



STATE CORPORATION COMMISSION

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

Auditor of Public Accounts
Martha S. Mavredes, CPA

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AUDIT SUMMARY

Our audit of the **State Corporation Commission's (Commission)** revenue collections and payroll expenses for the fiscal year ended June 30, 2018, and follow-up on three prior information security findings and one system access finding, found:

- proper recording and reporting of revenue and payroll transactions, in all material respects, in the Commonwealth's accounting and reporting system and the Commission's financial system;
- matters involving internal control and its operation necessary to bring to management's attention;
- instances of noncompliance with applicable laws and regulations or other matters that are required to be reported; and
- adequate corrective action with respect to the prior audit findings identified as "Resolved" in the [Findings Summary](#) in the Appendix and significant progress on the findings identified as "Repeat" in the Status of Prior Year Audit Findings section of the report.

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

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AUDIT FINDINGS AND RECOMMENDATIONS

STATUS OF PRIOR YEAR AUDIT FINDINGS

Continue Improving Information Security Program

Type: Internal Control and Compliance

Repeat: Yes (first issued in 2014 with significant progress in this area)

The Commission does not have up-to-date and approved information security policies and procedures (information security program). During our follow-up review of the Commission's corrective action plan to improve its information security program, we found that the Commission has 20 of their 48 policies, standards, or procedures in draft form or awaiting approval. The Commission is conducting a full revision of its information security program, but has not yet completed the process.

The Commonwealth's Information Security Standard, SEC 501 (Security Standard), requires the Commission to develop and implement an information security program that governs the minimum control requirements for sensitive applications and systems. Without an up-to-date and approved information security program, the Commission may not effectively communicate security requirements to protect and mitigate risks to data. Additionally, the Commission may inconsistently address security needs across the information technology environment, potentially resulting in unauthorized access to data or the inability to recover from system outages promptly, among other risks.

The lack of an up-to-date and approved information security program is due to the Commission not having any personnel dedicated to its development and maintenance. The Commission hired an individual responsible for developing and maintaining the information security program in the summer of 2018. The Commission subsequently developed a formalized process for establishing, reviewing, and approving sections of the information security program and began an update project.

The Commission should complete its information security program update project and implement the approved program into its information technology environment. The information security program should align with the requirements in the Security Standard and establish the minimum requirements to implement effective security controls in the Commission's information technology environment. Completing and implementing the information security program will help to ensure the confidentiality, integrity, and availability of data and achieve compliance with the Security Standard.

Continue Improving Logical Access Controls

Type: Internal Control and Compliance

Repeat: Yes (first issued in 2016, with significant progress in this area)

The Commission does not follow certain logical access controls for a mission critical system according to internal policies and procedures and the Security Standard.

We addressed specific control weaknesses 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 Commission should develop a process to ensure consistent implementation of the requirements contained within internal policies and procedures and the Security Standard for access and account management. Doing this will help to ensure the confidentiality, integrity, and availability of data by achieving consistency with internal policies and compliance with the Security Standard.

NEW AUDIT FINDING

Develop and Implement Alternative Controls for Manual Payments

Type: Internal Control

Repeat: No

The Commission is not consistently following its policies for checks received in the Bureau of Insurance (Bureau). We identified four instances out of nine randomly sampled check deposits where one employee received, deposited, and recorded the payments to customer accounts. Allowing one employee to receive, deposit, and record the checks does not allow for adequate separation of duties. In some cases, the employee that received, deposited, and recorded payments, also completed the month end reconciliation between the customer system and the financial accounting system for the Commission.

As part of a sound system of internal controls for recording financial transactions, there must be separation of duties between receipt, recording, and reconciling. Separating these duties provides for the safeguarding of assets and proper recording. Per the Commonwealth Accounting Policies and Procedures (CAPP) Manual Topic 20905, “agency management is responsible for instituting internal control over the recording of financial transactions that is designed to provide reasonable assurance regarding the reliability of those records.”

The Bureau collects revenues from different insurance companies through three different payment methods: automated clearing-house transfers, lockbox collections, and manual collections received directly by the Bureau. This internal control deficiency only relates to manual collections. For fiscal year 2018, manual collections comprised 4.8 percent (\$3.7 million) of the Bureau’s total annual revenue collections of approximately \$78.0 million. The Bureau has two employees with revenue collecting responsibilities and has decided to focus staff efforts on the automated clearing-house transfers and lockbox collections, which comprised 95.2 percent of the revenue collected during fiscal year 2018. When one of the revenue collecting employees is out of the office, the remaining employee will receive, record, and deposit the checks that are payable to the Treasurer of Virginia. The Bureau management is aware of the lack of separation of duties when one employee is out of the office; however, management has not developed and implemented alternative controls to deploy when one of the two revenue employees is out of the office. The Commission’s management should develop and implement alternative controls to provide for the safeguarding and recording of manual checks when staffing levels are not ideal.

AUDIT SCOPE OVERVIEW

The Commission is a constitutionally established independent department of the Commonwealth of Virginia. The Commission is directed by three Commissioners, elected by the General Assembly for six-year terms. The Commission's primary responsibilities include licensing all corporations, limited partnerships, limited liability corporations, and business trusts doing business within the Commonwealth; regulating the utility, railroad, and financial services industries; and adjudicating legal cases brought before it.

Our audit focused on the Commission's two most significant fiscal cycles, revenues and payroll expenses. In addition, we also followed up on information security and system access recommendations issued in prior audits.

Information Security

Information systems are critical to the Commission's ability to function; as such, the security of these systems is critical to its ability to carry out its responsibilities. Due to the sensitive nature of this topic, explanations in this report about our information security testing are at a relatively high level.

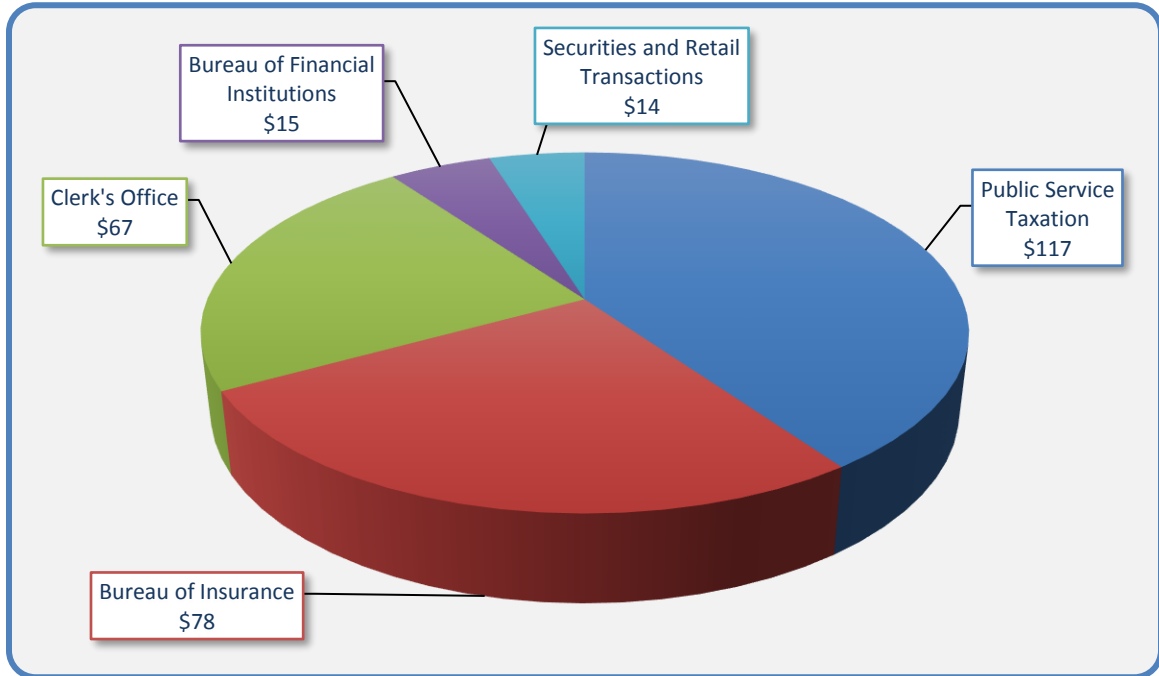
We assessed the Commission's corrective actions to prior information security and system access findings to determine whether the underlying issues had been resolved. We evaluated the Commission's physical and environmental security controls and reviewed the controls related to threat management and incident response. These reviews were based on information security standards promulgated by the Commonwealth and industry best practices.

Revenue and Payroll

The Commission's regulatory divisions collect revenues for the General Fund, other special revenue funds, localities, and other state agencies. There are five main regulatory divisions that collect in total approximately \$290 million each year, as seen in Table 1 on the next page. Our testing on revenue focused mainly on revenue collections for the Bureau of Insurance, Clerk's Office, and Public Service Taxation. The Commission has roughly \$68 million in annual payroll expenses to support its 644 salaried employees and 17 wage employees. Our audit focused on salaried employees that comprise 99 percent of the total payroll expenses.

Revenue Collected by Regulatory Division
Fiscal Year 2018
(Dollars in Millions)

Table 1



Source: Commonwealth's accounting and financial reporting system



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

August 7, 2019

The Honorable Ralph S. Northam
Governor of Virginia

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

Commissioners
State Corporation Commission

We have audited revenue collections and payroll expenses for the fiscal year ended June 30, 2018, and followed up on three prior information security findings and one system access finding for the **State Corporation Commission** (Commission). 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 Scope and Objectives

Our audit's primary objectives with regard to revenue collections and payroll expenses were to evaluate the accuracy of transactions as recorded in the Commonwealth's accounting and financial reporting system and the Commission's financial system; review the adequacy of the Commission's internal controls; and test compliance with applicable laws, regulations, contracts, and grant agreements. We also reviewed the Commission's corrective actions for information security and system access findings from prior reports. We did not review corrective actions for the prior audit finding identified as "Deferred" in the [Findings Summary](#) included in the Appendix. We will follow up on this finding in a future audit. See the [Findings Summary](#) for a listing of prior findings and the status of follow-up on management's corrective actions.

Audit Methodology

The Commission's 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 Commission's 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 Commission's 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 found that the Commission properly stated, in all material respects, transactions recorded and reported in the Commonwealth's accounting and financial reporting system and the Commission's financial system, relating to the audit objectives.

We noted certain matters pertaining to the information security and revenue business cycles, involving internal control and its operation and compliance with applicable laws and regulations that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

The Commission has taken adequate corrective action with respect to audit findings reported in prior reports that are not repeated in this letter.

Exit Conference and Report Distribution

We provided this report with management on August 21, 2019. Management's response to the findings identified in our audit is included in the section titled "Commission 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, the Commissioners, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

GDS/clj

FINDINGS SUMMARY

Finding	Follow Up Status	Year(s) Issued
Follow Procurement Rules and Best Practices	Deferred**	2012 2016
Continue Improving the Information Security Program	Repeat*	2014 2016 2017 2018
Continue Improving Logical Access Controls	Repeat*	2016 2017 2018
Disable System Access in a Timely Manner	Resolved	2016
Improve Database Security Controls	Resolved	2017
Develop and Implement Alternative Controls for Manual Payments	New	2018

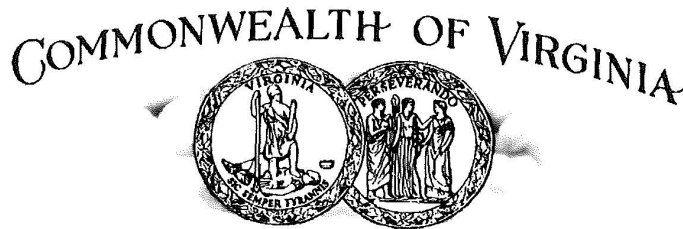
*Follow-up Status on prior year findings identified as "Repeat" indicates management's corrective action on a prior finding is not complete; therefore, the prior year finding has been fully or partially repeated.

**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.

MARK C. CHRISTIE
COMMISSIONER

JUDITH WILLIAMS JAGDMANN
COMMISSIONER

PATRICIA L. WEST
COMMISSIONER



JOEL H. PECK
CLERK OF THE COMMISSION
P.O. BOX 1197
RICHMOND, VIRGINIA 23218-1197

STATE CORPORATION COMMISSION

September 4, 2019

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

Dear Ms. Mavredes:

The State Corporation Commission (Commission) appreciates the time and effort your staff devoted to the review of the Commission's revenue collections and payroll expenses for the fiscal year ended June 30, 2018, and the follow-up on three prior information security findings and one system access finding.

We are pleased that your review found that the Commission properly stated, in all material respects, the transactions recorded and reported in our accounting and financial reporting system relating to the audit objectives and that adequate corrective action was taken with respect to the prior audit findings of "Disable System Access in a Timely Manner" and "Improve Database Security Controls."

The Commission has already acted to resolve the finding for the development and implementation of alternative controls for manual payments and will continue the action already initiated to correct the two unresolved information security findings from the prior audit. The following action will be taken regarding the findings:

Continue Improving the Information Security Program

The Commission's Information Security Policy Committee, responsible for adopting the policies applicable to the Information Security Program, will continue their review of the policies that have been drafted so the policies can be adopted and implemented. The intent is to adopt the policies during fiscal year 2020.

Improve Logical Access Controls

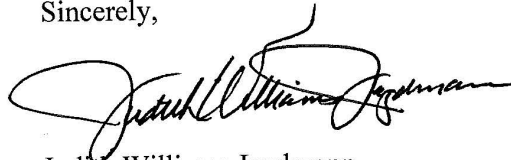
The Commission's Information Security Officer will work with the appropriate staff and assure the logical access controls are followed according to internal policies and procedures.

Develop and Implement Alternative Controls for Manual Payments

The Administrative Revenue Manager of the Bureau of Insurance (Bureau) will assure that the appropriate separation of duties exists for check deposits and the completion of the month-end reconciliation. The Bureau, in conjunction with the Office of the Commission Comptroller, has identified suitable backups to resolve the control deficiency, and those persons have been trained and corrective action has been implemented.

In closing, thank you for the opportunity to review and comment on the audit report. The Commission recognizes the responsibility to implement and maintain an information security program that protects information resources. We look forward to working with the APA to achieve the shared goal.

Sincerely,



Judith Williams Jagdmann
Chairman



Mark C. Christie
Commissioner



Patricia L. West
Commissioner

STATE CORPORATION COMMISSION

As of June 30, 2018

Judith Williams Jagdmann
Chairman

Mark C. Christie
Commissioner

Patricia L. West
Commissioner