



DISABILITY SERVICES AGENCIES

AUDIT OF SELECT CYCLES FOR THE YEAR ENDED JUNE 30, 2018

Auditor of Public Accounts
Martha S. Mavredes, CPA

www.apa.virginia.gov

(804) 225-3350



AUDIT SUMMARY

We audited the **Disability Services Agencies'** fiscal agent memorandum of understanding and followed up on five findings related to purchasing cards for the audit period ended June 30, 2016. In addition, we audited system access, financial system reconciliations, the enterprise fund attachment, and information system security controls for the Virginia Industries for the Blind, a division of the **Department for the Blind and Vision Impaired**, for the fiscal year ended June 30, 2018. We found:

- matters involving internal control and its operation pertaining to Virginia Industries for the Blind system access, financial system reconciliations, and information system security and Disability Services Agencies' fiscal agent memorandum of understanding and purchasing cards necessary to bring to management's attention;
- matters involving internal control and noncompliance with applicable laws and regulations or other matters that are required to be reported related to Virginia Industries for the Blind system access and information system security; and
- adequate corrective action with respect to prior audit findings identified as resolved in the [Findings Summary](#) in the Appendix.

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

The Disability Services Agencies include the following:

- Department for Aging and Rehabilitative Services (including Wilson Workforce Rehabilitation Center)
- Department for the Blind and Vision Impaired (including Virginia Industries for the Blind and Virginia Rehabilitation Center for the Blind and Vision Impaired)
- Department for the Deaf and Hard-of-Hearing
- Virginia Board for People with Disabilities

- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
AUDIT FINDINGS AND RECOMMENDATIONS	1-10
AUDIT SCOPE OVERVIEW	11-14
INDEPENDENT AUDITOR'S REPORT	15-17
APPENDIX – Findings Summary	18
AGENCY RESPONSE	19-22
AGENCY OFFICIALS	23

AUDIT FINDINGS AND RECOMMENDATIONS

Update Disability Services Agencies Memorandum of Understanding

Type: Internal Control

Repeat: No

The Disability Services Agencies have not updated the Memorandum of Understanding (Memorandum) for administrative services with their service provider agency, the Department for Aging and Rehabilitative Services (Aging and Rehabilitative Services), to consider changes in operations since fiscal year 2015 when they originally created it. In addition, the current Memorandum does not clearly establish the responsibilities of each agency, specifically in the financial services area, so that each agency knows what the service agreement covers and what it does not. Furthermore, the Memorandum mentions outdated state systems, old agency names, services that are no longer performed, and an information technology service level agreement for the Department of Blind and Vision Impaired (Blind and Vision Impaired) that was never created. In the original agreement, Aging and Rehabilitative Services provided a detailed analysis to determine the service fee for each agency; however, they have not provided this analysis in each subsequent year even though the fee has changed.

The Commonwealth's Accounting Policies and Procedures (CAPP) Manual Topic 10305 Internal Control, Service Provider Agency section, states that primary agencies should ensure the agreements with service provider agencies clearly delineate the processes, procedures, and controls assigned to each party of the agreement. Significant interactions between the primary agencies and the service provider agency should occur to ensure the primary agencies are gaining the full value of the service provider agency's entire control environment for all fiscal processes. The CAPP Manual Topic also requires that all agreements be updated at least annually and more frequently in the event a significant change occurs. The original Memorandum stated that Aging and Rehabilitative Services would provide a previous year analysis of estimated cost to each Disability Services Agency by December 31 and would sign a new agreement each year by March 31 prior to the start of the next fiscal year.

Management and staff at all of the agencies involved in the creation of the original agreement had a good understanding of where the responsibilities were for processes and controls at each agency and the relationships worked well; therefore, no one thought it was necessary to update the agreement. However, over time, Aging and Rehabilitative Services and Blind and Vision Impaired lost the understanding when management and staff changed. Since those staffing changes, communication between Aging and Rehabilitative Services and Blind and Vision Impaired has been inadequate, resulting in misunderstandings, duplication of efforts, and missing controls, as identified in the finding "Improve Internal Controls over Financial Systems Reconciliations." Blind and Vision Impaired expressed a desire for an increase in control and approval authority over funding related to its division, Virginia Industries for the Blind (Industries for the Blind). However, without an updated Memorandum to delineate the controls, these changes have not occurred.

Aging and Rehabilitative Services should work with the other Disability Services Agencies to create, implement, and follow a clear and detailed Memorandum for administrative services for each agency they service and update the agreement annually or more frequently in the event of a significant change. Blind and Vision Impaired and Aging and Rehabilitative Services should improve communication while creating and implementing the administrative support services agreement to ensure everyone involved understands and agrees with the arrangement. In addition, Aging and Rehabilitative Services should annually evaluate and provide a detailed accounting of the cost for each Disability Services Agencies' administrative support services.

Improve Internal Controls over Financial System Reconciliations

Type: Internal Control

Repeat: No

Neither the Industries for the Blind Fiscal Officer nor the Aging and Rehabilitative Services General Accounting and Financial Reporting Manager reconciled the \$26.5 million in revenue that Industries for the Blind collected in its point of sale system for fiscal year 2018 to the revenue recorded in its manufacturing system, which flows into the Commonwealth's accounting and financial reporting system. The Fiscal Officer did reconcile the \$44.0 million in revenue for fiscal year 2018 from the manufacturing system to the Commonwealth's accounting and financial reporting system. However, the Fiscal Officer's documentation of the reconciliation was inadequate and could not ensure the revenues were accurate. In addition, the General Accounting and Financial Reporting Manager did conduct a monthly cash basis revenue reconciliation of the Commonwealth's accounting and financial reporting system to manual source documents for the entire fiscal year; however, this does not ensure the three systems reconcile and that the revenues are complete. The three systems do not interface and revenues from the point of sale and manufacturing system are manually keyed from system to system. Management uses these systems for financial reporting and operational decision making; therefore, reconciliations between these systems are essential to ensure revenues are accurate. Neither Industries for the Blind nor Aging and Rehabilitative Services have written policies and procedures over the financial system reconciliation process for the three systems.

Because the Memorandum states that Aging and Rehabilitative Services provides comprehensive accounting services, the Fiscal Officer thought that Aging and Rehabilitative Services was responsible for the financial reconciliations for all systems. In addition, the Fiscal Officer was not aware of the CAPP Manual requirement to perform reconciliations. Aging and Rehabilitative Services thought that Blind and Vision Impaired would be responsible for the reconciliation between the point of sale system and the manufacturing system because Aging and Rehabilitative Services did not have access to the point of sale system. The lack of policies, lack of communication, and not performing the reconciliations increases the risk that the revenues are improperly recorded and could affect operational decisions.

The CAPP Manual Topic 20905 Cardinal Reconciliation Requirements requires agencies to publish their own internal policies and procedures documents with approval in writing by agency management. In addition, CAPP Manual Topic 20905 requires a monthly reconciliation of financial records to ensure accuracy and uniformity for the data input to the Commonwealth's accounting and financial reporting

system. A proper reconciliation should include documentation of monthly system reports, preparer, reviewer, date performed, variances found, and explanation of variances.

As described in the finding “Update Disability Services Agencies Memorandum of Understanding,” Blind and Vision Impaired and Aging and Rehabilitative Services should ensure they communicate and understand each agency’s responsibility in performing the different financial system reconciliations. Each agency should establish, document, and implement policies and procedures over its part of the financial system reconciliation process and perform the applicable reconciliations.

Improve Controls over System Access

Type: Internal Control and Compliance

Repeat: No

Blind and Vision Impaired does not have written policies and procedures over granting, terminating, and managing access to its point of sale system and its manufacturing system, which includes sales, inventory, ordering, production, and financial reporting. These systems support the operations of Industries for the Blind. The Data Manager and Data Support Specialist (System Administrators) do not have a documented annual review of system user access for either system. Furthermore, the Deputy Commissioner for Enterprises and the Director of Shared Operations (System Owners) have not identified the agency’s critical modules and conflicting roles within the point of sale and manufacturing systems.

The Commonwealth’s Information Security Standard, SEC 501 (Security Standard), section AC-1, requires agencies to develop and document security assessment and authorization policies over roles, responsibilities, and management. In addition, section AC-2j, requires an annual review of all user access. The Security Standard, section AC-5, requires separation of duties be identified, documented, and defined.

Not having written policies and procedures increases the risk that the System Administrators will grant inappropriate or excessive access or will not terminate access timely. Not monitoring and documenting system users’ access to the point of sale and manufacturing systems increases the risk of unauthorized individuals inappropriately entering or approving transactions. Not identifying the critical modules and conflicting roles to ensure separation of duties increases the risk that users can circumvent other compensating controls and perform unauthorized transactions.

Blind and Vision Impaired is currently operating on an unsupported version of its manufacturing system, which hinders its ability to properly manage the system within the Security Standard. In addition, Blind and Vision Impaired management and information technology staff were unaware of the Security Standard, and; therefore, have not established controls to meet the Security Standard.

Blind and Vision Impaired System Owners should establish, document, and implement policies and procedures over granting, terminating, and managing user access in the point of sale and manufacturing systems. Blind and Vision Impaired is in the process of and should continue upgrading its manufacturing system. The System Administrators should review users’ access at least annually or after

any significant change occurs to ensure access is granted based on least privilege. Furthermore, the System Owners should identify critical modules and conflicting roles within the point of sale and manufacturing systems and ensure access is granted appropriately.

Improve Internal Controls over Client Gift and Fuel Card Purchases

Type: Internal Control

Repeat: Partial (first issued in fiscal year 2016, with limited progress)

Prior Title: Improve Internal Controls over Client Gift Card Purchases

Aging and Rehabilitative Services does not have sufficient internal controls in place over using gift and fuel cards for clients. Twenty-three out of 24 (96%) gift and fuel card transactions tested did not have receipts demonstrating the appropriate use of the gift or fuel card. Nine out of 24 (38%) gift and fuel card transactions tested did not have the Gift/Fuel Card Acknowledgement Letter completed. Without supporting documentation, such as the Acknowledgement Letter or gift and fuel card usage receipts, the counselors cannot verify the clients are using the gift and fuel cards for the stated vocational rehabilitation purposes. In addition, Aging and Rehabilitative Services staff did not properly secure six out of 24 (25%) gift and fuel cards tested prior to distribution to clients.

The CAPP Manual Topic 20355 Purchasing Charge Card requires cardholders to retain all documentation pertaining to the purchase, including receipts or packing slips. Aging and Rehabilitative Services policies require the client sign a Gift/Fuel Card Client Acknowledgment Letter, which signifies receipt and agreement to use the card only for vocational rehabilitative purposes. While counselors maintain receipts for the purchase of gift or fuel cards, they are not always following the policy and receiving and retaining the Gift/Fuel Card Acknowledgement Letter and receipts that demonstrate the use of the card from the client. Aging and Rehabilitative Services policies and procedures do not address how the cardholders and counselors should secure the gift and fuel cards prior to distribution. Not securing gift and fuel cards properly increases the risk of theft and abuse.

Management should ensure that Aging and Rehabilitative Services cardholders and counselors are aware of all current policies and procedures relating to the purchase and handling of gift and fuel cards. Aging and Rehabilitative Services should update policies and procedures to require staff to properly secure gift and fuel cards prior to distribution. In addition, counselors or cardholders should retain all supporting documentation, including the Gift/Fuel Card Acknowledgement Letter and the client receipts documenting the use of the gift or fuel card.

Improve Purchase Card Reconciliations and Document Retention

Type: Internal Control

Repeat: Partial (first issued in fiscal year 2016, with limited progress)

Prior Title: Improve Procedures over Purchase Card Reconciliations

The Disability Services Agencies purchasing charge cardholders and their supervisors did not complete the monthly small purchase charge card reconciliations timely. Six out of 24 (25%) monthly reconciliations reviewed were completed between one and 13 days late. Additionally, four out of 24 (17%) monthly reconciliations tested did not have proper supporting documentation in the charge card

system. The Disability Services Agencies internal policies require staff to complete monthly small purchase charge card reconciliations by certain deadlines for each agency. Additionally, the internal policy requires retaining original receipts and supporting documentation (e.g. invoices, receipts, purchase orders, pre-approvals) to verify receipt of items.

Untimely reconciliations reduce the amount of time the Aging and Rehabilitative Services Accounts Payable department has to process and review payments for the small purchase charge card statement. This can lead to the agency paying the small purchase charge card statement late and incurring late fees. Additionally, without proper supporting documentation, the supervisors cannot verify the charges on the charge cards to ensure proper usage and recording in the Commonwealth's accounting and financial reporting system. The untimely reconciliations and lack of supporting documentation are due to the cardholder's supervisor not adequately reviewing reconciliations.

The cardholders supervisors should adequately review monthly reconciliations, including checking for timeliness and supporting documentation. The purchasing charge cardholders should complete the monthly reconciliations by the established deadlines stated within the internal policies. Additionally, supervisors should ensure that the cardholders are retaining appropriate supporting documentation within the small purchase charge card system.

Improve Documentation over Traveler's Reimbursement of Purchase Cards

Type: Internal Control

Repeat: Partial (first issued in fiscal year 2016, with limited progress)

Prior Title: Improve Procedures over the Purchasing Charge Card Program

Aging and Rehabilitative Services Accounts Payable and Purchasing departments do not have adequate policies and procedures in place to ensure they do not reimburse travelers for direct billed hotel and airline purchases. Three out of 21 (14%) travelers did not properly complete the small purchase charge card (purchase card) section of the Traveler's Reimbursement Form accurately. The purchase card section is used to identify when and whose purchase card was used to book a hotel or airline accommodation to reduce the risk of double payment with direct billing and reimbursement of hotel and airline purchases. However, the Disability Services Agencies do not have a policy requiring travelers to complete the purchase card section or a policy requiring that Accounts Payable verify how payment was made before reimbursing the traveler.

When travelers do not complete the purchase card section of the Traveler's Reimbursement Form, Accounts Payable may be unable to identify if a traveler should receive reimbursement for the hotel or airline accommodation or whether the purchase was made on an administrative card. This resulted in an instance where Accounts Payable incorrectly double paid by reimbursing a traveler and paying the purchase card bill. Accounts Payable is not verifying how payment for the hotel or airline accommodation was made prior to reimbursing the employee.

The CAPP Manual Topic 20905 Cardinal Reconciliation Requirements requires each agency to publish internal policies and procedures, which reflect the operations of the agency. Aging and

Rehabilitative Services is unique due to the fact they allow travelers to pay for hotel or airline accommodations with an administrative purchase card as long as it is not their own.

The Accounts Payable and Purchasing departments should work together to establish, document, and implement a policy to ensure travelers properly complete the purchase card section of the Traveler's Reimbursement Form prior to a traveler's reimbursement and a policy to verify the source of payment for the hotel or airline purchase before processing travel reimbursements.

Develop and Implement Information Security Policies and Procedures

Type: Internal Control and Compliance

Repeat: No

Industries for the Blind does not have policies and procedures to support its sensitive systems and information security program. Industries for the Blind manages and maintains two sensitive systems, which it manages outside of the partnership between the Virginia Information Technologies Agency and the Multi-Sourcing Service Integrator. The two sensitive systems provide Industries for the Blind with sales, inventory, ordering, production, accounts receivable, and reporting capabilities. Industries for the Blind provides financial data from the sensitive systems to Aging and Rehabilitative Services, who is responsible for entering it into the Commonwealth's accounting and financial reporting system making the integrity and availability for the sensitive systems critically important; therefore, the systems require policies and procedures to manage and maintain them according to the Security Standard.

The Security Standard, section 2.4.2, requires the agency head to ensure an information security program is maintained that is sufficient to protect the agency's information technology systems and that is documented and effectively communicated. Not having information security policies and procedures to properly manage Industries for the Blind's information security program and sensitive systems can result in a data breach or unauthorized access to mission-critical data leading to data corruption, data loss, or system disruption if accessed by a malicious attacker, either internal or external.

Industries for the Blind lacks information security policies and procedures due to limited information technology resources and, until recently, Industries for the Blind did not have an executive level position to manage and oversee information technology operations. Industries for the Blind hired a Director of Shared Operations in January 2017 to manage finance, procurement, and information technology operations at Industries for the Blind. Additionally, Aging and Rehabilitative Services and Blind and Vision Impaired have a Memorandum with an effective date of July 1, 2014, where Aging and Rehabilitative Services is the service provider and Blind and Vision Impaired, including Industries for the Blind, is a customer agency. The Memorandum states that Aging and Rehabilitative Services and Blind and Vision Impaired will have a separate service level agreement for information technology services; however, to date there is no separate service level agreement that outlines Aging and Rehabilitative Services' roles and responsibilities to provide Blind and Vision Impaired and Industries for the Blind with information technology services.

Industries for the Blind should work with Aging and Rehabilitative Services to develop an information technology service level agreement that defines the roles, responsibilities, and tasks Aging and Rehabilitative Services will provide to Industries for the Blind. Industries for the Blind and Aging and Rehabilitative Services should evaluate the policies and procedures that are necessary to support their information security program and sensitive systems and develop a plan to create and implement them based on risk. Doing this will help Industries for the Blind achieve compliance with the Security Standard and help to maintain the integrity and availability of its sensitive systems and mission critical data.

Upgrade Manufacturing System

Type: Internal Control and Compliance

Repeat: No

Industries for the Blind does not secure its mission critical manufacturing system with the minimum controls requirements in the Security Standard. Industries for the Blind uses the manufacturing system to track sales, inventory, ordering, and production data. Industries for the Blind also enters data from its point of sale system into the manufacturing system to track accounts receivable data. Industries for the Blind provides financial data from the manufacturing system to Aging and Rehabilitative Services who is responsible for entering it into the Commonwealth's accounting and financial reporting system; therefore, the manufacturing system requires strong controls to protect the integrity and availability of its mission critical data.

We identified five 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 in systems processing or storing sensitive information. By not meeting the minimum requirements in the Security Standard, Industries for the Blind cannot ensure the confidentiality, integrity, and availability of data within its systems.

Industries for the Blind should dedicate the necessary resources to implement the controls discussed in the communication marked FOIA Exempt in accordance with the Security Standard and best practices in a timely manner.

Improve Information Security for Point of Sale System

Type: Internal Control and Compliance

Repeat: No

Industries for the Blind does not secure its point of sale system with some of the minimum security controls required by the Security Standard. We identified two weaknesses and communicated it to management in a separate document marked 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 in systems processing or storing sensitive information. By not meeting the minimum requirements in the Security Standard, Industries for the Blind cannot ensure the confidentiality, integrity, and availability of data within its systems.

Industries for the Blind should dedicate the necessary resources to implement the controls discussed in the communication marked FOIA Exempt in accordance with the Security Standard and best practices in a timely manner.

Improve Oversight over Third-Party Providers

Type: Internal Control and Compliance

Repeat: No

Industries for the Blind does not gain annual assurance that its third-party providers and credit card processors have secure information technology environments to protect its mission critical data. Third-party providers are organizations that perform outsourced business tasks or functions on behalf of Industries for the Blind and the Commonwealth. Industries for the Blind uses separate third-party providers to assist it with managing and maintaining its two mission critical systems. In addition, the two mission critical systems reside at different third-party data center providers. The Industries for the Blind manages the systems outside of the partnership between the Virginia Information Technologies Agency and the Multi-Sourcing Service Integrator; therefore, Industries for the Blind is responsible for obtaining and reviewing independent audits of the infrastructure that supports each system.

In addition, Industries for the Blind is not gaining assurance that its two credit card processors are compliant with the requirements in the Payment Card Industry Data Security Standard (PCI DSS). Industries for the Blind uses the two separate credit card processors to support its online credit card purchases, purchases made at Industries for the Blind stores, and direct orders to the manufacturing plant.

The Commonwealth's Hosted Environment Information Security Standard, SEC 525 (Hosted Environment Security Standard), section SA-9-COV 3.1, requires agencies to perform an annual security audit of the environment or review the annual audit report of the environment conducted by an independent, third-party audit firm on an annual basis. Additionally, the PCI DSS requires merchants to demonstrate compliance annually and provide sufficient evidence to their customers to verify that the scope of the service provider's PCI DSS assessment covered the services applicable to the customer and that the relevant PCI DSS requirements were examined and determined to be in place.

By not gaining assurance over third-party service providers' information technology environments, Industries for the Blind cannot validate that they have effective information technology controls to protect the integrity of its data. Additionally, without verifying the credit card processors comply with the requirements in the PCI DSS, Industries for the Blind cannot verify that they have the technical and operational controls in place to protect cardholder data.

Industries for the Blind does not gain assurance over its third-party providers' information technology environments and does not ensure PCI DSS compliance with its credit card processes because there are no formal processes to do so in its information security program. Thus, there is no expectation to provide the appropriate oversight. Industries for the Blind also lacks the contractual requirements with the vendors to provide the necessary assurance, such as a System and Organizational Controls (SOC) report. Additionally, Industries for the Blind lacks the knowledge of the requirements in the Hosted Environment Security Standard and PCI DSS.

Industries for the Blind should develop a formal process to gain assurance that its third-party providers have secure information technology environments to protect its mission critical data. Industries for the Blind should develop contractual requirements with each third-party provider that requires them to provide annual assurance that satisfies the requirements in the Security Standard and the Hosted Environment Security Standard. One way to do this is by requesting and reviewing SOC reports or by reviewing other independent audit reports as accepted by the Commonwealth's Information Technology Security Audit Standard, SEC 502. Additionally, Industries for the Blind should develop a formal process to gain the necessary PCI DSS compliance documents from its credit card processors annually to ensure they have reasonable controls to protect its cardholder data. After Industries for the Blind develops the formal processes, they should incorporate the processes into their information security program. Doing this will help to ensure its third-party providers and credit card processors are protecting the confidentiality, integrity, and availability of their mission critical and cardholder data.

Improve Information Technology Governance

Type: Internal Control and Compliance

Repeat: No

Industries for the Blind has an insufficient governance structure to manage and maintain its information security program in accordance with the Commonwealth's standards. Industries for the Blind lacks an information security program that complies with the Security Standard. In addition, Industries for the Blind does not gain assurance nor meet the requirements in the Hosted Environment Security Standard for its two mission critical sensitive systems.

Industries for the Blind manages its two mission critical systems outside of the partnership between the Virginia Information Technologies Agency and the Multi-Sourcing Service Integrator; therefore, Industries for the Blind is responsible for securing the infrastructure that supports each system. Its manufacturing system provides Industries for the Blind with sales, inventory, ordering, production, and reporting capabilities, and Industries for the Blind's point of sale system provides inventory and accounts receivable management. Industries for the Blind provides financial data from its sensitive systems to Aging and Rehabilitative Services who is responsible for entering it into the Commonwealth's accounting and financial reporting system, making the integrity and availability of the sensitive systems critically important.

The Security Standard, section 2.4.2, requires the agency head to ensure an information security program is maintained that is sufficient to protect the agency's information technology systems and that is documented and effectively communicated.

In addition, Industries for the Blind has control weaknesses in the following areas showing that Industries for the Blind does not maintain appropriate oversight over its information security program and does not meet the requirements in the Security Standard.

- End-of-life technology
- Lack of information security policies and procedures
- Outdated manufacturing system
- Assurance over third-party providers

Not having an appropriate governance structure to properly manage Industries for the Blind's information technology environment and information security program can result in a data breach or unauthorized access to confidential and mission-critical data leading to data corruption, data loss, or system disruption if accessed by a malicious attacker, either internal or external. If a breach occurs, customers may lose faith in Industries for the Blind, and this could impact sales and revenue.

Industries for the Blind has limited financial resources, and as a result, has limited information technology resources to manage and maintain its information technology program. In addition, Industries for the Blind lacked an executive level position to provide oversight for the information technology department until 2017; however, the position also manages the finance and procurement operations. Further, Industries for the Blind is a division of Blind and Vision Impaired and has a Memorandum for fiscal agent services with Aging and Rehabilitative Services. The Memorandum states there will be a separate service level agreement between Aging and Rehabilitative Services and Blind and Vision Impaired to provide information technology services; however, there is not a separate service level agreement, and Aging and Rehabilitative Services does not provide comprehensive information technology services and support to Industries for the Blind.

Industries for the Blind should work with Aging and Rehabilitative Services to develop a formal plan to create and implement information security policies and procedures to manage and maintain its sensitive systems and maintain compliance with the Security Standard. Industries for the Blind should evaluate the most efficient and productive method to bring its information technology security program in compliance with the Commonwealth's Security Standard. Industries for the Blind should also evaluate its information technology resource levels to ensure sufficient resources are available to implement information technology governance changes and rectify any control deficiencies. Implementing these recommendations will help ensure the integrity and availability of Industries for the Blind's mission critical data.

AUDIT SCOPE OVERVIEW

The Disability Services Agencies provide a number of services to the Commonwealth's disabled and aging population.

Disability Services Agencies Memorandum of Understanding

Aging and Rehabilitative Services, as the fiscal agent, provides fiscal and administrative services in the areas of human resources, payroll, information technology, procurement, purchasing cards, fleet, fiscal, and internal audit for the Disability Services Agencies through a memorandum of understanding. However, Aging and Rehabilitative Services does not provide information technology services over the Industries for the Blind's point of sale and manufacturing systems. The Department for Deaf and Hard-of-Hearing, the Virginia Board for People with Disabilities, and Blind and Vision Impaired pay Aging and Rehabilitative Services for the fiscal and administrative services provided. Aging and Rehabilitative Services is supposed to provide a detailed service fee analysis each fiscal year based on the prior year's annual hours of effort and each agency's part of the Virginia Information Technologies Agency shared services. Table 1 compares the service fee each Disability Services Agency paid in fiscal year 2018 to the agencies' total revenue for the year.

Agency Revenues Compared to MOU Service Fees

Table 1

	Agency Revenues	Percent of Total	MOU Service Fee	Percent of Total
Department for the Blind and Vision Impaired**	\$72,038,117	92.9%	\$1,244,790	95.1%
Department for the Deaf and Hard-of-Hearing	3,942,014	5.1%	34,578	2.6%
Virginia Board for People with Disabilities	1,597,361	2.1%	29,356	2.3%
Total	\$77,577,492		\$1,308,724	

Source: Commonwealth's accounting and financial reporting system

** Department for the Blind and Vision Impaired includes Virginia Industries for the Blind and Virginia Rehabilitation Center for the Blind and Vision Impaired.

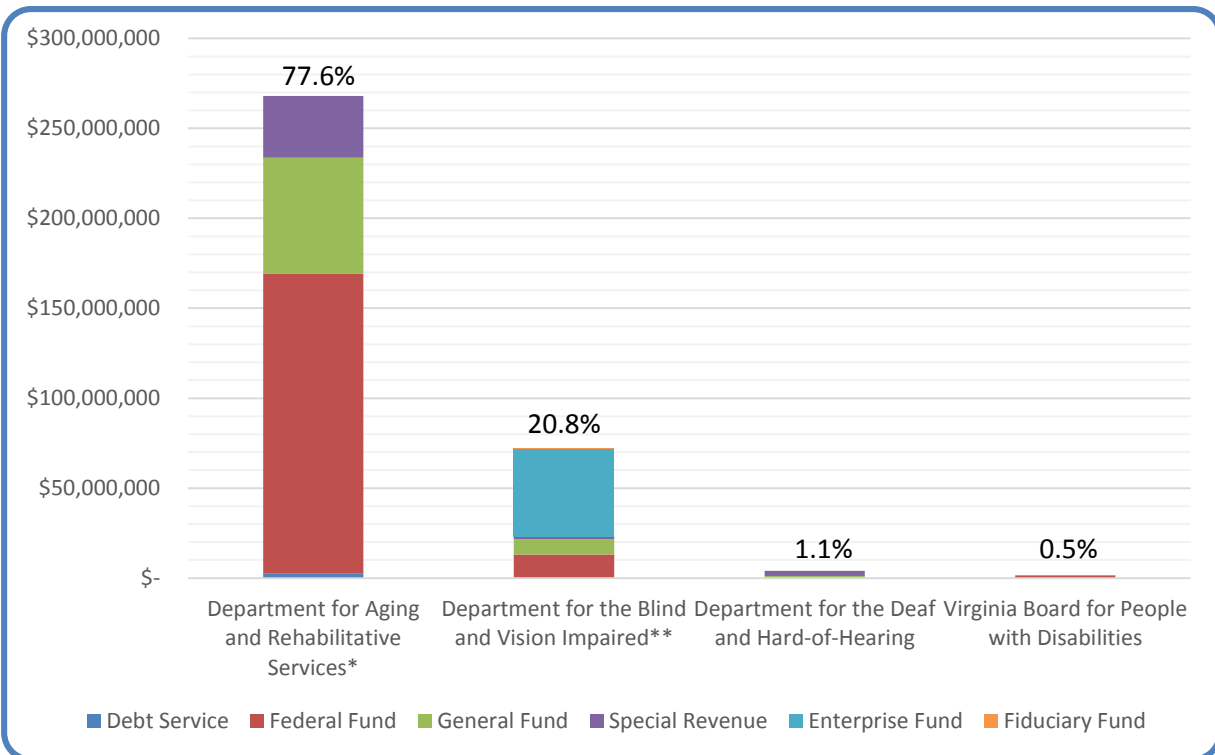
The Memorandum is the foundation for communication, controls, and responsibilities between the Disability Services Agencies. Since the Memorandum plays such a large role in the internal controls at each agency, we reviewed the Memorandum as part of our audit objectives.

Virginia Industries for the Blind

Blind and Vision Impaired is the second largest Disability Services Agency based on revenues as seen in Chart 1 and Table 2. Industries for the Blind is an enterprise division of Blind and Vision Impaired and makes up a significant portion of Blind and Vision Impaired's revenues. Through manufacturing and retail sales, Industries for the Blind is completely self-funded, generating \$49.0 million in revenues during fiscal year 2018, which is 68 percent of Blind and Vision Impaired's total revenue.

Revenue by Funding Type

Chart 1



Source: Commonwealth's accounting and financial reporting system

* Department for Aging and Rehabilitative Services includes Wilson Workforce Rehabilitation Center.

** Department for the Blind and Vision Impaired includes Virginia Industries for the Blind and Virginia Rehabilitation Center for the Blind and Vision Impaired.

Revenue by Funding Type

Table 2

	Department for Aging and Rehabilitative Services*	Department for the Blind and Vision Impaired**	Department for the Deaf and Hard-of-Hearing	Virginia Board for People with Disabilities
Federal	\$166,602,432	\$12,701,064	\$ 50,412	\$1,377,557
General	64,580,713	8,578,043	1,051,005	215,345
Enterprise	-	48,854,716	-	-
Special Revenue	34,394,555	1,349,918	2,840,596	4,459
Debt Service	2,485,173	433,330	-	-
Fiduciary	-	124,047	-	-
Total	\$268,062,873	\$72,041,118	\$3,942,013	\$1,597,361

Source: Commonwealth's accounting and financial reporting system

* Department for Aging and Rehabilitative Services includes Wilson Workforce Rehabilitation Center.

** Department for the Blind and Vision Impaired includes Virginia Industries for the Blind and Virginia Rehabilitation Center for the Blind and Vision Impaired.

As the fiscal agent for Blind and Vision Impaired, Aging and Rehabilitative Services is responsible for reconciling the financial information in the Commonwealth's accounting and financial reporting system to all internally prepared accounting records and financial data from other financial systems, such as the Industries for the Blind point of sale and manufacturing systems. In addition, Aging and Rehabilitative Services creates and submits the enterprise fund attachment to the Department of Accounts each year.

Because the sales and manufacturing revenue for the Industries for the Blind is significant and we have not audited internal controls at the Industries for the Blind recently, we included a review of them in our audit objectives.

Information Technology

The majority of the Disability Services Agencies' information technology assets are in-scope to the Virginia Information Technologies Agency and partnership with the Multi-Sourcing Service Integrator (Partnership). Blind and Vision Impaired received a waiver from the Partnership to manage Industries for the Blind point of sale and manufacturing systems. As a result, Industries for the Blind is responsible for managing and protecting the information technology environment for those two systems in compliance with the Security Standard.

The point of sale system performs inventory management, credit card processing, revenue collections, and accounts receivable management for the different store locations. In addition, the manufacturing system performs sales, inventory, ordering, production, accounts receivable, revenue collections, and internal reporting for the manufacturing locations. Industries for the Blind uses third party providers to manage and maintain the systems and to provide the information technology infrastructure on which the systems reside.

We included a review of these information systems in our audit objectives because we have not audited the Blind and Vision Impaired systems recently and because they manage the systems outside of the Partnership, which increases the risk for noncompliance with the Security Standard.

Prior Year Purchasing Card Findings

We followed up on five findings related to purchasing cards from the fiscal year 2016 audit report to determine if management implemented adequate corrective action.

Disability Services Agencies use purchasing cards to streamline procedures for procuring and paying for small dollar goods and services. Disability Services Agencies use administrative cards for travel expenses and items or services that the state agencies use. Disability Services Agencies use client cards to purchase goods and services for the agencies' clients.

Aging and Rehabilitative Services' fiscal department is responsible for the purchasing card program for all Disability Services Agencies, except for Wilson Workforce Rehabilitation Center (Wilson Workforce). Wilson Workforce has a program administrator that is responsible for the purchasing card

programs. Purchasing administrators are responsible for ensuring agency and cardholder compliance with the CAPP Manual.

According to the Bank of America online program management system, there were 390 purchasing cards active with expenses totaling over \$8.2 million for the period. Table 3 shows purchasing card activity for each of the Disability Services Agencies.

**Purchasing Cards – Number and Related Expenses
For the period June 16, 2017, through June 15, 2018**

Table 3

Agency	Type of Card	Number of Cards	Expenses
Department for Aging and Rehabilitative Services	Client	181	\$3,093,729
Department for Aging and Rehabilitative Services	Administrative	99	1,244,551
Department for the Blind and Vision Impaired	Client	19	1,640,194
Department for the Blind and Vision Impaired	Administrative	28	1,117,192
Wilson Workforce Rehabilitation Center	Client	7	13,121
Wilson Workforce Rehabilitation Center	Administrative	48	913,195
Department for the Deaf and Hard-of-Hearing	Administrative	3	88,607
Virginia Board for People with Disabilities	Administrative	5	125,664
Total		390	\$8,236,253

Source: Bank of America's online program management system

The Disability Services Agencies have a large number of active cards with a significant amount of expenses flowing through those cards. In addition, credit cards are inherently risky, and the Disability Services Agencies have had issues with purchase cards in the past. As a result, we included purchasing cards as an objective of the audit.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

July 2, 2019

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission

We have audited the **Disability Services Agencies'** fiscal agent memorandum of understanding and followed up on five findings related to purchasing cards for the audit period ended June 30, 2016. In addition, we have audited system access, financial system reconciliations, the enterprise fund attachment, and information system security controls for the Virginia Industries for the Blind, a division of the **Department for the Blind and Vision Impaired**, for the fiscal year ended June 30, 2018. 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 Objectives

Our audit's primary objectives were to review the adequacy of the Virginia Industries for the Blind's internal controls related to system access, financial system reconciliations, the enterprise fund attachment, and information system security and test compliance with applicable laws, regulations, contracts, and grant agreements. We also reviewed the Disability Services Agencies' fiscal agent memorandum of understanding and corrective actions for select audit findings related to Disability Services Agencies' purchasing cards from a prior audit report. We did not review corrective actions for prior audit findings identified as deferred in the Findings Summary included in the Appendix. We will follow up on these findings in a future audit. See the Findings Summary for a listing of prior findings and the status of follow-up on management's corrective action.

Audit Scope and Methodology

The Disability Services Agencies 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 Disability Services Agencies' 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 the Disability Services Agencies' 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 noted certain matters pertaining to the Disability Services Agencies' internal controls related to the fiscal agent memorandum of understanding and purchasing cards that we consider necessary to be reported to management. In addition, we noted certain matters pertaining to Virginia Industries for the Blind's internal controls related to system access, financial system reconciliations, and information system security 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."

The Disability Services Agencies have taken adequate corrective action with respect to select audit findings reported in the prior year that are listed as resolved in the Findings Summary in the Appendix.

Exit Conference and Report Distribution

We discussed this report with management on July 15, 2019. 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 the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

DBC/vks

APPENDIX

Findings Summary

Finding	Follow Up Status	Year(s) Issued
Improve Procedures for Merchant Category Code Reviews	Resolved	2016
Develop and Implement Program Administrator Policies and Procedures for Purchasing Cards	Resolved	2016
Improve Internal Controls over Client Gift and Fuel Card Purchases	Repeat*	2016, 2018
Improve Purchase Card Reconciliations and Document Retention	Repeat*	2016, 2018
Improve Documentation over Traveler's Reimbursement of Purchase Cards	Repeat*	2016, 2018
Improve Controls over System Access	New	2018
Improve Internal Controls over Financial System Reconciliations	New	2018
Update Disability Services Agencies Memorandum of Understanding	New	2018
Improve Information Security for Point of Sale System	New	2018
Upgrade Manufacturing System	New	2018
Improve Oversight Over Third-Party Providers	New	2018
Develop and Implement Information Security Policies and Procedures	New	2018
Improve Information Technology Governance	New	2018
Improve Documentation and Reconcile Checks Received	Deferred**	2014, 2017
Improve Documentation and Timeliness of the Commonwealth's Benefit System Reconciliations	Deferred**	2014, 2017
Comply with the Commonwealth Neurotrauma Initiative Trust Fund Requirements	Deferred**	2017

*Follow-up Status on prior year findings identified as "Repeat" indicates management's corrective action on a prior finding 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 FOR AGING AND REHABILITATIVE SERVICES

KATHRYN A. HAYFIELD
Commissioner

8004 Franklin Farms Drive
Henrico, VA 23229

Office (804) 662-7000
Toll free (800) 552-5019
TTY Toll free (800) 464-9950
Fax (804) 662-7644

July 23, 2019

Martha S. Mavredes
Auditor of Public Accounts
James Monroe Building
101 N. 14th Street, 8th Floor
Richmond, Virginia 23219

Dear Ms. Mavredes

We have reviewed your Disability Services Agencies Audit Report for the Fiscal Year Ended June 30, 2018. We concur with the findings and are adopting strategies to improve the internal control environment of our agencies. Our responses are listed below.

Improve Controls over System Access

We concur with the audit finding and will develop a corrective action plan in the next 30 days following this report.

Responsible Party: TBD
Estimated Completion Date: June 30, 2020

Improve Controls over Financial System Reconciliations

We concur with the audit finding and will develop a corrective action plan in the next 30 days following this report.

Responsible Party: TBD
Estimated Completion Date: June 30, 2020

Improve Internal Controls over Gift and Fuel Card Purchases

The Virginia Department of Rehabilitative Services (DRS) updated their policy on 12/3/18 allowing counselors the ability to purchase store gift cards and fuel cards for VR clients for vocational rehabilitation. DRS Staff are required to maintain a log of each card and to whom the card was issued. Additionally, counselors are expected to provide the Gift/Fuel Card Client Acknowledgement Letter to the client for signature. It's mandatory that the client sign the Gift/Fuel Card Client Acknowledgement Letter before receiving the card and the staff is responsible for keeping the signed letter in the client's case record. Client usage of the card signifies receipt and agreement to use the card only for the VR purpose intended. Receipts are currently not required under DRS policy for the purchase/usage of store gift and fuel cards.

The SPCC Program Administrator will communicate with all cardholders monthly reminding them of current policies and procedures for gift and fuel card purchases. As part of the Program Administrators routine audits, in instances where a Gift/Fuel Card Client Acknowledgement Letter is not attached, she will follow up with the cardholder and their supervisor directly for corrective action.

Responsible Party: Anjanette Branch, Program Administrator
Estimated Completion Date: September 30, 2019

Improve Purchase Card Reconciliations and Document Retention

The SPCC Program Administrator will send out a reminder email to cardholders and supervisors on the 18th of each month with deadlines for each agency to submit their small purchase charge card reconciliations.

As part of the Program Administrators routine audits, in instances where there's no supporting documentation included in a small purchase charge card reconciliation or if it was submitted after the deadline, she will follow up with the cardholder and their supervisor directly as needed for corrective action.

Responsible Party: Anjanette Branch, Program Administrator
Estimated Completion Date: September 30, 2019

Improve Documentation over Traveler's Reimbursement of Purchase Cards

The Purchasing Department will work with the Accounts Payable department to develop internal measures for following up on Traveler Reimbursement Forms that are not filled out accurately before payments are made to reduce the risk of double payment.

The SPCC Program Administrator will institute a Level 1 warning during the first occurrence where she will send an email and copy their supervisor requesting the missing information and informing the cardholder of a delay in reimbursement until the information is received. If the

cardholder/supervisor have repeat occurrences, a Level 2 warning will be issued where the traveler won't have the option to do direct billing and instead will be given a travel card. The SPCC Program Administrator will make a note of these individuals and maintain a list in a spreadsheet.

Responsible Party: Anjanette Branch, Program Administrator
Lillie DeLancy, Accounts Payable Manager
Estimated Completion Date: September 30, 2019

Update Disability Services Agencies Memorandum of Understanding

We concur with the audit finding and will develop a corrective action plan in the next 30 days following this report.

Responsible Party: TBD
Estimated Completion Date: June 30, 2020

Develop and Implement Information Security Policies and Procedures

We concur with the audit finding and will develop a corrective action plan in the next 30 days following this report.

Responsible Party: TBD
Estimated Completion Date: June 30, 2020

Upgrade Manufacturing System

We concur with the audit finding and will develop a corrective action plan in the next 30 days following this report.

Responsible Party: TBD
Estimated Completion Date: June 30, 2020

Improve Information Security for Point of Sale System

We concur with the audit finding and will develop a corrective action plan in the next 30 days following this report.

Responsible Party: TBD
Estimated Completion Date: June 30, 2020

Improve Oversight Over Third Party Providers

We concur with the audit finding and will develop a corrective action plan in the next 30 days following this report.

Responsible Party: TBD
Estimated Completion Date: June 30, 2020

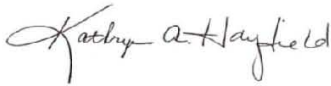
Improve Information Technology Governance

We concur with the audit finding and will develop a corrective action plan in the next 30 days following this report.

Responsible Party: TBD
Estimated Completion Date: June 30, 2020

Should you require more information, please do not hesitate to contact John Thaniel, Chief Financial Officer at john.thaniel@dars.virginia.gov or 804-662-7520.

Sincerely,



Kathy A. Hayfield



Raymond Hopkins

DISABILITY SERVICE AGENCIES

As of June 30, 2018

Kathryn Hayfield, Commissioner
Department for Aging and Rehabilitative Services

Raymond Hopkins, Commissioner
Department for the Blind and Vision Impaired

Eric Raff, Director
Department for the Deaf and Hard-of-Hearing

Heidi Lawyer, Executive Director
Virginia Board for People with Disabilities