



DEPARTMENT OF MINES, MINERALS AND ENERGY

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS AS OF MAY 2021

Auditor of Public Accounts
Staci A. Henshaw, CPA

www.apa.virginia.gov

(804) 225-3350



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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

August 11, 2021

John Warren, Director
Department of Mines, Minerals, and Energy
3405 Mountain Empire Rd
Big Stone Gap, VA 24219

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire for the **Department of Mines, Minerals and Energy (Department)**. We completed the review on May 5, 2021. 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 Department 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. Our intent is that all cycled agencies will complete an internal control questionnaire 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; 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 the Department. 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 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 each agency. At some agencies only inquiry was necessary; while others included an in-depth analysis of the quality of the Stage 1 Agency-Level Internal Control Assessment Guide, or Stage 2 Process or Transaction-Level Control Assessment ARMICS processes. Our review of the Department’s ARMICS program included a review of all current ARMICS documentation and a comparison to statewide guidelines established by Accounts. Further, we evaluated the Department’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; procurement and contract management; capital assets; and grants management. 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:

- For some key business areas, there were no internal policies and procedures, and some existing policies and procedures were outdated. 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.” The Department should draft and implement formalized policies and

procedures over all key business areas and retain evidence of management's approval over the policies.

- The process for confirming the accuracy of information reported to the Virginia Retirement System does not include a reconciliation of creditable compensation or data elements between the Commonwealth's human resource system and the Commonwealth's retirement benefits system. CAPP Manual Topic 50410 requires that agencies perform these reconciliations before confirming the accuracy of data in the retirement benefits system to ensure that employee's retirement data is accurate. The Department should incorporate these reconciliations into their retirement reconciliation procedures.
- Reconciliations lack signoffs of preparer and approver. The Department should ensure that all reconciliations are signed and dated by both the preparer and reviewer to provide evidence that reconciliations were accurate and timely.
- Despite the Department having historical knowledge of the Commonwealth's capital asset system useful lives not meeting the expectations of their assets (the Department's assets usually outlast the standard useful lives), management has not requested a new nomenclature code from Accounts. Per CAPP Manual Topic 30605, an agency's methodology for estimating and assigning reasonable useful lives should include requesting new nomenclature codes from Accounts if appropriate codes are not contained in the nomenclature code table.

We discussed these matters with management on August 9, 2021. 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 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/vks



COMMONWEALTH OF VIRGINIA

Department of Mines, Minerals and Energy

Washington Building / 8th Floor
1100 Bank Street
Richmond, Virginia 23219-3638
(804) 692-3200 FAX (804) 692-3237
www.dmme.virginia.gov

September 7, 2021

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

RE: Response to Results Letter of Internal Control Questionnaire Review

Dear Ms. Henshaw:

The Department of Mines, Minerals and Energy concurs with the findings of the Internal Control Questionnaire Review Results.

The agency is developing a Corrective Action Plan for each of the items noted below.

1. Internal Policies and Procedures: Review/update/rewrite agency policies and procedures over all key business areas and retain evidence of management's approval over the policies
2. Retirement Reconciliation Process: Incorporate VRS reconciliations of credible compensation or data elements between the Commonwealth's human resource system and the Commonwealth's retirement benefits system
3. Reconciliations: Ensure all reconciliations are signed and dated by the preparer and reviewer to provide evidence that reconciliations were accurate and timely
4. Review of useful lives of Capital Assets: Review methodology for estimating and assigning useful lives that should include requesting new nomenclature codes from DOA if appropriate codes are not contained in the nomenclature code table.

We appreciate the review and will make the required changes and improvements in our internal controls.

Sincerely,

John W. Warren
Director

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