



# OFFICE OF THE STATE INSPECTOR GENERAL

## INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS AS OF AUGUST 2023

Auditor of Public Accounts  
Staci A. Henshaw, CPA

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Staci A. Henshaw, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

September 22, 2023

Michael Westfall, State Inspector General  
Office of the State Inspector General  
P.O. Box 1151  
Richmond, Virginia 23218

## INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire for the **Office of the State Inspector General** (Inspector General). We completed the review on August 18, 2023. 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 Inspector General 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 Inspector General. 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 the finding in the report titled "[Cycled Agency Information Systems Security Review for the year ended June 30, 2020](#)" and noted the agency has taken adequate corrective action with respect to the finding reported in that review.

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 at Inspector General. Our review of Inspector General's ARMICS program included a review of all current ARMICS documentation and a comparison to statewide guidelines established by Accounts. Further, we evaluated the Inspector General'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; 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 an area requiring management's attention, which is detailed in the "Review Results" section below.

## **Review Results**

We noted the following area requiring management's attention resulting from our review:

- Inspector General is not properly identifying and accounting for leases in accordance with Governmental Accounting Standards Board (GASB) Statement No. 87. Inspector General has a Memorandum of Understanding (MOU) with Accounts to assist in recording leases in the lease accounting system. As part of the MOU, Inspector General is responsible for providing lease-related information such as identifying potential leases, lease interest rate, and potential lease asset grouping to Accounts for recording in the system. Inspector General did not properly evaluate all contracts to identify all potential leases in accordance with GASB Statement No. 87 and the MOU with Accounts. Inspector General also did not consider the potential for grouping leased assets with the same contracted vendor, lease term, and interest rate. In addition, Inspector General did not follow the correct procedure for determining the correct interest rate to provide Accounts. Commonwealth Accounting Policies and Procedures Manual Topic 31200, which references GASB Statement No. 87 for leases, 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 resorting to using the prime rate for a reasonable and accurate interest rate. Management should develop and implement a process to accurately identify leases and provide all relevant lease information to Accounts to properly record and classify leases in the lease accounting system.

We discussed this matter with management on September 18, 2023. Management's response to the finding 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 it 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,

Staci A. Henshaw  
Auditor of Public Accounts

JDE/clj



*COMMONWEALTH OF VIRGINIA*

*Office of the State Inspector General*

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November 13, 2023

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

Dear Ms. Henshaw,

The Office of the State Inspector General (OSIG) has reviewed the Auditor of Public Accounts Internal Control Questionnaire Review Results. We appreciate the professionalism of the APA staff and have already taken steps to address the finding.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael C. Westfall", with a long horizontal line extending to the right.

Michael C. Westfall, CPA  
State Inspector General