



DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS AS OF JULY 2024

Auditor of Public Accounts
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Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

September 16, 2024

Joseph Guthrie, Commissioner
Virginia Department of Agriculture and Consumer Services
102 Governor Street
Richmond, Virginia 23219

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire for the **Department of Agriculture and Consumer Services** (Agriculture). We completed the review on July 22, 2024. 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 Agriculture 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 Agriculture. 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 all prior review findings. The agency has taken adequate corrective action with respect to review findings reported in the prior review 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. The level of ARMICS review performed was based on judgment and the risk assessment for Agriculture. Our review of Agriculture's ARMICS program included a review of all current ARMICS documentation and a comparison to statewide guidelines established by Accounts. Further, we evaluated Agriculture'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; expenses; 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** – Agriculture did not obtain the System and Organization Controls (SOC) report for a provider that processes sensitive information. As such, Agriculture did not document an evaluation of the SOC report and the complementary user entity controls described within the report. Commonwealth Accounting Policies and Procedures (CAPP) Manual Topic 10305 requires agencies to have an adequate level of interaction with third-party providers to give agencies an understanding of the providers' internal control environments and any complementary controls the agency would need to implement. Agencies must also maintain oversight of the provider to gain assurance over outsourced operations. Agriculture should develop policies and procedures over the review of SOC reports and obtain and comprehensively evaluate SOC reports timely.
- Agriculture is not properly accounting for leases in accordance with Governmental Accounting Standards Board (GASB) Statement No. 87. Agriculture has draft policies and

procedures in place and is in the process of implementing procedures for tracking its leases and lease payments in accordance with GASB Statement No. 87. CAPP Manual Topic 31200, which references GASB Statement No. 87, requires agencies to properly identify leases and group leases for recording in the lease accounting system to ensure proper classification of leases as long-term and short-term; and to evaluate explicit, implicit, and incremental borrowing rates before resorting to using the prime rate for a reasonable and accurate interest rate. Management should continue implementing procedures that comply with GASB Statement No. 87 to ensure it properly records and classifies leases.

- Agriculture is not properly accounting for or tracking subscription-based information technology arrangements (SBITA) in accordance with GASB Statement No. 96. Agriculture has draft policies and procedures in place and is in the process of implementing procedures for identifying and tracking its SBITAs in accordance with GASB Statement No. 96. CAPP Manual Topic 31300, which references GASB Statement No. 96, requires agencies to determine and record the necessary accounting information in the lease accounting system based on the contract to ensure proper classification of long-term and short-term SBITAs; and to evaluate explicit, implicit, and incremental borrowing rates before defaulting to the prime rate for a reasonable and accurate interest rate. Management should continue implementing procedures that comply with GASB Statement No. 96 to ensure it properly records and classifies SBITAs.

We discussed these matters with management on September 3, 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 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



COMMONWEALTH of VIRGINIA

Department of Agriculture and Consumer Services

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Joseph W. Guthrie
Commissioner

September 25, 2024

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

Dear Ms. Henshaw,

Thank you for the opportunity to comment on the Auditor of Public Accounts ICQ Results letter dated September 16, 2024. The Virginia Department of Agriculture and Consumer Services (VDACS) very much appreciates the efforts and professionalism of your staff during the review process.

VDACS has begun to address the areas of concern outlined in the letter and plans on having all the concerns fully addressed by December 31, 2024. We will be fully compliant with the requirement to obtain and document review of SOC reports during the current 2024 ARMICS cycle.

As mentioned in your findings, VDACS has drafted policies and procedures to comply with GASB Statement No. 87 and No. 96., based on their modified definitions and interpretations in recent years. With the more recent updates to CAPP Topics 31200 and 31300 (published June 2024), we will now ensure our draft policies and procedures are compliant with those as well, as we move towards full implementation.

Sincerely,

A handwritten signature in blue ink that reads "W. Dewey Jennings, Ph.D.".

W. Dewey Jennings, Ph.D.
Director of Administrative and Financial Services

-Equal Opportunity Employer-