



DEPARTMENT OF SMALL BUSINESS AND SUPPLY DIVERSITY

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS AS OF JANUARY 2023

Auditor of Public Accounts
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Commonwealth of Virginia

Auditor of Public Accounts

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P.O. Box 1295
Richmond, Virginia 23218

May 5, 2023

Willis Morris, Director
Department of Small Business and Supplier Diversity

Joe Shearin, Executive Director
Virginia Small Business Financing Authority

101 N. 14th Street
Richmond, VA 23219

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire for the **Department of Small Business and Supplier Diversity** (Small Business and Supplier Diversity), including the **Virginia Small Business Financing Authority** (Financing Authority). We completed the review on January 31, 2023. 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 Small Business and Supplier Diversity and the Authority 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 Small Business Supplier Diversity and the Authority. 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 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 the findings reported in the prior review from 2019 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 Small Business and Supplier Diversity's ARMICS program included a review of all current ARMICS documentation and a comparison to statewide guidelines established by Accounts. Further, we evaluated the Small Business and Supplier Diversity and Financing Authority'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; contract procurement; 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** - Small Business is working to implement corrective action over its audit logging process, as required by the Hosted Environment Information Security Standard, SEC 525 (Hosted Environment Security Standard). Small Business has updated its policy to reflect changes to the control environment to implement and address these items. Small Business should continue its efforts to finalize corrective action and consult with the Virginia Information Technologies Agency about any issues with implementing a process to log audit events.
- Small Business and Supplier Diversity and the Financing Authority have documented policies and procedures over its critical business areas. However, given recent turnover in key fiscal

and administrative positions, we identified an opportunity for management to review and update their policies and procedures to ensure they are accurate and comprehensive.

- The Financing Authority did not maintain documentation of supervisory review of reconciliations of funds held by the Financing Authority in local bank accounts. In addition, for one of the reconciliations reviewed, the Financing Authority did not identify and investigate a reconciling item until a later date. The Financing Authority should re-evaluate its reconciliation policies and procedures to ensure the process is working as designed.
- Small Business and Supplier Diversity did not have evidence that a supervisor completed the separation checklist for one employee. Management should take the necessary steps to ensure supervisors are following through with their responsibilities to complete and submit the checklist to the appropriate party in accordance with their internal policy.

We discussed these matters with management on April 3, 2023. Management's response to the findings identified in our review is included in the section titled "Agency Response." Certain information, marked with a black box, was redacted from the response as the information is Freedom of Information Act Exempt under § 2.2-3705.2 of the Code of Virginia, due to it containing descriptions of security mechanisms. 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/clj



COMMONWEALTH of VIRGINIA

Department of Small Business and Supplier Diversity

Via Electronic Mail

August 15, 2023

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

Dear M. Henshaw:

The Department of Small Business and Supplier Diversity's (SBSD) response to the results of the APA's Internal Control Questionnaire Review completed on January 31, 2023 (received via e-mail on July 12, 2023) is as follows:

Policies and Procedures

Small Business and Supplier Diversity and the Financing Authority have documented policies and procedures over its critical business areas. However, given recent turnover in key fiscal and administrative positions, we identified an opportunity for management to review and update their policies and procedures to ensure they are accurate and comprehensive.

Agency Response

As we continue to fill key vacancies within the agency, SBSD and VSBFA are currently in the process of reviewing and updating all policies and procedures to ensure the accuracy and comprehensiveness. Further, all key business procedures and process steps are reviewed and updated during the annual ARMICS review.

Human Resources – Employee Separation

Small Business did not have evidence that a supervisor completed the separation checklist for one employee. Management should take the necessary steps to ensure supervisors are following through with their responsibilities to complete and submit the checklist to the appropriate party in accordance with their internal policy.

Agency Response

Management will ensure that separating employees complete the checklist. Departing employees are required to submit a letter of resignation. Administration forwards that to DHRM shared services. This prompts the circulation of the employee separation checklist to the appropriate departments starting with Administration, IT and the employee's supervisor.

Fund Bank Reconciliations

The Authority did not maintain documentation of supervisory review of reconciliations of funds held by the Authority in local bank accounts. In addition, for one of the reconciliations reviewed, the Authority did not identify and investigate a reconciling item until a later date. The

Authority should re-evaluate its reconciliation policies and procedures to ensure the process is working as designed.

Agency Response

Monthly reconciliations have been completed via the Fund Accounting process (Excel spreadsheets) and, since June 2021, via [REDACTED] computerized accounting system as well. The Fund Accounting Excel sheets also contain Inception to Date and Fiscal Year to Date reconciliations in addition to the Month to Date reconciliations.

VSBA is currently reevaluating its reconciliation policies and procedures to ensure the process is implemented as required.

Information Systems – Audit Logging

Small Business is working to implement corrective action over its audit logging process, as required by the Hosted Environment Information Security Standard, SEC 525 (Hosted Environment Security Standard). Small Business has updated its policy to reflect changes to the control environment to implement and address these items. Small Business should continue its efforts to finalize corrective action and consult with the Virginia Information Technologies Agency about any issues with implementing a process to log audit events.

Agency Response

SBSD is currently in the process of developing an audit logging process which will involve weekly reviews. The process is ongoing and is scheduled to be completed by December 31, 2023.

Sincerely,



Verniece Love, Deputy Director

cc. Willis Morris, Director – DSBSD
Joe Shearin, Executive Director – VSBA