



AUDITOR OF PUBLIC ACCOUNTS

Commonwealth of Virginia

# DEPARTMENT OF FORESTRY

## Internal Control Questionnaire Review Results As of August 2026

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Commonwealth of Virginia

*Auditor of Public Accounts*

Staci A. Henshaw, CPA
Auditor of Public Accounts

P.O. Box 1295
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October 5, 2026

The Honorable Abigail D. Spanberger
Governor of Virginia

Joint Legislative Audit
and Review Commission

Terrance Lasher
State Forester, Department of Forestry

## INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire for the **Department of Forestry** (Forestry). We completed the review on August 24, 2026. 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 Forestry 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 Forestry. 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 Forestry. Further, we evaluated Forestry's process for 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:

*General Internal Controls*

- **Repeat** – Forestry has formal, documented policies and procedures over many of its significant business processes. However, during our review, we identified several critical business areas where Forestry should develop or improve the following policies and procedure areas to maintain an effective control environment:

    - Capital assets and leases
    - Compensated absences
    - Contract procurement and management
    - Department of Accounts attachment submissions
    - Financial system reconciliations
    - Grant management

In addition, part-time firefighters do not have access to the intranet where Forestry posts personnel policies, and Forestry did not identify an alternative method for distributing these policies. Topic 20905 and other sections of the Commonwealth Accounting Policies and Procedures (CAPP) Manual require each agency to "publish its own policies and procedures documents, approved in writing by agency management." Management should continue working to ensure detailed policies and procedures exist for all critical business areas and properly distribute policies and procedures to all applicable employees. In addition, management should continue to develop a process to review and approve all policies and procedures either annually or as needed and maintain documentation of the process.

- **Repeat** – Forestry did not obtain the System and Organization Controls (SOC) report for a provider who processes sensitive information. As such, Forestry did not document an evaluation of the SOC report and the complementary user entity controls described within the report. CAPP Manual Topic 10305 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 needs to implement. Forestry must also maintain oversight of the provider to gain assurance over outsourced operations. Forestry should develop policies and procedures over SOC reports for third-party providers and obtain and comprehensively evaluate SOC reports timely.

- **Repeat** – Forestry certified as partially compliant in its ARMICS process to the Department of Accounts; therefore, we did not test this area during this review. Forestry should come into full compliance with ARMICS and document all minimum requirements.

*Capital Assets*

- **Repeat** – Forestry did not complete a physical inventory over capital assets within the past two years. Forestry should perform a physical asset inventory count at least once every two years to ensure proper safeguarding of assets and ensure the accuracy of the Commonwealth's capital asset system data in accordance with CAPP Manual Topic 30505.

- **Repeat** – Forestry is not properly accounting for leases in accordance with Governmental Accounting Standards Board (GASB) Statement No. 87. Forestry is in the process of evaluating all contracts to properly identify all potential leases. As such, Forestry has not evaluated leased assets with the same contracted vendor, lease term, and interest rate to determine if it should group assets when recording leases. In addition, Forestry has not followed the correct procedure for determining the interest rate. CAPP Manual Topic 31200, which references GASB Statement No. 87, requires agencies to properly identify leases and group leases for recording in the lease accounting system to ensure proper classification of long-term and short-term leases, and to evaluate explicit, implicit, and incremental borrowing rates before defaulting to the prime rate for a reasonable and accurate interest rate. Management should continue to develop lease procedures that comply with GASB Statement No. 87 and properly identify, record, and classify leases in accordance with this standard.

- Forestry did not record capital asset additions accurately or timely. For one out of three (33%) capital assets reviewed, the asset was a duplicate entry entered into the Commonwealth's capital asset system in error. For two of three (67%) capital assets reviewed, Forestry entered the asset in the Commonwealth's capital asset system between 83 and 114 days after the recorded acquisition date, resulting in one asset being recorded in the incorrect fiscal year, and Forestry did not retain documentation supporting the acquisition date for the other asset. Management should record all capital assets timely and retain adequate supporting documentation in accordance with CAPP Manual Topics 30105 and 30205.

- Forestry is not properly tracking its ongoing construction costs. Due to staff turnover, Forestry completed the construction in progress (CIP) schedule annually as part of its submission of Accounts' Attachment 13 rather than quarterly as required. As a result, Forestry did not enter CIP entries timely into the Commonwealth's capital asset system. Management should track assets and enter CIP entries in accordance with CAPP Manual Topic 30905 to properly account for construction costs.

- Forestry did not properly account for Subscription-Based Information Technology Arrangements (SBITA) in accordance with GASB Statement No. 96. Forestry is in the process of establishing a process for the identification of SBITAs. CAPP Manual Topic 31310, which incorporates GASB Statement No. 96, requires agencies to determine and record the necessary accounting information in the 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 continue to develop SBITA procedures that comply with GASB Statement No. 96 and properly record and classify SBITAs in accordance with this standard.

- Forestry did not perform a sufficient analysis of potential groups of assets in accordance with GASB Implementation Guide 2021-1 Question 5.1, Department of Accounts guidance email, and CAPP Manual Topic section 30000. Forestry should obtain an understanding of the relevant guidance, develop a process for evaluating groups of assets, perform analysis to determine groups of assets to aggregate, and record the capitalizable aggregated assets in the Commonwealth's capital asset system.

*Information Technology and Security*

- **Partial Repeat** – Forestry has made progress in managing oversight of information technology (IT) service providers; however, the agency has not fully gained assurance over all outsourced operations in accordance with the Commonwealth's Information Security Standard, SEC530 (Security Standard) and the Commonwealth's Hosted Environment Security Standard, SEC525 (Hosted Environment Security Standard). Forestry uses multiple IT service providers for mission-critical business functions that process and store sensitive data. While Forestry has

initiated some oversight activities, Forestry has not yet completed all required review and approval processes to verify that providers' information security controls are operating effectively. Forestry should continue developing and finalizing oversight procedures to ensure all service providers have appropriate security controls in place and Forestry monitors the providers in accordance with the Hosted Environment Security Standard.

*Financial Reconciliations*

- **Partial Repeat** – Forestry did not properly review all the necessary reports to support reconciliations between the Commonwealth's human resources system and retirement benefits system. Specifically, management does not consistently review the Billing Exceptions and Summary Reports. In addition, Forestry confirmed the retirement contribution snapshot for one month four days early, before the pay period ended. Forestry should update its policies and procedures over benefits reconciliations and document the review of all required reconciliation reports detailed within CAPP Manual Topic 50470. Lastly, Forestry should ensure that it confirms all benefits reconciliations in a timely manner in accordance with CAPP Manual Topic 50470.

- Forestry did not perform financial system reconciliations. Forestry was unable to provide the reconciliation and supporting documentation for both months selected during fiscal year 2025. Forestry did not perform reconciliations prior to certifying their completion to Accounts following a staff departure in September 2024. Forestry should perform and properly retain reconciliations in accordance with CAPP Manual Topic 20905 prior to certifying to Accounts.

*Payroll and Human Resources*

- Forestry did not provide documentation to support employee pay rate, such as a pay action worksheet, evidence of approval, or other supporting documentation for two out of two (100%) wage employees selected for review. Forestry should retain evidence to properly support that all payroll transactions include evidence of review and approval in accordance with CAPP Manual Topic 50305.

- Forestry did not provide supporting documentation showing it completed the exit checklist for two out of two (100%) terminated employees reviewed. Additionally, Forestry did not remove system access within 24 hours after termination for one of two (50%) employees tested, as required by the Security Standard. Forestry should complete and retain terminated employee exit checklists and ensure timely access removal in accordance with the agency's information technology off-boarding policy and the Security Standard.

*Revenues and Expenses*

- Forestry does not have adequate controls in place over the approval of Small Purchase Change Card (SPCC) reconciliations. For five of seven (71%) reconciliations reviewed, the cardholder completed the reconciliation in the correct month, but supervisors did not approve until several months after completion. Timely review and approval are necessary to ensure reconciliations are complete and accurate. Forestry should ensure supervisors approve SPCC reconciliations timely and retain evidence of review in accordance with CAPP Manual Topic 20355.

- Forestry did not properly code expenses. For two out of three (67%) vouchers reviewed, Forestry coded similar easement-related payments to different accounts. Forestry should consistently apply the appropriate accounting classification for transactions and implement review procedures to ensure it codes expenses accurately and uniformly in accordance with CAAP Topic 20310.

- Forestry does not have adequate controls in place to ensure amounts due are reviewed timely to ensure collection. Due to finance staff turnover, Forestry did not consistently perform monthly reviews of outstanding receivables, increasing the risk that Forestry may not identify and collect amounts owed in a timely manner. Management should implement procedures to ensure it completes accounts receivable reviews each month and ensure staffing changes do not interrupt the accounts receivable review process, in accordance with CAPP Manual Topic 20505.

We discussed these matters with management on August 31, 2026. Management's response to the findings identified in our review is included in the section titled "Agency Response." We did not validate the accuracy of 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

Terrance J. Lasher
State Forester

# COMMONWEALTH of VIRGINIA

## Department of Forestry

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November 10, 2026

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

Dear Ms. Henshaw:

Forestry has reviewed the Auditor of Public Accounts (APA) Internal Control Questionnaire Review Results received on November 4, 2026. Thank you for the opportunity to respond.

We concur with the findings and have begun implementing the necessary corrective actions.

We appreciate your staff's time and guidance throughout the review process. Please feel free to contact us if you need any further responses or if you have additional questions or concerns.

Sincerely,

Terrance (Terry) J. Lasher
State Forester

LWS/lws

cc: Amanda Davis, Chief of Administration
Lauren Sumner, Director of Finance