



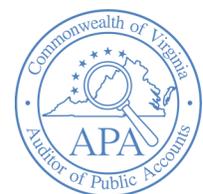
VIRGINIA DEPARTMENT OF STATE POLICE

AUDIT OF SELECT BUSINESS CYCLES FOR THE YEAR ENDED JUNE 30, 2018

Auditor of Public Accounts
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AUDIT SUMMARY

We audited the Virginia Department of State Police's (State Police) internal controls and compliance with applicable laws and regulations over revenue accounting, contract management, federal grants management, payroll, and travel expense reimbursements within the Property and Finance Division; and retirement census data and statement of economic interests within the Human Resources Division, for the fiscal year ended June 30, 2018. We found:

- matters involving internal control and its operation necessary to bring to management's attention pertaining to internal policies and procedures, revenue accounting, contract management, federal grants management, and statement of economic interests; and
- instances of noncompliance with applicable laws and regulations or other matters that are required to be reported related to federal grants management and statement of economic interests.

As our audit scope was limited to those areas described above, this report only includes internal control and compliance matters we identified as related to the scope. We did not follow up on management's corrective action on prior year findings identified as deferred in the [Findings Summary](#). Due to the timing of the prior report, State Police was not able to implement corrective action for those findings during fiscal year 2018. We will follow up on these findings in a future audit.

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AUDIT SCOPE OVERVIEW AND FINDINGS BY AUDIT AREA

State Police provides services to the public, other law enforcement, and criminal justice agencies. It is organized into three bureaus: the Bureau of Criminal Investigation, the Bureau of Field Operations, and the Bureau of Administrative and Support Services (BASS). Several divisions make up BASS, including the Property and Finance and Human Resources divisions.

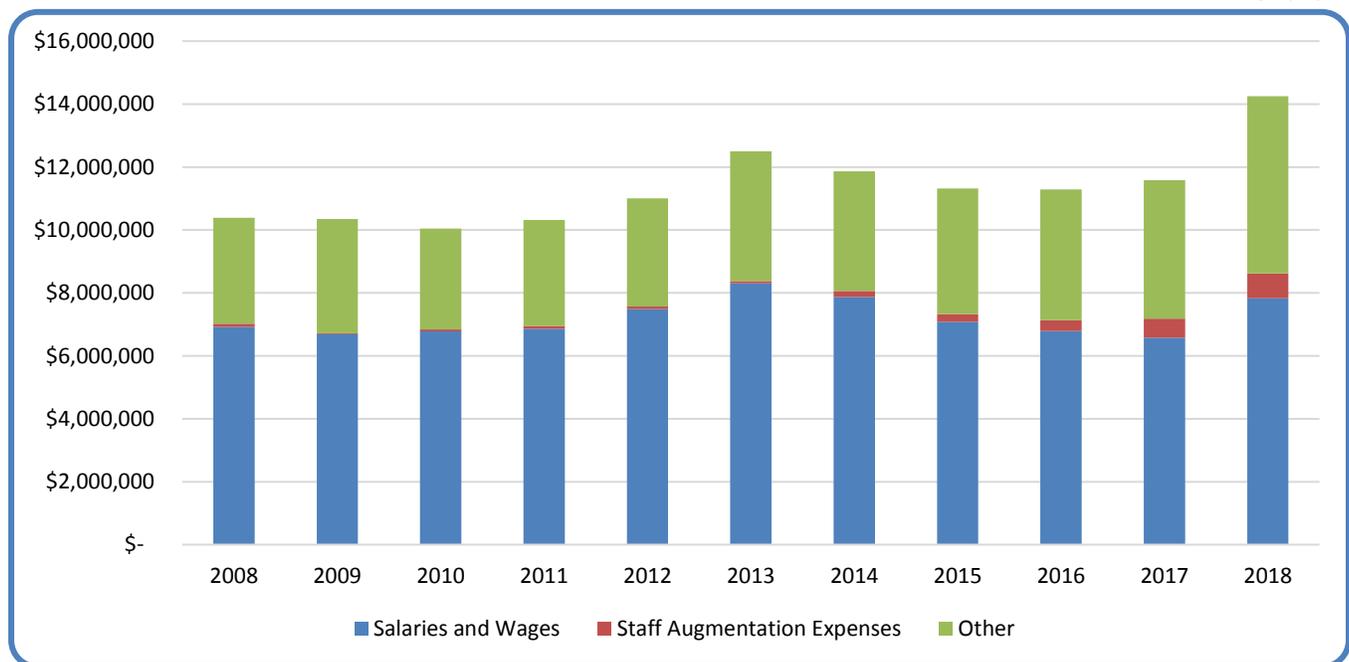
Property and Finance Division

Property and Finance oversees financial functions and fiscal duties, including revenue accounting, contract management, federal grants management, payroll, and travel expense reimbursements, areas included in our audit scope. We describe each of these areas in more detail below.

Chart 1 below shows the annual administration and support expenditures that State Police has spent for each of the past ten fiscal years in accounting and budgeting services, human resource services, procurement, and general management/direction. There are other administrative and support services expenditures that are not included below.

Annual Administration and Support Expenditures
For Fiscal Years 2008 - 2018

Chart 1



Source: State Police's accounting and financial reporting system

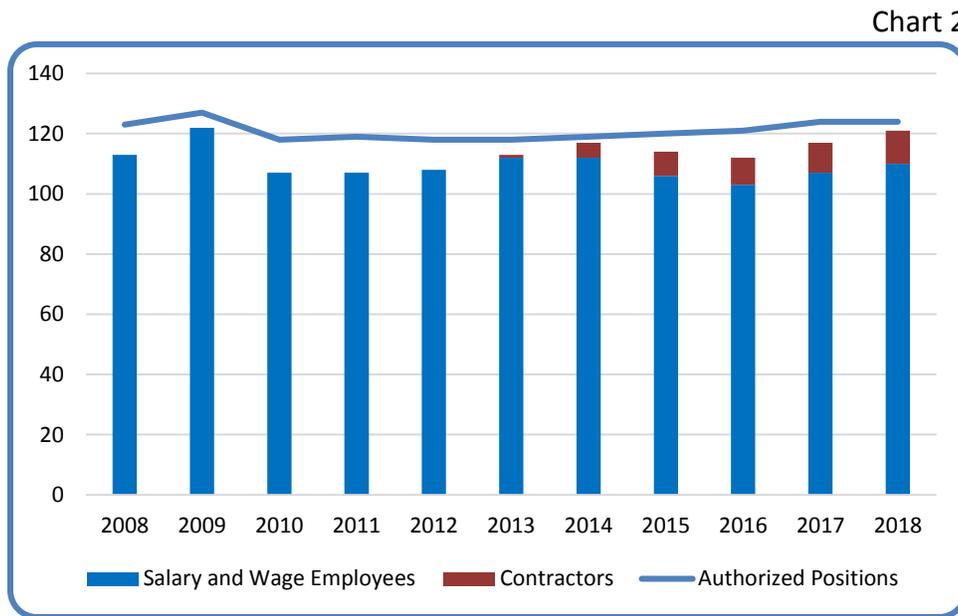
Salaries and wages are comprised of fully burdened cost of employees in this division and it increased over ten years from \$6.9 million to \$7.8 million. This increase is attributed to a statewide salary increase and departmental reorganization. The average cost per administrative employee increased by 16 percent, from \$61,200 in 2008 to \$71,200 in 2018, but this increase did not keep pace

with inflation. An analysis by administrative function shows the average cost per employee in 2018 as follows: \$86,000 for general management and direction; \$53,870 for accounting and budgeting; \$82,100 for human resources; and \$50,560 for procurement and distribution services.

State Police rarely used staff augmentation services, also known as contractors, for its administrative functions until 2013. Since that time, its use has grown from one staff to eleven, with expenditures in 2018 totaling \$785,437. In 2018, the accounting and budgeting function used six contractors at an average cost of \$79,600, which is approximately \$25,700 more than a salaried employee.

Chart 2 below shows the average number of those full-time and contractors compared to the authorized number of positions for each of the past ten years.

Number of Administrative Staff and Contractors Compared to Authorized Positions
For Fiscal Years 2008 - 2018



Source: State Police’s accounting and financial system

Staff augmentation is an effective way to hire temporary employees or to acquire expertise needed for a specific project. However, since these employees may come and go, it is important that management establish comprehensive policies and procedures to provide clear guidance regarding its internal control expectations and compliance requirements. For this reason, our audit of each of the areas described below will incorporate a review of the applicable policies and procedures for clarity, completeness, and correctness.

General Finding

Document Internal Policies and Procedures

Type: Internal Control

Repeat: No

Property and Finance has not documented internal policies and procedures to ensure that the agency complies with Department of Accounts' requirements. State Police uses the Commonwealth Accounting Policies and Procedures (CAPP) Manual as its own policies for the following areas:

- Employee Travel
- Voyager Cards
- Expenses and Accounts Payables
- Suspense Accounts
- Journal Entries, including inter-agency transactions

CAPP Manual Topic 20905 requires an agency to publish its own internal control policies and procedures documents, approved in writing by management. State Police should customize the policies to reflect its staffing and operating procedures. Without documented internal policies and procedures, the Assistant Property and Finance Officer cannot ensure that the agency meets the requirements of the CAPP Manual. Furthermore, the lack of internal policies reflects inadequate internal control.

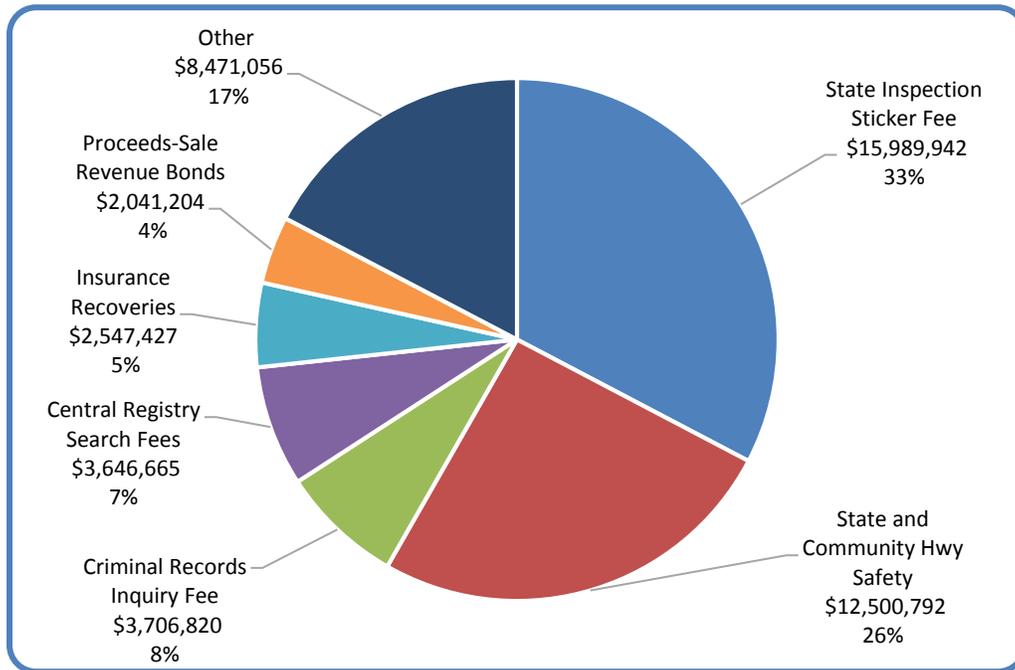
Property and Finance has not undertaken a project to develop customized internal policies and procedures for the agency; rather they have chosen to utilize the CAPP Manual as their policies and procedures. The Property and Finance Division Commander should create and document internal policies and procedures that reflect the agency's internal control structure and operating procedures.

Revenue Accounting

State Police receives fees from items such as state inspection stickers, criminal record inquiries, central registry searches, concealed weapon permits, and firearm dealers. In fiscal year 2018, State Police collected over \$48 million in revenue. Chart 3 indicates the revenues State Police collected in fiscal year 2018. The revenues included in the chart do not include funds that State Police collects for fingerprints, subpoenas, restitution payments, private security services, work zone monitoring services, and background checks. Those revenues are recorded in the Commonwealth's financial and reporting system as an expenditure recovery, which are not reflected in the chart below. For fiscal year 2018, the total of expenditure recoveries related to these and other types of services was \$18,199,680.

Revenue Collections Fiscal Year 2018

Chart 3



Source: Commonwealth's accounting and financial reporting system

The collection of and deposit of funds is decentralized throughout several departments and divisions. Each department develops its own processes and policies for collecting and depositing funds. Regardless of which division collects and deposits funds, State Police is required to account for and manage revenues and deposits in accordance with the Commonwealth's accounting policies and procedures. Due to the significance of funds collected by State Police, we included revenue receipts in our audit scope.

Revenue Accounting Findings

Evaluate and Document Revenue Processes

Type: Internal Control

Repeat: No

Property and Finance should evaluate the agency's finance and revenue processes. State Police operates in a largely decentralized environment where several divisions receive payments for services including, but not limited to, background checks, firearm dealer and handgun permits, inspection station permits, and subpoenas. Divisions have their own system and process to account for, manage, and maintain record of revenue receipts. Property and Finance relies on the divisions to manage their operations and provide information for the timely deposit and recording of transactions into the agency's accounting and financial reporting system. Since processes occur in a decentralized environment, some divisions have more controls and better processes for handling revenue whereas other divisions lack sufficient controls surrounding various aspects of revenue processes. We noted a

lack of documented policies and procedures, inadequate safeguarding of receipt until deposit, no policy to document when funds were received by the division, and inadequate back-ups to process receipts.

CAPP Manual Topic 20205 requires agencies to develop internal controls to properly account for, report, and manage deposits. The lack of internal controls can result in untimely deposits, theft or loss of assets, and inadequate documentation to support deposits. We have issued a management recommendation entitled “Process and Record Deposits Timely” to addresses untimely deposits. Revenue collections are decentralized across several divisions and the divisions do not appear to be aware of CAPP Manual requirements. Furthermore, it does not appear that the Property and Finance Division has provided guidance to the divisions regarding appropriate internal controls over their processes.

Property and Finance should evaluate the agency’s finance and revenue accounting environment and determine what processes are necessary to establish sufficient internal controls over its revenue process. Property and Finance should ensure that divisions’ processes are adequately documented and meet the requirements of the CAPP Manual.

Evaluate Fees and Revenues to Ensure Proper Account Coding

Type: Internal Control

Repeat: No

State Police is currently coding some of the fees collected as an expenditure recovery and not revenue. We reviewed 38 deposit certificates processed during fiscal year 2018 and found that 31 transactions were coded as expenditure recoveries. These transactions include, but are not limited to funds collected for fingerprints, subpoenas, restitution payments, private security services, work zone monitoring services, and background checks.

According to management, State Police has historically recorded fees collected as expenditure recoveries and has not considered whether a change is necessary. According to GASB Codification Section 1600.103, resources resulting from exchange and exchange-like transactions should be recognized as revenue when an exchange takes place. In addition, the Department of Accounts’ year-end procedures direct that expenditure recoveries relating to a prior fiscal year be coded as a refund of expenditures and miscellaneous disbursements made in prior years. While in some instances expenditure recoveries are appropriate, incorrectly utilizing the expenditure recovery account and not recording funds appropriately as a revenue, could result in misappropriation of general fund dollars and the over or underreporting of expenses and revenues.

Property and Finance should evaluate all fees and revenue collected and properly account for those funds. Property and Finance should solicit guidance from the Department of Accounts and the Department of Planning and Budget, as necessary, to ensure that necessary account codes and funds are established. Consideration should be given to how account coding changes will affect the agency’s budget and appropriations. Furthermore, Property and Finance should consult with the Department of Planning and Budget to ensure that changes are properly reflected in upcoming biennial budget.

Implement Segregation of Duties over Deposit Processes

Type: Internal Control

Repeat: No

Property and Finance has not implemented adequate segregation of duties over the deposit process. Currently, the Petty Cash Accountant receives payments from various divisions, prepares and creates the deposit, verifies the deposit using information provided by the divisions, and records the deposit in the agency's accounting and financial reporting system.

According to CAPP Manual Topic 20905, agencies should maintain appropriate segregation of duties. Property and Finance has not adequately evaluated the deposit process to ensure that duties are adequately separated. Segregation of duties reduces the risk of fraud and error and it also helps to protect employees against allegations of wrong doings. While there are separate individuals depositing funds and approving deposits in the accounting and financial reporting system, these processes do not appropriately mitigate the risks incurred by the agency.

Property and Finance should evaluate the current deposit processes and ensure that they have adequately implemented segregation of duties. If the division determines that there is inadequate staff to properly separate all duties, additional compensating procedures should be designed and implemented to help reduce the risks associated with inadequate segregation of duties and the division should evaluate its staffing levels.

Process and Record Deposits Timely

Type: Internal Control

Repeat: No

Property and Finance does not process and deposit funds on the day received or no later than the next banking day. We reviewed 38 deposit certificates processed during fiscal year 2018 and 15 (39%) were not processed timely. The Property and Finance Division could not locate two deposit certificates; therefore, we were unable to review them. Seven of the 15 deposit certificates were processed between two and 18 days late and we could not verify the timeliness of six deposit certificates because the divisions receiving the funds did not maintain documentation of when they received the funds. Some divisions indicated that due to the volume of transactions and insufficient staffing, there are instances where they hold receipts more than one day before they are deposited. In addition, the Property and Finance Division did not enter deposits in the agency's accounting and financial reporting system within three business days of the deposit. Seven of the 38 (18%) deposits reviewed were entered between 1 and 16 days late.

CAPP Manual Topic 20205 requires processing and deposit of receipts on the day received or no later than the next banking day, unless it is justified by the small amount collected or exceptions granted by the Department of Treasury. The procedures also state that receipts should be recorded in the agency's accounting and financial reporting system in a timely manner, within three business days of the deposit. Lastly, the CAPP Manual requires agencies retain the deposit ticket, validated receipt, and documentation of entry into the Commonwealth's accounting and financial reporting system until

audited by the Auditor of Public Accounts. Not making timely deposits or retaining supporting documentation increases the risk of fraud or theft and it can also affect the agency's cash balances and their ability to pay expenses.

The Petty Cash Accountant did not have any documentation explaining why funds were not deposited or entered into the agency's financial accounting and reporting system timely and could not explain why the deposit certificates could not be located. Furthermore, the collection and deposit process is decentralized across multiple divisions. As a result, each division has implemented its own receipts processing policy and there is limited guidance from the Property and Finance Division on the adequacy of those policies and procedures. Division policies are inconsistent and they do not adequately address receipts processing internal controls and requirements of the CAPP Manual. We have issued a separate management recommendation entitled "Evaluate and Document Revenue Processes" to address deficiencies noted in the agency's revenue collection policies.

Property and Finance should ensure documentation is properly retained and that all funds are deposited and entered in the agency's financial accounting and reporting systems timely.

Create and Implement Internal Controls over Reconciliations

Type: Internal Control

Repeat: No

Property and Finance did not reconcile supporting documentation, specifically deposit certificates, to the agency's accounting and financial reporting system to ensure the accuracy and completeness of the transactions processed. We reviewed 38 deposit certificates and none were reconciled.

CAPP Manual Topic 20905 recommends agencies reconcile source documents with agency internal automated accounting systems. The CAPP Manual also requires agencies to have detailed written policies and procedures for complying with reconciliation requirements. Currently, the Property and Finance Division only reconciles the agency accounting and financial reporting system to the Commonwealth's accounting and financial and reporting system. Discussions with the Controller indicate that the Property and Finance Division does not have a policy requiring a reconciliation of source documentation to the agency's system. Without proper reconciliations, the Property and Finance Division cannot ensure that financial transactions recorded in their financial system reflects the financial operations of the agency.

Property and Finance should ensure reconciliations are completed as require by the CAPP Manual. Furthermore, Property and Finance should create, implement, and maintain written reconciliation policies and procedures that are consistent with the requirements of CAPP Manual Topic 20905.

Contract Management

State Police follows the Virginia Public Procurement Act, the Department of General Services' (General Services) Agency Procurement and Surplus Property Manual (Procurement Manual), and the Virginia Information Technologies Agency's Procurement Policy to guide its procurement decisions. State Police continues to use the Commonwealth's purchasing system agency-wide to requisition and order most of its goods and services. State Police processed orders totaling \$89.9 million during fiscal year 2018 and Table 1 below shows the top commodities and the total value of those orders:

Commodities Ordered through the Commonwealth's Purchasing System
For the Fiscal Year 2018

Table 1

Commodity	Order Amount
Software Maintenance/Support	\$ 6,587,763
Automobiles, Police and Security Equipped	6,503,351
Computer Software Consulting	5,244,512
Electronic Equipment Maintenance and Repair	4,843,790
Radio Communication Equipment, Accessories and Supplies	4,638,340
Computer Hardware and Peripherals for Microcomputers	4,252,167
Gasoline, Automotive	3,941,968
Specialty Vehicles	2,893,379
Parts (Except Engine), Helicopter	2,040,195
Computer Network Consulting	1,825,735
Microcomputers, Handheld, Laptop, and Notebook	1,659,459
Advertising Agency Services	1,250,164
Airplanes, Helicopters and Accessories Maintenance and Repair	1,169,073
Surveillance Cameras and Counter-surveillance Equipment and Supplies	1,100,336
Office Supplies, General	1,063,638
All Others	40,892,510
TOTAL	\$ 89,906,380

Source: Commonwealth's purchasing system

State Police utilizes state contracts procured by General Services. In addition, State Polices' Procurement Department also procures goods and services for the agency's use. The Procurement Department procured services including, but not limited to medical and physician services, automotive services, janitorial services, landscaping services, waste management, and HVAC services. Agencies are responsible for ensuring that services or goods are provided in accordance with the terms of the contract; therefore, we reviewed contract administration and controls.

Contract Management Findings

Establish and Maintain a Term Contract Listing

Type: Internal Control

Repeat: No

Virginia State Police's Procurement Department did not have a listing of all term contracts for fiscal year 2018. The Procurement Department experienced turnover during fiscal year 2018 and the contract listing was not readily available. As a result, the new Procurement Director and a contract officer had to research the agency's procurements in the Commonwealth's purchasing system in order to create a listing of the agency's contracts. The Agency Procurement and Surplus Property Manual (APSPM) Chapter 10 requires agencies to assemble and maintain a master listing of all term contracts. The listing should include the period of performance and renewal options. As a best practice, the contract listing should also include vendor name, contract description, procurement type, contract number, yearly spend amount, contract officer, and contract administrator.

Not maintaining a master listing of term contracts increases the risk of contract management and administration issues and can also hinder the planning of renewal or rebidding actions. In addition, without a complete contract listing, procurement officers cannot efficiently make purchases for the agency because they are unaware of what contractual agreements the agency has already entered into.

The Procurement Department should ensure that a master listing of term contracts is maintained and contains information relevant to the nature of the contract. Maintaining a master contract listing will help reduce contract management and administration issues and it can also assist procurement officers in efficiently procuring items for the agency.

Designate Contract Administrator and their Responsibilities in Writing

Type: Internal Control

Repeat: No

The Procurement Department did not designate contract administrators and identify the administrators' responsibilities in writing for three of the five contracts reviewed. Additionally, the Procurement Department does not assign the contract's end user as the contract administrator. Contract procurement officers were the contract administrators for four of the five contracts reviewed. Generally, the contract administrator and procurement officer are different employees; however, there are instances where the contract officer can serve as the contract administrator. This should be documented and retained in the contract file.

APSPM Chapter 10.2 requires the contract administrator be delegated in writing, with corresponding responsibilities defined. This ensures that responsibilities between the Procurement Department and the end user are clearly defined. Chapter 10.2 further states that the contract administrator should be the end user of the contract or one who has a vested interest in the procurement who will be responsible for proper adherence to all contract specifications by the contractor.

Inadequate documentation of the administrator and their responsibilities increases the chance that an administrator is unaware of their administrative responsibilities. If administrators are unaware of and do not fulfill their responsibilities, the Procurement Department cannot ensure that contract terms are being satisfactorily met. We have issued a separate recommendation entitled “Document Contractor Payment Tracking and Performance Evaluations” to address contract administrator duties that are not being performed. Assigning the procurement officer as the contract administrator could create a conflict of interest and result in issues with evaluating contract performance and authorizing payments.

The Procurement Department should ensure that all continuous or term contracts are assigned an administrator in writing. In addition, contractor administrator’s responsibilities should also be documented and the Procurement Department should ensure that contract administrators are the contract’s end users, or someone involved in the daily operations as it relates to the goods or services being provided.

Document Contractor Payment Tracking and Performance Evaluations

Type: Internal Control

Repeat: No

State Police is not tracking payments to contractors, nor are contract administrators documenting contractor performance evaluations. We reviewed five contracts administered during fiscal year 2018 and there was no evidence that payments for four of the five contracts were tracked. In addition, there was no documentation that administrators completed performance evaluations for any of the contracts reviewed.

APSPM Chapter 10.3 requires a complete file be maintained in one place for each purchase transaction, containing all the information necessary to understand the why, who, what, when, where, and how of the transaction. In addition, contract administrators are responsible for completing and submitting periodic evaluations of contractor performance and assuring that the contract amount is not exceeded without proper authorization from the contract officer. The Procurement Department does not have guidance for contract administrators on evaluating contractor performance, nor is there a process to track payments to contractors.

Not tracking payments can result in overpayments or improper payments to contractors. Without documenting contractor performance evaluations, the Procurement Department increases the risk that they renew contracts with vendors who have had poor performance. In addition, without performance evaluations, the Procurement Department may not be able to justify not renewing contracts with vendors who have not adequately performed.

State Police should track contractor payments and contract administrators should complete periodic evaluations of contractor performance. Additionally, the Procurement Department should provide guidance on how to fulfill administrator responsibilities and implement a process to evaluate if responsibilities are being fulfilled.

Federal Grants Management

In fiscal year 2018, State Police spent over \$20 million in federal funds. Table 2 below shows a breakdown of these grant expenditures by federal program.

Federal Grant Expenditures by Federal Program
For Fiscal Year 2018

Table 2

Catalog of Domestic Assistance Grant Number	Federal Program Name	Expenditures
20.218	National Motor Carrier Safety	\$ 5,558,150
11.014	Band 14 Incumbent Spectrum Relocation	5,315,651
16.922	Equitable Sharing	2,829,178
20.600	State and Community Highway Safety	1,377,745
20.607	Alcohol Open Container Requirements	1,314,879
21.000	Other Assistance	1,189,572
Various	12 other programs	2,415,047
	Total	\$20,000,222

Source: State Police’s Schedule of Federal Expenditures for Fiscal Year 2018

The majority of State Police’s grants are on a reimbursement-basis, which means State Police first incurs the expense and then requests reimbursement from the federal government. Expenditures eligible for reimbursement vary by grant and some grants require State Police to match the federal funds with a percentage of state funds. In addition, several grants are pass-through grants from the Department of Emergency Management, Department of Criminal Justice Services, and the Department of Motor Vehicles, respectively. Although all of these grants are below the Commonwealth’s Single Audit threshold for major programs, they are a significant source of funds for State Police.

State Police received correspondence from the United States Department of Justice and Department of Treasury regarding the Equitable Sharing Program and the Treasury Forfeiture Fund. During a review of State Police’ financial records the Department of Justice noted several discrepancies impacting the use and maintenance of State Police’s equitable sharing funds. The Treasury Department requested deposit transaction history and itemized accounting of all expenditures made with Treasury equitable sharing funds or transfer of funds. As a result of these inquires and the deficiencies we noted during the prior year audit, we chose to include controls and compliance over federal grants management in the scope of this audit. We did not perform specific procedures over the Equitable Sharing and Treasury Forfeiture Fund.

Improve Internal Controls over Grant Expenditures

Type: Internal Control and Compliance

Repeat: No

The Federal Grants Management Department could not provide documentation of proper approval of federal expenses. Five invoices out of 20 (25%) tested did not have approval documentation. 2 CFR § 200.400(d) requires adequate documentation to support costs charged to the federal award. The lack of adequate support and approval could create questions as to whether the nature of the transaction is permissible and could lead to potential unallowed charges by the federal government and/or other regulatory agencies. Without documentation or proper approval, State Police cannot provide assurance that charges are accurate and allowable.

State Police's Grant Manual has not been updated since September 2012 and does not align with the agency's current grant administration procedures. The Federal Grants Management Department should update the Grant Manual and ensure it addresses federal requirements and current grant administration procedures. By updating the manual, State Police will have the proper internal control structure in place, so that implementation of the controls will mitigate the risk of unallowable expenses.

Improve Monthly Certification over Grant Expenditures

Type: Internal Control and Compliance

Repeat: No

The Federal Grants Management Department does not properly reconcile federal grant expenditures. The project director did not verify grant expenses on 43% (3 out of 7) of sampled monthly reconciliations. State Police's Grant Manual states that the project director should verify all expenditures and obligations on the expenditure worksheet. If discrepancies are found, the project director should contact the Grant Accountant to resolve the issue.

Project directors were unaware of their responsibility to reconcile expenditures charged to their grants. Without properly performed reconciliations, State Police increases the risk of variances and errors going undetected. Additionally, no documentation of approval limits State Police's ability to hold employees responsible for unexplained variances or errors.

State Police should evaluate its existing instructions and implement enhancements to ensure that grant expenditures are charged correctly and errors and variances are identified, addressed, and properly reconciled by the project director. We have issued a separate recommendation "Improve Internal Controls over Grant Expenditures" to address deficiencies related to the Grant Manual.

Ensure Compliance with Prompt Pay

Type: Internal Control and Compliance

Repeat: No

Property and Finance is not adequately monitoring or ensuring compliance with the prompt pay provisions of the Virginia Public Procurement Act. Two out of 19 (11%) invoices sampled were paid past the 30-day prompt pay requirement. Code of Virginia § 2.2-4347 states that payments should be made no later than 30 calendar days after the receipt of goods, services, or invoice, whichever is later, or the due date established by contract. Untimely payments were a result of State Police's decentralized nature and a delay in obtaining proper approval for payment from the Federal Grants Management Department.

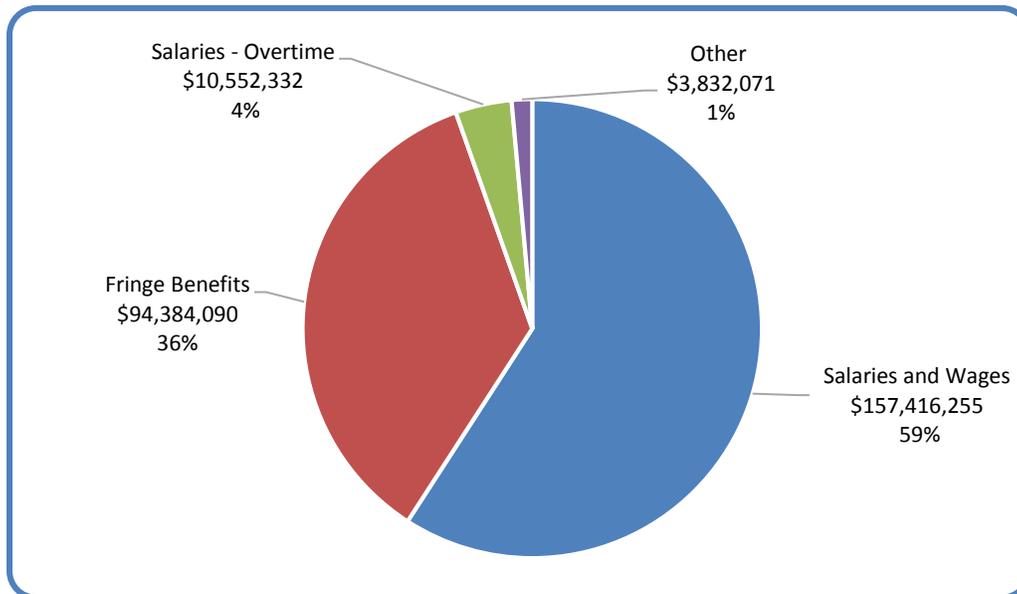
The inability to comply with the prompt pay provisions can damage the Commonwealth's relationship with vendors and could result in unnecessary penalties or interest being charged for the purchase of goods and services. State Police should strengthen its processes to ensure compliance with the prompt pay provisions.

Payroll

Payroll and fringe benefit expenses totaled over \$266 million in fiscal year 2018. A breakdown of State Police's payroll and fringe benefit expenses is shown in Chart 4. Salaries and wages accounts for the majority of these expenses, but fringe benefits are also significant. Employees can also earn overtime pay and leave. State Police uses the Payroll Service Bureau (Bureau) to process employee paychecks and related benefits. While the Auditor of Public Accounts audits the internal controls surrounding the Payroll Service Bureau, we have not reviewed State Police's internal controls surrounding payroll reconciliations, overtime pay and leave since fiscal year 2013. As a result, we included a review of these internal controls in the scope of our audit.

Payroll and Fringe Benefit Expenses Fiscal Year 2018

Chart 4



Source: Commonwealth's accounting and financial reporting system

Travel Expense Reimbursements

Our review included nonsworn employee's travel expenditures, which had not been audited since fiscal year 2013. We gained an understanding of State Police's travel expense reimbursement policies and ensured controls are operating effectively. We reviewed a sample of travel expense reimbursements paid during fiscal year 2018 to ensure they were reasonable, accurately recorded, and processed in accordance with State Police's policies and procedures.

Human Resources Division

The Human Resources Division provides State Police with a centralized human resource program covering employment practices, benefits, compensation, and background investigations. One of the responsibilities of the Human Resource Division is to implement processes and internal controls to ensure the agency's adherence to the State and Local Government Conflict of Interests Act (COIA). Given that we have not audited the agency's internal controls and compliance with the COIA, we included it in the scope of our audit.

The Virginia Retirement System (Retirement System) relies on employers to submit accurate information and to maintain verification that information submitted is correct and properly supported. Human Resources maintains personnel records that support the information submitted to the Retirement System. We last reviewed the supporting documentation maintained by Human Resources in fiscal year 2015; as a result, we included it in the scope of our audit.

Statement of Economic Interests Finding

Create Policies and Procedures for Statement of Economic Interest Filing and Training Requirements

Type: Internal Control and Compliance

Repeat: No

State Police has not required all individuals holding or hired into positions of trust to complete the Statement of Economic Interests (SOEI) forms and complete the required training. Specifically, three individuals promoted to a position of trust and included on the agency's internal position of trust listing, did not file a SOEI form for the 2019 filing deadline. In addition, we found that 11 individuals, 100 percent of our sample, did not complete the required training. Of the 11 individuals reviewed, six individuals last took the training in 2014, one individual last took training in 2015 and there was no information indicating that the remaining four individuals had ever taken the required training. Lastly, the Human Resources Department internal filing listing was incomplete and discussions with the Human Resources Department indicate that employees were not required to complete the SOEI as a condition of assuming employment.

Pursuant to the Code of Virginia § 2.2-3114A and § 2.2-3118.2, persons occupying positions of trust within state government must file with the Ethics Council, as a condition to assuming office or employment, a disclosure statement of their personal interests and such other information is required on the form, on or before the day such office or position of employment is assumed, and thereafter shall file such a statement annually on or before February 1. In addition, Code of Virginia § 2.2-3130, requires filers to complete training at least once during each consecutive period of two calendar years.

State Police could be susceptible to actual or perceived conflicts of interest that would impair or appear to impair the objectivity of certain programmatic or fiscal decisions made by employees in designated positions of trust. By not ensuring that all required employees complete the necessary disclosures, State Police may not prevent conflicts of interest. While not a cost to the agency itself, employees in a position of trust who do not complete the required SOEI form may, as allowed by the Code of Virginia § 2.2-3124, be assessed a civil penalty of \$250.

The Human Resources Department does not have adequate written policies and procedures on how to execute and meet the Code's filing and training requirements. Furthermore, the individuals responsible for ensuring compliance misunderstood the Code's requirements and how to administer and execute the program. Specifically, the Conflict of Interest Coordinator thought that the Virginia Conflict of Interest and Ethics Advisory Council's database could only be updated once a year; therefore, they did not require new hires or individuals who received promotions to complete the SOEI forms as a condition of assuming employment. Individuals were inadvertently omitted from both the internally maintained listing and the Virginia Conflict of Interest and Ethics Advisory Council's database because there was no process to ensure the listings were updated and reconciled.

The Human Resources Department should ensure they have a thorough understanding of the Code of Virginia's filing and training requirements. The Human Resources Department should then create, implement, and maintain written policies and procedures to meet the Code's filing and training requirements. Furthermore, the Human Resources Department should ensure the internally maintained listing is accurately updated and used to complete the Council's database.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

October 11, 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 the **Department of State Police's** (State Police) internal controls and compliance with applicable laws and regulations over revenue accounting, contract management, federal grants management, payroll, and travel expense reimbursements within the Property and Finance Division; and retirement census data and statement of economic interests within the Human Resources Division for the year ended June 30, 2018. 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 revenue accounting, contract management, federal grants management, payroll, travel expense reimbursements, retirement census data, and statement of economic interests were to review the adequacy of State Police's internal controls and test compliance with applicable laws, regulations, contracts, and grant agreements. We did not follow up on management's corrective action on prior year findings identified as deferred in the [Findings Summary](#). Due to the timing of the prior report, State Police was not able to implement corrective action for those findings during fiscal year 2018. We will follow up on these findings in a future audit.

Audit Methodology

State Police'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, 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 the adequacy of State Police’s controls and to evaluate whether divisions were following them. 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 State Police’s operations. We performed selected analytical procedures and tested details of transactions to achieve our objectives.

We used a non-statistical sampling approach and designed our samples to support conclusions about our audit objectives. Further, we used an appropriate sampling methodology to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. Finally, 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 pertaining to revenue accounting, contract management, federal grants management, retirement census data, statement of economic interests. These matters are described in the section entitled “Audit Scope Overview and Findings by Audit Area.”

We did not follow up on the agency’s corrective action with respect to prior year audit findings. Prior year findings are listed in the Findings Summary in the Appendix.

Exit Conference and Report Distribution

We discussed this report with management on December 4, 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.

Martha S. Mavredes
AUDITOR OF PUBLIC ACCOUNTS

DLR /clj

FINDINGS SUMMARY

Finding	Follow Up Status	Year(s) Issued
Continue to Upgrade and Replace End-of-Life Technology	Deferred	2013, 2017
Align Information Technology Security Audits with Current Sensitive Systems	Deferred	2017
Perform Information Technology Security Audits	Deferred	2017
Improve Business Impact Analysis	Deferred	2017
Improve Disaster Recovery Plan	Deferred	2017
Improve Risk Assessment	Deferred	2017
Continue to Improve Web Application Security	Deferred	2013, 2017
Obtain, Review, and Document Service Organization Control Reports of Third-Party Service Providers	Deferred	2017
Strengthen User Access Policies and Procedures	Deferred	2013, 2017
Timely Remove Terminated Employee Access to the Commonwealth's Lease Accounting System	Deferred	2017
Timely Remove Terminated Employee Access to the Commonwealth's Fixed Asset System	Deferred	2017
Timely Remove Terminated Employee Access to the Commonwealth's Purchasing System	Deferred	2017
Deactivate Access to the Commonwealth's Purchasing System	Deferred	2017
Align Fixed Asset Accounting Policies with Code of Virginia and CAPP Manual Best Practices	Deferred	2013, 2017
Enter Assets into the Commonwealth's Fixed Asset System in a Timely Manner	Deferred	2017
Capitalize Fixed Assets in Accordance with Commonwealth and State Police Policy	Deferred	2017
Complete Fixed Assets Physical Inventories	Deferred	2013, 2017
Develop a Methodology for Estimating Useful Lives	Deferred	2017
Develop a Method for Estimating Salvage Value	Deferred	2017
Update the Commonwealth's Fixed Assets System to Reflect Asset Disposals	Deferred	2013, 2017
Adequately Document Fixed Asset Reconciliations	Deferred	2013, 2017
Publish Updated Internal Procurement Policies and Procedures Manual	Deferred	2017
Improve Documentation of Sole Source Contract Procurements	Deferred	2017
Perform Contract Management Responsibilities	Deferred	2017
Align Internal Purchase Card Policies with CAPP Manual Best Practices	Deferred	2017
Perform Purchase Card Program Administrator Responsibilities	Deferred	2013, 2017
Retain Adequate Documentation to Support Purchase Card Program	Deferred	2017

FINDINGS SUMMARY (cont.)

Finding	Follow Up Status	Year(s) Issued
Complete Purchase Card Reconciliations Timely	Deferred	2017
Complete Cardholder and Supervisor Training Annually	Deferred	2017
Submit Indirect Cost Rate Proposals Timely	Deferred	2017
Document Treasury Loan Policies and Procedures	Deferred	2017
Align Internal Policies and Procedures with the Virginia Debt Collection Act and Commonwealth Accounting Policies and Procedures	Deferred	2017
Improve Accounts Receivable Collection Process	Deferred	2017
Improve Accounts Receivable Tracking Process	Deferred	2017
Improve Processes over Work Zone Project Billings	Deferred	2013, 2017
Document Detailed Reconciliation Policies and Procedures	Deferred	2017
Confirm Retirement Contribution Snapshots Timely	Deferred	2017
Document Retirement Benefits System Reconciliations	Deferred	2017
Document Internal Policies and Procedures	New	2018
Evaluate and Document Revenue Processes	New	2018
Evaluate Fees and Revenues to Ensure Proper Account Coding	New	2018
Implement Segregation of Duties over Deposit Processes	New	2018
Process and Record Deposits Timely	New	2018
Create and Implement Internal Controls over Reconciliations	New	2018
Establish and Maintain a Term Contract Listing	New	2018
Designate Contract Administrator and their Responsibilities in Writing	New	2018
Document Contractor Payment Tracking and Performance Evaluations	New	2018
Improve Internal Controls over Grant Expenditures	New	2018
Improve Monthly Certification over Grant Expenditures	New	2018
Ensure Compliance with Prompt Pay	New	2018
Create Policies and Procedures for Statement of Economic Interest Filing and Training Requirements	New	2018



COMMONWEALTH OF VIRGINIA

Colonel Gary T Settle
Superintendent

(804) 674-2000

DEPARTMENT OF STATE POLICE

7700 Midlothian Turnpike, Richmond VA 23235

Lt. Colonel Tracey S. Russillo
Deputy Superintendent

December 4, 2019

Ms. Martha S. Mavredes, CPA
Auditor of Public Accounts
P. O. Box 1295
Richmond, Virginia 23218

Dear Ms. Mavredes:

We appreciate the opportunity to review the Department of State Police's Audit of Select Business Cycles for the Fiscal Year ended June 30, 2018. Thank you for the recommendations on our financial accounting and control operations, as well as the professionalism of your staff throughout the engagement. We have discussed with your staff the specific items mentioned in the report throughout the course of your review.

We will prepare a detailed corrective action plan addressing all of the findings in the report. We will track the progress to completion of the internal desk procedures and auditable documentation affecting the strong internal controls necessary to safeguard the commonwealth assets. Where possible, we will realign staff and automation with an emphasis to strengthening internal policies and procedures to document compliance with applicable laws and regulations. We are committed to ensuring the full implementation of all recommendations documented in the report in a timely manner.

We give your comments the highest level of consideration as we continue to improve our practices and compliance with the Commonwealth's Fiscal Policies, Regulations, Laws, and Security Standards. We remain committed to focusing staff and resources prudently as we execute the Department's Public Safety mission.

Sincerely,

A handwritten signature in cursive script that reads "Gary T. Settle".

Superintendent

GTS/WBW/jpd

C: The Honorable Brian J. Moran
Secretary of Public Safety and Homeland Security

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VIRGINIA DEPARTMENT OF STATE POLICE

As of June 30, 2018

Brian J. Moran
Secretary of Public Safety and Homeland Security

Colonel W. Steven Flaherty
Superintendent

Lieutenant Colonel Kirk Marlowe
Director of Bureau of Administrative and Support Services

Captain W. Bruce Walters
Property and Finance Division Commander

Captain Jeremy Kaplan,
Human Resources Division Commander