AUDIT SUMMARY

Our audit of the Office of the Attorney General and Department of Law and Division of Debt Collection (Office) for the fiscal year ended June 30, 2018, included a review of internal controls over the following areas:

- legal services billings;
- outside/special counsel;
- information system access for the attendance and leave system and the accounting and financial reporting system;
- employment eligibility verification;
- executive leave; and
- follow up on prior year findings entitled “Improve Physical and Environmental Security” and “Improve Firewall Management.”

Relative to the areas tested, we found:

- matters involving internal control and its operation necessary to bring to management’s attention; and
- instances of noncompliance with applicable laws and regulations that are required to the reported.

In addition, we found that the Office has not taken adequate corrective action to resolve audit findings reported in the prior year. However, after hiring a new Information Security Officer in 2017, progress is being made to correct information security deficiencies. Those findings that report on issues that were not resolved from our previous audit are identified as repeat.
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AUDIT FINDINGS AND RECOMMENDATIONS

Continue to Improve Firewall Management
Type: Internal Control and Compliance
Repeat: Yes, first reported in 2016

The Office does not properly secure its firewall in accordance with the Commonwealth’s Information Security Standard, SEC 501 (Security Standard), and industry best practices.

During the 2016 audit, we communicated essential control weaknesses to management in a separate document marked Freedom of Information Act Exempt (FOIAE) under §2.2-3705.2 of the Code of Virginia, due to it containing descriptions of security mechanisms. The Security Standard requires the documentation and implementation of certain controls that reduce unnecessary risk to the confidentiality, integrity, and availability of Office’s information systems and data.

The Office should implement the controls discussed in the communication marked FOIAE in accordance with the Security Standard in a timely manner to safeguard the Office’s network and protect its systems and data from threats.

The Office employed a new Information Security Officer (ISO) during 2017 and progress is being made to remediate this weakness.

Continue to Improve Physical and Environmental Security
Type: Internal Control and Compliance
Repeat: Yes, first reported in 2016

The Office does not have adequate physical and environmental security controls in place that meet the requirements in the Security Standard and protect technical assets that support daily business functions from physical and environmental risks.

The Security Standard requires the Office to develop, document, and implement physical and environmental protection policies and procedures to ensure appropriate controls are implemented to protect information systems and data from human and environmental risks. We communicated physical and environmental control weaknesses in detail to management in a separate document marked FOIAE under §2.2-3705.2 of the Code of Virginia, due to the sensitivity and description of security controls.

Not implementing appropriate physical and environmental safeguards and supporting procedures will decrease the Office’s ability to protect sensitive information systems from physical and environmental risks.
The Office should remediate the physical and environmental control weaknesses discussed in the communication marked FOIAE and improve the existing physical and environmental security policy to meet the requirements in the Security Standard. Remediating the weaknesses and improving the policy will help to protect the Office’s sensitive systems against physical and environmental threats.

The Office employed a new ISO during 2017 and progress is being made to remediate this weakness.

**Improve Legal Billings Internal Controls**  
**Type:** Internal Control  
**Repeat:** No

The Office’s Finance Department should improve internal controls over legal billings. Our review of fiscal year 2018 legal billings found inconsistencies between legal billings and the terms of the memorandums of understanding and master services agreements agreed to by the Office and state agencies. For example, some legal billings were not made in accordance with the terms of the memorandums; memorandums did not include the costs of employee’s benefits and were not updated as changes occurred. The Finance Department also has not updated the legal billing policies to reflect the change in the financial accounting system used to process payments.

As a best practice, the Office should ensure that memorandums of understanding and master services agreements document the current arrangement between the agencies. Providing services without an updated memorandum of understanding or master services agreement could result in discrepancies between the agencies.

The Office is currently working towards updating agreements and they should ensure that all memorandums of understanding and master services agreements are updated and adequately reflect the arrangement between the agencies. Furthermore, the Finance Department should ensure that legal billings are made in accordance with the terms of the memorandums and should update its legal billing policies to reflect the change in the financial accounting system used to process payments.

**Perform Annual Access Review of the Attendance and Leave System**  
**Type:** Internal Control and Compliance  
**Repeat:** No

The Office’s Human Resources Department has not performed an annual access review of the Commonwealth’s attendance and leave system in accordance with the Security Standard. Security Standard, Section 8.1 AC-2(j), requires the agency to “review accounts for compliance with account management on an annual basis or more frequently if required to address environmental change.”

The Human Resources Department does not have a policy to perform an annual review of the Commonwealth’s attendance and leave system. As a result, two employees had privileged user access to the system even though they no longer needed it. The Commonwealth’s attendance and leave system
is a critical information system used for timekeeping and leave reporting. Not conducting regular access reviews to mission critical systems threatens the integrity of the system and data housed within the system. Unnecessary access to the systems could result in fraudulent personnel and leave information.

The Human Resources Department should perform an annual access review of the Commonwealth’s attendance and leave system. Furthermore, the Human Resources Department should develop and implement a policy to ensure compliance with the Security Standard.

**Improve Employment Eligibility Process**

**Type:** Internal Control and Compliance  
**Repeat:** No

The Office’s Human Resources Department has not completed Employment Eligibility Verification (I-9) forms in accordance with guidance issued by the U.S. Citizenship and Immigration Services of the U.S. Department of Homeland Security. I-9 forms were not properly completed in the following instances:

- the Human Resources Manager used expired I-9 forms for five of eight (62%) employees;
- one of eight employees (12%) did not date Section 1 of the I-9 form; therefore, we could not verify if the form was completed on or before the first day of employment; and
- the Human Resources Manager did not complete Section 2 for one of eight (12%) employees within three days of the first day of employment.

The Human Resources Manager was unaware that I-9 forms were updated and overlooked the missing date on the form. Furthermore, the Human Resources Manager was unable to explain why Section 2 of the form was not completed within three days of the employee’s first day of employment. The Department of Homeland Security provides updated I-9 forms and the handbook for employers (M-274) identifies when employees and employers must complete Sections 1 and 2 of the I-9 form.

Not completing I-9 forms properly can result in penalties to both the employee and employer. The Human Resources Manager should ensure that up to date I-9 forms are used and completed in accordance with the U.S. Department of Homeland Security guidelines.
AGENCY HIGHLIGHTS

The Attorney General is the chief executive officer of the Commonwealth of Virginia’s Department of Law. The Office of the Attorney General and Department of Law (Office) acts as the Commonwealth’s law firm. The Attorney General and his staff represent the Commonwealth’s interests in all civil cases naming the Commonwealth, or any of its agencies or officials, as a party, and in criminal cases on appeal to the Court of Appeals of Virginia and the Supreme Court of Virginia. In cases involving federal law, the Attorney General represents the Commonwealth’s interests in federal court. The Office also enforces consumer protection laws and investigates Medicaid fraud.

The Attorney General is also the legal advisor to the Governor and more than 200 state agencies, boards, commissions, and institutions. The Attorney General renders official opinions on the application of the law upon written request of the Governor, members of the General Assembly, members of the judiciary, state officials, or local constitutional officers. The Office handles criminal convictions on appeal and defends the state when prisoners sue concerning their incarceration. In addition, the Office defends legal challenges of the constitutionality of state laws. The Attorney General is responsible for providing all legal services for the Commonwealth and its agencies, unless it is impracticable and uneconomical to do so. If outside counsel is utilized, the Attorney General supervises the appointment and payment of private attorneys hired by other state agencies for various matters.

The Office’s organizational structure is similar to a private law firm, with divisions devoted to legal specialties. In addition to the main office in downtown Richmond, there are regional offices in Abingdon, Fairfax, and Roanoke. The Administration Division provides finance, human resources, information technology, and operations support to the legal divisions.

Legal Services Billings

State law permits the Attorney General to bill agencies for the legal services, if the agency receives all or a part of its funding from non-general funds. Billings for these services may be based on a set hourly rate, a Memorandum of Understanding/Agreement, or a Master Services Agreement between the Office and the agency. The hourly rate is based on a cost of business model prepared by the Finance Department. In 2018, the office received over $10 million in legal services revenue. Several factors contributed to the increases in the legal services revenue including hourly rate increases, changes in agreements between the Attorney General and agencies served, attorney salary and benefit increases, and the amount of legal services provided to agencies. Chart 1 shows legal services revenue received by the Office for the fiscal years 2012 through 2018.

Source: The Commonwealth’s accounting and financial reporting system
January 28, 2019

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission

We have audited legal services billings; information system access for the attendance and leave system and the accounting and financial reporting system; employment eligibility verification; executive leave; and internal controls over the use of outside/special counsel for the year ended June 30, 2018, for the Office of the Attorney General and Department of Law and Division of Debt Collection (Office). In addition, we audited the corrective action related to two information security audit findings issued during the audit for the fiscal year ended June 30, 2016. 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 objectives with regard to the areas listed in the preceding paragraph were to review and evaluate whether internal controls were adequate and test compliance with applicable laws, regulations, contracts, and grant agreements. We also reviewed corrective action for audit findings from prior year reports as follow: “Improve Firewall Management” and “Improve Physical and Environmental Security.”

Audit Methodology

The Office’s 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, 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 Office’s 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 Office’s 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 noted certain matters 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 Office has not taken adequate corrective action with respect to audit findings reported in the prior year. Those findings are noted as repeat in this audit report.

**Exit Conference and Report Distribution**

We discussed this report with management on January 9, 2019. 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.

AUDITOR OF PUBLIC ACCOUNTS

KJS/vks
March 13, 2019

Ms. Martha Mavredes
Auditor of Public Accounts
101 N. 14th Street
Richmond, VA 23219

Dear Ms. Mavredes:

On behalf of the Attorney General, I would like to thank you for providing us an opportunity to comment on the findings and recommendations in the Fiscal Year 2018 audit of the Office of the Attorney General.

Management continues to recognize the need for compliance with the requirements of SEC 501-9 and to ensure we have adequate internal controls and/or policies in place for Finance and Human Resources. We continue to actively work towards redressing all concerns noted from the FY2018 audit.

Sincerely,

[Signature]

Leigh E. Archer
Director of Administration
THE OFFICE OF THE ATTORNEY GENERAL
AND DEPARTMENT OF LAW AND DIVISION OF DEBT COLLECTION

As of June 30, 2018

Mark R. Herring
Attorney General

Cynthia E. Hudson
Chief Deputy Attorney General

Leigh E. Archer
Director of Administration

Christie A. Wells
Director of Finance