



NEW COLLEGE INSTITUTE

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS AS OF APRIL 2018

Auditor of Public Accounts
Martha S. Mavredes, CPA

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Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

June 12, 2018

Dr. Leanna Blevins, Executive Director
New College Institute
191 Fayette Street
Martinsville, VA 24112

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire, completed on April 12, 2018, for the **New College Institute** (Institute). 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 Institute 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 Institute. 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. 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 at each agency. At some agencies, only inquiry was necessary; while others included an in-depth analysis of the quality of the Stage 1 Agency-Level Internal Control Assessment Guide, or Stage 2 Process or Transaction-Level Control Assessment ARMICS processes.

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: human resources, payroll, procurement, expenses, fixed assets, and information technology and security. 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 Institute has formal, documented policies and procedures over most of its significant business processes. However, the Institute needs to expand existing policies and procedures to ensure the following processes are sufficiently documented:

- Tracking, accounting for, and depreciating fixed assets in the Institute's Fixed Asset Tracking System;
- Financial system reconciliations to ensure the reconciliation process aligns with Commonwealth Accounting Policies and Procedures Manual (CAPP) Topic 20905;
- Payroll and Human Resources processes and responsibilities to accurately reflect the regular duties being performed; and
- Procurement of goods and services including formalizing the documentation and approval process.

In addition, management performs a review of policies and procedures annually or as needed. However, management does not retain evidence, such as a signature and date, that the policies and procedures manual was properly reviewed and approved. Management should ensure detailed policies and procedures exist for all critical business areas and should document review and approval of all policies and procedures.

- The Institute does not meet the minimum requirements documented in the ARMICS standards for agency and transaction-level risk assessments. We noted that the Institute's current ARMICS process lacks the following required items:
 - A sufficient agency-level risk assessment, including documentation of the key elements and assessments of various internal control components; and
 - Adequate assessments of transaction-level internal controls. Currently, the Institute is conducting surveys as their main test of controls. Per the ARMICS Review Checklist, surveys are not a test of control. They may be used as part of the assessment; however, should not be the assessment and are not required by ARMICS.

Given that management certifies to Accounts that the Institute completes the ARMICS process, management should ensure it is meeting the minimum requirements of the ARMICS standards.

- The Institute does not have a sufficient process for reconciling internal records with the Commonwealth's accounting and financial reporting system. Specifically, the Institutes does not consistently reconcile expenditures to the account level, as required by CAPP Manual Topic 20905. Reconciliation documentation was difficult to follow and could not be independently reperformed using documentation in the Institute's policies and procedures manual. Further, with exception to the fiscal year-end reconciliation, we noted that a formal review of monthly reconciliations is not performed. Management should ensure that the scope of the Institute's monthly reconciliation is in compliance with the CAPP manual, that each reconciliation is reviewed for accuracy by an individual other than the individual performing the reconciliation, and that documentation of the review is retained.

- The Institute has not adopted a structured approach to implement information security controls. Although the Institute is not required to follow the Commonwealth's Information Security Standard, SEC 501, it is important that the Institute adopt an industry recognized information security standard to ensure proper information security controls. Other information security issues noted during our review include a lack of formalized processes for annual security awareness trainings and system access reviews. In addition, we noted that there were multiple terminated employees with access to the Commonwealth's eProcurement Portal. Management should adopt an industry recognized information security standard and implement information security controls to mitigate risks to agency systems and data.

We discussed these matters with management on May 21, 2018. 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 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,

Auditor of Public Accounts

JDE/clj



6/30/18

The Auditor of Public Accounts
Martha Mavredes
P. O. Box 1295
Richmond, Virginia 23218

Dear Ms. Mavredes:

We are providing this letter in connection with your Internal Control Review Results through June 30, 2017. We confirm that we are responsible for the proper reporting of financial transactions and also responsible for adopting sound accounting policies, establishing and maintaining effective internal control, preventing and detecting fraud, and complying with laws, regulations, and provisions of contracts and grant agreements.

We acknowledge receipt of the results letter and that we have already taken action to ensure that all areas requiring management's attention resulting from the review are addressed. The findings have already been communicated with our Executive Committee of the Board, in which they have acknowledged the intent of the review to be for information and use by management.

We thank you for your review of our organization and welcome any specific suggestions regarding improvements that you can provide.

Sincerely,

Leanna Blevins, Executive Director

Christina Reed, Assistant Director of Finance & Operations

Realize your potential.

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