



STATE COUNCIL OF HIGHER EDUCATION FOR VIRGINIA

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS AS OF JUNE 2017

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September 22, 2017

Peter Blake, Director
State Council of Higher Education for Virginia
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INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire, completed on June 13, 2017, for the **State Council of Higher Education for Virginia** (State Council). 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 the State Council is responsible for establishing and maintaining an effective control environment.

The Auditor of Public Accounts has developed a new process for auditing agencies that are not required to have an audit every year, which we refer to as "cycled agencies." Traditionally, we audit these agencies at least once every three years. We now employ a risk-based approach to auditing the cycled agencies. Under this approach, annually we will perform a risk analysis for all of the cycled agencies considering certain criteria and divide the agencies into two pools. One pool will receive an annual audit and the other pool will be subject to review in a special project focused on one area of significance as well as a review of internal controls in the form of a questionnaire. All agencies will undergo an Internal Control Questionnaire review at least once every three years. This letter is to communicate the results of the Internal Control Questionnaire review.

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; 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 the State Council. 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

Due to the implementation of the new statewide accounting system, we reviewed system access and a selection of system and transaction reconciliations in order to gain assurance that the statewide accounting system contains accurate data.

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: small purchase charge cards, expenditures, contract management, and information system security. These procedures included 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.

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:

- The State Council does not currently have up to date documented policies and procedures for the following areas:
 - *Grant Reconciliations* – The State Council performs reconciliations for grant balances, encumbrances, and disbursements. The reconciliation is performed so that management can properly monitor and disburse funds to institutions. This process is not documented although it is a key control for critical business functions. Further, grant reconciliations included no evidence of the identity of the preparer or of approval. Management should develop desk procedures to document each step of the grant reconciliation process.
 - *Contract Management* - Management should develop procedures to ensure contract administrators sufficiently monitor contractor performance. Additionally, contract administrators should document their monitoring activities.

- *Wage Employees* – The State Council monitors wage employee time; however, the process is not documented. Management should ensure all human resource critical functions are well documented.
- The State Council is not reconciling internal records with the Commonwealth’s accounting and financial reporting system in accordance with the Department of Accounts’ recommendations in the Commonwealth Accounting Policies and Procedures (CAPP) Manual Topic 20905. Management should ensure reconciliations are completed between agency transaction logs and the accounting system and that this procedure is documented.
- The Agency Risk Management and Internal Control Standards (ARMICS) documentation reviewed did not contain critical required components such as a risk assessment, an analysis of the agency-level controls and the transaction level controls, and a strengths, weaknesses, opportunities and threats analysis. Management should ensure that all ARMICS processes are being performed in compliance with the CAPP manual, as a strong ARMICS process provides the foundation for a sound control environment.
- We observed the following information system security related deficiencies:
 - No formal documented policies and procedures for areas such as system access monitoring, termination of access, and security awareness training;
 - No risk assessments or outdated risk assessments for non-state systems;
 - The required annual security awareness training has not been completed for eighteen months;
 - No formal process is in place for monitoring audit trail controls or logs; and
 - No formal process is in place to monitor system access.

The State Council should devote resources to these areas to ensure it is in compliance with the Commonwealth’s Information Security Standard, SEC 501-09.

We discussed these matters with management on July 20, 2017. 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 or not 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,

Auditor of Public Accounts

JDE/clj



Peter Blake
Director

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October 4, 2017

Ms. Martha S. Mavredes
Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23219

Dear Ms. Mavredes:

The following is in response to your Internal Control Questionnaire Review Results of the State Council of Higher Education for Virginia (SCHEV) dated September 22, 2017. We appreciate your review and will ensure all concerns and recommendations are addressed and implemented over the next several months until completed. Please see responses and corrective action plans for each item in the results letter.

Review Results

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

- The State Council does not currently have up to date documented policies and procedures for the following areas:
 - *Grant Reconciliations* – The State Council performs reconciliations for grant balances, encumbrances, and disbursements. The reconciliation is performed so that management can properly monitor and disburse funds to institutions. This process is not documented although it is a key control for critical business functions. Further, grant reconciliations included no evidence of the identity of the preparer or of approval. Management should develop desktop procedures to document each step of the grant reconciliation process.

AGENCY RESPONSE: SCHEV does have a documented business process for grant reconciliations. However, it is outdated. We will be updating it based on the above recommendations. We already have implemented a new process when grant reimbursement requests are received per APA's recommendation. This new process will provide stronger controls in this area and will confirm payments are being made and in a timely manner. We will develop procedures to document the grant reconciliation process, which will include preparer and review and approval of management.

Advancing Virginia Through Higher Education

- *Contract Management* - Management should develop procedures to ensure contract administrators sufficiently monitor contractor performance. Additionally, contract administrators should document their monitoring activities.

AGENCY RESPONSE: Completed in July, 2017 – Contract Management Guidelines and Policies and Procedures have been developed, which include contract administrator responsibilities.

- *Wage Employees* – The State Council monitors wage employee time; however, the process is not documented. Management should ensure all human resource critical functions are well documented.

AGENCY RESPONSE: Completed in June, 2017 – We have documented the business process of monitoring wage employee time. Additional work will be done over the next year to ensure all human-resource-critical functions are well documented.

- The State Council is not reconciling internal records with the Commonwealth's accounting and financial reporting system in accordance with the Department of Accounts' recommendations in the Commonwealth Accounting Policies and Procedures (CAPP) Manual Topic 20905. Management should ensure reconciliations are completed between agency transaction logs and the accounting system and that this procedure is documented.

AGENCY RESPONSE: Completed in April, 2017 - The Cardinal Reconciliation Procedures have been updated to include the details on the 7 stages in CAPP Manual #20905. DOA processes our payables and maintains the agency's transaction log and its contents.

- The Agency Risk Management and Internal Control Standards (ARMICS) documentation review did not contain critical required components such as a risk assessment, an analysis of the agency-level controls and the transaction level controls, and a strengths, weaknesses, opportunities and threats analysis. Management should ensure that all ARMICS processes are being performed in compliance with the CAPP manual, as a strong ARMICS process provides the foundation for a sound control environment.

AGENCY RESPONSE: Per the recommendations in this area, SCHEV will make updating ARMICS a priority and will include the critical components listed above. This work has begun and will continue over the next year to ensure the controls are designed, documented, implemented and effective. We will ensure all ARMICS requirements are met and will perform the required tasks as outlined in CAPP Topic #10305. SCHEV understands the need to devote resources to this area to ensure compliance and is currently working with DOA Compliance Assurance in developing and submitting a corrective action plan.

- We observed the following information system security related deficiencies:
 - No formal documented policies and procedures for areas such as system access monitoring, termination of access, and security awareness training;
 - No risk assessments or outdated risk assessments for non-state systems;
 - The required annual security awareness training has not been completed for eighteen months;
 - No formal process is in place for monitoring audit trail controls or logs;
 - No formal process is in place to monitor system access.

AGENCY RESPONSE: SCHEV's information technology security posture has been to operate informally given limited staff and limited support from VITA and recognizing that while formal policies can be helpful, they only assure process, not security. IT Security is inherently a process of balancing resources and risk, something that is generally recognized in the Commonwealth's IT Security standard. SCHEV is committed to improving its IT security posture to meet the standards of the Commonwealth and has engaged VITA ISO services to achieve this.

Thank you for the opportunity to respond to the results of your review. Please feel free to contact us if you need any further response, or if you have additional questions or concerns.

Sincerely,



Peter Blake

c: Heywood Fralin, Chair
Ellie Boyd, Budget & Finance Director
Tod Massa, Policy Analytics Director