VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2022

Auditor of Public Accounts
Staci A. Henshaw, CPA
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(804) 225-3350

AUDIT SUMMARY

Our audit of the Virginia Economic Development Partnership (Partnership) for the year ended June 30, 2022, found:

- the financial statements are presented fairly, in all material respects; and

- two matters involving internal control and its operation necessary to bring to management's attention that also represent instances of noncompliance with applicable laws and regulations.

We have audited the basic financial statements of the Partnership as of and for the year ended June 30, 2022, and issued our report thereon, dated February 17, 2023. Our report, included in the Partnership's Annual Report, is available at the Auditor of Public Accounts' website at www.apa.virginia.gov and at the Partnership's website at www.vedp.org.

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INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Improve Information Security Program and IT Governance
Type: Internal Control and Compliance
Severity: Significant Deficiency
Repeat: No

The Partnership does not have a comprehensive and updated information technology (IT) governance structure to manage and maintain its information security program in accordance with the Commonwealth's standards. Specifically, the Partnership does not prioritize resources to ensure its information security program complies with its adopted security standard, the Commonwealth's Information Security Standard, SEC 501 (Security Standard). We communicated six control weaknesses to management in a separate document marked Freedom of Information Act (FOIA) Exempt under § 2.2-3705.2 of the Code of Virginia due to its sensitivity and description of security controls.

The Security Standard, Section 2.4.2, requires the agency head to maintain an information security program that is sufficient to protect the agency's IT systems and to document and effectively communicate the information security program. Not having a comprehensive and updated IT governance structure to properly manage the Partnership's IT environment and information security program can result in a data breach or unauthorized access to confidential and mission-critical data, leading to data corruption, data loss, or system disruption if accessed by a malicious attacker, either internal or external.

The control weaknesses described in the communication marked FOIA Exempt are the result of the Partnership providing limited resources and not dedicating executive level positions to its information security program. Another contributing factor is the departure of the Chief Information Officer in May 2022, who also served as the Partnership's Information Security Officer. This position remains vacant as of January 2023.

The Partnership should evaluate the most efficient and effective method to ensure its information security program complies with the Commonwealth's Security Standard. The Partnership should also dedicate sufficient resources to prioritize and implement IT governance changes and address the control deficiencies discussed in the communication marked FOIA Exempt. Implementing these recommendations will help to protect the confidentiality, integrity, and availability of the Partnership's sensitive and mission-critical data.

Improve Service Provider Oversight
Type: Internal Control and Compliance
Severity: Significant Deficiency
Repeat: No

The Partnership does not have a process to manage risks for external information system services, including monitoring the effectiveness of security controls of external service providers (providers). Providers are organizations that perform certain business tasks or functions on behalf of

the Partnership. The Partnership uses 15 providers for business functions that include the processing and storing of sensitive data.

The Security Standard states management remains accountable for maintaining compliance with the Security Standard through documented agreements with providers and oversight of services provided *(SEC 501, section 1.1-Intent).* Additionally, the Security Standard requires that organizations document a system and services acquisition policy, as well as procedures to facilitate the implementation of the policy and associated controls *(SA-1 System and Services Acquisition Policy and Procedures).* The Security Standard states that organizations must ensure that providers of external information system services comply with the organization's security requirements and maintain appropriate security controls. The Security Standard further requires that organizations must define and document roles and responsibilities with regard to external information system services. Finally, the Security Standard requires that organizations implement processes to monitor security control compliance by external service providers on an ongoing basis *(SA-9 External Information System Services).*

By not having a process to gain continuous assurance over providers' operating controls, the Partnership cannot validate the effectiveness of the providers security controls to protect the Partnership's sensitive and confidential data. Due to resource constraints, the Partnership has not developed and implemented policies and procedures for maintaining oversight over providers, which impacted the Partnership's ability to gain assurance over outsourced operations.

The Partnership should define and document policies and procedures to monitor the effectiveness of security controls of external service providers. The Partnership should then communicate the required security controls, as well as the roles and responsibilities of each party, through documented agreements with its providers. Additionally, the Partnership should implement processes to gain assurance that providers have effective security controls to protect the Partnership's data. The type of report gaining this assurance will depend on the type of information the service provider processes. Typically, service providers processing an organization's financial information should make available a System and Organization Controls (SOC) report (SOC 1 Type 2) performed in accordance with attestation standards issued by the American Institute of Certified Public Accountants. The Partnership can obtain assurance for other types of information processing from a SOC 2 Type 2 report or other independent security review addressing sufficient controls that meet the Partnership's security policies and procedures and gain reasonable assurance. Gaining sufficient assurance over each provider's security controls will help to ensure the confidentiality, integrity, and availability of sensitive and mission-critical data.

Commonwealth of Virginia

Auditor of Public Accounts

Staci A. Henshaw, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

February 17, 2023

The Honorable Glenn Youngkin
Governor of Virginia

Joint Legislative Audit
and Review Commission

Board of Directors
Virginia Economic Development Partnership

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the **Virginia Economic Development Partnership** (Partnership) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Partnership's basic financial statements, and have issued our report thereon dated February 17, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Partnership's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control. Accordingly, we do not express an opinion on the effectiveness of the Partnership's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged

with governance. Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control titled "Improve Information Security Program and IT Governance" and "Improve Service Provider Oversight" which are described in the section titled "Internal Control and Compliance Findings and Recommendations," that we consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the section titled "Internal Control and Compliance Findings and Recommendations" in the findings titled "Improve Information Security Program and IT Governance" and "Improve Service Provider Oversight."

The Partnership's Response to Findings

We discussed this report with management at an exit conference held on March 3, 2023. Government Auditing Standards require the auditor to perform limited procedures on the Partnership's response to the findings identified in our audit, which is included in the accompanying section titled "Partnership Response." The Partnership's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

LCW/vks

VEDP Virginia Economic Development Partnership

March 10, 2023

Ms. Staci A. Henshaw
Auditor of Public Accounts
James Monroe Building
101 N. 14th Street
Richmond, Virginia 23219

Dear Ms. Henshaw:

The Virginia Economic Development Partnership (VEDP) has reviewed the findings and recommendations provided by the Auditor of Public Accounts as part of your audit of VEDP's financial records for the year ended June 30, 2022. VEDP appreciates the opportunity to respond to the *Internal Control and Compliance Findings and Recommendations* included in your report, and we give your comments the highest level of consideration.

Internal Control and Compliance Findings and Recommendations

Improve Information Security Program and IT Governance

VEDP acknowledges the importance of maintaining our information security program in accordance with the Commonwealth's standards. Since the time of the audit, VEDP has filled IT leadership positions, formalized IT security roles, obtained third-party assistance to establish a comprehensive IT governance structure and monitor security of our IT systems, and is quickly making improvements to our information security program and governance. VEDP has separated the duties of ISO and CIO and will certify this alongside the VITA ISOAG Orientation on March 29th. We are committed to following through on these actions and taking all necessary steps to comply with our selected Security Standard.

Improve Service Provider Oversight

VEDP understands the importance of improving oversight of our external service providers. VEDP is placing significant focus on addressing this challenge alongside our focus on the security program. We have aligned internal and external resources to ensure continuous oversight of our service providers' operating controls. Furthermore, we are conducting a comprehensive review of our acquisition policies and controls to ensure compliance with the Security Standard.

Sincerely,

Jason El Koubi
President and CEO

901 E. Cary Street, Suite 900
Richmond, Virginia 23219
VEDP.org

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP

As of June 30, 2022

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Jason R. El Koubi, President/CEO