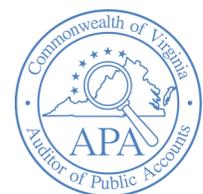




JOINT LEGISLATIVE AUDIT
AND
REVIEW COMMISSION

QUARTERLY REPORT SUMMARY
JULY 1, 2018 THROUGH SEPTEMBER 30, 2018

Auditor of Public Accounts
Martha S. Mavredes, CPA
www.apa.virginia.gov
(804) 225-3350



QUARTERLY REPORT SUMMARY - JULY 1, 2018, TO SEPTEMBER 30, 2018

Audit Activities

The [Summary of Reports Issued](#) section at the end of this report lists all reports issued by the Auditor of Public Accounts or our contracted firms during the period July 1, 2018, to September 30, 2018. Below are highlights from select reports issued during the period. All reports listed in this document are available at our website at http://www.apa.virginia.gov/APA_Reports/Reports.aspx.

Higher Education Special Reports

[Progress Report on Implementation of JLARC Recommendations](#)

Our progress report [Implementation of JLARC Recommendations](#) shows a summary of progress made by four-year institutions of higher education in implementing eight Joint Legislative Audit and Review Commission (JLARC) recommendations required pursuant to §4-9.04 of Chapter 836 of the 2017 Acts of Assembly. We prepared this summary by reviewing the results of our audits at each institution for the fiscal years ended June 30, 2016, and June 30, 2017, and performing additional follow-up discussion with institutions during the preparation of this report.

[Report on Compliance – NCAA Subsidy Percentage Requirements](#)

Our report on compliance with [NCAA Subsidy Percentage Requirements](#) includes a summary of compliance by Virginia's institutions of higher education with the provisions of §23.1-1309 of the Code of Virginia, which directs institutions to minimize the use of student fees or other institutional sources derived from students to subsidize intercollegiate athletic department revenues.

Higher Education Financial Reports

[Virginia Community College System](#)

Our audit of the [Virginia Community College System](#) (System) for the fiscal year ended June 30, 2017, contains fifty-five recommendations. The first two relate to the implementation of the Shared Services Center (Center). We recommend the establishment of agreements between the Community Colleges, the System Office, and the Center to define clear lanes of responsibility for all stakeholders in the System's new model for managing and controlling accounting and administrative functions System-wide. The second recommends performing an independent evaluation of the internal controls of the Center to ensure internal controls over services provided by the Center are properly designed, implemented, and operationally effective. Another forty-seven recommendations relate to internal controls in several administrative areas at the Center, System Office, and individual Community Colleges. Finally, the report contains six federal related recommendations as a result of follow-up procedures and federal compliance testing.

Department of Game and Inland Fisheries

Our audit of the [Department of Game and Inland Fisheries](#) (DGIF) for the fiscal year ended June 30, 2017, found it should improve its quarterly access reviews over the Commonwealth's purchasing system and its logical access to one of its information systems to ensure appropriate people have access to these systems. Also, DGIF should develop and implement required controls over the administration of its purchasing cards and ensure employees request travel expense reimbursements timely. Further, DGIF should maintain proper separation of duties in relation to recording daily revenue receipts and performing the revenue reconciliation, which should be properly documented and supported by system-generated reports. Finally, DGIF should continue its evaluation of its budgeting process, including evaluating the reasonableness of its fund floor reserve levels and reallocating appropriation requests to reflect updated receipts and projections for federal and special revenue funds in the upcoming years.

Department of Emergency Management Audit of Select Cycles

Our audit of the [Department of Emergency Management](#) for the period July 1, 2016, through June 30, 2018, focused on federal grants management and certain compliance requirements over non-disaster related federal grants. We also reviewed financial management practices over the Radiological Emergency Preparedness Fund at the request of management

Since 2015, Emergency Management has undergone significant changes intended to modernize the agency to meet current risks and improve operations. These changes have resulted in a 28 percent increase in the agency's operating expenses since the beginning of fiscal year 2016. At the same time, Emergency Management has not had a significant increase in their related funding, thereby causing concerns about the agency's ability to sustain this level of spending going forward.

Our report includes five recommendations including continuing to strengthen time and effort reporting, improving controls over journal entries and payroll adjustments, and improving the process for allocating overhead costs. As a result of these findings, we also reported \$851,000 in federal questioned costs primarily due to a lack of documentation. We had one other recommendation related to continued improvement over the financial management of the Radiological Emergency Preparedness Fund.

Judicial Branch Audit of Capital Assets and Information Technology Project Management

Our audit of capital assets and information technology project management of the [Judicial Branch](#) for the fiscal year ended June 30, 2017, includes five recommendations for the Executive Secretary of the Supreme Court of Virginia to strengthen internal controls and compliance. The Executive Secretary should correctly document, track and report information technology project costs. In addition, the Executive Secretary should improve its capital asset processes related to construction in progress reconciliations, physical inventory, evaluation of useful lives, and asset additions.

Potomac River Fisheries Commission

Our audit of [Potomac River Fisheries Commission](#) for the fiscal year ended June 30, 2018, found the Commission continues to have a potential going concern issue for the third year. The Commission has taken several steps to address this problem, including a reduction in funding to the retiree reserve. However, the Commission continues to need to use reserve funds to cover operating expenses. At June 30, 2018, the Commission's operating fund had not reimbursed the reserve account for \$142,000. The Commission continues to experience issues related to timely preparation of bank reconciliations. Further, the Commission has not adopted an applicable security standard and does not have an adequate disaster recovery plan. Finally, the Commission did not properly verify employment eligibility for its two new employees.

Virginia Department of State Police Audit of Select Business Cycles

Our audit of the [Virginia Department of State Police](#) for the fiscal year ended June 30, 2017, focused on eight business areas within the Information Technology (IT) and Property and Finance Divisions, resulting in 38 audit recommendations. These recommendations largely focus on the need for State Police to establish or improve internal control policies and procedures, or consistently follow its existing policies and procedures.

Our report includes a 10-year analysis of full-time staff and contractors within these Divisions and shows that State Police has increased its use of contractors to perform technology and financial functions. As contractors are temporary and may be unfamiliar with state regulations and procedures, formal and detailed policies and procedures helps State Police to communicate its internal control expectations.

Internal Control Questionnaire Review Results Letters

- [New College Institute](#) - The Institute should ensure detailed policies and procedures exist for all critical business areas and should document review and approval of all policies and procedures. Further, the Institute should ensure it is fully compliant with Agency Risk Management and Internal Control Standards issued by the Department of Accounts. Also, the Institute should ensure it prepares, approves, and documents its monthly reconciliation in accordance with the Commonwealth Accounting Policies and Procedures (CAPP) Manual. Finally, the Institute should adopt an industry recognized information security standard and implement information security controls to mitigate risks to agency systems and data.
- [Virginia Museum of Fine Arts](#) - The Museum should ensure detailed policies and procedures exist for all critical business areas. Further, the Museum should ensure it is conducting physical inventories of its assets and performing reconciliations of its internal records to the Commonwealth's accounting and financial reporting system in accordance with the CAPP Manual. The Museum should also improve its process for monitoring part-time employee work hours to ensure compliance with the Affordable Care Act and reviewing and certifying payroll to the Payroll Service Bureau to ensure employees are paid correctly. Finally, the

Museum should ensure it is complying with the Commonwealth's Information Security Standard, SEC 501, by properly identifying sensitive systems and ensuring employees attend security awareness training.

Other Reports

[Virginia Retirement System Schedules - Employer Reports for Pension Plans](#)

In July 2018, the Virginia Retirement System provided the actuarial valuation reports, schedules of the applicable pension amounts, footnote disclosure information, and other financial reporting guidance to the participating state and local government employers for their financial statements to enable them to comply with Governmental Accounting Standards Board Statement No. 68, which covers accounting and reporting of pension activity by employers. The Commonwealth and its localities were required to implement this standard beginning in fiscal year 2015. Likewise, our Office published the reports that included our audit opinions over the plan schedules and applicable pension amounts for the state employee, teachers, and political subdivision retirement plans. All of this information is available on the [Local Government - Pension and OPEB Standards](#) section of our website.

[Virginia Retirement System Schedules - Employer Reports for OPEB Plans](#)

In September 2018, the Virginia Retirement System provided the actuarial valuation reports, schedules of the applicable other post-employment benefit (OPEB) amounts, footnote disclosure information, and other financial reporting guidance to the participating state and local government employers for their financial statements to enable them to comply with Governmental Accounting Standards Board Statement No. 75, which covers employer accounting and reporting of post-employment benefits other than pensions. The Commonwealth and its localities are required to implement this standard beginning in fiscal year 2018. Likewise, our Office published the reports that included our audit opinions over the plan schedules and applicable OPEB amounts for the state employee, teachers, and political subdivision retirement plans. All of this information is available on the [Local Government - Pension and OPEB Standards](#) section of our website.

Other Activities

APA Leadership Institute

During the quarter we held the APA Leadership Institute, which is an internal training program that we conduct every other year to develop future leaders of the APA. Staff must submit an application and, if selected for further consideration, participate in an interview process to be accepted to the Institute. Sessions included topics on the art of storytelling, creating a personal vision, impromptu speaking, and strength based leadership. We also had several leaders from outside the APA meet with the participants and discuss their personal leadership stories and challenges they have encountered in their leadership roles. Finally, each participant was provided a topic and had to develop and give a presentation on that topic.

Monitoring Accounting and Auditing Standards

During the quarter, our Office reviewed several documents issued for comment by the various standard setting bodies that govern the auditing standards we follow in performing our audits and the accounting standards that Virginia state and local governments must follow when reporting their financial activity. Being a part of this process allows us to stay informed of upcoming changes. In addition, by providing feedback to the standard setting bodies on proposed changes we help protect the interests of the Commonwealth in circumstances where we do not agree with the proposed changes. Below are the documents that we reviewed and provided responses to the applicable standard setting entity during this quarter.

Standard Setting Entity	Document Reviewed
AICPA*	Exposure Draft: <i>Revisions to Statement on Standards for Attestation Engagements No. 18</i>
GASB**	Exposure Draft: <i>Conduit Debt Obligations</i>

*American Institute of Certified Public Accountants

**Governmental Accounting Standards Board

Participation with State, Local, and Other Groups

In addition to our audit activities, we participate in other activities to assist in our mission to improve accountability and financial management in the Commonwealth. During the quarter, we participated in the activities of various state, local, and other groups including providing information on a variety of topics and attending events as highlighted below.

Group	Presentation / Training Topic
American Institute of Certified Public Accountants Governmental Accounting and Auditing Update Conference	Provided update on current developments in Single Audits.
Auditor of Public Accounts Comparative Report Transmittal Training	Provided annual training to local government and independent audit firm employees on how to prepare Comparative Report Transmittal Forms in conformance with the APA Uniform Financial Reporting Manual (UFRM) requirements.

SUMMARY OF REPORTS ISSUED

The following reports on audit were released by this Office during the period July 1, 2018, to September 30, 2018. Those reports which included findings in the area of internal controls or compliance are indicated by an (*) asterisk.

Executive Branch State Agencies and Institutions

Administration

Department of General Services for the year ended June 30, 2016

Commerce and Trade

Department of Mines, Minerals, and Energy for the period July 1, 2011, through June 30, 2017
Department of Professional and Occupational Regulation Internal Control Questionnaire Review
Results as of May 2018

Education

New College Institute Internal Control Questionnaire Review Results as of April 2018*
Virginia Museum of Fine Arts Internal Control Questionnaire Review Results as of June 2018*

Colleges and Universities

Richard Bland College Review as of June 30, 2017
Virginia Community College System for the year ended June 30, 2017*

Health and Human Resources

Disability Service Agencies – Audit of Select Cycles – for the year ended June 30, 2017*
GASB 75 Schedules:
Department of Human Resource Management – Commonwealth of Virginia State Health Plans
Program for Pre-Medicare Retirees for the year ended June 30, 2017

Natural Resources

Department of Conservation and Recreation – Audit of Capital Assets – for the year ended
June 30, 2017*
Department of Game and Inland Fisheries for the year ended June 30, 2017*
Potomac River Fisheries Commission for the year ended June 30, 2018*
Virginia Land Conservation Foundation – Audit of Revenue and Other Transfers – for the year
ended June 30, 2017

Public Safety and Homeland Security

Commonwealth's Attorneys' Services Council Internal Control Questionnaire Review Results as of March 2018*

Department of Emergency Management – Audit of Select Cycles – for the period July 1, 2016 through June 30, 2018*

Department of Veterans Services – Audit of Capital Assets – as of June 30, 2017*

Virginia Department of State Police – Audit of Select Business Cycles – for the year ended June 30, 2017*

Technology

Innovation and Entrepreneurship Investment Authority for the year ended June 30, 2017

Independent Agencies

Virginia Lottery – Reports on Applying Agreed-Upon Procedures for the period April 2017 through March 2018:

- Cash4Life
- Mega Millions
- Megaplier
- Power Play
- Powerball

Virginia Retirement System GASB 68 Schedules:

- Political Subdivision Retirement Plans for the fiscal year ended June 30, 2017
- State Employee Retirement Plan for the fiscal year ended June 30, 2017
- Teacher Retirement Plan for the fiscal year ended June 30, 2017

Virginia Retirement System Management's Assertions Related to Census Data for the year ended June 30, 2016

Virginia Retirement System GASB 75 Schedules:

- Disability Insurance Program for the fiscal year ended June 30, 2017
- Group Life Insurance Plan for the fiscal year ended June 30, 2017
- Line of Duty Act Program for the year ended June 30, 2017
- Political Subdivision Health Insurance Credit Plans for the fiscal year ended June 30, 2017
- State Health Insurance Credit Plan for the fiscal year ended June 30, 2017
- Teacher Health Insurance Credit Plan for the fiscal year ended June 30, 2017

Virginia Retirement System Management's Assertions Related to Census Data for OPEB Plans for the year ended June 30, 2016

Judicial Branch Agencies

Clerk of the Supreme Court of Appeals in Virginia for the year ended June 30, 2017

Clerk of the Supreme Court of Virginia for the year ended June 30, 2017

Judicial Branch – Audit of Capital Assets and Information Technology Project Management – for the year ended June 30, 2017*
Virginia Board of Bar Examiners for the year ended June 30, 2017
Virginia State Bar for the year ended June 30, 2017

Special Reports

Progress Report on Implementation of JLARC Recommendations as of June 2018
Report on Compliance – NCAA Subsidy Percentage Requirements for the year ended June 30, 2017
Report to the Joint Legislative Audit and Review Commission for the quarter April 1, 2018 through June 30, 2018

Clerks of the Circuit Courts

Cities:

Buena Vista – January 1, 2017, through March 31, 2018
Chesapeake – April 1, 2017, through March 31, 2018
Hampton – April 1, 2017, through March 31, 2018
Portsmouth – April 1, 2017, through March 31, 2018
Waynesboro – October 1, 2016, through June 30, 2018
Winchester – January 1, 2017, through March 31, 2018

Counties:

Amherst – January 1, 2017, through March 31, 2018
Buckingham - as of June 29, 2018❖
Campbell – January 1, 2017, through March 31, 2018*
Chesterfield – July 1, 2017, through June 30, 2018
Dickenson – April 1, 2017, through March 31, 2018*
Fauquier – April 1, 2017, through March 31, 2018*
Frederick – April 1, 2017, through March 31, 2018
Giles - as of June 29, 2018❖
Gloucester – January 1, 2017, through March 31, 2018*
Grayson – April 1, 2017, through March 31, 2018
Halifax – January 1, 2017, through March 31, 2018
King and Queen – January 1, 2017, through March 31, 2018
Lee – July 1, 2017, through June 30, 2018
Loudoun – April 1, 2017, through March 31, 2018
Louisa – January 1, 2017, through March 31, 2018*
Mathews – January 1, 2017, through March 31, 2018
Montgomery – July 1, 2017, through June 30, 2018
Nelson – April 1, 2017, through March 31, 2018
Northumberland – July 1, 2016, through March 31, 2018
Orange – January 1, 2017, through December 31, 2017*
Patrick – April 1, 2017, through March 31, 2018*

Prince Edward - as of March 30, 2018❖
Roanoke – April 1, 2017, through March 31, 2018*
Rockbridge – January 1, 2017, through March 31, 2018*
Southampton – April 1, 2017, through March 31, 2018
Stafford – April 1, 2017, through March 31, 2018
Washington – April 1, 2017, through March 31, 2018

General District Courts

Cities:

Williamsburg/James City County – July 1, 2016, through June 30, 2017

Counties:

Loudoun – July 1, 2016, through June 30, 2017*
Warren – July 1, 2017, through June 30, 2018*

Combined District Courts

Counties:

Highland – July 1, 2017, through June 30, 2018

Juvenile and Domestic Relations Court

Counties:

Henrico – July 1, 2016 through June 30, 2017*

Magistrates

District 14 – County of Henrico – July 1, 2016, through June 30, 2017
District 18 – City of Alexandria – July 1, 2017, through June 30, 2018

State Accounts (for the year ended June 30, 2018)

Cities:

Bristol	Fredericksburg	Poquoson*	Suffolk
Chesapeake	Harrisonburg	Portsmouth	Waynesboro
Colonial Heights	Lynchburg	Radford	Williamsburg*
Covington	Martinsville	Richmond	Winchester
Danville	Newport News	Roanoke*	
Emporia	Norton	Salem	
Franklin	Petersburg	Staunton	

Manassas Park (September 9, 2017 through June 30, 2018)

Counties:

Accomack	Dinwiddie	James City*	Powhatan	Sussex❖
Albemarle	Essex	King and Queen	Prince Edward	Tazewell
Alleghany	Fairfax	King William	Prince George	Warren
Appomattox	Floyd	Lancaster	Pulaski	Washington*
Augusta	Franklin	Lee	Rappahannock	Westmoreland*
Bath	Frederick	Lunenburg	Richmond	Wise
Bland	Giles	Madison	Roanoke	Wythe
Botetourt	Giles❖	Mathews	Rockingham	York
Buchanan	Gloucester	Middlesex	Russell	York❖
Buckingham	Goochland	Montgomery	Scott*	
Carroll	Grayson	Nelson	Shenandoah	
Charles City	Greene	New Kent	Smyth	
Charlotte	Greensville	Northampton	Southampton	
Chesterfield	Hanover	Northumberland	Southampton❖	
Clarke	Henrico	Nottoway	Spotsylvania	
Craig	Henry	Page	Stafford	
Cumberland	Highland	Patrick	Surry	
Dickenson	Isle of Wight	Pittsylvania	Sussex	

❖ Denotes turnover reports with varying dates