



DEPARTMENT OF SMALL BUSINESS AND SUPPLIER DIVERSITY

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS AS OF JUNE 2017

Auditor of Public Accounts
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P.O. Box 1295
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October 16, 2017

Tracey Wiley, Director
Virginia Department of Small Business and Supplier Diversity
101 N. 14th Street, 11th Floor
Richmond, Virginia 23219

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire, completed on June 29, 2017, for the **Department of Small Business and Supplier Diversity** (Small Business). 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 Small Business 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 Small Business. 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

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: capital assets; contract management and procurement; expenses; information technology and security; revenues; small purchase charge cards; and transfers. 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

The Department of Business Assistance and the Department of Minority Business Enterprise merged during fiscal year 2014 to become the Department of Small Business and Supplier Diversity. Many changes have occurred because of this merger. One of the big changes is that management has recently contracted with a consultant to review and strengthen internal controls. We noted significant improvements because of these changes.

We noted the following areas requiring management’s attention resulting from our review:

- Small Business is making progress on addressing the findings outlined in the APA reports prior to the merger. Small Business established a formal timeline to ensure the policies and procedures are updated, and several key processes are currently in draft form. Management’s goals include ensuring the updates are made by the end of the current year, are communicated to staff, and the staff receives training necessary to ensure compliance. Small Business should continue to make updating the policies and procedures a priority.
- Small Business did not comply with all Agency Risk Management and Internal Control Standards (ARMICS) requirements for the fiscal year 2016 certification. We noted that Small Business is making progress on developing the necessary risk assessments, analysis, and tests in order to comply with the Department of Accounts’ recommendations in the Commonwealth Accounting Policies and Procedures Manual (CAPP) Topic 10305. We recommend Small Business continue this progress to ensure that all ARMICS processes are being performed in compliance with the CAPP manual.

- Small Business is not properly monitoring contractor performance for information technology contracts in accordance with the Information Technology Procurement Manual (ITPM). Small Business currently has contracts in place with vendors for information system development and modernization. The contracts include certain performance measures that contractors must meet. Small Business has formal documentation for monitoring contracts; however, they are not currently utilizing the forms. Small Business should develop procedures to ensure contract administrators sufficiently monitor contractor performance and document ongoing monitoring activities in accordance with Chapter 34 of the ITPM.
- We observed the following information system security related deficiencies:
 - Small Business performs annual security reviews for centralized state-owned systems; however, the process for the non-state owned systems does not mirror the same level of detail and is not sufficiently documented. The system access reviews for non-state owned systems should include user roles, and evidence the user roles do not conflict, and are necessary to the employee's job duties. Further, Small Business needs to document and retain an audit trail validating review of users' access including those who do not use access frequently. The policies and procedures should include review and approval of access granted as well as the maintenance of documentation of user additions, deletions, and periodic user reviews.
 - Small Business did not provide annual Security Awareness Training to all information system users. Small Business should ensure all information system users complete annual security training.
 - Small Business did not complete the required audits necessary to comply with the Commonwealth Security Audit Standards. Small Business has an agreement with Virginia Information Technologies Agencies (VITA) to provide audit services. Small Business should work with VITA to ensure the required security audits are completed.

We discussed these matters with management on October 19, 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/alh



Terry McAuliffe
Governor

Todd Haymore
Secretary of Commerce & Trade

COMMONWEALTH of VIRGINIA

Department of Small Business and Supplier Diversity

Tracey G. Wiley
Director

November 7, 2017

Via Electronic Mail
Martha S. Mavredes, CPA
Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23218

Dear Ms. Mavredes:

The Department of Small Business and Supplier Diversity's (SBSD) response to the results of the APA's Internal Control Questionnaire Report (received via e-mail on November 1, 2017) follows.

Result – Update Policies and Procedures

Small Business is making progress on addressing the findings outlined in the APA reports prior to the merger. Small Business established a formal timeline to ensure the policies and procedures are updated, and several key processes are currently in draft form. (Excerpt of Finding)

Agency Response

SBSD has taken corrective action in FY17 and have been updating all policies and procedures. Once completed, all staff will be notified and any necessary training will take place.

Result – Agency Risk and Management and Internal Control Standards (ARMICS)

Small Business did not comply with all Agency Risk Management and Internal Control Standards (ARMICS) requirements for the fiscal year 2016 certification. We noted that Small Business is making progress on developing the necessary risk assessments, analysis, and tests in order to comply with the Department of Accounts' recommendations in the Commonwealth Accounting Policies and Procedures Manual (CAPP) Topic 10305. (Excerpt of Finding)

Agency Response

During FY17, SBSD contracted with an outside vendor to perform an agency-wide and transactional level ARMICS review. The review was completed in September 2017 and SBSD certified with the Department of Accounts that there were no significant weaknesses in internal controls per CAPP Topic 10305.

Result – Monitoring Contractor Performance

Small Business is not properly monitoring contractor performance for information technology contracts in accordance with the Information Technology Procurement Manual (ITPM). Small Business currently has contracts in place with vendors for information system development and modernization. The contracts include certain performance measures that contractors must meet. Small Business has formal documentation for monitoring contracts; however, they are not currently utilizing the forms. (Excerpt of Finding)

Agency Response

SBSD will begin utilizing the forms outlined in the ITPM. Procedures will be developed that will be in accordance with Chapter 34 of the ITPM.

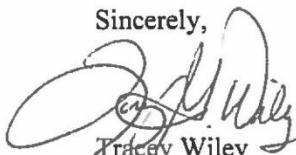
Result –Information System Security

- 1) Small Business performs annual security reviews for centralized state-owned systems; however, the process for the non-state owned systems does not mirror the same level of detail and is not sufficiently documented. The system access reviews for non-state owned systems should include user roles, and evidence the user roles do not conflict, and are necessary to the employee's job duties.
- 2) Small Business did not provide annual Security Awareness Training to all information system users. Small Business should ensure all information system users complete annual security training.
- 3) Small Business did not complete the required audits necessary to comply with the Commonwealth Security Audit Standards. Small Business has an agreement with Virginia Information Technologies Agencies (VITA) to provide audit services.

Agency Response

- 1) SBSD will begin annual security reviews for the non-state owned systems to ensure that proper controls are in place.
- 2) SBSD Information Security Officers attended training for the SANS Securing the Human Training. Training modules are being finalized and staff will be required to complete training before the end of calendar year 2017.
- 3) SBSD is currently in the midst of a Sensitive System Audit with VITA.

Sincerely,



Tracey Wiley
Director

cc. Annette Sherrill, Director of Administration