



DEPARTMENT OF
ENVIRONMENTAL QUALITY

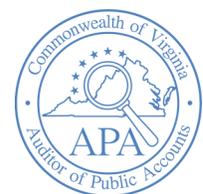
INTERNAL CONTROL QUESTIONNAIRE
REVIEW RESULTS
AS OF SEPTEMBER 2025

Auditor of Public Accounts

Staci A. Henshaw, CPA

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Commonwealth of Virginia

Auditor of Public Accounts

Staci A. Henshaw, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

November 21, 2025

The Honorable Glenn Youngkin
Governor of Virginia

Joint Legislative Audit
and Review Commission

Mike Rolband
Director, Department of Environmental Quality

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire for the **Department of Environmental Quality** (Environmental Quality). We completed the review on September 12, 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 Environmental Quality 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 Environmental Quality. 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 Environmental Quality. Further, we evaluated Environmental Quality'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; 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 2020)** – Environmental Quality does not document certain aspects of its Information Technology (IT) Risk Management and Contingency Planning Program that the Commonwealth's Information Security Standard, SEC 530 (Security Standard) requires. Specifically, Environmental Quality's IT Risk Management documentation does not consistently identify the requirements for critical business functions and system recovery. Environmental Quality should document the required information for each IT system necessary to recover agency business functions.
- **Repeat (First Reported in 2020)** – Environmental Quality does not have a sufficient process for gaining assurance that third-party financial and information technology service providers have adequate controls in place. Environmental Quality did not have a documented evaluation of the System and Organization Controls (SOC) reports and the complimentary user entity controls described within the reports. Commonwealth Accounting Policies and Procedures (CAPP) Manual Topic 10305 and the Security Standard require management to have an adequate level of interaction with third-party providers to give management an

understanding of the providers' internal control environments and any complementary controls Environmental Quality would need to implement. Environmental Quality must also maintain oversight of the provider to gain assurance over outsourced operations. Environmental Quality should update the policies and procedures over review of SOC reports for third-party providers and obtain and comprehensively evaluate SOC reports timely.

- Environmental Quality has formal, documented policies and procedures over many of its significant business processes. However, during our review, we identified several critical business areas where Environmental Quality 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 continue working to ensure detailed policies and procedures exist for all critical business areas. 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.
- Environmental Quality did not review all network and application users' access at least annually to ensure that access is reasonable as required by the Security Standard. Environmental Quality should annually review and document all system users' access to ensure network and applications access is reasonable and compliant with the principle of least privilege.
- Environmental Quality did not provide documentation of a complete physical inventory over all inventoriable assets in the capital asset accounting system within the last two years as required by the CAPP Manual Topic 30505. Environmental Quality should ensure that those responsible at Environmental Quality for the assets and performing the physical inventory retain the documentation of the physical inventory. In addition, the Finance Department should also document the review and approval over physical inventory and the capital asset accounting system corrections from the physical inventory.
- Environmental Quality did not properly account for leases in accordance with Governmental Accounting Standards Board (GASB) Statement No. 87. Management did not properly evaluate and record the group of leased assets with the same contracted vendor, lease term, and interest rate. In addition, management did not follow the correct procedure for determining the interest rate. CAPP Manual Topic 31200, which incorporates GASB Statement No. 87 requirements, requires agencies to 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 resorting to using the prime rate for a reasonable and accurate interest rate. Management should update its lease procedures to comply with GASB Statement No. 87 and properly record and classify leases in accordance with this standard.
- Environmental Quality did not perform an analysis of potential aggregated assets in accordance with GASB Implementation Guide 2021-1 Question 5.1, Accounts guidance email,

and CAPP Manual Topics section 30000. Environmental Quality 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 capital asset accounting system.

- Environmental Quality did not provide supporting documentation showing it completed the off-boarding checklist for three of three (100%) terminated employees reviewed. As a result, Environmental Quality was not able to provide any support that the employees returned agency property. Environmental Quality should complete and retain terminated employee off-boarding checklists.

We discussed these matters with management on September 17, 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\vks



Commonwealth of Virginia

VIRGINIA DEPARTMENT OF ENVIRONMENTAL QUALITY

www.deq.virginia.gov

Stefanie K. Taillon
Secretary of Natural and Historic Resources

Michael S. Rolband, PE, PWD, PWS Emeritus
Director

December 19, 2025

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

Dear Ms. Henshaw:

We have received the APA Internal Control Questionnaire Review Results letter and concur with the findings. As APA is aware, during FY24, DEQ was fully engaged in implementing new, cloud financial and human capital management systems. These projects, completed on October 1, 2025, required significant staff effort across Finance, Human Resources, Information Services, and Security. The expected changes in policy, procedures, and business practices across impacted administrative functions, along with other staffing resource constraints, caused several of these concerns to include maintenance of policies and procedures and other documentation standard issues. Progress has been made on a portion of the findings, and our staff will incorporate the results of this review in our existing post-go-live plans for updating policies, procedures, and business practices.

We appreciate your team's efforts and constructive feedback. Please contact me if you have any questions regarding our corrective action plan.

Sincerely,

A handwritten signature in black ink, appearing to read 'Alvie Edwards'.

Alvie Edwards
Director of Administration