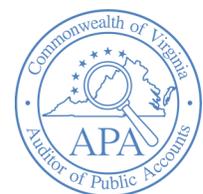




JOINT LEGISLATIVE AUDIT  
AND  
REVIEW COMMISSION

QUARTERLY REPORT SUMMARY  
OCTOBER 1, 2017 THROUGH DECEMBER 31, 2017

Auditor of Public Accounts  
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## QUARTERLY REPORT SUMMARY – OCTOBER 1, 2017, TO DECEMBER 31, 2017

### 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 October 1, 2017, to December 31, 2017. 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](http://www.apa.virginia.gov/APA_Reports/Reports.aspx).

### *Internal Control Questionnaire Review Results Letters*

Our Office recently began issuing Internal Control Questionnaire Review Results Letters (ICQ Results Letters). In order to better utilize our Office's resources we have developed a new process for auditing agencies that we are not required to audit every year (what we refer to as cycled agencies). Traditionally we audited the cycled agencies at least once every three years. We are now employing a new risk-based approach to auditing the cycled agencies. As part of the new approach, APA sends a questionnaire regarding internal controls to these agencies. All agencies will receive a questionnaire at least once every three years. We then review the responses to the questionnaire and design procedures based on the results. We provide a letter to management stating the results and highlighting any key areas of interest. We issued ICQ Results Letters for eight agencies during the quarter, some of which are highlighted below.

- [Virginia Department of Aviation](#) - Aviation should create and document policies and procedures to ensure significant business processes are identified, documented, consistent, and reasonable. Aviation should reassess the relationship and roles between the Grant Coordinator and the Fiscal Division and ensure the Fiscal Division has an active role in monitoring the financial aspects of the various grants and programs in order to ensure proper stewardship of Commonwealth funds. Aviation should consistently monitor the Small Purchase Charge Card program and retain documentation of the monitoring. Aviation needs to update the information technology risk management and contingency documents to ensure that the information among the documents correlates and to adequately secure information systems and data. Aviation should also devote resources to ensuring that deficiencies identified in external audits of their systems are addressed in order to ensure it is in compliance with the Commonwealth's Information Security Standard.
- [Department of Small Business and Supplier Diversity](#) - Small Business should continue to make updating policies and procedures a priority. Small Business should ensure that all Agency Risk Management and Internal Control Standards (ARMICS) processes are being performed in compliance with the Commonwealth Accounting Policies and Procedures Manual. Small Business should develop procedures to ensure contract administrators sufficiently monitor contractor performance and document ongoing monitoring

activities. In addition, Small Business should ensure that system security related deficiencies are addressed.

- [Frontier Culture Museum of Virginia](#) - Frontier Culture should regularly backup records and retain reconciliations between agency records and the Commonwealth's accounting and financial reporting system. Management should ensure that there are current and documented policies and procedures for all critical processes. Frontier Culture should ensure charge card transactions are reconciled and reviewed timely in order to reduce the risk of unallowable purchases and fraud. Frontier Culture should also continue working with the Virginia Information Technologies Agency to provide security awareness training at least annually.
- [State Council of Higher Education for Virginia](#) - The State Council should update policies and procedures for key areas. Management should ensure reconciliations are completed between agency transaction logs and the accounting system. In addition, management should ensure that all ARMICS processes are being performed in compliance with the CAPP manual. The State Council should also devote resources to addressing information security deficiencies to ensure it is in compliance with the Commonwealth's Information Security Standard.

## *Special Reports*

### [Cycled Agency Payroll Review](#)

We performed this review based on our Office's new approach to auditing cycled agencies. In addition to performing periodic internal control questionnaire reviews over these agencies, as discussed above, we also will annually select a significant area of focus to cover in a special review. For fiscal year 2016, we chose payroll operations as the area of focus. This report details the results of our audit of payroll operations at nine cycled agencies and limited procedures performed over the pool of cycled agencies. The report includes internal control findings that applied to several agencies, and recommendations to management for improving internal controls over: the handling of sensitive information in emails, terminated employee procedures, payroll policies and procedures, the 1500-hour wage rule, payroll post-certification activities, and reviewing memoranda of understanding. The report results also show that agencies properly compensated employees and that overall, payroll was processed effectively and accurately. Access the [Full Report](#) on our website.

### [Review of Chapter 759/769 Bond Issuance Limit](#)

This is the first annual report to satisfy the requirements in Chapters 759/769 of the 2016 Acts of Assembly, Items 10 and 11, by reviewing the annual debt issuance limit established by this legislation and determining compliance with the conditions for the initial release of funding. We found that the Six Year Capital Outlay Advisory Committee is properly monitoring the \$300 million annual debt limit and the Chapters 759/769 project expenditures, totaling \$25.8 million, did not

exceed the limit during fiscal year 2017. Additionally, the Governor approved a decision brief related to the Capital Complex project, satisfying the condition for initial release of funding for the other Chapter 759/769 projects. Access the [Full Report](#) on our website.

## *Agency Reports*

### Department of Game and Inland Fisheries

Six of the eight findings included in the report for our audit of the [Department of Game and Inland Fisheries](#) (DGIF) for fiscal year 2016 are repeated from the prior year. DGIF continues to lack internal controls over its financial recording and reporting process, resulting in misstatements totaling approximately \$4 million across assets, revenues, and expenses. In addition, DGIF had findings in the areas of capital asset inventory; contract procurement and management; accounting, financial, and retirement system reconciliations; construction in progress reporting; and payroll.

### Virginia Employment Commission

Our audit of the [Virginia Employment Commission](#) (VEC) for the year ended June 30, 2017, recommends that VEC evaluate, revise and implement the change management process; and enhance risk management and contingency planning documentation. The report also includes five repeat findings: continue to upgrade unsupported technology; continue to improve oversight over IT risk assessments; continue to improve oversight over third-party service providers; continue to improve database security; and continue to submit required reports timely.

## *Higher Education Institution Reports*

### The University of Virginia

Our audit of the [University of Virginia](#), for the year ended June 30, 2017, found the Academic Division continues to address and is making satisfactory progress in resolving prior year recommendations in information security related to its security awareness training program and its process for granting elevated workstation privileges to employees. The University's Medical Center should implement corrective action to address recommendations in database security, oversight over third-party service providers, and its risk management process and documentation. Additionally, the Medical Center should improve its reconciliation of accounts payable accounts to prevent overstatement of accounts payable in the financial statements. Both the Academic Division and Medical Center should improve exit processes when employees cease employment with the respective institutions. Lastly, the Academic Division should strengthen controls around wage employees to ensure compliance with the maximum hour requirements for non-benefit wage employees specified in Chapter 836 of the 2017 Virginia Acts of Assembly.

## *Local Government Reports*

### [Report on Collections of Commonwealth Revenue by Local Constitutional Officers](#)

Our statewide [Report on Collections of Commonwealth Revenues by Local Constitutional Officers](#) summarizes the findings related to our audit of local constitutional officers for the fiscal year ended June 30, 2017. These findings have previously been communicated to the individual Sheriffs, Treasurers, Commonwealth's Attorneys, and the respective local governing body upon completing our individual audits. Our audits resulted in findings at 13 localities. We have listed the findings in the report by constitutional officer and locality.

### [Virginia Beach – Commonwealth Collections and Remittances of Constitutional Officers](#)

Our review of the Commonwealth collections and remittances of the Treasurer, Commissioner of the Revenue, and Sheriff of the [City of Virginia Beach](#) for the year ended June 30, 2017, found that the Treasurer did not remit to the Commonwealth its portion of the excess fees, totaling \$255,371, from the in-house collection program for fiscal year 2016 as required by the 2017 Virginia Acts of Assembly (Chapter 836). We recommended the Treasurer immediately remit the \$255,371 to the Commonwealth and implement procedures to ensure the correct amount of excess fees are calculated and remitted annually.

## *Other Reports*

During the quarter, we issued the [2017 Annual Report of the Auditor of Public Accounts](#). This report provides an overview of some of the more significant activities and results of audits from the past year.

We also issued our report on [Revenue Stabilization Fund Calculations](#) for the year ended June 30, 2017, which includes calculations for the Revenue Stabilization Fund as required by Article X, Section 8 of the Virginia Constitution and § 2.2-1829 of the Code of Virginia. As of June 30, 2017, the balance in the Revenue Stabilization Fund was \$548.8 million. During fiscal year 2017, a withdrawal from the fund in the amount of \$294.6 million occurred. There was also a required deposit of \$605.5 million made to the fund based on fiscal year 2015 certified tax revenues. Additionally, the General Assembly is not required to make a mandatory deposit to the Revenue Stabilization Fund in fiscal year 2019 based on fiscal year 2017 certified tax revenues.

Finally, during this quarter we completed our audit of the [Commonwealth's Comprehensive Annual Financial Report](#), issuing an unmodified opinion on the Commonwealth's financial statements.

## Other Activities

### *Monitoring Accounting and Auditing Standards*

During the quarter, our Office reviewed a document issued for comment by one of the standard setting bodies that govern the auditing standards we follow in performing our audits. 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 is the document that we reviewed and provided a response to the applicable standard setting entity during this quarter.

Standard Setting Entity	Document Reviewed
<b>AICPA*</b>	Exposure Draft: <i>Proposed Statement on Standards for Attestation Engagements – Selected Procedures</i>

\*American Institute of Certified Public Accountants

### *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.

#### State and Local Groups

Group	Presentation / Training Topic
Department of General Services' Procurement Forum	Participated in a panel discussion for agency procurement staff regarding what to expect when being audited including information about the APA and the nature of the audits we perform.
Fiscal Officers of Colleges and Universities State Supported	Provided an update on college and university audits, common findings, and changes to accounting standards. In addition, discussed the impact of potential changes in federal student financial aid audit regulations on the timing and extent of audit procedures performed by the APA.
New Constitutional Officer Training	Presented information on the Compensation Board and the role of the APA.

## Other Groups

Group	Presentation / Training Topic
National State Auditors Association Information Technology Conference	Several members of the APA staff made presentations to information technology auditors from other state auditor offices on topics including advanced excel and access; on-boarding information technology tool-kit; and end of life technologies.
Swedish Auditors General	Participated in a meeting with the Swedish Auditors General at the Government Accountability Office on behalf of the National State Auditors Association. Provided an overview of the responsibilities of the APA.
Virginia Government Finance Officers' Association Fall 2017 Conference	Provided an update on various topics including local government Comparative Report transmittal form process; new requirements from 2017 legislative session; updates to APA Specifications for Audits of Counties, Cities and Towns and the Uniform Financial Reporting Manual; results of quality control reviews over firms auditing Virginia's local governments; fiscal distress monitoring over localities; and upcoming accounting standards.
Virginia Municipal League (VML) Annual Conference	Provided an update on the Office's local fiscal distress early warning system and monitoring process including the new legislative requirements required by Chapter 836 of the 2017 Acts of Assembly; the Office's criteria using the Financial Assessment Model and ratio analysis; the Office's review process with localities identified for further follow-up; and future plans to refine the model and annual monitoring process.
Virginia Sheriff's Institute – New Sheriff Orientation School	Provided an overview of sound accounting practices to newly elected Sheriffs.

During the quarter, we also participated in a meeting with VML, the Virginia Association of Counties, and several localities to discuss the fiscal distress early warning system and monitoring process. In addition, we participated in a meeting with a vendor and several Executive Branch officials including the Secretary of Finance and State Comptroller, to discuss transparency and the utilization of key financial data in the Commonwealth and municipalities.

## SUMMARY OF REPORTS ISSUED

This Office released the following reports during the period October 1, 2017, to December 31, 2017. Those reports which included findings in the area of internal controls or compliance are indicated by an (\*) asterisk.

### Independent Agencies

Virginia College Savings Plan for the year ended June 30, 2017  
Virginia Lottery for the year ended June 30, 2017\*  
Virginia Retirement System for the year ended June 30, 2017

### Executive Departments

Office of the Attorney General, Department of Law, and Division of Debt Collection for the year ended June 30, 2017  
Office of the Governor and the Governor's Cabinet Secretaries for the period July 1, 2015 through June 30, 2017\*  
Office of the Lieutenant Governor for the period July 1, 2015 through June 30, 2017

### Administration

Department of General Services' Division of Real Estate Services for the year ended June 30, 2017

### Commerce and Trade

Department of Small Business and Supplier Diversity Internal Control Questionnaire Review Results as of June 2017\*  
Virginia Biotechnology Research Partnership Authority for the year ended June 30, 2017  
Virginia Economic Development Partnership for the year ended June 30, 2017  
Virginia Employment Commission for the year ended June 30, 2017\*  
Virginia Racing Commission for the year ended June 30, 2017  
Virginia Tourism Authority for the year ended June 30, 2017

### Education

Frontier Culture Museum of Virginia Internal Control Questionnaire Review Results as of May 2017\*  
Jamestown-Yorktown Foundation Internal Control Questionnaire Review Results as of June 2017\*  
State Council of Higher Education for Virginia Internal Control Questionnaire Review Results as of June 2017\*

## Colleges and Universities

University of Virginia for the year ended June 30, 2017\*  
Virginia Commonwealth University for the year ended June 30, 2017\*

## Health and Human Resources

Department of Health Professions Internal Control Questionnaire Review Results as of  
May 2017\*

## Natural Resources

Department of Environmental Quality Internal Control Questionnaire Review Results as of  
April 2017\*  
Department of Game and Inland Fisheries for the year ended June 30, 2016\*

## Public Safety and Homeland Security

Department of Alcoholic Beverage Control for the year ended June 30, 2017\*  
Department of Corrections for the period July 1, 2015 through June 30, 2017\*  
Department of Criminal Justice Services Internal Control Questionnaire Review Results as of  
May 2017\*

## Transportation

Virginia Department of Aviation Internal Control Questionnaire Review Results as of June 2017\*

## Special Reports

2017 Annual Report of the Auditor of Public Accounts  
Cycled Agency Payroll Review for the year ended June 30, 2016\*  
Report on Collections of Commonwealth Revenues by Local Constitutional Officers for the year  
ended June 30, 2017\*  
Report to the Joint Legislative Audit and Review Commission for the quarter July 1, 2017  
through September 30, 2017  
Revenue Stabilization Fund Calculations for the year ended June 30, 2017\*  
Review of Chapter 759/769 Bond Issuance Limit – Fiscal Year 2017

## Clerks of the Circuit Courts

### Cities:

Chesapeake as of November 13, 2017 ❖  
Petersburg for the period July 1, 2015, through June 30, 2017\*  
Virginia Beach for the period January 1, 2016, through June 30, 2016

### Counties:

Amelia – October 1, 2016, through September 30, 2017  
Bland – October 1, 2016, through September 30, 2017  
Caroline for the period October 1, 2015, through March 31, 2017\*  
Culpeper – January 1, 2016, through June 30, 2017  
Goochland – January 1, 2016, through June 30, 2017  
King William – July 1, 2015, through March 31, 2017\*  
Powhatan – January 1, 2016, through June 30, 2017^\*  
Rockbridge as of November 30, 2017 ❖  
Rockbridge as of September 29, 2017 ❖  
Westmoreland for the period January 1, 2016, through June 30, 2017

## State Accounts (as of June 30, 2017)

### Cities:

Alexandria	Fredericksburg	Portsmouth	Virginia Beach*
Charlottesville	Hampton	Richmond*	
Fairfax	Petersburg	Salem*	
Falls Church	Poquoson	Suffolk	

### Counties:

Albemarle	Fairfax	King William	Prince Edward*
Arlington	Fauquier	Loudoun	Rockbridge*
Brunswick*	Fluvanna	Lunenburg	Spotsylvania
Caroline	Franklin	Mecklenburg	Stafford
Charlotte	Halifax*	Northumberland	Surry
Chesterfield	Hanover	Orange*	York
Culpeper	King George	Powhatan	

General Receivers (June 30, 2017)

Cities:

Alexandria                      Virginia Beach

Counties:

Arlington                      Buchanan ❖ (as of September 12, 2017)                      Nelson  
Buchanan                      Loudoun                      Russell

Combined District Courts (July 1, 2016, through June 30, 2017)

Cities:

Buena Vista\*                      Franklin                      Salem  
Emporia                      Galax

Counties:

Amelia                      Craig                      Lee  
Bland                      Dinwiddie                      Patrick  
Buchanan                      Fluvanna                      Russell  
Buckingham\*                      Grayson                      Scott  
Charles City                      Greenville                      Surry\*

Juvenile and Domestic Relations Courts (July 1, 2016, through June 30, 2017)

Cities:

Colonial Heights                      Portsmouth                      Williamsburg/Jams City  
Hampton                      Suffolk

Counties:

Accomack                      Gloucester                      Page\*                      Washington  
Amherst                      Lancaster                      Patrick                      Wythe  
Arlington                      Mathews                      Pittsylvania\*                      York  
Charlotte                      Middlesex                      Pulaski  
Chesterfield                      Montgomery                      Rockbridge\*  
Dickenson                      Northumberland                      Shenandoah

**General District Courts (July 1, 2016, through June 30, 2017)**

**Cities:**

Bristol

Colonial Heights\*

Winchester

**Counties:**

Accomack

Chesterfield

Montgomery

Rockbridge\*

Amherst

Culpeper

Northampton

Tazewell

Arlington

Gloucester

Page

Carroll

Lynchburg\*

Pulaski

**Magistrates (July 1, 2016, through June 30, 2017)**

District 2A – Counties of Accomack and Northampton

District 3 – City of Portsmouth

District 5 – Cities of Franklin and Suffolk; Counties of Isle of Wight and Southampton

District 7 – City of Newport News

District 8 – City of Hampton

District 12 – City of Colonial Heights; County of Chesterfield

District 17 – County of Arlington for the period July 1, 2016, through June 30, 2017\*

District 20 – County of Loudoun for the period July 1, 2016, through June 30, 2017

District 27 – City of Galax; Counties of Carroll, Floyd, Giles, Grayson, Montgomery and Pulaski

District 28 – City of Bristol; Counties of Bland, Russell, Smyth, Tazewell, Washington, and Wythe

❖ Denotes turnovers