



# DEPARTMENT OF FORESTRY

## INTERNAL CONTROL QUESTIONNAIRE

### REVIEW RESULTS

AS OF

AUGUST 2023

Auditor of Public Accounts

Staci A. Henshaw, CPA

[www.apa.virginia.gov](http://www.apa.virginia.gov)

(804) 225-3350



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Staci A. Henshaw, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

March 25, 2024

Robert Farrell, State Forester  
Department of Forestry  
900 Natural Resources Drive  
Charlottesville, Virginia 22903

## INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire for the **Department of Forestry** (Forestry). We completed the review on August 30, 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 Forestry 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 Forestry. 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 2020 internal control questionnaire review findings as well as the findings in the reports titled "[Cycled Agency Information Systems Security Review for the year ended June 30, 2020](#)" and "[Cycled Agency Capital Assets Review for the year ended June 30, 2020](#)." 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 Forestry. Our review of Forestry's ARMICS program included a review of all current ARMICS documentation and a comparison to statewide guidelines established by Accounts. Further, we evaluated Forestry'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; expenses; 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** - Forestry continues not to have an adequate information technology (IT) security governance structure to manage its Information Security program and comply with the Commonwealth's Information Security Standard, SEC 501 (Security Standard). Specifically, Forestry allocates one position to serve the role of both Director of IT/Chief Information Officer (CIO) and Information Security Officer (ISO). The Security Standard states that the ISO must not simultaneously serve the function of CIO. In addition, Forestry bases its information security policies and procedures on the Security Standard, SEC 501-09, which is no longer valid. The Security Standard, SEC 501-12 supersedes SEC 501-09. Forestry has not reviewed and revised its information security policies and procedures to align with the requirements in the current Security Standard version and has not reviewed and revised any of its any of its information security policies and procedures since 2018. Forestry should review and update all information security policies and procedures to align with the requirements in the current

Security Standard version. Once Forestry updates all the policies and procedures to the current Security Standard, the individual responsible for maintaining Forestry's information security policies and procedures should ensure they remain current. Additionally, Forestry should allocate the necessary resources to maintain an ISO position separate from the Director of IT/CIO.

**Repeat** - Forestry does not implement certain security safeguards to protect the audit log information for its database in accordance with the Security Standard. We communicated three 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 the descriptions of security mechanisms. Forestry should remediate the weaknesses discussed in the communication marked FOIAE in accordance with the Security Standard to protect the confidentiality, integrity, and availability of its sensitive and mission-critical data.

- **Repeat** - Forestry does not maintain effective IT risk management and contingency planning documentation. Forestry does not conduct and document a risk assessment of each sensitive system as needed, but not less than once every three years. In addition, Forestry does not conduct and document an annual review and update of each risk assessment to determine the continued validity of the risk assessment. Finally, Forestry does not review and update the Continuity Plan on an annual basis or more frequently if required to address an environmental change. Forestry has not reviewed and revised the Continuity Plan since March 2020. Forestry should dedicate the necessary resources to maintain updated versions of its risk assessments and Continuity Plan.
- **Repeat** - Forestry does not properly manage oversight of IT service providers to gain assurance over outsourced operations in accordance with the Security Standard, and the Commonwealth's Hosted Environment Security Standard, SEC 525 (Hosted Environment Security Standard). Forestry uses two IT service providers for mission-critical business functions, in which both providers process and store sensitive data. Forestry does not have developed policies and procedures for service provider oversight. Forestry does not obtain and review independent audit assurance reports for either IT service provider to verify that the provider's information security controls are operating effectively. Finally, Forestry does not confirm the geographic location of sensitive data monthly for one of its IT service providers. Forestry should develop policies and procedures for ensuring that providers have appropriate security controls in place and for monitoring the providers; obtain and review an independent audit assurance report for both IT service providers; and confirm the geographic locations of sensitive data monthly.
- **Partial Repeat** - Forestry made progress to improve system access. Since the prior audit, Forestry developed an access termination process to remove system access within 24 hours of termination. However, Forestry still does not perform an annual system access review, as

required by the Security Standard. While Forestry has an approved Information Technology Access Management Policy, due to resource constraints, Forestry has not yet implemented the requirements within the policy. Forestry should continue implementing the controls outlined in its Information Technology Access Management Policy and the Security Standard to ensure consistent and appropriate account management.

- **Repeat** - Forestry does not have formal, documented policies and procedures over all critical business areas. Forestry should develop or improve policies and procedures to maintain an effective control environment. Business areas needing improvement include retirement benefits reconciliation, ARMICS, procurement and contract management, small purchase charge card reconciliation, capital asset management, grants management and payroll certification. Commonwealth Accounting Policies and Procedures (CAPP) Manual Topic 20905 and other sections require each agency to "publish its own policies and procedures documents, approved in writing by agency management." Management should 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** - Forestry does not have sufficient controls over physical inventory. Since the last review, Forestry has developed a committee to evaluate controls over physical inventory; however, Forestry has not implemented the new controls yet. Forestry should evaluate its physical safeguards over inventory, restrict access to authorized personnel, segregate duties, and properly document the process. Management should report inventory values to Accounts in accordance with the guidance issued in CAPP Manual Topic 30210 and develop a method to evaluate inventory counts to ensure proper stewardship of assets.
- **Partial Repeat** - Forestry's process for confirming the accuracy of retirement data reported to the Virginia Retirement System is not in compliance with the CAPP Manual Topic 50470. Forestry's process does not include reviewing a report required by the CAPP Manual, the Centralized State Systems - Cancelled Records Report. Forestry has access to this report but is not pulling and reviewing it to address and update errors, as necessary. In addition, Forestry confirmed retirement contribution snapshots early, before the end of the second pay period, for nine of 12 months. Per the CAPP Manual, agencies must confirm monthly by the 10<sup>th</sup> of the following month, the earliest confirmation dates should not occur prior to the close of the confirmation month's second pay period. Forestry should improve its process for confirming retirement data to include reviewing all required reports and ensuring that the payroll data is complete before confirming.
- Forestry is not properly accounting for leases in accordance with Governmental Accounting Standards Board (GASB) Statement No. 87. Forestry did not evaluate all contracts to properly identify all potential leases. Forestry also did not evaluate and record the group of leased

assets with the same contracted vendor, lease term, and interest rate. In addition, Forestry did not follow the correct procedure for determining the interest rate. CAPP Manual Topic 31200, which references GASB Statement No. 87, requires agencies to properly identify leases and group leases for recording in the lease accounting system to ensure proper classification of long-term and short-term, and to evaluate explicit, implicit, and incremental borrowing rates before defaulting to the prime rate for a reasonable and accurate interest rate. Management should develop lease procedures that comply with GASB Statement No. 87 and properly identify, record, and classify leases in accordance with this standard.

- Forestry did not obtain the System and Organization Controls (SOC) report for a provider that processes sensitive information and, as such, did not document an evaluation of the SOC report and the complimentary user entity controls described within the report. CAPP Manual Topic 10305 requires agencies to have an adequate level of interaction with third-party providers to obtain an understanding of the providers' internal control environments as well as any required complementary controls the agency would need to implement. Agencies must maintain oversight over the provider to gain assurance over outsourced operations. Forestry should develop policies and procedures over SOC reports and obtain and evaluate SOC reports timely.
- Forestry's ARMICS process does not cover all minimum requirements set by Accounts. Specifically, Forestry did not include the consideration of fraud, did not have evidence of testing of agency-level controls, and did not test all significant fiscal processes. Forestry also completed the ARMICS certification through Accounts' portal after the certification deadline. Forestry should ensure ARMICS documentation meets the minimum requirements issued by Accounts and should certify by the submission deadline.

We discussed these matters with management on October 10, 2023, and November 2, 2023. 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 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/vks

Rob Farrell  
State Forester



# COMMONWEALTH of VIRGINIA

## Department of Forestry

900 Natural Resources Drive, Suite 800 • Charlottesville, Virginia 22903  
(434) 977-6555 • Fax: (434) 296-2369 • [www.dof.virginia.gov](http://www.dof.virginia.gov)

April 1, 2024

Staci A. Henshaw, CPA  
Auditor of Public Accounts  
P.O. Box 1295  
Richmond, Virginia 23218

Dear Ms. Henshaw:

Forestry has reviewed the Auditor of Public Accounts (APA) Internal Control Questionnaire Review Results received on March 25, 2024. Thank you for the opportunity to respond.

We concur with the findings and have begun implementing the necessary corrective actions.

We appreciate your staff's time and guidance throughout the review process. Please feel free to contact us if you need any further responses or if you have additional questions or concerns.

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Farrell".

Robert Farrell  
State Forester

LWS/lws

cc: Amanda Davis, Chief of Administration  
Lauren Sumner, Director of Finance