STATE COUNCIL OF

HIGHER EDUCATION FOR VIRGINIA

INTERNAL CONTROL QUESTIONNAIRE
REVIEW RESULTS
AS OF
DECEMBER 2023

Auditor of Public Accounts
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- TABLE OF CONTENTS -

Commonwealth of Virginia

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March 25, 2024

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INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire for the **State Council of Higher Education for Virginia** (State Council). We completed the review on December 8, 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 the State Council 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 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

We evaluated the agency's corrective action for the findings in the report titled "Cycled Agency Information Systems Security Review for the year ended June 30, 2020." The agency has taken adequate corrective action with respect to findings reported in the prior review and audit 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. Our review of State Council's ARMICS program included a review of all current ARMICS documentation and a comparison to statewide guidelines established by Accounts. Further, we evaluated State Council'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; contract management; capital assets; grants management; 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 -** State Council continues to not have appropriate controls in place to ensure that access to their systems is appropriate and complies with the requirements of the Commonwealth's Information Security Standard, SEC 501 (Security Standard), as well as State Council policies. Specifically, State Council does not have a formal and documented process in place to remove systems access within 24 hours of employee termination or transfer. In addition, State Council does not have a formal and documented process in place to conduct an annual review of systems access. State Council should develop and implement a procedure to remove systems access within 24 hours of employee termination or transfer. State Council should also develop and implement a procedure to consistently conduct annual system access reviews and document the results of the review. This will help protect the confidentiality, integrity, and availability of State Council's sensitive systems and information.

- **Partial Repeat -** State Council has made progress to develop a formal audit logging and monitoring policy and obtain system audit logs from its three third-party service providers

that do not fall under Virginia Information Technologies Agency's (VITA) Enterprise Cloud Oversight Service's (ECOS) oversight. However, State Council continues to not have a formal process to review the information system audit logs on a timely and consistent basis. Additionally, State Council's newly developed IT Security Audit, Monitoring and Logging Policy (Monitoring Policy) does not align with the requirements of the Commonwealth's Hosted Environment Security Standard, SEC 525 (Hosted Environment Security Standard) for the frequency or reviewing audit logs. State Council should develop and implement a formal process to review and document its analysis of the logs for each hosted system that is not under ECOS oversight at least weekly. As part of its review, State Council should investigate indications of suspicious activity for State Council systems. State Council should also modify its Monitoring Policy to align with the Hosted Environment Security Standard, which will help ensure confidentiality, integrity, and availability of State Council's sensitive systems and data.

- **Repeat** - State Council assigns security awareness training to its employees on an annual basis. However, State Council does not have a formal process to enforce the completion of security awareness training, resulting in five of 68 (7%) of users not completing training for 2023. State Council should develop and document procedures to facilitate the implementation of the security awareness and training policy and program in accordance with the Security Standard and the Commonwealth's Cybersecurity Awareness Training Standard. State Council should also implement an enforcement mechanism, such as disabling access, to ensure employees complete the assigned security awareness training. This will help ensure the proper implementation of security awareness training to all State Council employees.

- **Repeat** - State Council does not meet some contingency planning requirements of the Security Standard, as well as State Council's Information Technology (IT) Contingency Planning Policy. Specifically, State Council does not have contingency planning documentation that establishes a recovery point objective for all information systems. The Security Standard requires that each agency develop a Continuity Plan which identifies each IT system that is necessary to recover business functions and the recovery point objective for each. State Council does not have a documented IT Disaster Recovery Plan (IT DRP), and as a result, does not perform a periodic test and revision of the IT DRP. Finally, State Council does not conduct a full revision of its Business Impact Analysis (BIA) every three years. As a result, State Council's BIA does not accurately reflect their IT environment and does not include a system transferred to State Council's control in 2019. State Council should revise its contingency planning documentation, starting with the BIA and including the Continuity Plan, to include recovery point objectives. State Council should then develop and document an IT DRP based on the Continuity Plan that supports the restoration of mission essential functions and dependent business functions; test the IT DRP on a regular basis; and revise the IT DRP based on the results of the testing as necessary. Doing so will help to support the confidentiality, integrity, and availability of State Council's sensitive systems and information.

- State Council is not properly off-boarding employees including ensuring payments after termination are accurate and approved, removing system access for terminated employees, and ensuring the employee returns all property. State Council does not include system access

removal in their off-boarding checklist which resulted in no documentation of removal of system access for two employees reviewed. State Council did not retain evidence of approval of leave payouts. Specifically, there was no approval for three out of three leave payouts reviewed and one of the payouts was incorrect which included the employee receiving pay for 16 hours more than their leave balance. In addition, State Council did not communicate the termination of one employee to all relevant parties which led to no evidence of the employee returning property and the employee incorrectly received two paychecks after termination. State Council should update their procedures to ensure it communicates with all relevant parties when employees are off-boarded. Additionally, State Council should update their off-boarding procedures to ensure it includes all necessary documentation including support for the proper calculation and approval of any final payments, system access removal, and the return of state property.

- State Council is not properly identifying and accounting for leases in accordance with Governmental Accounting Standards Board (GASB) Statement No. 87. State Council did not evaluate all contracts to identify all potential leases. Additionally, State Council did not follow the correct procedure for determining the interest rate. Commonwealth Accounting Policies and Procedures Manual Topic 31200, which references GASB Statement No. 87, requires agencies to properly identify leases and to evaluate explicit, implicit, and incremental borrowing rates before defaulting to the prime rate for a reasonable and accurate interest rate. Management should update lease procedures to comply with GASB Statement No. 87 and properly identify, record, and classify leases in accordance with this standard.

We discussed these matters with management on October 30, 2023, and January 24, 2024. 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/clj

Alan Edwards
Interim Director

COMMONWEALTH *of* VIRGINIA

STATE COUNCIL OF HIGHER EDUCATION FOR VIRGINIA

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April 1, 2024

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

Ms. Henshaw:

Thank you for the opportunity to respond to the Internal Control Questionnaire of the State Council of Higher Education for Virginia (SCHEV) for the year ended June 30, 2022. SCHEV staff have reviewed the findings identified in the report; our responses appear below.

System Access and COV Information Security Standard
The agency will develop controls to meet this standard that rely on the newly developed employee off-boarding form (see Payroll and Human Resources section below).

Formal Audit Logging and Monitoring
SCHEV acknowledges this weakness and is in the process of: realigning expectations and duties; identifying appropriate tools for reviewing; and documenting the review. A need may exist to clarify the definition/meaning of "hosted systems," as all systems are, in fact, "hosted" somewhere. Our working assumption is that the reference applies to all systems not under ECOS.

Security Awareness Training
The agency acknowledges this weakness; currently SCHEV is in a leadership transition that may ease the process of developing enforcement mechanisms, which previous leadership viewed as unneeded.

IT Contingency Planning
We acknowledge this weakness, and we remind the authors of the point we stressed regarding our ongoing (two-year) requests to ISO services for assistance with conducting and developing wholly new BIAs. We now are finally in the process of doing such, and once completed we will move forward with developing a complete disaster recovery plan.

Advancing Virginia Through Higher Education

Payroll and Human Resources

We acknowledge the weakness in employee off-boarding. The process has been updated with the creation of a new off-boarding form. It includes steps to document: removal of system access; return of property; communication with relevant parties; and whether annual-leave payment is necessary. Controls have improved with annual leave payouts and approval. We now receive a packet from the Payroll Service Bureau, which is reviewed, certified and submitted to PSB.

Capital Assets and Leases

Currently, SCHEV is in the process of identifying and accounting for leases in accordance with *GASB Statement No. 87*. We hired a consultant to assist us in evaluating all contracts to identify all potential leases. In addition, the consultant will determine the interest rate. We now are updating our fixed-asset procedures during the ARMICS process. Additionally, we are in the process of hiring 1.0 FTE Procurement and Asset Specialist to assist in this area.

SCHEV remains committed to continuous improvement and would like to thank you and your staff for all the assistance and guidance you provided during our review.

Sincerely,

Alan Edwards
Interim Director