



DEPARTMENT OF GENERAL SERVICES

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2020

Auditor of Public Accounts
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AUDIT SUMMARY

We audited the Department of General Services' (General Services) surplus property operations administered by the Office of Surplus Property Management and information system security controls for various divisions for the fiscal year ended June 30, 2020. We also followed up on one prior audit finding related to financial system reconciliations and two areas identified in the Internal Control Questionnaire Review completed in June 2019 related to Internal Service Funds and Authorized Expenses Signature Listings. We found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth's accounting and reporting system;
- six instances involving internal control and its operation necessary to bring to management's attention;
- two instances of noncompliance with applicable laws and regulations or other matters that are required to be reported;
- an issue that is beyond the corrective action of General Services' management and requires the cooperation of the Virginia Information Technologies Agency to address the risk, which we report as a "Risk Alert;" and
- inadequate corrective action with respect to a prior audit finding identified as repeat in the Findings Summary in the [Appendix](#).

We did not review management's corrective action on prior year findings identified as deferred in the Findings Summary. We will follow up on these findings in a future audit.

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AUDIT FINDINGS AND RECOMMENDATIONS

Improve Database Security

Type: Internal Control and Compliance

Repeat: No

The Department of General Services (General Services) does not secure one of its database servers supporting a sensitive system within the Division of Consolidated Laboratory Services in accordance with the Commonwealth's Information Security Standard, SEC 501 (Security Standard), and industry best practices, such as the Center for Internet Security Benchmarks. We identified six weaknesses and communicated them to management in a separate document marked Freedom of Information Act Exempt (FOIAE) under § 2.2-3705.2 of the Code of Virginia due to it containing descriptions of security mechanisms.

The Security Standard requires agencies to implement certain controls that reduce unnecessary risk to data confidentiality, integrity, and availability. By not meeting the minimum requirements in the Security Standard and industry best practices, General Services cannot ensure the confidentiality, integrity, and availability of data within its systems. General Services lack of the necessary financial and staffing resources as well as formal hardening documentation caused the agency to not implement and support some of the required controls.

General Services should dedicate its resources to implement the controls discussed in the communication marked FOIAE in accordance with the Security Standard and industry best practices. This will help maintain the confidentiality, integrity, and availability of sensitive and mission critical data.

Develop and Implement Surplus Tracking System

Type: Internal Control

Repeat: No

General Services' Office of Surplus Property Management (OSPM) does not have a process or computer system in place to track the surplus property they receive, possess, or sell.

The Commonwealth Accounting Policies and Procedures (CAPP) Manual Topic 30705, Surplus Property Management, states General Services is responsible for the storage, placement to other agencies, and sale at auction or other form of disposal of surplus assets for agencies of the Commonwealth. Once an asset is in OSPM's possession, it belongs to them, and they must properly safeguard the asset. OSPM has not developed a process or computer system to track surplus property due to the diverse and varying assets they receive from agencies within the Commonwealth. Without a way to track what surplus property OSPM has, they cannot ensure the safeguarding of assets. If OSPM does not protect the asset, the asset could be damaged, misplaced, or stolen, resulting in a loss of revenue for the Commonwealth.

OSPM should perform a cost benefit analysis with their current surplus inventory to determine if a computerized inventory system is needed. This system should track the surplus property OSPM is

receiving, has in their possession, and when it is sold. Regardless of if a computerized inventory system is needed, OSPM should allocate resources to create, develop, and implement a process for tracking surplus property. OSPM should also develop detailed policies and procedures surrounding this process and ensure employees follow it. Additionally, OSPM should properly train employees on this process or computer system as OSPM develops and implements it.

Update Policies and Procedures Surrounding Surplus Property

Type: Internal Control

Repeat: No

General Services' OSPM does not have detailed documented policies and procedures for multiple business areas. These areas include, but are not limited to, managing surplus property, the disposal process of surplus property, and surplus property sales.

While the Agency Procurement and Surplus Property Manual (APSPM) has the requirements for the disposition of surplus materials for Commonwealth agencies, it does not include detailed documented policies and procedures for how OSPM will manage the surplus property they receive from other Commonwealth agencies, detail the disposal method determined by OSPM, or how to complete the sale of surplus property. The CAPP Manual, Section 20905, Cardinal Reconciliation Requirements, states "the lack of complete and up-to-date internal policies and procedures, customized to reflect the agency's staffing, organization, and operating procedures, reflects inadequate internal control."

In addition, the lack of clearly documented policies and procedures may result in employees completing required tasks incorrectly, not accurately maintaining surplus property, properly disposing of surplus property, or inaccurately performing and recording the sale of surplus property.

OSPM has not prioritized documenting the procedures that are currently in effect over multiple business areas. OSPM should create appropriate policies and procedures that are detailed in all business areas of their operations. The policies and procedures should be properly documented, approved by the Director of OSPM and General Services, and communicated with the appropriate employees, as necessary.

Ensure Disposals Are Properly Approved and Support is Maintained

Type: Internal Control

Repeat: No

General Services' OSPM is not ensuring Commonwealth agencies are receiving proper approval before disposing of assets nor retaining the proper supporting documentation related to these disposals. During our review of the 223 fiscal year 2020 disposals, we found ten instances where agencies disposed assets without receiving prior approval from OSPM. Additionally, we found 132 disposals that did not have the proper supporting documentation showing approval from OSPM or were lacking signatures stating the agency properly disposed the assets.

The Agency Procurement and Surplus Property Manual (APSPM), Section 12.6 Disposal Authority, states “DGS/OSPM has overall disposal authority for surplus material and is responsible for determining the method of surplus disposal for most items.” The APSPM also states “delegation may be granted that permits an agency to independently dispose of surplus materials when this appears to be in the Commonwealth’s best interest. The agency will abide by and follow the provisions of the Code of Virginia and this chapter of the APSPM when exercising delegated authority. All requests for delegation authority must be made in writing to DGS/OSPM for approval by the Director, DGS/OSPM.” Additionally, the CAPP Manual Topic 30705, Surplus Property Management, states “records should be maintained for a period of at least three years or longer, if necessary, to be in compliance with policies established by the Records Management Section, The Library of Virginia.”

While OSPM has a process in place for agencies to dispose of Commonwealth assets, they are not enforcing it by obtaining proper documentation (certificate of disposal and manifest) from the agency. Agencies failure to complete the process as required is resulting in OSPM not properly approving and maintaining documentation supporting disposals. OSPM not enforcing agencies to submit the required documentation could lead to an increased risk of theft and fraud relating to these assets at the agency. Additionally, not having the proper supporting documentation of disposals increases the risk of noncompliance with the APSPM.

OSPM should ensure that Commonwealth agencies are aware of the requirements outlined in the APSPM related to the disposal of Commonwealth assets. OSPM should also ensure that Commonwealth agencies are receiving proper approval from the Director of DGS/OSPM prior to the disposal of these assets. OSPM should ensure that the supporting documentation showing proper approval is maintained and properly completed. Additionally, OSPM should consider developing policies and procedures to periodically engage agencies under their purview on their surplus materials disposition and interactions with OSPM.

Ensure Monthly Reconciliations of Financial Systems are Completed Timely

Type: Internal Control

Repeat: Partial (first issued in fiscal year 2015, with limited progress)

Prior Title: Financial System Reconciliations

General Services’ Office of Fiscal Services (Fiscal) did not properly complete monthly reconciliations between the internal accounting system and the statewide accounting system. For all three months we selected for testing, many of the individual fund reconciliations showed a reviewer signature but did not include a review date. In two of the three months tested, we found certain fund reconciliations did not show a reviewer signature at all. Due to these issues, we could not determine if Fiscal reviewed the reconciliations or the timeliness of the review.

The CAPP Manual Topic 20905 – Cardinal Reconciliation Requirements, states monthly reconciliations of financial systems must be completed before the end of the fiscal month following the month being reconciled. Failure to complete these reconciliations timely increases the risk of material misstatements in account balances going undetected.

The lack of review date and signatures were caused by employee oversight. General Services should ensure reconciliations are properly signed and dated by the reviewer. Additionally, General Services should ensure reconciliations are completed timely.

Ensure Section 1 of Form I-9 is Properly Signed and Dated

Type: Internal Control and Compliance

Repeat: No

General Services did not properly review employment eligibility forms for errors. One of eight employees tested did not properly complete Section 1 of the Form I-9. The employee properly signed Section 1, but the signature date on the form was the employee's date of birth, rather than the date signed; therefore, there was no evidence that Section 1 was completed in a timely manner.

The Immigration Reform and Control Act of 1986 requires that employers complete the I-9 to verify both identify and employment eligibility for all employees. The U.S. Citizenship and Immigration Services set forth federal requirements for completing the Form I-9 in the Handbook for Employers M-274 (Handbook). Chapter 3 of the Handbook states employees must sign and date the form by the first day the employee starts work for pay.

The Office of Human Resources (Human Resources) indicated that this issue was due to employee oversight. By not adhering to the requirements for properly completing the Form I-9, General Services risks incurring civil fines and/or criminal penalties or debarment from federal contracts. General Services should ensure Human Resources is properly reviewing the employment eligibility forms for errors.

RISK ALERT

During the course of our audit, we encountered issues that are beyond the corrective action of General Services' management alone and require the action and cooperation of the Virginia Information Technologies Agency management. The following issues represent such a risk to the agency and the Commonwealth.

Improve Audit Log Monitoring

Repeat: No

General Services relies on the Commonwealth's Information Technology Infrastructure Services Program (ITISP) to install, maintain, operate, and support information technology (IT) infrastructure components, such as servers, routers, firewalls, and virtual private networks. As part of these services, General Services relies on contractors procured by the Virginia IT Agency (VITA) to provide General Services access to a centralized monitoring tool that collects audit log information about activities in General Services' IT environment so that General Services can review logged activity. Additionally, General Services relies on VITA to maintain oversight and enforce the service level agreements and deliverables with the ITISP contractors.

While VITA is enforcing the deliverable requirements, it has not been able to compel the ITISP contractors to grant General Services access to the monitoring tool and audit log information. As of June 2021, VITA and the ITISP contractor have not granted access to agencies and were determining how to ensure the agencies are able to only see audit logs for their individual environment.

The Commonwealth's Information Security Standard, SEC 501 (Security Standard), requires audit records be reviewed and analyzed at least every 30 days for indications of inappropriate or unusual activity (Security Standard: Section AU-6 Audit Review, Analysis, and Reporting). Without VITA enforcing the deliverable requirements from the ITISP contractors, the risk associated with the Commonwealth's data confidentiality, integrity, and availability is increased.

General Services is working with VITA and the ITISP contractors to obtain access to the audit log information within the centralized monitoring tool to ensure General Services can review the activities occurring in its IT environment in accordance with the Security Standard. Additionally, a recommendation was issued in VITA's separate audit report for fiscal year 2020 that addressed this issue.

AUDIT SCOPE OVERVIEW

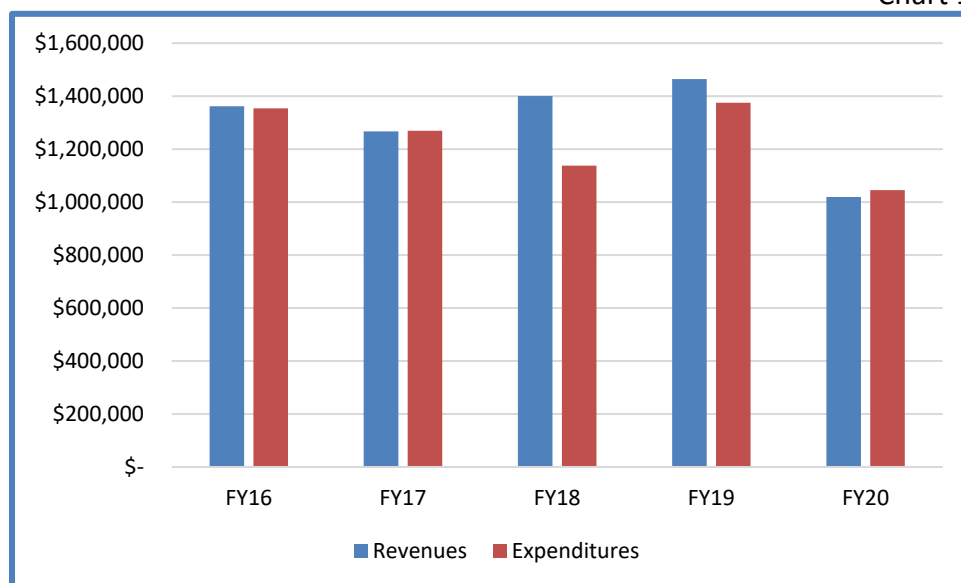
Office of Surplus Property Management

The Office of Surplus Property Management (OSPM) is a division of General Services that serves state agencies and institutions and citizens of the Commonwealth. OSPM is responsible for redistributing a wide range of surplus state and federal property to agencies of the Commonwealth, qualified nonprofit organizations, small businesses, and the public.

Our audit of OSPM focused on the inventory of surplus property, their surplus disposal process, their information technology surplus disposal process, and the sale of surplus property through auction and retail sales. OSPM is an enterprise fund within General Services. Enterprise funds must be self-sufficient and be able to support their own operations from the revenues they generate. OSPM utilizes Commonwealth assets that have been sent to become surplus to generate these revenues to fund their operations. Chart 1 below details the revenues and expenses for OSPM from fiscal year 2016 to fiscal year 2020.

Surplus Revenues vs. Expenses
Fiscal Year 2016 – 2020

Chart 1



Source: Commonwealth's accounting and financial reporting system

Our audit also focused on information system security controls over other divisions within General Services. General Services utilizes multiple sensitive systems within its different divisions. Our focus on information system security included reviewing internal controls surrounding these sensitive systems and reviewing database security. Additionally, our audit included follow up over a prior year audit finding related to financial system reconciliations and two areas from a prior year Internal Control Questionnaire. The follow up from the Internal Control Questionnaire related to Internal Service Funds and Authorized Expenses Signature Listings.



Staci A. Henshaw, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

September 10, 2021

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Kenneth R. Plum
Chairman, Joint Legislative Audit
and Review Commission

We have audited the Office of Surplus Property Management (OSPM) operations of the **Department of General Services** (General Services) and information system security controls for various divisions for the year ended June 30, 2020. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Scope and Objectives

Our audit's primary objectives with regard to OSPM operations were to evaluate the accuracy of transactions as recorded in the Commonwealth's accounting and financial reporting system; review the adequacy of General Services' internal controls; and test compliance with applicable laws, regulations, contracts, and grant agreements. We also reviewed corrective actions for one audit finding from a prior audit report and reviewed two areas from a prior year Internal Control Questionnaire. See the [Findings Summary](#) included in the Appendix for a listing of prior audit findings and the status of follow-up on management's corrective action. We will follow up on prior audit findings not reviewed in a future audit.

Audit Methodology

General Services' management has responsibility for establishing and maintaining internal control and complying with applicable laws, regulations, contracts, and grant agreements. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws, regulations, contracts, and grant agreements. We gained an understanding of the overall internal controls, both automated and manual, as they relate to the audit objectives, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the General Services' controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, contracts, and grant agreements as they pertain to our audit objectives.

Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of General Services' operations. We performed analytical procedures, including budgetary and trend analyses. We also tested details of transactions to achieve our objectives.

A nonstatistical sampling approach was used. Our samples were designed to support conclusions about our audit objectives. An appropriate sampling methodology was used to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Conclusions

We found that General Services properly stated, in all material respects, transactions recorded and reported in the Commonwealth's accounting and financial reporting system, relating to the audit objectives.

We noted certain matters pertaining to surplus property and information security involving internal control and its operation and compliance with applicable laws, regulations, contracts, and grant agreements that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

General Services has not completed adequate corrective action with respect to the prior audit finding identified as repeat in the Findings Summary in the Appendix.

Exit Conference and Report Distribution

We discussed this report with management on 12/1/2021. Management's response to the findings identified in our audit is included in the section titled "Agency Response." We did not audit management's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Governor and General Assembly, management, and citizens of the Commonwealth of Virginia and is a public record.

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

KJS/clj

FINDINGS SUMMARY

Finding	Follow Up Status	Year(s) Issued
Ensure Monthly Reconciliations of Financial Systems Are Completed Timely	Repeat*	2015, 2020
Ensure Section 1 of Form I-9 is Properly Signed and Dated	New	2020
Update Policies and Procedures	New	2020
Develop and Implement Surplus Tracking System	New	2020
Ensure Disposals are Properly Approved and Support is Retained	New	2020
Improve Database Security	New	2020
Develop and Implement a Capital Asset Policy	Deferred**	2019
Capitalize Construction and Improvement Costs	Deferred**	2019
Maintain Schedule of Construction in Progress	Deferred**	2019
Properly Perform and Document Construction in Progress Reconciliations	Deferred**	2019
Capitalize Assets Upon Substantial Completion	Deferred**	2019
Complete Purchase Card Reconciliations Timely	Deferred**	2015, 2019
Strengthen Controls over Small Purchase Charge Card Operations	Deferred**	2019

*Follow-up Status on prior year findings identified as "Repeat" indicates sufficient corrective action on a prior recommendation is not complete; therefore, the prior year finding has been fully or partially repeated.

**Follow-up Status on prior year findings identified as "Deferred" indicates review of management's corrective action on a prior year finding will be performed in a future audit.



COMMONWEALTH of VIRGINIA
Department of General Services

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Director

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November 22, 2021

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

Dear Ms. Henshaw:

Thank you for the opportunity to respond to the Auditor of Public Accounts' review of the Department of General Services' surplus property operations and information system security controls for the fiscal year ending June 30, 2020. Overall, we agree with the report's findings regarding our agency.

The Department will continue to take the necessary actions to address the findings contained in the audit report. Prior to the completion of the audit, we started the process of updating and implementing new procedures and we will work to address all recommendations discussed in the report.

As always, we appreciate the professionalism of your staff and thank you for working with us.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Damico", written over the word "Sincerely,".
Joseph F. Damico

DEPARTMENT OF GENERAL SERVICES

as of June 30, 2020

Joseph Damico
Director

Sandra Gill
Deputy Director

Bryan W. Wagner
Controller

Floyd Coburn
Director of the Office of Surplus Property Management