



DEPARTMENT OF ENVIRONMENTAL QUALITY

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS AS OF JULY 2022

Auditor of Public Accounts
Staci A. Henshaw, CPA

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(804) 225-3350



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Commonwealth of Virginia

Auditor of Public Accounts

Staci A. Henshaw, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

August 18, 2022

Mike Rolband
Department of Environmental Quality
1111 East Main Street, Ste. 1400
Richmond, VA 23219

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire for the **Department of Environmental Quality** (Environmental Quality). We completed the review on July 11, 2022. 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 Environmental Quality is responsible for establishing and maintaining an effective control environment.

Review Process

During the review, the agency completes an Internal Control Questionnaire that covers significant organizational areas and activities including payroll and human resources; revenues and expenses; procurement and contract management; capital assets; grants management; debt; and information technology and security. The questionnaire focuses on key controls over these areas and activities.

We review the agency responses and supporting documentation to determine the nature, timing, and extent of additional procedures. The nature, timing, and extent of the procedures selected depend on our judgment in assessing the likelihood that the controls may fail to prevent and/or detect events that could prevent the achievement of the control objectives. The procedures performed target risks or business functions deemed significant and involve reviewing internal policies and procedures. Depending on the results of our initial procedures, we may perform additional procedures including reviewing evidence to ascertain that select transactions are executed in accordance with the policies and procedures and conducting inquiries with management. The "Review Procedures" section below details the procedures performed for Environmental Quality. The results of this review will be included within our risk analysis process for the upcoming year in determining which agencies we will audit.

Review Procedures

We evaluated the agency's corrective action for all prior review findings except for the finding related to third-party financial and information technology service providers. We will report on the status of this finding in a separate report covering a special project addressing this area to be issued later this year. The agency has taken adequate corrective action with respect to all other review findings reported in the prior review conducted in 2020 that are not repeated in the "Review Results" section below.

We reviewed a selection of system and transaction reconciliations in order to gain assurance that the statewide accounting system contains accurate data. The definitive source for internal control in the Commonwealth is the Agency Risk Management and Internal Control Standards (ARMICS) issued by the Department of Accounts (Accounts); therefore, we also included a review of ARMICS. The level of ARMICS review performed was based on judgment and the risk assessment 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. Our review of Environmental Quality's ARMICS program included a review of all current ARMICS documentation and a comparison to statewide guidelines established by Accounts. Further, we evaluated the Environmental Quality's process of completing and submitting attachments to Accounts.

We reviewed the Internal Control Questionnaire and supporting documentation detailing policies and procedures. As a result of our review, we performed additional procedures over the following areas: payroll and human resources, revenues and expenses, capital assets, and information technology and security. These procedures included validating the existence of certain transactions; observing controls to determine if the controls are effectively designed and implemented; reviewing transactions for compliance with internal and Commonwealth policies and procedures; and conducting further review over management's risk assessment process.

As a result of these procedures, we noted areas that require management's attention. These areas are detailed in the "Review Results" section below.

Review Results

We noted the following areas requiring management's attention resulting from our review:

- **Partial Repeat** - Environmental Quality's Continuity Plan identifies Recovery Time Objectives (RTO) for information technology (IT) systems and applications that are inconsistent with the primary business functions' RTOs that the systems support. Additionally, Environmental Quality does not document the RTO and Recovery Point Objective (RPO) for each IT system within the IT Disaster Recovery Plan (DRP). The Commonwealth's Information Security Standard, SEC 501 (Security Standard), requires Environmental Quality to develop IT disaster components of the Continuity Plan based on the Business Impact Analysis and Risk

Assessment results, including each IT system that is necessary to recover business functions and the RTO and RPO for each. The Security Standard also requires Environmental Quality to develop and maintain an IT DRP based on the Continuity Plan that supports the restoration of mission-essential functions and dependent business functions (*Security Standard, Sections CP-1-COV-1 and CP-1-COV-2 Contingency Planning Policy and Procedures*). Without consistently outlining which RTO and RPO to follow for each IT system between the Continuity Plan and IT DRP, Environmental Quality may not appropriately recover systems as necessary, especially if one system supports more than one business function.

- Environmental Quality does not perform certain processes to maintain a secure IT environment. We communicated the control weakness to management in a separate document marked Freedom of Information Act Exempt under § 2.2-3705.2 of the Code of Virginia due to it containing descriptions of security mechanisms. The Security Standard requires Environmental Quality to implement various security controls and processes to maintain its information security program and secure its IT environment. Without complying with the Security Standard, Environmental Quality increases the risk of compromise to the confidentiality, integrity, and availability of its IT environment.
- Environmental Quality did not timely submit all attachments as required by Accounts for fiscal year 2021. Environmental Quality submitted five out of 21 required attachments one to 18 days late. Environmental Quality should submit required attachments to Accounts timely and create policies and procedures over the preparation and submission of attachments.

We discussed these matters with management on August 4, 2022. 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,

Staci A. Henshaw
Auditor of Public Accounts

JDE/vks



Commonwealth of Virginia

VIRGINIA DEPARTMENT OF ENVIRONMENTAL QUALITY

1111 E. Main Street, Suite 1400, Richmond, Virginia 23219

P.O. Box 1105, Richmond, Virginia 23218

(800) 592-5482 FAX (804) 698-4178

www.deq.virginia.gov

Travis A. Voyles
Acting Secretary of Natural and Historic Resources

Michael S. Rolband, PE, PWD, PWS Emeritus
Director
(804) 698-4020

October 14, 2022

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

Dear Ms. Henshaw:

We have received the APA Internal Control Questionnaire Review Results letter. We concur with the findings and have made progress to address each of the issues noted as part of this engagement. Staff resource constraints, coupled with the high volume of requested materials during the financial reporting period, was the primary reason for delay in completing the five attachments noted, but we are proud that the quality of financial reporting was maintained despite the delay and staffing limitations. We appreciate the acknowledgement of progress related to the IT DRP and Continuity of Operations Plan, and further progress has been made to reconcile the required information within these documents and address the process vulnerabilities noted by APA this year.

We appreciate your team's efforts and constructive feedback. Please contact me if you have any questions regarding our corrective action plan.

Sincerely,

A handwritten signature in black ink, appearing to read "Alvie Edwards".

Alvie Edwards
Director of Administration