



DEPARTMENT OF ACCOUNTS

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2024

Auditor of Public Accounts
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AUDIT SUMMARY

Our audit of the Department of Accounts (Accounts) for the year ended June 30, 2024, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth's accounting and reporting system;
- no matters involving internal control and its operations necessary to bring to management's attention;
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported; and
- adequate corrective action with respect to prior audit findings and recommendations identified as complete in the [Findings Summary](#) included in the Appendix.

Our report includes two risk alerts that require the action and cooperation of management of Accounts and other Commonwealth agencies. The "Financial Reporting" risk alert identifies the increased risk that the Commonwealth may not meet the deadline for the Annual Comprehensive Financial Report, which could jeopardize the Commonwealth's bond rating, because entities have increasingly submitted inaccurate and late financial information to the Department of Accounts over the past several fiscal years. Continued, significant turnover in key financial positions and increasingly complex accounting standards have led to these issues. The "Access to Audit Log Monitoring Tool" risk alert identifies the risk to Accounts information technology security posture because they do not have adequate access to an audit log monitoring tool and rely on contractors procured by the Virginia Information Technologies Agency to provide this tool.

In fiscal year 2023, we included the results of our audit over Accounts in the report titled [Agencies of the Secretary of Finance for the year ended June 30, 2023](#).

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RISK ALERTS

During our audit, we encountered issues that are beyond the corrective action of Department of Accounts' (Accounts) management alone and require the action and cooperation of management at Accounts and other Commonwealth agencies. The following issues represent such a risk to Accounts and the Commonwealth.

Financial Reporting

First Reported: Fiscal Year 2023

Accounts relies on other Commonwealth entities (entities) to provide timely and accurate information to support the Commonwealth's Annual Comprehensive Financial Report (ACFR). Accounts requires 154 Commonwealth agencies and 44 component units to submit generally accepted accounting principles (GAAP) basis financial information (financial information) by specific deadlines. This allows Accounts time to compile, review, and submit the ACFR to the Auditor of Public Accounts (APA) for audit prior to December 15th, the Comptroller's deadline for providing audited financial statements. Over the past several fiscal years, entities have increasingly submitted inaccurate and late financial information to Accounts. In fiscal year 2024, of the 19 agencies and three component units we audited in support of the ACFR, 12 entities had audit adjustments totaling \$4.1 billion; while in fiscal year 2023, 13 entities had audit adjustments totaling \$2.4 billion. Audit adjustments relating to the Accounts' ACFR compilation process totaled \$115.5 million in 2024 and \$469.5 million in 2023. Audit adjustment totals are reported gross and do not represent the impact on net position. Additionally, we have issued 26 internal control findings related to financial reporting between fiscal year 2020 and 2024 for ACFR-support audits. See the table below for the total financial reporting findings issued by fiscal year and severity:

Financial Reporting Findings by Fiscal Year and Severity
ACFR Audits

Table 1

	2024	2023	2022	2021	2020
Material Weakness	5	5	5	1	3
Significant Deficiency	1	1	1	2	2

We have noted similar issues for audits of entities outside of the ACFR-support audits.

Financial Reporting Findings by Fiscal Year and Severity
Non-ACFR Audits

Table 2

	2024	2023	2022	2021	2020
Material Weakness	*	4	3	1	-
Significant Deficiency	*	6	2	2	1
*Fiscal Year 2024 non-ACFR audits have not been performed as of the ACFR Deadline (12/15/2024).					

Entities that have received a financial reporting material weakness finding between fiscal year 2020 and 2024 are as follows:

- Department of General Services**
- Department of Health**
- Department of Human Resource Management**
- Department of Medical Assistance Services
- Department of Transportation
- Longwood University
- Old Dominion University
- University of Mary Washington
- University of Virginia, including the Medical Center**
- Virginia Biotechnology Research Partnership Authority
- Virginia Information Technologies Agency**
- Virginia Military Institute

**2024 material weakness

The Code of Virginia § 2.2-803 and § 2.2-813, requires entities to submit financial information for the following reasons:

- The financial information required is necessary for Accounts to prepare the ACFR. Accounts must provide the audited ACFR by December 15th.
- Bond rating agencies use the ACFR to determine Virginia's bond rating. Maintaining an unmodified opinion on the ACFR is critical to Virginia retaining its AAA bond rating.
- Bond rating agencies require inclusion of parts of the ACFR in bond offering statements.

To facilitate the Commonwealth complying with these requirements, Accounts requires entities to complete and submit financial information after fiscal year end. Accounts provides entities with guidance and instructions on how to report the financial information. Accounts compiles the financial information along with the financial data from the Commonwealth's accounting and financial reporting system to create the ACFR. To ensure the accuracy of this information, the Comptroller's annual directive requires that entities ensure internal controls are in place to avoid material misstatements and/or misclassifications in the financial information entities submit to Accounts.

Entities providing inaccurate and untimely information to Accounts may cause the Commonwealth not to meet the ACFR deadline, which could jeopardize the Commonwealth's bond rating. While the Commonwealth corrected the information before issuance, it required the use of additional resources to detect and correct errors found by both APA and Accounts and for Accounts to provide guidance and support to these entities, which limited the amount of time available to Accounts to prepare and the APA to audit the ACFR before the issuance deadline. As entities' inaccuracies and

late submissions increase, the time for Accounts to prepare the ACFR and APA to audit it is continually compressed, and it is becoming increasingly difficult to meet the December 15th deadline.

Some entities submitted late and/or inaccurate information to Accounts because they experienced a significant amount of turnover in key finance positions. Some of these were the same positions that turned over in the prior year. As the Commonwealth continues to experience difficulty in recruiting and retaining highly qualified staff, this turnover has created a knowledge gap in key financial positions. Additionally in recent years, the GASB has issued increasingly complex accounting standards requiring a more technical knowledge base in these finance positions. Limited staffing has led to entities lacking resources, including training on new and upcoming GASB standards and best practices in financial reporting, to incorporate new standards in the financial information. Furthermore, limited staffing has led to a lack of proper review of financial information by a knowledgeable independent individual.

While Accounts agrees there is a risk, it believes that because of its current staffing levels, there are limited actions it can take to address this risk for the Commonwealth. Accounts provides on-line training annually and meets with agencies experiencing the most difficulty with ACFR submissions to identify and remediate underlying issues. Accounts is expanding its outreach to agencies to include those that contributed to restatements of prior year balances in the fiscal year 2024 ACFR. Since many of these instances result from inadequate control structures, the ACFR analysis will extend to agency evaluations pursuant to the Agency Risk Management and Internal Control Standards (ARMICS). Additionally, Accounts offers annual interactive sessions for agencies to request training or additional information related to financial reporting. According to Accounts, it is committed to stressing to entities' fiscal officers the importance of timely and accurate reporting, including the potential adverse impacts to the Commonwealth. However, Accounts does not have the staff available to provide detailed statewide guidance and training to agency personnel regarding the application of GASB standards. In response to the prior year risk alert, the Secretary of Finance communicated his concern and support to Commonwealth agencies in correcting these issues. In addition, Accounts provided directed assistance to correct several agencies' submitted information to be materially accurate. To compensate for these deficiencies, some entities have hired consultants or outside accounting professionals to assist their staff. The Commonwealth should consider if this is the most efficient and effective solution or whether a more statewide approach to the issue would be beneficial.

Access to Audit Log Monitoring Tool

First Reported: Fiscal Year 2021

Accounts 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, Accounts relies on contractors procured by the Virginia Information Technologies Agency (VITA) to provide Accounts access to a centralized monitoring tool, known as the Managed, Detection, Response (MDR) Dashboard, that collects audit log information about activities in Accounts' IT environment so that Accounts can review logged activity. Additionally, Accounts relies on VITA to maintain oversight and enforce the service level agreements and deliverables with the ITISP contractors.

While VITA did not originally enforce the deliverable requirement when ratifying the ITISP contracts in 2018, VITA tried to compel the ITISP contractor to grant agencies, such as Accounts, access to the monitoring tool and audit log information for the last five years. The MDR Dashboard went live in October 2023 but did not include all audit log information to allow agencies to adequately monitor their IT environments. Additionally, VITA implemented a separate security and event management (SIEM) tool at the end of October 2023 to expand agencies' capabilities to monitor audit log information. As of October 2024, VITA and the ITISP supplier determined the MDR Dashboard will be replaced by the VITA-managed SIEM tool as the permanent audit log monitoring tool. However, while the VITA-managed SIEM tool is in production, it also does not include all audit log information in a usable format to allow agencies to adequately monitor their IT environments.

The Commonwealth's Information Security Standard, SEC530 (Security Standard), requires a review and analysis of audit records at least every 30 days for indications of inappropriate or unusual activity and assessment of the potential impact of the inappropriate or unusual activity. Using a SIEM tool without all necessary audit log information reduces organizational security posture by not being able to react to and investigate suspicious system activity in a timely manner. Accounts is working with VITA to import audit log information to the SIEM tool and provide feedback on its uses to ensure Accounts can review the activities occurring in its IT environment in accordance with the Security Standard. Our separate audit of VITA's contract management will also continue to report this issue.



Commonwealth of Virginia

Auditor of Public Accounts

Staci A. Henshaw, CPA
Auditor of Public Accounts

P.O. Box 1295
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December 13, 2024

The Honorable Glenn Youngkin
Governor of Virginia

Joint Legislative Audit
and Review Commission

Stephen E. Cummings
Secretary of Finance

Scott L. Adams
State Comptroller, Department of Accounts

We have audited the financial records and operations of the **Department of Accounts (Accounts)** for the year ended June 30, 2024. We conducted this audit in accordance with 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, in support of the Commonwealth's Annual Comprehensive Financial Report audit. 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 Objectives

Our primary audit objectives for the audit of Accounts for the year ended June 30, 2024, include the following:

- to determine whether Accounts has properly stated, in all material respects, the financial transactions related to their administrative activities recorded and reported in the Commonwealth's accounting and financial reporting system;
- to determine whether management has established and maintained internal controls over the Commonwealth's financial reporting and other central processes and the centralized services provided to agencies and institutions in support of the preparation of the financial statements as indicated in the Audit Scope and Methodology section of this report;

- to determine whether management has established and maintained adequate operating and application system controls over the Commonwealth's accounting and financial reporting, payroll, human capital management, capital asset, and lease accounting systems as referenced in the Audit Scope and Methodology section;
- to determine whether Accounts has complied with applicable laws, regulations, contracts, and grant agreements; and
- to review corrective actions related to audit findings from the prior year report.

Audit Scope and Methodology

Accounts' 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, sufficient to plan the audit. We considered materiality and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following processes and systems.

Financial reporting*

Commonwealth's accounting and financial reporting system

Commonwealth's payroll system

Commonwealth's human capital management system

Commonwealth's capital asset system

Commonwealth's lease accounting system

Administrative activities, including fiscal services provided to agencies

Information security and general system controls (including access controls)

*Including preparation of the Annual Comprehensive Financial Report and Schedule of Expenditures of Federal Awards.

We performed audit tests to determine whether Accounts' 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. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of Accounts' operations. We performed analytical procedures, including budgetary and trend analyses, and tested details of transactions to achieve our audit 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.

Our consideration of internal control over financial reporting (internal control) was for the limited purpose described in the section “Audit Objectives” and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Conclusions

We found that Accounts has established and maintained internal controls over the Commonwealth’s financial reporting and other central processes and the centralized services provided to agencies and institutions in support of the preparation of the Commonwealth’s Annual Comprehensive Financial Report and the Schedule of Expenditures of Federal Awards. In addition, Accounts has established and maintained adequate operating and application system controls over the Commonwealth’s accounting and financial reporting, payroll, human capital management, capital asset, and lease accounting systems. Accounts properly stated, in all material respects, the financial transactions related to their administrative activities recorded and reported in the Commonwealth’s accounting and financial reporting system.

We noted no matters involving internal control and its operation that we consider necessary to be reported to management. The results of our tests of compliance with applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Accounts has taken adequate corrective action with respect to prior audit findings and recommendations identified as complete in the [Findings Summary](#) included in the Appendix.

Exit Conference and Report Distribution

We discussed this report with management at an exit conference held on January 22, 2025.

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

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

DBC/clj

FINDINGS SUMMARY

Finding Title	Status of Corrective Action*	First Reported for Fiscal Year
Conduct Timely IT Security Audits	Complete	2022
Improve Database Security	Complete	2023
Improve IT Risk Management and Contingency Planning Program	Complete	2023
Improve Monroe IT Change and Configuration Management Process	Complete	2023

* A status of **Complete** indicates management has taken adequate corrective action.