



VIRGINIA BOARD OF ACCOUNTANCY

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2019

Auditor of Public Accounts
Martha S. Mavredes, CPA

www.apa.virginia.gov

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AUDIT SUMMARY

Our audit of the Virginia Board of Accountancy (Accountancy) for the year ended June 30, 2019, found:

- the financial statements are presented fairly, in all material respects;
- an internal control finding requiring management's attention; however, we do not consider it to be a material weakness; and
- one instance of noncompliance or other matters required to be reported under Government Auditing Standards.

We have audited the basic financial statements of the Virginia Board of Accountancy as of and for the year ended June 30, 2019, and issued our report thereon, dated June 19, 2020. Our report, included in Accountancy's Annual Report, is available at the Auditor of Public Accounts' website at www.apa.virginia.gov.

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INTERNAL CONTROL AND COMPLIANCE FINDING AND RECOMMENDATION

Develop and Implement a Process to Maintain Oversight over Third Party Service Providers

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Accountancy does not review third-party service providers' (providers) Service Organization Control reports, including subservice organizations. In addition, Accountancy does not have policies and procedures relating to the review of Service Organization Control reports. Providers are entities that perform outsourced tasks and business functions on behalf of Accountancy and the Commonwealth. A Service Organization Control report provides an independent description and evaluation of the provider's internal controls. Although Accountancy works closely with its providers, management should regularly obtain and review Service Organization Control reports and document the results of its reviews in order to ensure the effectiveness of providers' controls.

The Commonwealth's Information Security Standard, SEC501 (Security Standard), Section 1.1, states that agency heads remain accountable for maintaining compliance with the Security Standard for information technology equipment, systems, and services procured from providers, and agencies must enforce the compliance requirements through documented agreements and oversight of the services provided. Additionally, the Commonwealth Accounting Policies and Procedures (CAPP) Manual Topic 10305 requires agencies to have adequate interaction with the provider to appropriately understand the provider's internal control environment. Agencies must also maintain oversight over the provider to gain assurance over outsourced operations.

Without performing timely reviews of Service Organization Control reports, Accountancy cannot ensure providers' controls are designed, implemented, and operating effectively. Although Accountancy maintains a high degree of interactions with its providers, management is increasing the Commonwealth's risk that it will not detect a weakness in a provider's environment, which could negatively impact the Commonwealth.

Accountancy should develop and implement policies and procedures relating to the review of Service Organization Control reports. These policies and procedures should include processes to timely obtain, review, assess, and document the effectiveness of provider controls reported through Service Organization Control reports. In addition, Accountancy should use Service Organization Control reports as a component of its oversight activities over its providers to confirm they comply with the requirements outlined in the Security Standard, CAPP Manual, and industry best practices. If Accountancy identifies weaknesses in Service Organization Control reports, management should implement complementary controls to mitigate the risk to the Commonwealth until the provider corrects the deficiency.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

June 19, 2020

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Kenneth R. Plum
Chairman, Joint Legislative Audit
And Review Commission

Board Members
Virginia Board of Accountancy

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

We have audited, in accordance with the 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, the financial statements of the Virginia Board of Accountancy (Accountancy) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Accountancy's basic financial statements, and have issued our report thereon dated June 19, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Accountancy's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Accountancy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Accountancy's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did identify a deficiency in internal control over financial reporting entitled "Develop and Implement a Process to Maintain Oversight over Third Party Service Providers," which is described in the section titled "Internal Control and Compliance Finding and Recommendation," that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Accountancy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the section titled "Internal Control and Compliance Finding and Recommendation."

Management's Response to Findings

We discussed this report with management at an exit conference held on July 2, 2020. Management's response to the findings identified in our audit is described in the accompanying section titled "Management's Response." Management's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Martha S. Mavredes
AUDITOR OF PUBLIC ACCOUNTS

DBC/vks



COMMONWEALTH of VIRGINIA

BOARD OF ACCOUNTANCY

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Nancy J. Glynn, CPA
Executive Director

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Board Member

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Board Member

Nadia A. Rogers, CPA
Board (Educator) Member

Stephanie S. Saunders, CPA
Board Member

June 26, 2020

Ms. Martha S. Mavredes, CPA, CGMA
Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23218

Dear Ms. Mavredes,

Thank you for the opportunity to respond.

The Board has established policies and procedures related to the review of Service Organization Control reports. At this time, the Board has one Service Organization and the Master Services Agreement (MSA) for this relationship is between the Virginia Department of Treasury (Treasury) and the vendor. The Board has a joinder agreement to the MSA.

The Board has compensating controls in place that would greatly reduce if not eliminate the risk of material misstatement. Daily the Board completes and reviews a credit card reconciliation, which ensures every payment received has an existing record in our licensing system. In addition our products have standard costs and these amounts are prepopulated in the hosted payment page. Any unallocated payments or unusual transactions would be identified and researched immediately.

The Board has already reviewed the current Service Organization SOC2 report, and is comfortable that the provider put timely and appropriate action plans into place. Based on the agency's policy, the Board will request and review this SOC2 report annually and will review all vendor relationships to identify any additional Service Organizations that would require agency review.

The Board believes a more efficient process to monitor the Commonwealth's risks on large multi-agency Service Organization contracts would be for the contract owner (in this case Treasury) to review any reported security issues, control reports, or other reported incidents and communicate, in summary, this information to all Commonwealth agencies that utilize the MSA.

Sincerely,


Nancy Glynn
Executive Director

VIRGINIA BOARD OF ACCOUNTANCY

As of June 30, 2019

BOARD MEMBERSHIP

Susan Quaintance Ferguson, CPA
Chair

D. Brian Carson, CPA, CGFM
Vice Chair

Matthew P. Boshier, Esq.

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