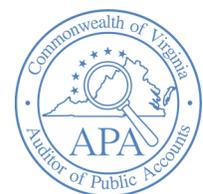




JOINT LEGISLATIVE AUDIT
AND
REVIEW COMMISSION

QUARTERLY REPORT SUMMARY
JULY 1, 2016 THROUGH SEPTEMBER 30, 2016

Auditor of Public Accounts
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QUARTERLY REPORT SUMMARY - JULY 1, 2016, TO SEPTEMBER 30, 2016

Audit Activities

The [Summary of Reports Issued](#) section at the end of this report lists all reports issued by the Auditor of Public Accounts or our contracted firms during the period July 1, 2016, to September 30, 2016. Below are highlights from select reports issued during the period. All reports listed in this document are available at our website at http://www.apa.virginia.gov/APA_Reports/Reports.aspx.

Special Reports

Statewide Review of Travel Expenses – July 2016

The [Statewide Review of Travel Expenses](#) follows up on our [interim report](#), issued in January 2015. The Commonwealth spends close to \$200 million annually for travel, but the current approach to contracting and travel management does not fully leverage the purchasing power of the Commonwealth and there are opportunities for efficiencies and costs savings. In looking at travel expenses statewide, the significance of higher education travel as well as the Commonwealth's higher education restructuring efforts must be considered.

Higher education institutions account for close to 75 percent of statewide travel expenses, but restructuring efforts impact the ability of the Commonwealth to employ a statewide approach to travel management and contracting. The higher education community has been working towards leveraging their own purchasing; however, these strategies are currently limited to only a certain segment of state government and not all colleges and universities can participate. From a statewide perspective, this is a fragmented approach and we believe there are opportunities for potential savings and efficiencies in the Commonwealth's travel expenses. Our report includes the following recommendations:

- Higher education institutions and the Department of General Services should work together to develop cooperative approaches that will more fully maximize the state's purchasing power and also leverage the travel management experience of the higher education institutions.
- The General Assembly may want to consider strengthening language in the [Code of Virginia](#) to further require coordination between the Department of General Services and institutions when considering cooperative procurements.
- The Departments of Planning and Budget and Accounts should review the object code structure for travel expenses in the statewide financial reporting systems. Consideration should be given to whether the current structure meets the needs for modern day financial reporting and analysis.

Virginia Retirement System Schedules - Employer Reports for Pension Plans

In September 2016, the Virginia Retirement System provided the actuarial valuation reports, schedules of the applicable pension amounts, footnote disclosure information, and other financial reporting guidance to the participating state and local government employers for their financial statements to enable them to comply with Governmental Accounting Standards Board Statement No. 68, which covers accounting and reporting of pension activity by employers. The Commonwealth and its localities were required to implement this standard beginning in fiscal year 2015. Likewise, our Office published the reports that included our audit opinions over the plan schedules and applicable pension amounts for the state employee, teachers, and political subdivision retirement plans. All of this information is available on the [New Pension Standards](#) section of our website.

Agency Reports

Department of Elections

Our audit of the [Department of Elections](#) (Elections) for the period July 1, 2012, through June 30, 2015, identified four internal control and compliance findings requiring attention from management. Elections lacks policies and procedures for several critical business areas, including but not limited to, reimbursement payments for localities, reconciliations, and certain payroll functions. Elections did not maintain adequate documentation of calculations supporting payments to local registrars and electoral boards, and reports to the Federal Elections Commission. Finally, Elections did not maintain adequate supporting documentation of its reconciliations between human resources records and the Virginia Retirement System's records for retirement contribution amounts. Elections should develop and implement internal policies and procedures over all critical business areas and maintain adequate supporting documentation for all transactions.

State Corporation Commission

Our audit of the [State Corporation Commission](#) (Commission) for the period July 1, 2014, through January 31, 2016, identified multiple internal control and compliance findings related to weaknesses in information systems security. As a result of these weaknesses, we offer the Commission the following recommendations entitled: Develop, Implement, and Maintain Information Security Controls; Improve Firewall Security Controls; Continue Improving the Information Security Program; Improve Logical Access Controls; Retain Evidence of VPN Access Reviews; Maintain and Improve Oversight of Third Party Service Providers; and Disable System Access in a Timely Manner. Additionally, the Commission is still working to address an issue we first reported in its 2012 report and as a result we provide a status update to a prior finding entitled: Follow Procurement Rules and Best Practices.

Virginia Health Workforce Development Authority

During our audit of the [Virginia Health Workforce Development Authority](#) (Authority) for the year ended June 30, 2015, we identified multiple internal control and compliance findings. We have audited the Authority four separate times since its inception in 2010. During these audits, we have provided the Authority a total of twenty-five written recommendations resulting from its deficiencies in internal controls. In a comment to management this year, we recommend that the Authority should determine if it can develop and maintain proper controls over its fiscal operations or consider acquiring controls through another entity. In addition, we provide four recommendations to management to aid them in improving their internal controls. While several of the recommendations from previous audits have been corrected, management should work to establish and maintain effective internal controls throughout the Authority as necessary.

Higher Education Institution Reports

Longwood University

Our audit of [Longwood University](#) for the year ended June 30, 2015, found the University has made progress in addressing weaknesses related to the prioritization of information systems security; however, several items require continued attention from management. Specifically, Longwood continues to lack a sufficient process for managing changes to information technology resources. In addition to weaknesses related to change control, several new weaknesses were identified during our audit. Longwood uses virtual private networks and server operating systems that are not configured in accordance with information security standards. These weaknesses increase the risk of a breach of sensitive data or system unavailability. Lastly, Longwood does not maintain sufficient oversight over third-party service providers for out-sourced information technology operations. Without strong oversight, Longwood cannot gain assurance over the security controls provided by the vendor. Longwood has already taken some actions to mitigate these weaknesses and has provided corrective action plans for the other items.

University of Mary Washington

During our audit of the [University of Mary Washington](#) for the year ended June 30, 2015, we identified two internal control and compliance findings related to Information System Security. The University does not have adequate policies or procedures for restricting and managing elevated workstation privileges. Additionally, the University is not in compliance with the Security Standard as it relates to virtual private network security controls. We recommend that the University dedicate the necessary resources to strengthen the Information System Security controls related to elevated workstation privileges and virtual private networks in accordance with the University's Security Standard. In addition, the University is still in the process of taking corrective action with respect to two audit findings reported in the prior audit.

Other Activities

APA Leadership Institute

During the quarter we held the APA Leadership Institute, which is an internal training program that we conduct every other year to develop future leaders of the APA. Staff must submit an application and, if selected for further consideration, participate in an interview process to be accepted to the Institute. Sessions included topics on strength based leadership, decision analytics, and impromptu speaking. We also had several leaders from outside the APA meet with the participants and discuss their personal leadership stories and challenges they have encountered in their leadership roles. Finally, each participant was provided a topic and had to develop and give a presentation on that topic.

Monitoring Accounting and Auditing Standards

During the quarter our Office reviewed several documents issued for comment by a standard setting entity that governs the auditing standards that we follow in performing our audits. Being a part of this process allows us to stay informed of upcoming changes. In addition, by providing feedback to the standard setting bodies on proposed changes we help protect the interests of the Commonwealth in circumstances where we do not agree with the proposed changes. Below are the documents that we reviewed and provided responses to the applicable standard setting entity during this quarter.

Standard Setting Entity	Document Reviewed
AICPA*	Exposure Draft: <i>Auditor Involvement with Exempt Offering Documents</i>
AICPA*	Exposure Draft: <i>The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern</i>

*American Institute of Certified Public Accountants

Participation with State, Local, and Other Groups

In addition to our audit activities, we participate in other activities to assist in our mission to improve accountability and financial management in the Commonwealth. During the quarter we participated in the activities of various state, local, and other groups including providing information on a variety of topics and attending events as highlighted below.

State and Local Groups

Group	Presentation / Training Topic
Joint meeting of House Appropriations Higher Education Subcommittee and Senate Finance Education Subcommittee	Presented information on the University of Virginia’s Strategic Investment Fund.
Senate Finance Committee	Provided information on financial oversight of the Commonwealth’s local governments including current requirements and potential future requirements.
Auditor of Public Accounts Comparative Report Transmittal Training	Provided annual training to local government and independent audit firm employees on how to prepare Comparative Report Transmittal Forms in conformance with the APA Uniform Financial Reporting Manual (UFRM) requirements.
Bristol Virginia Utility Authority Board of Directors Meeting	Presented the results of our special review of the Authority.
Department of Human Resource Management (DHRM) State Agencies Human Resources (HR) Services Forum	Provided an update on human resource topics including frequent APA audit findings and management recommendations in HR and payroll areas, DHRM’s Time and Leave System impact on financial reporting and internal controls, and importance of reconciliation process between HR systems and myVRS Navigator system and its impact on census data and pension contributions.

Other Groups

Group	Presentation / Training Topic
KPMG LLP Government Audit Client Training Events	Provided an update to employees from the City of Norfolk and Hanover County on various topics including the Commonwealth's new Cardinal accounting system, local government Comparative Report transmittal form process, updates to 2016 APA Specifications, results of quality control reviews over firms auditing Virginia's local governments, and new pension accounting and financial reporting standards.
National State Auditors Association Information Technology Conference	Several members of the APA staff made presentations to information technology auditors from other State Auditor Offices on topics including data analytics; information technology security auditing and reporting; and teambuilding and leadership.
National Professional Development Training for the Association of Government Accountants (AGA)	Presented information on the interplay between the different standards that government auditors are required to follow. Also, in a separate session, provided information on the implementation of the DATA Act, including the challenges and questions the federal government will need to address.
Virginia Accounting and Auditing Conference co-sponsored by Virginia Society of Certified Public Accountants and Virginia Tech	Provided an update on prior and future studies of Single Audits and their impact on the profession. New responsibilities for auditors and actions for enhancing audit quality.

In addition to making presentations to various state, local, and other groups, our staff also participate in other activities of these groups that are opportunities for professional development as well as opportunities to have a voice in the activities that impact our Office and the entities that we audit. During the quarter, one of our staff was named as co-chair of the National Association of State Auditors, Comptrollers, and Treasurers Implementation Work Group for Uniform Guidance, which are new federal regulations that agencies receiving federal awards and auditors auditing these awards must follow. This work group will meet via conference call periodically to discuss issues surrounding the implementation of the new Uniform Guidance.

Also, the Auditor of Public Accounts and several of her staff represented the Commonwealth and the National State Auditors Association in a “listening session” with the U.S. Department of Education related to the 2017 Compliance Supplement that government auditors must follow when performing the Single Audit of federal programs. Finally, during the quarter several of our staff participated in a regional strategic planning session for the Virginia Society of Certified Public Accountants, an organization many of the CPAs in our Office belong to and participate in training and other activities that are offered.

SUMMARY OF REPORTS ISSUED

The following reports on audit were released by this Office during the period July 1, 2016, to September 30, 2016. Those reports which included findings in the area of internal controls or compliance are indicated by an (*) asterisk.

Judicial Branch

Virginia Board of Bar Examiners for the year ended June 30, 2015*

Independent Agencies

GenEdge Alliance for the period July 1, 2012 through June 30, 2015

State Corporation Commission (Commission) for the period July 1, 2014, through January 31, 2016*

State Lottery Department – Reports on the Application of Agreed-Upon Procedures for the period April 2015 through March 2016:

- Cash4Life
- Mega Millions
- Megaplier
- Power Ball
- Power Play

Executive Departments

Division of Selected Agency Support Services (Division) for the year ended June 30, 2015*

Governor's Cabinet Secretaries for the year ended June 30, 2015

Office of the Governor for the year ended June 30, 2015

Office of the Lieutenant Governor for the year ended June 30, 2015

Administration

Department of Elections for the period July 1, 2012, through June 30, 2015*

Commerce and Trade

Tobacco Region Revitalization Commission for the year ended June 30, 2015*

Virginia Racing Commission for the year ended June 30, 2016

Colleges and Universities

Longwood University for the year ended June 30, 2015*

Old Dominion University for the year ended June 30, 2015

Southwest Virginia Higher Education Center for the period July 1, 2012, through June 30, 2015*

The University of Mary Washington for the year ended June 30, 2015*

Health and Human Resources

Commonwealth Health Research Board for the period July 1, 2012, through January 31, 2016

Virginia Health Workforce Development Authority for the year ended June 30, 2015*

Veterans Affairs and Homeland Security

Veterans Services Foundation for the calendar year ended December 31, 2015*

Technology

Assistive Technology Loan Fund Authority for the year ended June 30, 2015

Special Reports

Report to the Joint Legislative Audit and Review Commission for the quarter April 1, 2016 through June 30, 2016

Statewide Review of Travel Expenses – July 2016*

Virginia Retirement System GASB 68 Schedules:

- Political Subdivision Retirement Plans for the fiscal year ended June 30, 2015
- State Employee Retirement Plan for the fiscal year ended June 30, 2015
- Teacher Retirement Plan for the fiscal year ended June 30, 2015

Virginia Retirement System Management's Assertions Related to Census Data for the year ended June 30, 2014

Clerks of the Circuit Courts

Cities:

Charlottesville – October 1, 2014, through March 31, 2016*
Chesapeake – April 1, 2015, through March 31, 2016
Colonial Heights – October 1, 2014, through June 30, 2016
Hampton – April 1, 2015, through March 31, 2016*
Portsmouth – April 1, 2015, through March 31, 2016*

Counties:

Albemarle – October 1, 2014, through March 31, 2016*
Fauquier – October 1, 2014, through March 31, 2016
Fluvanna – January 1, 2015, through June 30, 2016
Greensville – January 1, 2015, through March 31, 2016
Highland – October 1, 2014, through March 31, 2016
Lee – October 1, 2014, through June 30, 2016*
Middlesex – January 1, 2015, through March 31, 2016
Nelson – January 1, 2015, through March 31, 2016*
Nelson - as of July 29, 2016 ❖
Northampton – January 1, 2015, through March 31, 2016
Scott – October 1, 2014, through June 30, 2016
Spotsylvania – January 1, 2015, through March 31, 2016
Sussex – April 1, 2015, through June 30, 2016
Warren – October 1, 2014, through March 31, 2016

State Accounts (For the year ended June 30, 2016)

Cities:

Bristol*	Emporia	Lexington	Radford
Buena Vista*	Franklin	Newport News	Winchester
Chesapeake	Hampton*	Norfolk*	
Colonial Heights	Harrisonburg	Norton	
Covington	Hopewell	Poquoson	

Counties:

Accomack	Carroll	Fluvanna*	Lunenburg	Powhatan*	Smyth
Albemarle	Charlotte	Franklin*	Mathews	Prince William	Tazewell
Alleghany*	Chesterfield	Frederick	Mecklenburg	Pulaski	Warren
Amherst*	Clarke	Gloucester	Middlesex	Rappahannock	Washington*
Arlington	Craig	Greensville	Montgomery*	Roanoke	Wythe
Bedford	Cumberland	Highland	New Kent	Rockbridge	
Botetourt	Dickenson	Isle of Wight	Northampton	Rockingham*	
Brunswick	Floyd	Lancaster	Nottoway	Shenandoah	

General Receivers

Counties:

Buchanan – for the period ended June 30, 2016
 Buchanan - as of July 14, 2016 ❖

General District Courts (As of July 1, 2014 – June 30, 2015)

Cities:

Bristol	Martinsville
Danville	Richmond (Criminal Division)
Fairfax	Richmond (Manchester Division)
Lynchburg – July 1, 2014, through June 30, 2016*	

Counties:

Arlington	New Kent*
Fairfax	Pittsylvania
Franklin	Warren*
Henry	Wise*

Combined General District Courts (As of July 1, 2014 – June 30, 2015)

Cities:

Falls Church*	Salem*
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Counties:

Giles*	Highland
Orange*	Sussex
Buckingham*	Cumberland*

Juvenile and Domestic Relations Courts (As of July 1, 2014 – June 30, 2015)

Cities:

Danville*	Martinsville
Hampton	

Counties:

Franklin	Campbell*
Pittsylvania	Henry
Arlington	Fairfax*

Magistrates (As of July 1, 2014 – June 30, 2015)

9th District: City of Williamsburg; and Counties of Charles City, Gloucester, James City, King and Queen, King William, Mathews, Middlesex, New Kent, and York

10th District: Counties of Appomattox, Buckingham, Charlotte, Cumberland, Halifax, Lunenburg, Mecklenburg, and Prince Edward

Cities:

Fairfax

Counties:

Arlington	Fairfax
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*Denotes management control finding

❖ Denotes Turnover Reports