



OFFICE OF THE ATTORNEY GENERAL
AND DEPARTMENT OF LAW
AND DIVISION OF DEBT COLLECTION

FOR THE YEAR ENDED
JUNE 30, 2017

Auditor of Public Accounts
Martha S. Mavredes, CPA

www.apa.virginia.gov

(804) 225-3350



AUDIT SUMMARY

Our audit of the expenses at the Office of the Attorney General (Office) and Department of Law and Division of Debt Collection (Division) for the fiscal year ended June 30, 2017, found:

- proper recording and reporting of all expense transactions, in all material respects, in the Commonwealth's accounting and reporting system;
- no matters involving internal control and its operation necessary to bring to management's attention;
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported; and
- the Office has either completed or is making progress on corrective action with respect to the prior audit findings listed below as detailed in the "Status of Prior Year Findings" section.
 - Develop and Approve Backup and Restoration Policies and Procedures
 - Improve Physical and Environmental Security
 - Improve Firewall Management

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STATUS OF PRIOR YEAR FINDINGS

The Office of the Attorney General (Office) is making progress to address the information security weaknesses in their prior year audit report. The Office had three findings in the prior year that were titled “Develop and Approve Backup and Restoration Policies and Procedures,” “Improve Physical and Environmental Security,” and “Improve Firewall Management.” The Office has completed its corrective action regarding the “Develop and Approve Backup and Restoration Policies and Procedures” finding, and has adequate controls to protect and restore sensitive and confidential data. The Office continues to remediate the weaknesses to improve their physical and environmental security controls and to improve their firewall management in an effort to correct the remaining findings.

Since our prior audit, the Office employed a new Information Security Officer (ISO) during the summer of 2017 to maintain oversight of the Office’s information security program, including physical and environmental security and firewall management. The new ISO and Office management are aware of the weaknesses issued during the prior audit and have plans to remediate all weaknesses by January 2018. During our fiscal year 2018 audit, we will evaluate whether the Office is complete in its corrective action for the remaining findings, and we will determine if the controls in place are sufficient to protect the confidentiality, integrity, and availability of critical and sensitive data.

AUDIT SCOPE OVERVIEW

In 2017, we modified our approach to the audit of the Office and the Division of Debt Collection (Division) due primarily to the abbreviated length of time since our previous review. We determined the most significant business cycle for the Office and the Division are expenses, the largest of which are described in greater detail below. Our 2017 review focused on the Office's and the Division's expenses, and provided a review of the status of the information systems security findings included in our prior audit report.

Agency Highlights

The Attorney General is the chief executive officer of the Commonwealth of Virginia's Department of Law. The Office acts as the Commonwealth's law firm. The Attorney General and his staff represent the Commonwealth's interests in all civil cases naming the Commonwealth, or any of its agencies or officials, as a party, and in criminal cases on appeal to the Court of Appeals of Virginia and the Supreme Court of Virginia. In cases involving federal law, the Attorney General represents the Commonwealth's interests in federal court. The Office also enforces consumer protection laws and investigates Medicaid fraud.

The Attorney General is also the legal advisor to the Governor and more than 200 state agencies, boards, commissions, and institutions. The Attorney General renders official opinions on the application of the law upon written request of the Governor, members of the General Assembly, members of the judiciary, state officials, or local constitutional officers. The Office handles criminal convictions on appeal and defends the state when prisoners sue concerning their incarceration. In addition, the Office defends legal challenges of the constitutionality of state laws and supervises the appointment and payment of private attorneys hired by other state agencies for various matters. The Office also administers grants to help reduce crimes involving gangs, drugs, and sexual predators.

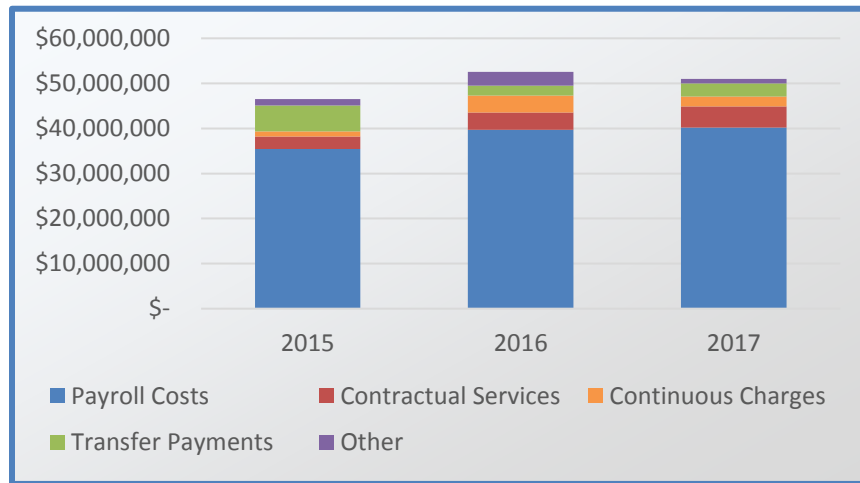
The Office's organizational structure is similar to a private law firm, with divisions devoted to legal specialties. In addition to the main office in downtown Richmond, the Office has operations in Abingdon, Fairfax, and Roanoke. The Administration Division provides finance, human resources, information systems, and operations support to the legal divisions. The Division of Debt Collection, a separate agency within the Office, provides legal services and advice related to the collection of funds owed to the Commonwealth.

Office of the Attorney General Expenses

Payroll-related costs comprise 79 percent of the Office's total expenses. Other significant costs necessary to support operations include contractual services and continuous charges. Transfer payments are also significant, and represent indirect cost recoveries for the Medicaid Fraud Control Unit, and grants transferred to other agencies and localities. As the following chart depicts, the percent of expense by type has remained relatively stable across years, with the exception of transfer payments. These expenses have decreased due to exhaustion of the Abbott Laboratories Settlement fund.

Office's Major Expenses

Chart 1



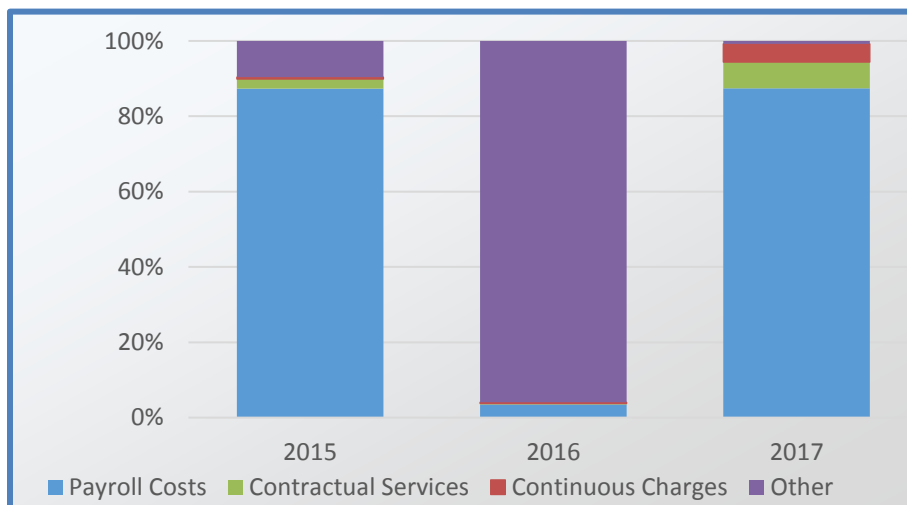
Source: The Commonwealth's accounting and financial reporting system

Division of Debt Collection Expenses

The Division is a separate agency within the Office. It collects delinquent accounts for state agencies, state-supported institutions of higher education, and their hospitals. Upon receiving delinquent accounts from state agencies, the Division will take appropriate action, including litigation, to collect them. The primary division expense is payroll, which comprised 87 percent of total expenses. Other significant expenses are contractual and continuous charge expenses necessary to sustain operations. As the chart below depicts, the percent of expense by type has remained relatively stable across years, with the exception of transfer payments in the other category.

Division's Major Expenses*

Chart 2



Source: The Commonwealth's accounting and financial reporting system

*The increase in "Other" during fiscal year 2016 is attributed to the Commonwealth of Virginia Fraud Against Taxpayers Act (FATA) settlement funds, which were received during the year and paid out to localities and the Virginia Retirement System.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

September 21, 2017

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
Chairman, Joint Legislative Audit
and Review Commission

We have audited the expenses of the **Attorney General and Department of Law and the Division of Debt Collection** for the year ended June 30, 2017. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objectives with regard to the expenses were to evaluate the accuracy of transactions as recorded in the Commonwealth's accounting and financial reporting system, review the adequacy of the Office's and Division's internal controls, and test compliance with applicable laws, regulations, contracts, and grant agreements. We also reviewed corrective actions for audit findings from the prior year report as follows: Develop and Approve Backup and Restoration Policies and Procedures, Improve Physical and Environmental Security, and Improve Firewall Management.

Audit Scope and Methodology

The Office's and Division's management has responsibility for establishing and maintaining internal control and complying with applicable laws, regulations, contracts and grant agreements. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, as they relate to expenses, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures.

We performed audit tests to determine whether the Office's and Division's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, contracts, and grant agreements as they pertain to expense transactions.

Our audit procedures included inquiries of appropriate personnel; inspection of documents, records, and contracts; and observation of the Office's and Division's operations. We performed analytical procedures, including budgetary and trend analyses. We also tested details of expense transactions to achieve our objectives.

A statistical sampling approach was used. Our samples were designed to support conclusions about our audit objectives. An appropriate sampling methodology was used to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Conclusions

We found that the Office and Division properly stated, in all material respects, transactions recorded and reported in the Commonwealth's accounting and financial reporting system, relating to the audit objectives.

We noted no matters involving internal control and its operation pertaining to the Office's expenses that we consider necessary to be reported to management. The results of our tests of compliance with applicable laws, regulations, contracts, and grant agreements, as they pertain to the Office's expenses, disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The agency has taken adequate corrective action with regard to the prior audit finding entitled "Develop and Approve Backup and Restoration Policies and Procedures" and is making progress on the prior audit findings entitled "Improve Physical and Environmental Security" and "Improve Firewall Management" as reported in the section titled "Status of Prior Year Findings."

Exit Conference and Report Distribution

We discussed this report with management on September 26, 2017. 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.

AUDITOR OF PUBLIC ACCOUNTS

KJS/alh



COMMONWEALTH of VIRGINIA

Office of the Attorney General

Mark R. Herring
Attorney General

202 North Ninth Street
Richmond, Virginia 23219
804-786-2071
Fax 804-786-1991
Virginia Relay Services
800-828-1120
7-1-1

September 25, 2017

Ms. Martha Mavredes
Auditor of Public Accounts
101 N. 14th Street
Richmond, VA 23219

Dear Ms. Mavredes:

On behalf of the Attorney General, I would like to thank you for providing us an opportunity to comment on the findings and recommendations in the Fiscal Year 2017 audit of the Office of the Attorney General.

Management continues to recognize the need for compliance with SEC 501-9, CP-9-COV and CP-10 requirements. We continue to actively work towards redressing the concerns noted from the FY2017 audit.

Sincerely,

A handwritten signature in black ink, reading "Leigh E. Archer".

Leigh E. Archer
Director of Administration

OFFICE OF THE ATTORNEY GENERAL AND DEPARTMENT OF LAW

As of June 30, 2017

Mark R. Herring
Attorney General

Cynthia E. Hudson
Chief Deputy Attorney General

Leigh E. Archer
Director of Administration

Christie A. Wells
Director of Finance