



## DEPARTMENT OF GENERAL SERVICES

# REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2025

Auditor of Public Accounts  
Staci A. Henshaw, CPA

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## AUDIT SUMMARY

Our audit of the real estate leases administered by the Department of General Services' (General Services) Division of Real Estate Services (Real Estate Services) and accounted for by the Office of Fiscal Services (Fiscal Services) for the year ended June 30, 2025, found:

- proper recording and reporting of all transactions, in all material respects, in the Real Estate Services' real estate management system and the Department of Accounts' (Accounts) Internal Service Fund Attachment;
- one matter involving internal control and its operation requiring management's attention; however, we do not consider it to be a material weakness; and
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported under Government Auditing Standards; and
- corrective action on the prior audit finding remains ongoing as indicated in the [Findings Summary](#) included in the Appendix.

In the section titled "Internal Control Finding and Recommendation" we have included our assessment of the conditions and causes resulting in the internal control finding identified through our audit as well as our recommendation for addressing the finding. Our assessment does not remove management's responsibility to perform a thorough assessment of the conditions and causes of the finding and develop and appropriately implement adequate corrective actions to resolve the finding as required by the Department of Accounts in Topic 10205 – Agency Response to APA Audit of the Commonwealth Accounting Policies and Procedures Manual. Those corrective actions may include additional items beyond our recommendation.

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## INTERNAL CONTROL FINDING AND RECOMMENDATION

### **Improve Internal Controls over Financial Reporting of Leased Assets**

**Type:** Internal Control

**Severity:** Significant Deficiency

**First Reported:** Fiscal Year 2022

The Department of General Services' (General Services) Division of Real Estate Services (Real Estate Services) real estate management and leasing system is not fully compliant with Governmental Accounting Standards Board (GASB) Statement No. 87, Leases. As noted in previous years, the real estate management and leasing system is deficient in several areas. The real estate management and leasing system does not determine lease classification, record multiple components, or record leases by major asset class. As a result of these deficiencies, General Services must perform numerous manual manipulations outside of the system in order to prepare financial reporting information.

Since the prior audit, General Services' Office of Fiscal Services (Fiscal Services) and Real Estate Services implemented manual internal controls to compensate for the system deficiencies noted above. Management did not implement improvements to the current system due to system limitations and capabilities. Therefore, the limitations and challenges of using the deficient real estate management and leasing system and the risk of the manual controls resulting in financial reporting errors persist. Management is researching other options to correct these issues, including potentially purchasing a stand-alone lease reporting system. Further, during fiscal year 2025, General Services made improvements to their manual processes through the development of policies and procedures over the evaluation and financial reporting of leases. However, the system and procedural deficiencies resulted in the following financial reporting errors:

- Fiscal Services inappropriately reported all right-to-use intangible assets as buildings in the capital assets footnote, which resulted in Fiscal Services overstating buildings and understating land for both the beginning balance, increases, decreases, and ending balance.
- Fiscal Services improperly reported the impact of all remeasured leases in the current year increases to the capital assets and long-term liabilities footnotes, which resulted in Fiscal Services understating current year increases and decreases.
- Fiscal Services improperly included previously expired leases in the capital assets and long-term liabilities footnotes, which resulted in an overstatement of the beginning and ending balances.
- Fiscal Services improperly recorded leases signed before year end that do not commence until after year end, which resulted in Fiscal Services overstating right-to-use assets and lease liabilities and understating future commitments. Fiscal Services made a similar error in the

prior year but did not revise and implement internal controls to prevent this from occurring again.

- Fiscal Services reports information related to leases to Accounts through the internal service fund attachment. Fiscal Services submitted the first attachment on August 15<sup>th</sup> and then resubmitted a revised attachment to Accounts on September 17<sup>th</sup>, which is eight and 41 days, respectively, after the due date set by Accounts.

Management is responsible for designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial information that is free from material misstatement, whether due to fraud or error. GASB Statement No. 87 prescribes the applicable accounting standards surrounding the proper accounting and financial reporting for leases. Commonwealth Accounting Policies and Procedures Manual Topics 31205-31220 state all agencies must follow guidelines as required by GASB Statement No. 87.

General Services management should continue to prioritize and emphasize the need for and importance of preparing accurate financial information in accordance with generally accepted accounting principles. Management should provide resources and training to individuals within Fiscal Services responsible for the financial reporting of leases. Real Estate Services and Fiscal Services should continue to develop, implement, and regularly update policies and procedures over their lease process to ensure accurate and complete reporting, including controls over commitment disclosures. General Services management should continue to research options to address deficiencies in, or replace, the real estate management and leasing system and implement the selected corrective action. Fiscal Services should ensure that lease-related balances and disclosures it submits to the Department of Accounts for reporting in the Commonwealth's financial statements is accurate and maintain adequate documentation supporting its calculations. Additionally, General Services should develop and perform analytical procedures to evaluate the reasonableness and accuracy of calculations related to lease balances and disclosures.



Staci A. Henshaw, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

December 15, 2025

The Honorable Glenn Youngkin  
Governor of Virginia

Joint Legislative Audit  
and Review Commission

Margaret "Lyn" McDermid  
Secretary of Administration

Banci Tewolde  
Department of General Services

We have audited the financial records and operations related to real estate leases administered by the Department of General Services' Division of Real Estate Services and the Office of Fiscal Services for the year ended June 30, 2025. We conducted this audit in accordance with 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, in support of the Commonwealth's Annual Comprehensive Financial Report audit. 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 Objectives**

Our audit's primary objective was to evaluate the accuracy of General Services' financial transactions as reported in the Annual Comprehensive Financial Report for the Commonwealth of Virginia for the year ended June 30, 2025. In support of this objective, we evaluated the accuracy of recorded financial transactions in Real Estate Services' real estate management system and the Department of Accounts' (Accounts) Internal Service Fund Attachment; reviewed the adequacy of Real Estate Services' and Fiscal Services' internal control; tested for compliance with applicable laws, regulations, contracts, and grant agreements; and reviewed corrective actions with respect to the audit finding from the prior year's report.

## **Audit Scope and Methodology**

General Services' 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, sufficient to plan the audit. We considered materiality and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

- Leases
- Financed purchases
- Rent, insurance, and other related charges
- Interest expense
- Information system security over Real Estate Services' real estate management system
- System access controls over Real Estate Services' real estate management system

We performed audit tests to determine whether the General Services' 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. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of General Services' operations. We performed analytical procedures, including budgetary and trend analyses, and tested details of transactions to achieve our audit 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.

Our consideration of internal control over financial reporting (internal control) was for the limited purpose described in the section "Audit Objectives" and was not designed to identify all deficiencies in internal control 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 that we consider to be material weaknesses. We did identify a deficiency in internal control titled "Improve Internal Controls over Financial Reporting of Leased Assets," which is described in the section titled "Internal Control Finding and Recommendation," that we consider to be a significant deficiency.

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.

## **Conclusions**

We found that General Services properly stated, in all material respects, the amounts recorded and reported in Real Estate Services’ real estate management system and Accounts’ Internal Service Fund Attachment.

We noted a matter involving internal control and its operation that requires management’s attention and corrective action. This matter is described in the section titled “Internal Control Finding and Recommendation.” The results of our tests of compliance with applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Since the finding noted above has been identified as a significant deficiency, it will be reported as such in the “Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards,” which is included in the Commonwealth of Virginia’s Single Audit Report for the year ended June 30, 2025. The Single Audit Report will be available at [www.apa.virginia.gov](http://www.apa.virginia.gov) in February 2026.

## **Exit Conference and Report Distribution**

We discussed this report with management at an exit conference held on January 21<sup>st</sup>, 2026. Government Auditing Standards require the auditor to perform limited procedures on General Services’ response to the findings identified in our audit, which is included in the accompanying section titled “Agency Response”. General Services’ response was not subjected to the other auditing procedures applied in the audit and, accordingly, we express no opinion on the response.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

Staci A. Henshaw  
AUDITOR OF PUBLIC ACCOUNTS

JJR/clj

## FINDINGS SUMMARY

Finding Title	Status of Corrective Action*	Fiscal Year First Reported
Improve Internal Controls over Financial Reporting of Leased Assets	Ongoing	2022

\* A status of **Ongoing** indicates new and/or existing findings that require management's corrective action as of fiscal year end.



COMMONWEALTH of VIRGINIA  
DEPARTMENT OF GENERAL SERVICES

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February 5, 2026

Staci A. Henshaw  
Auditor of Public Accounts  
James Monroe Building  
101 North 14th Street, 8th Floor  
Richmond, VA 23219

Re: Audit of Real Estate Leased Assets

Dear Ms. Henshaw:

I am in receipt of a draft audit report for the Department of General Services' Real Estate Leased Assets (GASB Statement No. 87) audit for fiscal year 2025. The Department concurs with the Auditor of Public Accounts' finding and highlights the Department's 2026-2028 budget request to Invest in Updated Technology to More Efficiently Manage the Commonwealth's Real Estate Portfolio as a mitigating factor. The draft report states that the Department's real estate management and leasing system is deficient in several areas, and the Department has implemented several manual internal controls since the prior audit to compensate for the system deficiencies to prevent financial reporting issues as reported in the previous fiscal year reports.

As you know, the Department's real estate management and leasing system is over a decade old and predates the implementation of the GASB Statement No. 87 standard beginning in FY22. The Department has attempted to address these deficiencies by requesting funding to upgrade the Department's systems. With such an upgrade, the Department's systems would become more automated, and the current manual manipulation would no longer be necessary. The Department appreciates that the Auditor has recognized the improvements the Department has made over the past fiscal year, and thanks the Auditor for the time and effort invested in this process, as it provides valuable insights into improvement.

Sincerely,

Banci E. Tewolde