



DEPARTMENT OF GENERAL SERVICES

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

AS OF
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Auditor of Public Accounts
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February 28, 2020

Joseph Damico, Director
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Richmond, VA 23219

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire, completed on June 24, 2019, for the **Department of General Services'** (General Services) Office of Fiscal Services (Fiscal Services). The purpose of this review was to evaluate if Fiscal Services 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 General Services is responsible for establishing and maintaining an effective control environment.

The Auditor of Public Accounts has developed a new process for auditing agencies that are not required to have an audit every year, which we refer to as "cycled agencies." Traditionally, we audit these agencies at least once every three years. We now employ a risk-based approach to auditing the cycled agencies. Under this approach, annually we will perform a risk analysis for all of the cycled agencies considering certain criteria and divide the agencies into two pools. One pool will receive an annual audit and the other pool will be subject to review in a special project focused on one area of significance as well as a review of internal controls in the form of a questionnaire. Our intent is that all cycled agencies will complete an internal control questionnaire at least once every three years. This letter is to communicate the results of the Internal Control Questionnaire review.

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 General Services. 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

Due to the implementation of the new statewide accounting system, 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 General Services ARMICS program included a review of all current ARMICS documentation and a comparison to statewide guidelines established by Accounts. Further, we evaluated the agency’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: internal service funds (revenues) and expenses. These procedures included validating the existence of certain transactions; observing controls to determine if the controls are 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:

- While Fiscal Services maintains documented policies and procedures over most critical business areas, it has not recently updated several of these policies and procedures. Management also has not reviewed or approved existing documented policies and procedures to ensure they are reasonable, current, and include procedures related to key internal controls. Management should ensure Fiscal Services has updated procedures over

all critical business processes and review these policies and procedures either annually or as needed.

- General Services' ARMICS process does not meet the minimum requirements prescribed by Accounts. Further, both the agency-level and transaction-level risk assessments have not been updated for several years. Management should ensure its process of updating and reviewing these risk assessments comply with ARMICS standards.
- Fiscal Services does not provide adequate guidance to other divisions with internal service funds to ensure consistency in each division's process of billing for services, tracking related receivables, and providing Fiscal Services with the necessary support to properly record these revenues. Fiscal Services should provide detailed, written guidance to ensure all divisions with internal service funds are consistently performing these functions. In addition, Fiscal Services does not review or monitor invoices sent by divisions with internal service funds to ensure rates charged are the approved rates and bills sent are properly supported. Management should design and implement a method to better monitor this process and ensure compliance with § 4-5.03 in Chapter 2 of the 2018 Special Session I, Appropriation Act (Appropriation Act). Lastly, General Services does not have a documented procedure over the preparation of the annual internal service fund report submitted to the Department of Planning and Budget (Planning and Budget) in accordance with the Appropriation Act. Management should establish formally documented procedures to ensure the proper completion of the annual internal service fund report.
- Fiscal Services does not obtain a copy of each division's list of individuals authorized to approve expenditures in accordance with its internal policy. Fiscal Services should properly implement this policy and require each division to submit an authorized expenditure signature listing to Fiscal Services either annually or when changes occur. Fiscal Services should also retain and reference the authorized expenditure signature listings to ensure expenditures are properly approved.

We discussed these matters with management on September 26, 2019. 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,

Martha S. Mavredes
Auditor of Public Accounts

JDE/clj



COMMONWEALTH of VIRGINIA
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February 27, 2020

Martha S. Mavreders
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Richmond, VA 23218

Dear Ms. Mavreders:

Thank you for the opportunity to respond to the Auditor of Public Accounts' Review of the Internal Control Questionnaire, completed on June 24, 2019, for the Department of General Services' Office of Fiscal Services. Overall, we agree with the report's findings regarding our agency.

The Department will continue to take the necessary actions to address the findings contained in the audit report. We will work to establish appropriate policies, processes, and procedures addressed in the report.

As always, we appreciate the professionalism of your staff. Thank you for working with us and seeking our input.

Sincerely,

A handwritten signature in black ink, appearing to read "Joseph F. Damico", written over a horizontal line.

Joseph F. Damico