



DISABILITY SERVICES AGENCIES

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2019

Auditor of Public Accounts
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AUDIT SUMMARY

We audited the **Disability Services Agencies'** capital assets and preparation for the implementation of Governmental Accounting Standards Board (GASB) Statement No. 87 – Leases for the fiscal year ended June 30, 2019. In addition, we audited the follow up on three findings from fiscal year 2017 related to requirements of the Commonwealth Neurotrauma Initiative Trust Fund, the Commonwealth's benefit system reconciliations, and checks deposited by the Virginia Industries for the Blind. We also audited the progress on six findings from fiscal year 2018 related to the fiscal agent memorandum of understanding for all of the Disability Services Agencies and information system security controls for the Virginia Industries for the Blind. We found:

- proper recording and reporting of capital assets, in all material respects, in the Commonwealth's accounting and reporting system and capital asset system, except as noted in the findings entitled "Improve Controls Over Capital Assets" and "Improve Controls Over Wilson Workforce Capital Asset";
- matters involving internal control and its operation pertaining to the fiscal agent memorandum of understanding, capital assets, check depositing, and information system security necessary to bring to management's attention;
- matters involving internal control and noncompliance with applicable laws and regulations or other matters that are required to be reported related to capital assets and information system security;
- reasonable preparations to date for the implementation of GASB Statement No. 87 – Leases; and
- adequate corrective action with respect to prior audit findings identified as resolved in the [Findings Summary](#) in the Appendix.

We did not review management's corrective action on prior audit findings identified as deferred in the Findings Summary. We will follow up on these findings in a future audit.

The Disability Services Agencies include the following:

- Department for Aging and Rehabilitative Services (including Wilson Workforce Rehabilitation Center)
- Department for the Blind and Vision Impaired (including Virginia Industries for the Blind and Virginia Rehabilitation Center for the Blind and Vision Impaired)
- Department for the Deaf and Hard-of-Hearing
- Virginia Board for People with Disabilities

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AUDIT FINDINGS AND RECOMMENDATIONS

Update Disability Services Agencies Memorandum of Understanding

Type: Internal Control

Repeat: Yes (first issued in fiscal year 2018)

The Department for Aging and Rehabilitative Services (Aging and Rehabilitative Services) and the Department for Blind and Vision Impaired (Blind and Vision Impaired) have started communications and plans to determine responsibilities and controls necessary for the Memorandum of Understanding (Memorandum). However, the Disability Services Agencies still have not updated the Memorandum for administrative services with their service provider agency, Aging and Rehabilitative Services, to consider changes in operations since fiscal year 2015 when they originally created it. As noted in the fiscal year 2018 finding “Update Disability Services Agencies Memorandum of Understanding,” the current Memorandum includes unclear responsibilities and controls, outdated systems, and a lack of review and update for significant changes. In addition, the original agreement mentions an information technology service level agreement and an annual detailed analysis to determine the service fee for each agency, both of which do not exist.

The Disability Services Agencies have not updated the Memorandum because the process to delineate the controls for each agency is lengthy involving communication with numerous departments and agencies. In addition, the Disability Services Agencies’ responsibilities to their employees and clients during the COVID-19 pandemic delayed the initial plan of completion.

The Commonwealth’s Accounting Policies and Procedures (CAPP) Manual Topic 10305 Internal Control, Service Provider Agency section, states that primary agencies should ensure the agreements with service provider agencies clearly delineate the processes, procedures, and controls assigned to each party of the agreement. The CAPP Manual Topic also requires that all agreements be updated at least annually and more frequently in the event a significant change occurs.

Blind and Vision Impaired and Aging and Rehabilitative Services should continue to improve communication while creating and implementing the administrative support services agreement to ensure everyone involved understands and agrees with the arrangement. Aging and Rehabilitative Services should continue working with the other Disability Services Agencies to create, implement, and follow a clear and detailed Memorandum for administrative services for each agency they service and update the agreement annually or more frequently in the event of a significant change. In addition, Aging and Rehabilitative Services should annually evaluate and provide a detailed accounting of the cost for each Disability Services Agencies’ administrative support services.

Improve Received Check Depositing and Reconciliation Processes

Type: Internal Control

Repeat: Partial (first issued in fiscal year 2014, with limited progress)

Prior Title: Improve Documentation and Reconcile Checks Received

Aging and Rehabilitative Services' fiscal department (Fiscal) and Virginia Industries for the Blind (Industries for the Blind) fiscal department do not have properly documented policies and procedures over Industries for the Blind's check deposit process and reconciliation. The policies and procedures do not include date of effectiveness or approval, properly delineate the responsible person for each duty, provide clear instructions, or agree to the current depositing process. In addition, Industries for the Blind did not deposit 50 percent of all checks tested timely with a delay of up to nine days. Finally, Fiscal did not properly document the monthly reconciliations of Industries for the Blind check logs to the Commonwealth's accounting and financial reporting system and support for checks deposited. The documentation was missing the date performed and the signature of preparer and reviewer to prove who performed the reconciliation and when it occurred.

CAPP Manual Topic 20205 Deposits states that the processing and deposit of state receipts will be completed on the day received or no later than the next banking day. On November 6, 2018, Industries for the Blind received an exemption from the Department of Treasury (Treasury) that states that Industries for the Blind can make deposits on a weekly basis no later than Friday of each week. The exemption has two conditions: Industries for the Blind must, within 24 hours of receipt, deposit any single check if payable in an amount exceeding \$5,000 or combination of checks that in aggregate exceed \$5,000, and Industries for the Blind must ensure that adequate internal controls and safekeeping facilities are in place to protect these funds while they are held. In addition, CAPP Manual Topic 20905 Cardinal Reconciliation Requirements states that to ensure accuracy and uniformity in the preparation and reconciliation of financial data input to the Commonwealth's accounting and financial reporting system, all internally prepared accounting records, data submission logs, and other accounting data must be reconciled monthly to reports produced by Commonwealth's accounting and financial reporting system.

By not having clear and properly documented policies and procedures over check depositing and reconciling, Industries for the Blind and Aging and Rehabilitative Services increase the risk of fraud from separation of duties issues resulting in payments being lost, stolen, or incorrectly recorded in the Commonwealth's accounting and financial reporting system.

Industries for the Blind fiscal department did not evaluate the policies and procedures to take into consideration the need for separation of duties or back-up personnel for receiving, logging, and depositing. In addition, Industries for the Blind fiscal department depositor did not have a clear understanding of the conditions and stipulations of the Treasury deposit exception. Finally, Aging and Rehabilitative Services' lack of management oversight lead to the improper documentation of policies, procedures, and reconciliations.

Fiscal and Industries for the Blind fiscal department should improve, distribute, and implement policies and procedures over checks deposited by Industries for the Blind to ensure that they include the effective date, proper delineation of the responsible person for each duty to ensure separation of duties, clear instructions, and alignment with the current depositing process. In addition, Industries for the Blind fiscal department should understand and follow the Treasury exemption for timely depositing. Finally, Fiscal should properly document monthly reconciliation of the checks deposited by Industries for the Blind.

Improve Controls Over Capital Assets

Type: Internal Control and Compliance

Repeat: No

Fiscal does not have proper policies, procedures, and controls to ensure capital assets are identified, tracked, recorded, updated, safeguarded, and reported accurately. Aging and Rehabilitative Services provides fiscal services over capital assets for all Disability Services Agencies, except Wilson Workforce, which are central users of the Commonwealth's capital asset system. The Aging and Rehabilitative Services state and federal capital asset policies and procedures lack an effective date, responsible person, and detailed guidance over additions, physical inventory, donations to clients, and disposals. The Aging and Rehabilitative Services capital asset procedures for the Vocational Rehabilitation federal program incorrectly instructs users to remove assets from the system once they are fully depreciated and references inactive systems and outdated regulations. In addition, management has not reviewed or updated the Blind and Vision Impaired capital asset policies and procedures since 2002. As a result, they reference inactive systems, forms, and standards.

Additionally, Fiscal did not properly manage and administer the inventory process. Fiscal performed the 2019 physical inventory for three Disability Services Agencies. For these inventories, Fiscal did not document signatures, dates, or notations on the master listing to prove a full inventory over all assets and locations occurred. During the inventory process, Fiscal did not verify the responsible person or location for each asset. Fiscal found inaccuracies, such as additions and disposals, across all inventoried agencies that were not properly recorded. To communicate these inaccuracies, Fiscal provided Disability Service Agency personnel an inventory checklist form. However, Fiscal provided three different inventory checklist forms and none of the forms asked for asset location. Fiscal has not updated the Commonwealth's capital asset system for any of these inaccuracies. In addition, Fiscal did not perform a physical inventory or evaluation for the two Disability Services Agencies without assets to ensure that it was reasonable for those agencies to not have any assets recorded in the system.

Furthermore, Fiscal does not have an adequate process to track construction in progress (CIP) to properly identify and record capital assets when substantially complete. As a result, Fiscal incorrectly:

- capitalized planning costs totaling \$31,235 of a \$6.4 million project as a building prior to the project's substantial completion;

- split a project to construct one building into three different assets totaling \$721,854 with various inaccurate acquisition dates and assigned a different responsible person to each asset; and
- capitalized part of an infrastructure project totaling \$43,628 as a building.

In addition, Fiscal does not have an adequate process to identify and capitalize state or federal assets as they are purchased to ensure timely tagging and recording. Fiscal relies solely on the monthly potential fixed asset report, meant to recognize missing capital assets, to identify capital assets purchased. Consequently, of the 12 federal equipment items capitalized during fiscal year 2019, Fiscal entered all of them untimely, recorded improper acquisition dates for seven items with five recorded in the wrong fiscal year, and recorded one item in the system twice. Also, Fiscal did not identify at least one state and four federally funded equipment assets to be capitalized.

Finally, Fiscal does not have an adequate disposal process to identify and remove lost, stolen, missing, donated, or sold capital assets. As a result, Fiscal did not properly identify and remove eight out of nine sampled fully depreciated capital assets acquired prior to January 2005. In addition, the Disability Services Agencies sold four capital assets during fiscal year 2019. However, Fiscal never entered three of the disposed assets in the system when purchased and did not remove the other asset from the system.

The Code of Federal Regulations § 200.313, requires that a state must use, manage, and dispose of equipment acquired under a Federal award by the state in accordance with state laws and procedures. Code of Virginia § 51.5-126 Donation of Equipment states that the agency shall retain title of the nonexpendable equipment purchased by the agency for individuals or groups of individuals until the asset is fully depreciated and can be donated. CAPP Manual Topic 30105 Introduction indicates state agencies must have policies and procedures in place to ensure that assets are properly recorded in the Commonwealth's capital asset system in accordance with all CAPP Manual function 30000 Capital Asset and Lease Accounting, including areas such as physical inventory, acquisition methods, additions, and disposals.

Fiscal management and staff lacked the guidance, review, and knowledge to have adequate policies, procedures, and controls to ensure capital assets are identified, tracked, recorded, updated, safeguarded, and reported accurately. In addition, Fiscal management does not involve the Disability Services Agencies' asset responsible person throughout the capital asset identification, update, and disposal process. Finally, Fiscal's General Accounting Manager knowingly approved and released inaccurate asset records in the Commonwealth's capital asset system.

Aging and Rehabilitative Services and Blind and Vision Impaired should improve, distribute, and implement policies and procedures to ensure capital assets are identified, tracked, recorded, updated, safeguarded, and reported accurately. Additionally, Fiscal should improve the physical inventory process and documentation to ensure capital assets are updated in a timely manner. Furthermore, Fiscal should develop and implement a process involving Disability Services Agencies' personnel to properly track CIP, capitalize assets as they are purchased, and remove assets as they are disposed.

Improve Controls Over Wilson Workforce Capital Assets

Type: Internal Control and Compliance

Repeat: No

Wilson Workforce Rehabilitation Center's (Wilson Workforce) fiscal department does not have proper policies, procedures, and controls to ensure capital assets are identified, tracked, recorded, updated, safeguarded, and reported accurately. Wilson Workforce is a summary user of the Commonwealth's capital asset system. Therefore, Wilson Workforce is responsible for internally tracking and controlling their capital assets, and Aging and Rehabilitative Services is responsible for reporting summary information in the Commonwealth's capital asset system. Wilson Workforce's policies and procedures lack an effective date, assignment of a responsible person for processes and controls, and detailed guidance over depreciation, additions, disposals, and the quarterly reconciliations process. Additionally, Wilson Workforce's fiscal department did not perform capital asset reconciliations over their internal capital asset system. As a result, the fiscal year 2019 equipment balances in the Commonwealth's capital asset system did not agree to the internal capital asset system, with variances up to \$99,000. In addition, Wilson Workforce's capital asset system does not include the responsible person for 100 percent, fund code for 68 percent, serial number for 20 percent, and location for four percent of equipment capital assets. The responsible person, serial number, and location are necessary to ensure proper identifying, controlling, and safeguarding of assets, while the fund code is necessary to designate the federal or state funding source for proper tracking and reporting. Furthermore, Wilson Workforce did not have documentation to indicate who and when they conducted the last physical inventory. Finally, Wilson Workforce did not update the internal capital asset system for inaccuracies identified during the last physical inventory, such as asset serial number, make, and model for 100 percent of the sampled departments.

Code of Federal Regulations § 200.313 requires that a state must use, manage, and dispose of equipment acquired under a Federal award by the state in accordance with state laws and procedures. CAPP Manual Topic 31010 Summary Users requires agency-based systems to comply with all CAPP Manual function 30000, Capital Asset and Lease Accounting, to ensure state and federal timely and accurate recording and reporting. CAPP Manual function 30000 requirements include topics such as classification of assets, categorization, accounting for assets acquired with federal funds, tagging assets, performing periodic inventories, and performing quarterly reconciliations between all systems. In addition, CAPP Manual Topic 31010 Agency-Based Systems Requirements and Maintenance provides a listing of asset detailed information recommended at a minimum to ensure adequate control, which includes responsible person, serial number, and location.

The lack of controls over Wilson Workforce's capital assets could result in inaccurate data in the internal capital asset system and the Commonwealth's capital asset system. Furthermore, without proper fund coding, Wilson Workforce's fiscal department is unable to determine whether the assets are properly reported as state or federal assets.

Wilson Workforce is a sub-agency of Aging and Rehabilitative Services. To cut costs and centralize responsibilities, Wilson Workforce's fiscal department responsibilities began transitioning to Aging and Rehabilitative Services during fiscal year 2019, which resulted in the layoff of the Wilson Workforce

financial manager in October 2019, who was responsible for overseeing capital assets and performing the quarterly reconciliations. During the transition, Wilson Workforce and Aging and Rehabilitative Services management did not ensure that someone was recording physical inventory corrections and performing capital asset reconciliations. In addition, Wilson Workforce's fiscal department did not provide the capital asset accountant with proper policies and procedures or management review over capital asset tracking and recording. Wilson Workforce will become a Commonwealth's capital asset system detailed user at the end of fiscal year 2020. At that time, Fiscal will be responsible for Wilson Workforce's capital assets.

Fiscal and Wilson Workforce's fiscal department should update the internal capital asset system for the physical inventory results and perform a reconciliation of all Wilson Workforce's capital assets to ensure the Commonwealth's capital asset system data is complete and accurate. In addition, Fiscal should improve, distribute, and implement policies and procedures over capital assets to include Wilson Workforce's capital assets, an effective date, assignment of a responsible person for processes and controls, and detailed guidance over depreciation, additions, disposals, and the quarterly reconciliations process.

Implement Software and Other Intangible Assets Policy

Type: Internal Control

Repeat: No

Fiscal and Aging and Rehabilitative Services information technology (Information Technology) departments do not have policies and procedures in place to identify, track, and capitalize purchased, modified, internally developed, upgraded, or licensed software and other intangible assets. Information Technology does not budget or track actual costs by software development project to ensure that they properly identify and record potential intangible assets in CIP to be capitalized in the Commonwealth's capital asset system. In addition, Fiscal does not verify that the lack of software and other intangible assets is accurate and reasonable.

CAPP Manual Topic 30325 Software and Other Intangible Classification section states all intangible assets subject to the provisions of GASB Statement No. 51 Accounting and Financial Reporting for Intangible Assets and having a cost (or estimated cost) of \$100,000 or greater should be classified as capital assets and recorded in the Commonwealth's capital asset system. In addition, CIP should be recorded for capitalizable expenses made during the application development stage. The CIP should be reversed, and the asset recorded in the Commonwealth's capital asset system. The Internal Control section states that each agency should implement internal control procedures to ensure assets are adequately tracked, recorded, safeguarded, and controlled.

Without properly identifying, tracking, and reporting expenses related to software and other intangible assets in CIP, Fiscal and Information Technology increase the risk of misstatement of asset capitalization in the Commonwealth's capital asset system. Information Technology and Blind and Vision Impaired's information technology department are working together to acquire a new software system to replace the Blind and Vision Impaired manufacturing and point-of-sale systems. Fiscal and

Information Technology will be required to track the system's costs for capitalization in the Commonwealth's capital asset system.

Information Technology indicated they were not aware of the requirement to identify or track purchased, modified, internally developed, upgraded, or licensed software and other intangible assets over \$100,000 for Fiscal. Information Technology is not familiar with or trained on accounting requirements; therefore, Fiscal is responsible for communicating, educating, and performing reviews to properly record intangible assets. This increases the need for communication between Fiscal and Information Technology and internal policies and procedures over the software and other intangible assets to inform each department of its responsibilities in the process.

Fiscal and Information Technology should develop, document, and implement policies and procedures to identify and record intangible assets. Information Technology should develop a method of tracking budgets and actual costs by project to assist Fiscal in recording the expenses in CIP and eventually the completed assets in the Commonwealth's capital asset system. Fiscal should communicate and perform a thorough review of support provided by Information Technology to ensure the information provided is accurate, reasonable, and complete prior to updating the Commonwealth's capital asset system.

Improve Information Technology Governance

Type: Internal Control and Compliance

Repeat: Yes (first issued in fiscal year 2018)

Industries for the Blind continues to have an insufficient governance structure to manage and maintain its information security program in accordance with the Commonwealth's standards. In addition, Industries for the Blind continues to have control weaknesses in the following areas showing that Industries for the Blind does not maintain appropriate oversight over its information security program and does not meet the requirements in the Commonwealth's Information Security Standard, SEC 501 (Security Standard) and the Commonwealth's Hosted Environment Information Security Standard, SEC 525 (Hosted Environment Security Standard).

- End-of-Life technology
- Lack of information security policies and procedures
- Outdated manufacturing system
- Lack of assurance over third-party providers

Industries for the Blind is responsible for securing the infrastructure that supports its two mission-critical systems because the systems are out-of-scope of Virginia Information Technologies Agency's contractual partnership with various information technology service providers (Partnership). The two sensitive systems provide Industries for the Blind with sales, inventory, ordering, production,

accounts receivable, and reporting capabilities. Industries for the Blind provides financial data from the two systems to Aging and Rehabilitative Services to enter into the Commonwealth's accounting and financial reporting system, making the integrity and availability of the sensitive systems critically important.

The Security Standard, section 2.4.2, requires the agency head document, communicate, and maintain an information security program that is sufficient to protect the agency's information technology systems. By not having an appropriate governance structure to properly manage Industries for the Blind's information technology environment and information security program, Industries for the Blind is at risk for a data breach or unauthorized access to confidential and mission-critical data. Unauthorized access increases the risk for data corruption, data loss, or system disruption if accessed by a malicious attacker. If a breach occurs, customers may lose faith in Industries for the Blind, which could impact sales and revenue.

Industries for the Blind has limited financial resources and, as a result, limited information technology resources to manage and maintain its information technology program. Industries for the Blind delayed its progress for improving its information technology governance to focus on other priorities, such as developing a request for proposal for a new system that will replace its two mission-critical systems. Additionally, the prior year audit identified that Blind and Vision Impaired has a Memorandum for fiscal agent services with Aging and Rehabilitative Services. The Memorandum states there will be a separate service-level agreement between Aging and Rehabilitative Services and Blind and Vision Impaired to provide information technology services, but a separate service-level agreement does not exist. Since the prior year audit, representatives for Blind and Vision Impaired and Aging and Rehabilitative Services formed a committee to discuss terms for a new Memorandum but have yet to develop and approve a new agreement.

Industries for the Blind and Blind and Vision Impaired should continue working with Aging and Rehabilitative Services to develop a formal plan to create and implement information security policies and procedures to manage and maintain its sensitive systems in compliance with the Security Standard. Industries for the Blind should also continue evaluating the most efficient and productive method to bring its information technology security program in compliance with the Security Standard. Furthermore, Industries for the Blind should continue evaluating its information technology resources to ensure sufficient resources are available to implement information technology governance changes and rectify any control deficiencies. Implementing an appropriate governance structure to manage its information security program will ensure the confidentiality, integrity, and availability of Industries for the Blind's mission-critical data.

Develop and Implement Information Security Policies and Procedures

Type: Internal Control and Compliance

Repeat: Yes (first issued in fiscal year 2018)

Industries for the Blind continues to not have information security policies and procedures to support its sensitive systems and information security program. Industries for the Blind manages and maintains two sensitive systems, its manufacturing system and point-of-sale system. These systems

process some of the division's financial information that is sent to Aging and Rehabilitative Services. Aging and Rehabilitative Services, in turn, enters the information into the Commonwealth's accounting and financial reporting system.

Our previous audit recommended that Industries for the Blind work with Aging and Rehabilitative Services to develop service level agreements. The purpose of the agreements is to provide a framework for Aging and Rehabilitative Services to share information security resources with Industries for the Blind. These resources will assist Industries for the Blind in strengthening its information security posture by creating the necessary policies, procedures, processes, and training.

Industries for the Blind discussed our previous recommendations with Aging and Rehabilitative Services. However, Industries for the Blind decided to place a hold on further action and focus on other priorities, such as developing a request for proposal for a new system that will replace its manufacturing and point-of-sale systems.

The Security Standard, section 2.4.2, requires the agency head to document, communicate, and maintain an information security program that is sufficient to protect the agency's information technology systems. By not having information security policies and procedures to properly manage Industries for the Blind's information security program and sensitive systems, Industries for the Blind increases the risk of unauthorized access, data loss, and system disruption.

Industries for the Blind should continue to work with Aging and Rehabilitative Services to develop an information technology service level agreement that defines roles, responsibilities, and tasks that Aging and Rehabilitative Services will provide to Industries for the Blind. Additionally, Industries for the Blind should continue working with Aging and Rehabilitative Services to develop and implement the policies and procedures necessary to support its information security program and sensitive systems based on evaluation of risk. Doing this will help Industries for the Blind achieve compliance with the Security Standard and help to maintain the integrity and availability of its sensitive systems and mission-critical data.

Upgrade Manufacturing System

Type: Internal Control and Compliance

Repeat: Yes (first issued in fiscal year 2018)

Industries for the Blind continues to not secure its mission-critical manufacturing system with some of the minimum control requirements in the Security Standard. Industries for the Blind uses its manufacturing system to track sales, inventory, ordering, and production data. The manufacturing system also interfaces with Industries for the Blind's point-of-sale system to receive accounts receivable information. Industries for the Blind processes some of its financial information in the manufacturing system that is subsequently uploaded to the Commonwealth's accounting and financial reporting system by Aging and Rehabilitative Services.

We identified five weaknesses and communicated them 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 it containing descriptions of security mechanisms.

The Security Standard requires agencies to implement certain controls that reduce unnecessary risk to data confidentiality, integrity, and availability in systems processing or storing sensitive information. By not meeting the minimum requirements in the Security Standard, Industries for the Blind cannot ensure the confidentiality, integrity, and availability of data within its systems.

Since the prior year audit, Industries for the Blind is working with Aging and Rehabilitative Services and the Virginia Information Technologies Agency to develop a request for proposal for a new system to replace its manufacturing and point-of-sale systems. Industries for the Blind expects to finalize the request for proposal for release by August 2020 and have a contract in place by the end of the 2020 calendar year.

Industries for the Blind should continue working with Aging and Rehabilitative Services and Virginia Information Technologies Agency to complete the request for a new system to replace its manufacturing and point-of-sale systems and meet the minimum-security requirements outlined in the Security Standard. Implementing a new system will help ensure the integrity and availability of Industries for the Blind's mission-critical data. Industries for the Blind should also implement the additional controls discussed in the communication marked FOIAE in accordance with the Security Standard in a timely manner.

Improve Information Security for Point-of-Sale System

Type: Internal Control and Compliance

Repeat: Yes (first issued in fiscal year 2018)

Industries for the Blind continues to not secure its point-of-sale system with some of the minimum control requirements in the Security Standard. Industries for the Blind uses the point-of-sale system to manage inventory and accounts receivable data.

We identified two weaknesses and communicated them to management in a separate document marked FOIAE under § 2.2-3705.2 of the Code of Virginia due to it containing descriptions of security mechanisms.

The Security Standard requires agencies to implement certain controls that reduce the unnecessary risk to data confidentiality, integrity, and availability in systems processing or storing sensitive information. By not meeting the minimum requirements in the Security Standard, Industries for the Blind cannot ensure the confidentiality, integrity, and availability of data within its systems.

Since the prior year audit, Industries for the Blind is working with Aging and Rehabilitative Services and Virginia Information Technologies Agency to develop a request for proposal for a new system to replace its manufacturing and point-of-sale systems. Industries for the Blind expects to finalize

the request for proposal for release by August 2020 and have a contract in place by the end of the 2020 calendar year.

Industries for the Blind should continue working with Aging and Rehabilitative Services and Virginia Information Technologies Agency to complete the request for a new system to replace its manufacturing and point-of-sale systems and meet the minimum-security requirements outlined in the Security Standard. Implementing a new system will help ensure the integrity and availability of Industries for the Blind's mission-critical data. Industries for the Blind should also implement the additional controls discussed in the communication marked FOIAE in accordance with the Security Standard in a timely manner.

Improve Oversight over Third Party Providers

Type: Internal Control and Compliance

Repeat: Yes (first issued in fiscal year 2018)

Industries for the Blind continues to not gain annual assurance that its third-party service providers (Providers) and credit card processors have secure information technology environments to protect its mission-critical data. Providers are organizations that perform outsourced business functions on behalf of Industries for the Blind and the Commonwealth.

Industries for the Blind uses separate providers to assist with managing and maintaining its two mission-critical systems. In addition, the two systems reside with different data center providers. The manufacturing and point-of sale systems are out-of-scope to the Partnership; therefore, Industries for the Blind is responsible for obtaining and reviewing independent audits of the infrastructure that supports each system.

In addition, Industries for the Blind continues to not gain assurance that its two credit card processors are compliant with the requirements in the Payment Card Industry Data Security Standard (PCI DSS). Industries for the Blind uses the two separate credit card processors to support its online credit card sales, sales made at Industries for the Blind stores, and for direct orders to the manufacturing plant.

The Hosted Environment Security Standard, section SA-9-COV-3.1, requires agencies to perform an annual security audit or review the annual audit report of the environment conducted by an independent, third-party audit firm. Additionally, the PCI DSS requires merchants to demonstrate compliance annually and provide sufficient evidence to its customers. This includes verifying that the scope of the service provider's PCI DSS assessment covered the services applicable to the customer and determined the required controls are in place.

By not gaining assurance over providers' information technology environments, Industries for the Blind cannot validate the providers have effective information technology controls to protect the integrity of its data. Additionally, without verifying the credit card processors comply with the requirements in the PCI DSS, Industries for the Blind cannot verify the credit card processors have the technical and operational controls in place to protect cardholder data. Industries for the Blind has not

acted to resolve the finding since the prior year audit because it has focused its resources on other high priorities, such as replacing its two mission-critical systems.

Industries for the Blind should develop a formal process to gain assurance that its providers have secure information technology environments to protect its mission-critical data. Industries for the Blind should also develop contractual requirements with each provider that requires them to provide annual assurance that satisfies the requirements in the Security Standard and the Hosted Environment Security Standard. One way to gain assurance is by requesting and reviewing System and Organization Control (SOC) reports or by reviewing other independent audit reports as accepted by the Commonwealth's information technology Security Audit Standard, SEC 502. Additionally, Industries for the Blind should develop a formal process to gain the necessary PCI DSS compliance documents from its credit card processors annually to ensure they have reasonable controls to protect cardholder data. After Industries for the Blind develops the formal processes, it should incorporate the processes into its information security program. Doing this will help to ensure its providers and credit card processors are protecting the confidentiality, integrity, and availability of its mission-critical and cardholder data.

AUDIT SCOPE OVERVIEW

The Disability Services Agencies provide a number of services to the Commonwealth’s disabled and aging population. Aging and Rehabilitative Services, as the fiscal agent, provides fiscal and administrative services in the areas of human resources, payroll, information technology, procurement, purchasing cards, fleet, fiscal, and internal audit for the Disability Services Agencies through a Memorandum of Understanding.

Disability Services Agencies Capital Assets

The Disability Services Agencies receive federal and state funding for constructing and purchasing capital assets such as buildings, infrastructures, and equipment. Of the three Disability Services Agencies that have capital assets, Wilson Workforce is a summary user while the other agencies are central users of the Commonwealth’s capital asset system. Aging and Rehabilitative Services provides capital asset management services as part of the fiscal services in the Memorandum for the Disability Services Agencies. Table 1 shows the federal and general funded capital assets in the Commonwealth’s capital asset system by agency as of June 30, 2019. Department for the Deaf and Hard-of-Hearing and Virginia Board for People with Disabilities did not have any capital assets recorded.

Capital Assets by Funding Type
As of June 30, 2019
(in 000’s)

	Aging and Rehabilitative Services	Percent of Total	Wilson Workforce Rehabilitation Center	Percent of Total	The Blind and Vision Impaired*	Percent of Total	Total of all Disability Services Agencies	Percent of Total
Federal	\$1,720	41%	\$ 16	0%	\$ 2,239	5%	\$ 3,975	4%
General	2,476	59%	63,907	100%	40,155	95%	106,539	96%
Total	\$4,196		\$63,923		\$42,394		\$110,514	

Source: Commonwealth’s capital asset system

*Department for the Blind and Vision Impaired includes Virginia Industries for the Blind and Virginia Rehabilitation Center for the Blind and Vision Impaired.

As a summary user, Wilson Workforce is responsible for the internal controls over their capital assets and maintaining the detailed internal records for those assets. Wilson Workforce provides capital asset summary information to Aging and Rehabilitation Services to record in the Commonwealth’s capital asset system and to submit capital asset attachments and summary information to the Department of Accounts.

On the other hand, Aging and Rehabilitation Services is responsible for recording and disposing of capital assets and establishing internal controls for the central users of the Commonwealth’s capital asset system. Aging and Rehabilitative Services is also responsible for tracking construction costs in a CIP schedule and capitalizing any constructed assets at completion, such as buildings and software.

Management of multiple agencies capital assets requires communication between Fiscal, Information Technology, and the capital asset's responsible person at each Disability Services Agency.

We audited Disability Services Agencies internal controls over capital assets because the lack of a Memorandum that establishes responsibilities between the Disability Services Agencies increase the risk of fraud and error surrounding capital assets, which we have not audited recently.

Disability Services Agencies Leases

Disability Services Agencies outsources their real estate lease services with Department of General Services' Division of Real Estate and Facilities Management. However, Aging and Rehabilitative Services provides lease services for equipment leases as part of the fiscal services in the Memorandum. We gained an understanding of Fiscal's preparation for the implementation of GASB Statement No. 87, Leases, since this accounting standard will require significant planning and preparation.

Prior Year Management Recommendations

We followed up on three management recommendations from the fiscal year 2017 audit report to determine if management implemented adequate corrective action. The findings related to requirements of the Commonwealth Neurotrauma Initiative Trust Fund, the Commonwealth's benefit system reconciliations, and timely check deposits at Blind and Vision Impaired. We also followed up on the Disability Services Agencies Memorandum of Understanding finding and five Blind and Vision Impaired information technology findings from the fiscal year 2018 audit as detailed below.

Disability Services Agencies Memorandum of Understanding

Disability Services Agencies Memorandum is the foundation for communication, controls, and responsibilities between the Disability Services Agencies. Aging and Rehabilitative Services provides a large range of different services for the Disability Services Agencies. However, Aging and Rehabilitative Services does not provide information technology services over the Industries for the Blind's point-of-sale and manufacturing systems. The Department for Deaf and Hard-of-Hearing, the Virginia Board for People with Disabilities, and Blind and Vision Impaired pay Aging and Rehabilitative Services for the fiscal and administrative services provided. Since the Memorandum plays such a large role in the internal controls at each agency, we followed-up to determine the progress made to resolve this finding as part of our audit objectives.

Information Technology

The majority of the Disability Services Agencies' information technology assets are in-scope to the Partnership. However, Industries for the Blind's point-of-sale and manufacturing systems are out of scope. As a result, Industries for the Blind is responsible for managing and protecting the information technology environment for those two systems in compliance with the Security Standard.

The point-of-sale system performs inventory management, credit card processing, revenue collections, and accounts receivable management for the different store locations. In addition, the manufacturing system performs sales, inventory, ordering, production, accounts receivable, revenue collections, and internal reporting for the manufacturing locations. Industries for the Blind uses third party providers to manage and maintain the systems and to provide the information technology infrastructure on which the systems reside.

We followed up on the prior year findings of these information systems in our audit objectives because Industries for the Blind manages the systems outside of the Partnership, which increases the risk for noncompliance with the Security Standard.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

July 17, 2020

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Kenneth R. Plum
Chairman, Joint Legislative Audit
and Review Commission

We audited the **Disability Services Agencies'** capital assets and preparation for the implementation of GASB Statement No. 87 – Leases for the fiscal year ended June 30, 2019. In addition, we audited the follow up on three findings from the fiscal year 2017 audit report related to requirements of the Commonwealth Neurotrauma Initiative Trust Fund, the Commonwealth's benefit system reconciliations, and timely check deposits at Blind and Vision Impaired. We also followed up to determine the progress made to resolve six findings related to the Disability Services Agencies' fiscal agent memorandum of understanding and information system security controls for the Industries for the Blind from the fiscal year 2018 audit report. We conducted this performance audit in accordance with generally accepted government auditing standards. 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 Scope and Objectives

Our audit's primary objective was to review the adequacy of the Disability Services Agencies' capital assets as recorded in the Commonwealth's accounting and financial reporting system and the Commonwealth's capital asset system, review the adequacy of the Disability Services Agencies' internal controls, and test compliance with applicable laws, regulations, contracts, and grant agreements. In addition, we reviewed the status of the Disability Services Agencies' memorandum of understanding and the preparation for the implementation of GASB Statement No. 87 – Leases. We also reviewed corrective actions for select audit findings related to requirements of the Commonwealth Neurotrauma Initiative Trust Fund, Commonwealth's benefit system reconciliations, and Industries for the Blind's check depositing and information system security from prior audit reports. We did not review corrective actions for prior audit findings identified as deferred in the [Findings Summary](#) included in the Appendix. We will follow up on these findings in a future audit. See the Findings Summary for a listing of prior findings and the status of follow-up on management's corrective action.

Audit Methodology

The Disability Services Agencies' 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, as they relate to the audit objectives, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Disability Services Agencies' 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 as they pertain to our audit objectives.

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

Conclusions

We found that the Disability Services Agencies properly stated, in all material respects, capital assets recorded and reported in the Commonwealth's accounting and financial reporting system and capital asset system, except as noted in the findings entitled "Improve Controls Over Capital Assets" and "Improve Controls Over Wilson Workforce Capital Asset" described in the section entitled "Audit Findings and Recommendations."

We noted certain matters pertaining to the Disability Services Agencies' capital assets and memorandum of understanding, Industries for the Blind check depositing, and information system security, involving internal control and its operation and compliance with applicable laws, regulations, contracts, and grant agreements that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

The Disability Services Agencies have made reasonable preparations to date for the implementation of GASB Statement No. 87 – Leases.

The Disability Services Agencies have taken adequate corrective action with respect to select audit findings reported in the prior year that are listed as resolved in the Findings Summary in the Appendix. Prior year findings included in the scope of the audit where corrective action is still ongoing are listed as repeat in the Findings Summary and included in the section entitled “Audit Findings and Recommendations.”

Exit Conference and Report Distribution

We discussed this report with management on August 10, 2020. Management’s response to the findings identified in our audit is included in the section titled “Agency Response.” We did not audit management’s response and, accordingly, we express no opinion on it.

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.

Martha S. Mavredes
AUDITOR OF PUBLIC ACCOUNTS

DBC/clj

FINDINGS SUMMARY

Finding	Follow Up Status	Year(s) Issued
Improve Documentation and Timeliness of the Commonwealth's Benefit System Reconciliations	Resolved	2014, 2017
Comply with the Commonwealth Neurotrauma Initiative Trust Fund Requirements	Resolved	2017
Update Disability Services Agencies Memorandum of Understanding	Repeat*	2018, 2019
Improve Received Check Depositing and Reconciliation Processes	Repeat*	2014, 2017, 2019
Improve Information Technology Governance	Repeat*	2018, 2019
Develop and Implement Information Security Policies and Procedures	Repeat*	2018, 2019
Upgrade Manufacturing System	Repeat*	2018, 2019
Improve Information Security for Point-of-Sale System	Repeat*	2018, 2019
Improve Oversight Over Third-Party Providers	Repeat*	2018, 2019
Improve Controls Over Capital Assets	New	2019
Improve Controls over Wilson Workforce Capital Assets	New	2019
Implement Software and Other Intangible Assets Policy	New	2019
Improve Internal Controls over Client Gift and Fuel Card Purchases	Deferred**	2016, 2018
Improve Purchase Card Reconciliations and Document Retention	Deferred**	2016, 2018
Improve Documentation over Traveler's Reimbursement of Purchase Cards	Deferred**	2016, 2018
Improve Controls over System Access	Deferred**	2018
Improve Internal Controls over Financial System Reconciliations	Deferred**	2018

*Follow-up Status on prior year findings identified as "Repeat" indicates sufficient corrective action on a prior recommendation is not complete; therefore, the prior year finding has been fully or partially repeated.

**Follow-up Status on prior year findings identified as "Deferred" indicates review of management's corrective action on a prior year finding will be performed in a future audit.



COMMONWEALTH OF VIRGINIA
DEPARTMENT FOR AGING AND REHABILITATIVE SERVICES

KATHRYN A. HAYFIELD
Commissioner

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August 13, 2020

Martha S. Mavredes
Auditor of Public Accounts
James Monroe Building
101 N. 14th Street, 8th Floor
Richmond, Virginia 23219

Dear Ms. Mavredes:

We have reviewed your Disability Services Agencies Audit Report for the Fiscal Year Ended June 30, 2019. We give your comments the highest level of importance and consideration as we continue to improve our operation and process. We discussed the "Finding and Recommendations" with your team during the exit conference.

We concur with the findings and are adopting strategies to improve the internal control environment of our agencies. We will complete development of the corrective action plan within 30 days of this report.

Sincerely,

Handwritten signature of Kathy A. Hayfield in blue ink.

Kathy A. Hayfield

Handwritten signature of Raymond E. Hopkins in blue ink.

Raymond Hopkins

DISABILITY SERVICES AGENCIES

As of June 30, 2019

Kathryn Hayfield, Commissioner
Department for Aging and Rehabilitative Services

Raymond Hopkins, Commissioner
Department for the Blind and Vision Impaired

Eric Raff, Director
Department for the Deaf and Hard-of-Hearing

Heidi Lawyer, Executive Director
Virginia Board for People with Disabilities