



2021 INTERNAL CONTROL QUESTIONNAIRE RESULTS

FOR THE PERIOD

JANUARY 1, 2021 THROUGH DECEMBER 31, 2021

Auditor of Public Accounts
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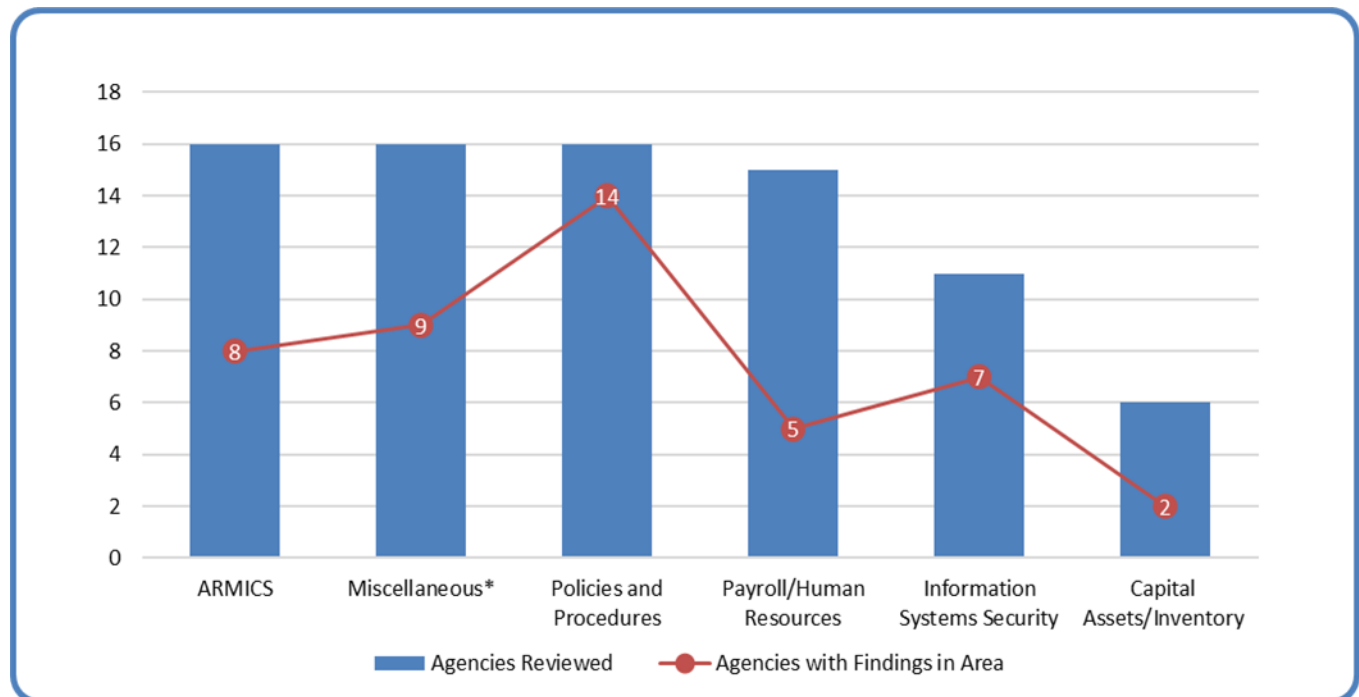
EXECUTIVE SUMMARY

The Auditor of Public Accounts has implemented a risk-based approach for auditing agencies that are not required to be audited every year. We refer to these agencies as cycled agencies. As part of this approach, we send cycled agencies a questionnaire inquiring of their internal controls over different areas of operations. We then review the agencies' responses to the questionnaire, and design and perform procedures based on the results. At the conclusion of an agency review, we provide a letter to management stating the results and highlighting any key areas of interest. In addition to the letters to management, this report summarizes the overall results of the reviews of internal controls performed primarily during calendar year 2021 and highlights common deficiencies identified across agencies.

The scope of our review included 16 agencies and, as a result of these reviews, we issued recommendations for improvements in internal controls to 15 agencies. We used a risk-based approach to determine what areas to review at each agency. Chart 1 below shows how many agencies we reviewed for each area compared to the number of agencies with findings in that area.

Areas Reviewed and Frequency of Findings

Chart 1



*Miscellaneous areas vary by agency and include areas such as financial reconciliations, financial reporting, procurement and contract management, revenues, expenses, grants, and debt.

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INTRODUCTION

The Auditor of Public Accounts (APA), as required by the Code of Virginia, audits all Executive and Judicial branch Commonwealth agencies handling state funds. However, the Code of Virginia does not require audits of all agencies annually. Agencies audited by APA on a periodic basis are referred to as cycled agencies. We developed a risk-based approach for auditing cycled agencies. As part of this approach, we send a questionnaire regarding internal controls to these agencies. We then review the responses to the questionnaire and design and perform procedures based on the results. The purpose of the internal control reviews is to evaluate if the agencies have designed and implemented adequate internal controls over significant organizational areas and activities. We do not express an opinion on the effectiveness of internal controls. At the conclusion of the review, we provide a letter to management stating the results and highlighting key areas of interest. Links to the results letters issued to each agency can be found in the [Appendix](#). The results of these reviews will be included within the risk analysis process for the upcoming year in determining which agencies we will audit. This report communicates the overall results of the reviews of internal controls performed primarily during calendar year 2021 and highlights common deficiencies identified across agencies.

In addition to this review, we also perform a special project every year over cycled agencies which focuses on one area that we determine to be significant. For calendar year 2021 capital assets was the area of focus. We only performed reviews over capital asset related internal controls at six agencies since the Virginia School for the Deaf and the Blind was included in the scope of the special project and the remaining agencies did not have significant capital asset activity.

REVIEW PROCEDURES

During these reviews, the agencies completed an internal control questionnaire that covers significant organizational areas and activities, including payroll and human resources (HR); revenues; expenses; procurement and contract management; capital assets and inventory; grants; debt; and information systems security. The questionnaire focuses on key controls over these areas and activities. While our reviews of agencies were not limited to these areas, these are common areas included in the scope of our reviews.

APA reviewed agency responses to the questionnaire and relevant supporting documentation to determine the nature, timing, and extent of additional procedures. The nature, timing, and extent of the procedures selected depended on judgment in assessing the likelihood that the controls may not prevent and/or detect events that could result in failure to achieve the control objectives. The procedures performed target risks or business functions deemed significant at each agency and involve reviewing internal policies and procedures. Based on the results of our review, we determined if we needed to perform additional procedures. These procedures included inquiry; 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. Table 1 lists the agencies included in the scope of this year's internal control review.

Agencies Included in the Review
Agency Name, Total Fiscal Year 2020 Expenses
(Rounded in millions)

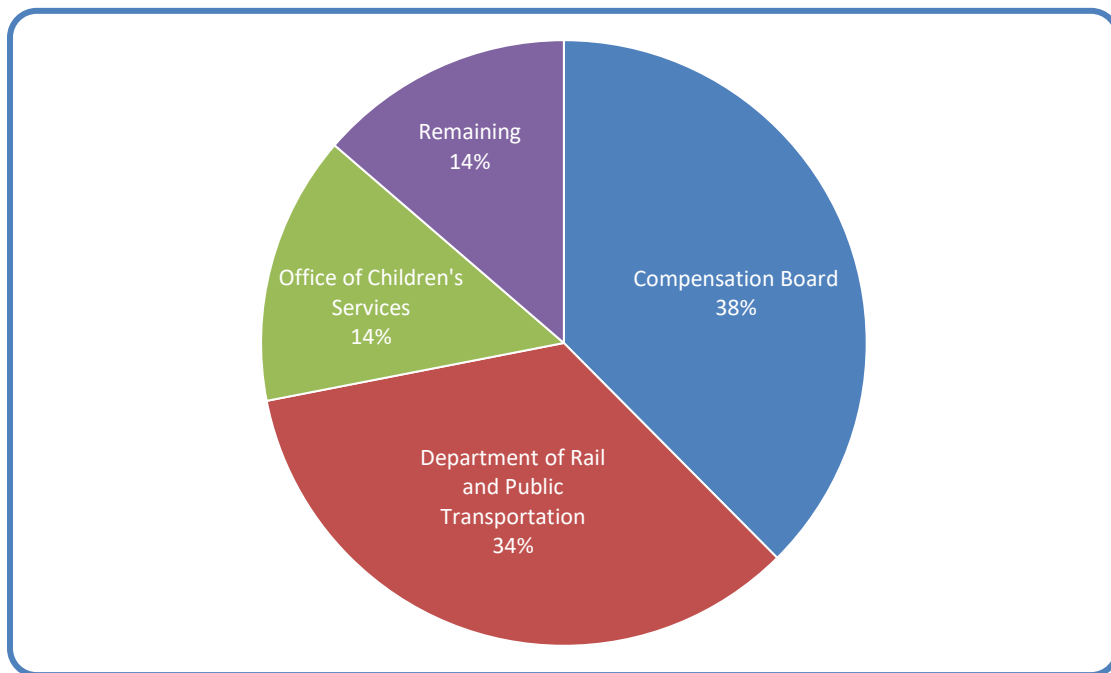
Table 1

Assistive Technology Loan Fund Authority, \$0.6	Department of Rail and Public Transportation, \$651.5
Board of Bar Examiners, \$1.4	New College Institute, \$3.0
Commonwealth's Attorneys' Services Council, \$1.6	Office of Children's Services, \$272.7
Compensation Board, \$711.7	The Science Museum of Virginia, \$13.3
Department of Agriculture and Consumer Services, \$70.3	Virginia Department of Energy, \$32.4
Department of Aviation, \$40.2	Foundation for Healthy Youth, \$10.1
Department of Elections, \$27.8	Virginia School for the Deaf and the Blind, \$15.3
Department of Professional and Occupational Regulation, \$21.4	Virginia Tourism Authority, \$21.6

In total, these agencies spent approximately \$1.89 billion in fiscal year 2020. As shown in Chart 2, the Compensation Board, Department of Rail and Public Transportation, and Office of Children's Services made up approximately 86 percent of the 16 agencies' total fiscal year 2020 expenses.

Fiscal Year 2020 Total Expenses

Chart 2

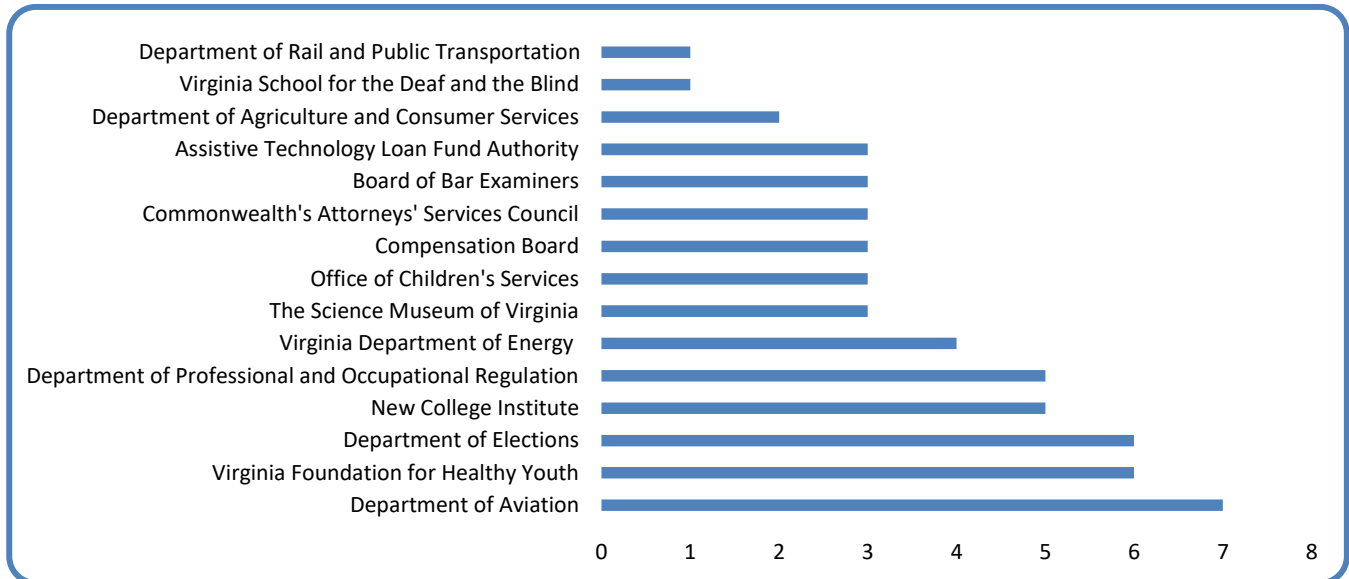


REVIEW RESULTS

Our reviews identified 55 recommendations for 15 out of 16 agencies. We did not issue any findings to the Virginia Tourism Authority. Chart 3 shows the total findings issued for each agency.

Findings by Agency

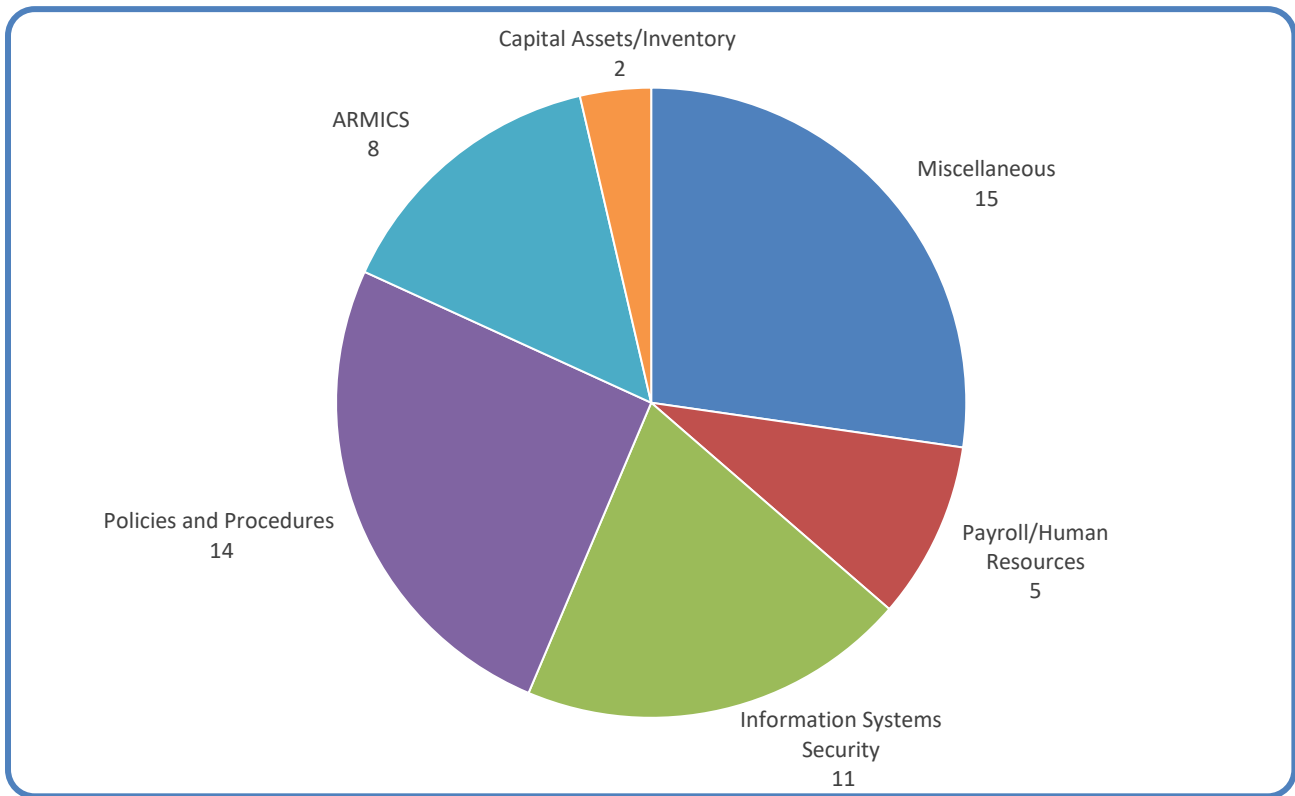
Chart 3



Policies and procedures and information systems security are the areas with the most recommendations for improvement. Chart 4 depicts the total findings for all agencies grouped by area of review. Each area is described in further detail below.

Findings by Area of Review

Chart 4



As noted previously, we did not review every business cycle at every agency, but rather used a risk-based approach to determine which areas to review. Table 2 below notes which areas we reviewed at each agency and whether there was a finding related to that particular area. The ✓ symbol indicates that the area was reviewed and no findings were issued. An X indicates that the area was reviewed and findings were included in the results letter. If a number accompanies the X, this signifies the number of findings issued at a particular agency for that area; no number indicates only one finding was issued for the area. Blank fields indicate that the area was not reviewed. For details on the findings, see links to the individual results letters in the [Appendix](#).

Areas Reviewed by Agency

Table 2

Agency	ARMICS	Capital Assets/ Inventory	Information Systems Security	Miscellaneous	Payroll/HR	Policies and Procedures
Assistive Technology Loan Fund Authority	✓		X	X	✓	X
Board of Bar Examiners	X	X	X	✓	✓	✓
Commonwealth's Attorneys' Services Council	X	✓		✓	X	X
Compensation Board	X		X	✓	✓	X
Department of Agriculture and Consumer Services	✓			X	✓	X
Department of Aviation	X		X ³	X ²	✓	X
Department of Elections	X			X ⁴	✓	X
Department of Professional and Occupational Regulation	✓	✓	X ²	X	X	X
Department of Rail and Public Transportation	✓		✓	✓	✓	X
Foundation for Healthy Youth	X		X	X ²	X	X
New College Institute	✓	✓	X ³	✓	X	X
Office of Children's Services	X		✓	X		X
The Science Museum of Virginia	X	✓	✓	X	✓	X
Virginia Department of Energy	✓	X		X	X	X
Virginia School for the Deaf and the Blind	✓		✓	✓	✓	X
Virginia Tourism Authority	✓			✓	✓	✓

ARMICS

Risk management is a critical component to sound internal controls, as outlined in the statewide Agency Risk Management and Internal Control Standards (ARMICS). As ARMICS provides a basis for management to establish internal controls and assess that they are functioning, failure to complete the documentation and perform assessment tests increases the risk that internal controls may not exist or function adequately. 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. We issued findings related to ARMICS at eight out of 16 agencies reviewed.

Capital Assets/Inventory

We reviewed the internal controls in place over capital assets and inventory such as the performance of physical inventories, reevaluating useful lives, and reconciling internal asset systems to the Commonwealth's statewide capital asset system. We issued findings related to capital assets and inventory at two out of six agencies reviewed.

Information Systems Security

We considered internal controls related to users, such as establishing and maintaining access to critical systems and the adequacy and frequency of security awareness training, as well as controls related to the overall security of sensitive systems. The findings in these areas related to security administration, continuity and contingency planning, information technology audits, and compliance with Virginia Information Technology Agency standards. We issued findings related to information system security at seven out of 11 agencies reviewed.

Miscellaneous

We assessed other miscellaneous internal control areas based on the responses to the internal control questionnaire and the nature of operations at each agency. Issues in the miscellaneous category vary by agency and include areas such as financial reconciliations, financial reporting, procurement and contract management, revenues, expenses, grants, and debt. We issued findings related to miscellaneous categories to nine out of the 16 agencies reviewed. The findings are summarized in each agency's review results letter, and links to these letters are included in the [Appendix](#).

Payroll/Human Resources

Payroll expenses are a significant portion of the budget for many of these agencies. We reviewed the internal controls in place over payroll and human resources activities such as proper segregation of duties, review of payroll transactions, review and reconciliation of retirement data, and leave documentation. We issued findings related to payroll and human resources at five out of 15 agencies reviewed.

Policies and Procedures

Policies and procedures are a critical component to good internal controls; therefore, we reviewed policies and procedures for all agencies. We considered the design of policies and procedures and whether the procedures facilitated consistency and were sufficiently detailed. Establishing and implementing policies and procedures will ensure the agency consistently and effectively performs the control activities. We issued findings for insufficient policies and procedures at 14 out of 16 agencies reviewed.



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October 5, 2022

The Honorable Glenn Youngkin
Governor of Virginia

Joint Legislative Audit
and Review Commission

We periodically review the internal controls of cycled agencies and submit our report entitled **2021 Internal Control Questionnaire Results** for your review.

This report provides a summary perspective of overall internal control weaknesses we identified during our Internal Control Questionnaire Reviews performed primarily during the period January 1, 2021, through December 31, 2021. We reviewed the information system security related internal controls for some agencies in early 2022. We provided letters to management with our findings as the reviews were completed, as well as provided an annual summary report of our findings.

Report Distribution

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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Links to Results Letters
<u>Assistive Technology Loan Fund Authority</u>
<u>Board of Bar Examiners</u>
<u>Commonwealth's Attorneys' Services Council</u>
<u>Compensation Board</u>
<u>Department of Agriculture and Consumer Services</u>
<u>Department of Aviation</u>
<u>Department of Elections</u>
<u>Department of Professional and Occupational Regulation</u>
<u>Department of Rail and Public Transportation</u>
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<u>Virginia Tourism Authority</u>