



OFFICE OF THE STATE INSPECTOR GENERAL

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS AS OF MAY 2017

Auditor of Public Accounts
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Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

August 14, 2017

Michael Westfall, Acting 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, completed on May 8, 2017, for the **Office of the State Inspector General** (Inspector General). 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 Inspector General 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 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

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: revenue collections, expenditures, and the agency’s relationship with the Department of Accounts (Accounts). 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 Inspector General has a Memorandum of Understanding (MOU) with Accounts outlining the fiscal and accounting functions that Accounts performs. Per the MOU, "This agreement should be updated at least annually and more frequently in the event significant change occurs." We determined this agreement has not been updated since August 2012, and there has been a significant change with the implementation of the new state accounting system. The Inspector General should collaborate with Accounts to review and update the MOU as required by the agreement.
- The Inspector General has documented policies and procedures related to travel and travel expense reimbursement. For other types of expenditures, the Inspector General follows the Commonwealth Accounting Policies and Procedures Manual but does not have a separate internal policy. Accounts processes the expenditures, however the Inspector General is responsible for preparing and submitting adequate supporting documentation, including management's approval of disbursements prior to submission to Accounts. It is best practice for the Inspector General to have documented internal policies and procedures for processing all types of expenditures.

The Inspector General should develop internal operating procedures outlining its responsibilities related to expenditure disbursements.

We discussed these matters with management on June 19, 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/alh



COMMONWEALTH OF VIRGINIA
Office of the State Inspector General

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September 8, 2017

Via Electronic Mail

Martha S. Mavredes, CPA
Auditor of Public Accounts
P. O. Box 1295
Richmond, VA 23218

Dear Ms. Mavredes:

The Office of the State Inspector General's (OSIG) response to the results of APA's Internal Control Questionnaire Review dated August 14, 2017 (received via email on September 1, 2017) follows.

Result # 1

The Inspector General has a Memorandum of Understanding (MOU) with Accounts outlining the fiscal and accounting functions that Accounts performs. Per the MOU, "This agreement should be updated at least annually and more frequently in the event significant change occurs." However, we determined this agreement has not been updated since August 2012, and there has been a significant change with the implementation of a new state accounting system. The Inspector General should collaborate with Accounts to review and update the MOU as required by the agreement.

Agency Response

OSIG Business Manager contacted the Finance Manager at Accounts on June 20, 2017 to receive an updated MOU. At that time, the MOU was still in draft form. We will continue working with DOA to receive and approve the updated MOU.

Result # 2

The Inspector General has documented policies and procedures related to travel and travel expense reimbursement. For other types of expenditures, the Inspector General follows the Commonwealth Accounting Policies and Procedures Manual but does not have a separate internal policy. Accounts processes the expenditures however, as the Inspector General is responsible for preparing and submitting adequate supporting documentation and obtaining management's approval of disbursements prior to submission to Accounts, it is best practice for the Inspector General to have documented internal policies and procedures for processing all types of expenditures. The Inspector General should develop internal operating procedures outlining its responsibilities related to expenditure disbursements.

Agency Response

OSIG Business Manager wrote Office Procedure No. 14 for Expenditures on June 21, 2017 and OSIG is now in compliance with APA's best practice recommendation.

Sincerely,

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

Michael C. Westfall
Acting State Inspector General

Cc: Donna Hahn, Business Manager