financial Reporting of Leased Assets.” The financial information presented in this report came directly from Real Estate Services’ real estate management system. DCLS properly recorded and reported all transactions, in all material respects, in relation to the Epidemiology and Laboratory Capacity for Infectious Diseases federal grant program in the Commonwealth’s accounting and financial reporting system.

We noted a matter involving internal control and its operation that requires management’s attention and corrective action. This matter is described in the section titled “Internal Control Finding and Recommendation.” The results of our tests of compliance with applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Since the finding noted above has been identified as a material weakness, it will be reported as such in the “Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards,” which is included in the Commonwealth of Virginia’s Single Audit Report for the year ended June 30, 2024. The Single Audit Report will be available at www.apa.virginia.gov in February 2025.

Exit Conference and Report Distribution

We discussed this report with management at an exit conference held on January 29, 2025. Government Auditing Standards require the auditor to perform limited procedures on General Services' response to the findings identified in our audit, which is included in the accompanying section titled "Agency Response." General Services' response was not subjected to the other auditing procedures applied in the audit and, accordingly, we express no opinion on the response.

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.

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

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FINDINGS SUMMARY

Finding Title	Status of Corrective Action*	First Reported for Fiscal Year
Improve Internal Controls over Financial Reporting of Leased Assets	Ongoing	2022

* A status of **Ongoing** indicates new and/or existing findings that require management's corrective action as of fiscal year end.



COMMONWEALTH of VIRGINIA
DEPARTMENT OF GENERAL SERVICES

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February 5, 2025

Staci Henshaw
Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

Dear Ms. Henshaw:

Thank you for the opportunity to respond to the Auditor of Public Accounts' Review of the Department of General Services' Division of Real Estate Services and federal programs for the fiscal year ended June 30, 2024. We agree with the report's findings regarding our agency.

The Department of General Services will take necessary actions to address the internal control deficiencies identified in the audit report. We will work to update our internal policies and procedures in accordance with your recommendations.

We appreciate the professionalism of your staff and thank you for working with us.

Sincerely,

A handwritten signature in blue ink that reads "Banci E. Tewolde".

Banci Tewolde