



DEPARTMENT OF LABOR AND INDUSTRY

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS AS OF AUGUST 2025

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Commonwealth of Virginia

Auditor of Public Accounts

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P.O. Box 1295
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November 19, 2025

The Honorable Glenn Youngkin
Governor of Virginia

Joint Legislative Audit
and Review Commission

Gary Pan
Commissioner, Department of Labor and Industry

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire for the **Department of Labor and Industry** (Labor and Industry). We completed the review on August 11, 2025. 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 Labor and Industry 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 Labor and Industry. 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 Labor and Industry. Further, we evaluated Labor and Industry'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; capital assets; grants management; 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 (First Reported in 2019)** – Labor and Industry did not consistently retain or ensure employees completed an off-boarding checklist and that employees returned all state property. Labor and Industry also did not timely remove system access for all seven terminated employees tested. The Commonwealth's Information Security Standard, SEC 530 (Security Standard) requires the removal of systems access within 24 hours of the employee's separation. Labor and Industry should remove system access within 24 hours of the employee's separation and complete and retain off-boarding checklists including documentation of the return of state property.
- Labor and Industry did not document an evaluation of the System and Organization Controls (SOC) report and the complimentary user entity controls described within the report for two of its third-party providers. Commonwealth Accounting Policies and Procedures (CAPP) Manual Topic 10305 and the Security Standard 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 of the provider to gain assurance over outsourced operations. Labor and Industry should develop policies and procedures over review of SOC reports and comprehensively evaluate and document review of SOC reports timely.

- Labor and Industry does not conduct certain activities as part of its Information Technology (IT) Risk Management and Contingency Planning Program that the Security Standard requires. Specifically, Labor and Industry has not documented System Security Plans for each of its sensitive systems that include evaluations of the implementation of all required controls. The Security Standard requires that Labor and Industry document all existing and planned IT security controls for the IT system within the System Security Plan. Labor and Industry should complete and have the Agency Head approve the System Security Plans. Labor and Industry should also annually review each document, as required.
- Labor and Industry did not properly account for subscription-based information technology arrangements (SBITA) in accordance with Governmental Accounting Standards Board (GASB) Statement No. 96. Labor and Industry did not have an established process for identification of SBITAs. CAPP Manual Topic 31300, which references GASB Statement No. 96, requires agencies to determine and record the necessary accounting information in the Commonwealth's lease accounting system based on the contract to ensure proper classification of long-term and short-term SBITAs, and to evaluate explicit, implicit, and incremental borrowing rates before defaulting to the prime rate for a reasonable and accurate interest rate. Management should develop SBITA procedures that comply with GASB Statement No. 96 and properly record and classify SBITAs in accordance with this standard.
- Labor and Industry did not perform an analysis of potential aggregated assets in accordance with GASB Implementation Guide 2021-1 Question 5.1, Department of Accounts guidance email, and CAPP Manual Topics Section 30000. Labor and Industry should obtain an understanding of the relevant guidance, develop a process for evaluating aggregated assets, perform an analysis to determine aggregated assets, and record the capitalizable aggregated assets in the Commonwealth's capital asset system.
- Labor and Industry's ARMICS process covers most of the minimum requirements set by the Department of Accounts; however, we identified two requirements Labor and Industry did not meet. Labor and Industry did not document and assess agency-level control activities as required by ARMICS or complete an adequate agency level risk assessment explicitly considering fraud. Labor and Industry should document compliance with all minimum requirements of ARMICS.
- Labor and Industry has formal, documented policies and procedures over many of its significant business processes. However, during our review, we identified several critical business areas where Labor and Industry should develop or improve policies and procedures to maintain an effective control environment. Topic 20905 and other sections of the CAPP Manual require 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 and review and update the policies and procedures annually.

We discussed these matters with management on August 11, 2025. 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 it adequately addresses the issues in this report.

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.

Sincerely,

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

JDE/clj



COMMONWEALTH of VIRGINIA
DEPARTMENT OF LABOR AND INDUSTRY

Gary G. Pan
COMMISSIONER

December 19, 2025

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Dear Ms. Henshaw:

Thank you for the opportunity to comment on the Auditor of Public Accounts Results Letter dated November 19, 2025. In response to APA's findings, the Department of Labor and Industry (DOLI) is taking action to resolve the areas of concern outlined in your letter and intends to mitigate future risks and findings through regular review of internal controls.

Following the 2022 finding regarding the agency's offboarding controls, DOLI implemented improved documentation retention, clarified roles, enhanced communication between divisions, and introduced automation to the process to ensure timely removal of system access for separated employees. Effective November 2025, DOLI has implemented additional process improvements enhancing organizational capability and automating communication with system owners outside of the agency.

The agency is prioritizing the development of formal, agency-specific policies and procedures that align with both the recent system upgrade and implementation of Microsoft Dynamics subscription-based technologies and the agency operational needs. This will strengthen consistency across the agency and ensure continued compliance with state and federal reporting requirements. Additionally, DOLI has completed all Risk Assessments and System Security Plans for all sensitive systems. Commissioner Pan completed the review and approval of all plans effective December 15, 2025.

Regarding the absence of explicitly documented agency-level control activities and an agency-level risk assessment explicitly considering fraud, DOLI agrees that the agency's approach did not fully align with the expected format and level of specificity. However, the agency has maintained similar controls and performed relevant activities that address many of these same objectives, including Accounting Administration, Fiscal Processes and General Ledger oversight. The agency will review current ARMICS procedures and identify opportunities to document fraud considerations and assess agency-level control activities.

Following delays in the 2024 asset assessment due to uncertainties and office relocation, the agency will continue to perform and document physical inventory every two (2) years. DOLI will develop a detailed process for analyzing and evaluating aggregated assets in support of the agency's updated operational plan and growing readiness needs.

The Department of Labor and Industry is appreciative of the work and professionalism exhibited by you and your team during this process.

Sincerely,

Gary G. Pan
Commissioner