



DEPARTMENT OF ENERGY

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS AS OF AUGUST 2024

Auditor of Public Accounts
Staci A. Henshaw, CPA

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Commonwealth of Virginia

Auditor of Public Accounts

Staci A. Henshaw, CPA
Auditor of Public Accounts

P.O. Box 1295
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September 13, 2024

Glenn Davis, Director
Virginia Department of Energy
1100 Bank Street
Richmond, Virginia 23219-3638

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire for the **Department of Energy (Energy)**. We completed the review on August 2, 2024. 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 Energy 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 Energy. 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 the 2021 internal control questionnaire review findings as well as the findings in the report titled "[Cycled Agency Information Systems Security Review for the year ended June 30, 2019.](#)" The agency has taken adequate corrective action with respect to findings reported in the prior review and audits 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 Energy. Our review of Energy's ARMICS program included a review of all current ARMICS documentation and a comparison to statewide guidelines established by Accounts. Further, we evaluated Energy'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; expenses; procurement and contract management; capital assets; grants management; 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:

- **Repeat** - Energy continues to not maintain a current Continuity Plan and Information Technology (IT) Disaster Recovery Plan in accordance with the Commonwealth's Information Security Standard, SEC530 (Security Standard). Energy drafted a combined Continuity and Disaster Recovery Plan in March 2024 but did not finalize and approve it as of June 30, 2024. Energy's lack of resources and competing priorities led to slow progress to draft and approve a new Contingency and Disaster Recovery Plan. Energy should complete its Continuity Plan to ensure that it includes all required elements of the IT Disaster Recovery Plan as required by the Security Standard. Once the contingency documents are complete, Energy should conduct tests on an annual basis to ensure it can restore mission-critical and sensitive systems in a timely manner in the event of an outage or disaster.

- **Repeat** – Energy has formal, documented policies and procedures over many of its significant business processes. However, during our review, we identified several critical business areas where Energy should develop or improve policies and procedures to maintain an effective control environment. Topic 20905 and other sections of the Commonwealth Accounting Policies and Procedures (CAPP) Manual require each agency to “publish its own policies and procedures documents, approved in writing by agency management.” Energy is currently working with a contractor to update its policies and procedures. Management should continue working to ensure detailed policies and procedures exist for all critical business areas. In addition, management should continue to develop a process to review and approve all policies and procedures either annually or as needed and maintain documentation of the process.
- **Repeat** – Energy did not perform all processes for confirming the accuracy of information reported to the Virginia Retirement System. Energy does not include a reconciliation of creditable compensation between the Commonwealth’s human resource system and the Commonwealth’s retirement benefits system. CAPP Manual Topic 50410 requires that agencies perform these reconciliations before confirming the accuracy of data in the retirement benefits system to ensure that employee’s retirement data is accurate. Energy should incorporate the creditable compensation reconciliation into their retirement reconciliation procedures.
- **Partial Repeat** – Energy does not have proper controls in place for reconciling Small Purchase Charge Card (SPCC) activity. The reconciliation process does not include comparing the monthly statement to the supporting documentation for each purchase to ensure the validity of the transaction. Also, the preparer and reviewer do not consistently sign and date the reconciliation to ensure the reconciliation is timely. Energy should improve its controls over reconciling SPCC data to ensure timely and accurate completion of reconciliations in accordance with CAPP Manual Topic 20355.
- Energy did not obtain the System and Organization Controls (SOC) report for one of the two providers that processes sensitive information. For the one SOC report that Energy obtained, it did not document an evaluation of the SOC report and the complementary user entity controls described within the report. CAPP Manual Topic 10305 and the Security Standard require agencies to have an adequate level of interaction with third-party providers to give agencies an understanding of the providers’ internal control environments and any complementary controls the agency would need to implement. Agencies must also maintain oversight over the provider to gain assurance over outsourced operations. Energy should develop policies and procedures over review of SOC reports and obtain and comprehensively evaluate SOC reports timely.

- Energy did not properly ensure individuals in positions of trust filed statement of economic interests (SOEI) forms. Three individuals in a position of trust did not submit the SOEI form or did not submit the SOEI form timely. Per § 2.2-3114 of the Code of Virginia, persons occupying positions of trust within state government or non-salaried citizen members of policy and supervisory boards shall file a disclosure statement with the Commonwealth's Ethics Advisory Council, as a condition to assuming office or employment, and thereafter shall file such a statement annually on or before February 1. Energy should ensure that all individuals identified as employees within positions of trust file the appropriate disclosures upon hire or promotion, and subsequently at each annual filing.
- Energy should improve its process of completing bank reconciliations to ensure that financial data is accurate. During our review we reviewed a bank reconciliation for two different bank accounts and found insufficient documentation for both. The reviewer did not date the reconciliations, therefore, there was no evidence of the timeliness; and the scope of reconciliations did not include reviewing both the beginning and ending balances. In addition, for one of the two reconciliations, Energy did not reconcile the bank statement to the general ledger or applicable entries in the financial system. CAPP Manual Topic 20905 requires agencies to complete bank reconciliations within one month of the receipt of the account statement and to include reconciliation of bank balances to the general ledger and investigate any discrepancies identified. Energy should improve its process of completing bank reconciliations to be in accordance with the CAPP Manual.

We discussed these matters with management on August 23, 2024. 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 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
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September 25, 2024

Staci Henshaw
Auditor of Public Accounts
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Dear Ms. Henshaw,

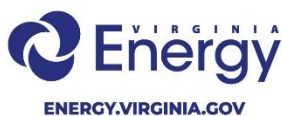
Thank you for the opportunity to comment on the Auditor of Public Accounts Results Letter dated September 13, 2024. The Virginia Department of Energy (Energy) appreciates the review of our processes.

Energy has developed a Corrective Action Plan and is addressing the issues identified during the review.

Sincerely,

A handwritten signature in blue ink that reads "Glenn M. Davis".

Glenn Davis
Director



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