



Review of Prior Year Results
Presentation of Annual Work Plan

May 8, 2017

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Overview

- Office Update
- Proposed 2018 Work Plan
- Prior Work Plan Results

OFFICE UPDATE

Other Accomplishments

In March the APA was recognized as one of Richmond's Top 60 Workplaces in the Metro Business section of the Richmond Times-Dispatch.



Strategic Planning – Strategic Goals

Build Our Culture

Be a Leader in the Profession

Strengthen and Retain Our Staff

Communicate Our Value

Impact of 2017 Legislation

- Fiscal Distress Budget Language
 - APA to establish a workgroup to develop criteria for a preliminary determination
 - APA to establish a prioritized early warning system
 - APA to notify local officials and request additional information for localities that appear to be experiencing fiscal distress
 - APA to notify chairs of the money committees and the Governor when assistance needed to further assess, stabilize or remediate the situation

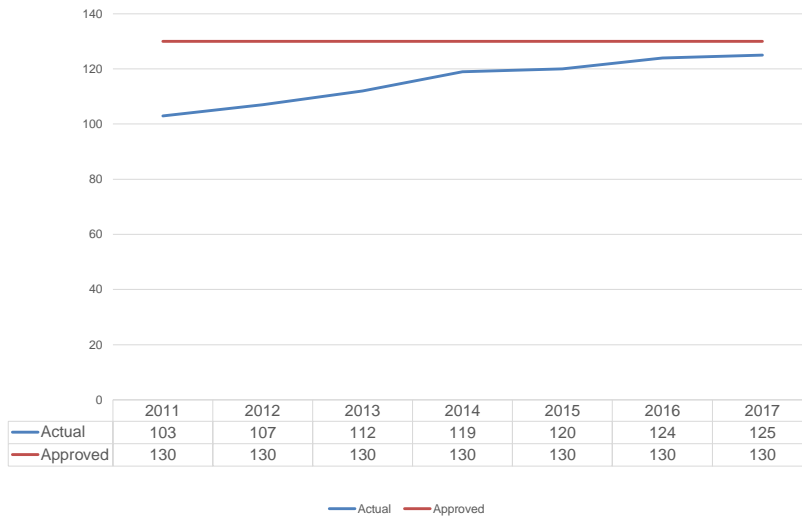
Impact of 2017 Legislation, cont.

- Acts of Assembly Chapter 484
 - Chief elected official and chief administrative officer submit confirmation of receipt of CAFR
- Acts of Assembly Chapters 679 and 681
 - Auditor of Public Accounts; online database, register of funds expended
- Acts of Assembly Chapters 421 and 431
 - DHRM; criminal background checks, state agency positions designated as sensitive, agencies to report to the Department

Salary Scales

Position	<u>Number of Positions</u> 2018	Salary Scale
Deputy Auditor	1	\$95,862 - \$184,863
Project Leader	15	73,385 - 171,705
Auditor	89	49,155 - 114,841
Staff	27	30,239 - 80,666
Total	132	

Staffing Levels



PROPOSED 2018 WORK PLAN

Proposed 2018 Work Plan

- Annual work plan = work performed during most of fiscal year 2018
- CAFR, Statewide Single Audit, mandatory and special projects are major focus
- Use risk factors to determine the audit work to be performed with remaining resources

Work Plan Comparison (hours)

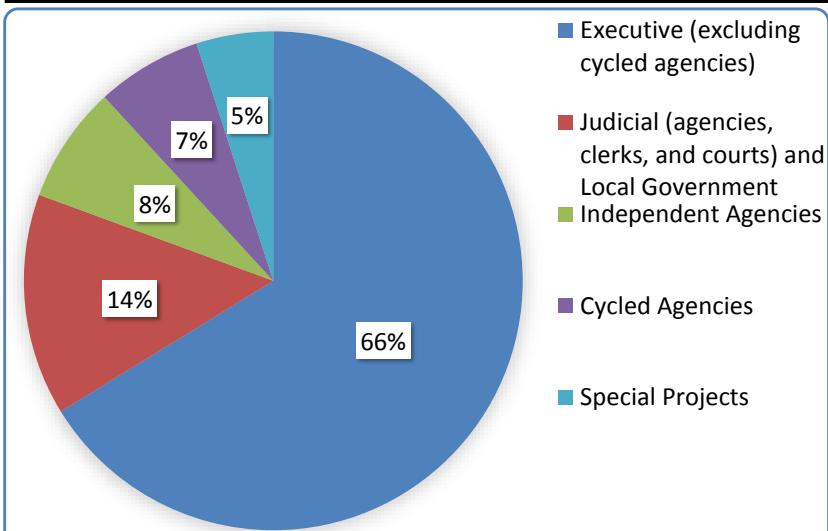
Proposed FY 2018 Work Plan	138,730
Prior Year Work Plan	<u>133,786</u>
Increase	4,944

Also allows for completion of projects carried forward from the prior year.

Total Hours by Function

Function	Hours
Statewide and Agency Projects:	
Special Projects	6,905
Executive Departments	91,875
Cycled Agencies	9,500
Independent Agencies	10,510
Judicial (Agencies, Clerks, and Courts) and Local Governments	19,940
TOTAL 2018 WORK PLAN	138,730

Total Hours by Function



Hours by Executive Departments (Total 91,875)

Department	Hours
Executive Offices and Administration	2,125
Agriculture and Natural Resources	850
Commerce and Trade	3,470
Education (including Higher Ed)	48,035
Finance	19,035
Health and Human Resources	9,310
Public Safety	3,770
Technology	425
Transportation	4,735
Veterans Affairs and Homeland Security	120

Cycled Agencies - Background

- Approximately 55 agencies
 - No mandatory annual audit requirement
 - Generally, do not support the CAFR or Statewide Single Audit of federal funds
- Historical have audited these agencies on a three-year cycle
 - Some risk analysis performed to determine cycle
 - Performed “agency” audit of significant cycles

Cycled Agencies – New Approach

Risk Analysis – All Cycled Agencies

Pool I – Low Risk

- Special Project on Specific Cycle
- Annual Project
- Single Report
- ICQ

Pool II – High Risk

- Agency Audit of Specific Cycle(s)
- 3 Year Rotation
- Multiple Reports
- ICQ

Cycled Agencies – Internal Control Questionnaire

- Agency completes questionnaire and provides supporting documentation
 - Covers key internal controls over significant organization areas
- APA reviews responses and supporting documentation to determine nature, timing and extent of additional procedures
- Will include on-site visit

Cycled Agencies – Internal Control Questionnaire

- Agencies will receive a letter summarizing results
- Results will be used in future risk analysis for determining pools
- We will issue a report summarizing results of all ICQs

Cycled Agencies – Pool I Example

- Approximately 45 agencies
- Payroll - Special Project Area
 - Limited procedures performed at all agencies
 - Detailed procedures performed at 10 agencies
- 20 ICQs will be performed

Cycled Agencies – Pool II DGS Example

Year 1

- Consolidated Labs
- Parking

Year 2

- Purchase & Supply (including eVA)
- Surplus Property
- Fiscal Services

Year 3

- Debt Management
- Construction Contracting & Management
- Fleet Management
- Voyager Fuel Card

Types of Special Projects

- Projects Required by Legislation, Statute, or Appropriation Act
- Projects Determined by an Analysis of Risk

Special Projects: Required by Legislation, Statute, or Appropriation Act - Recurring

- *Commonwealth Data Point* Internet Database
- Capital Project Cash Flow Requirements
- Local Government Fiscal Stress Analysis
- Review of Performance Measures
- MEI Project Approval Commission
- PPEA Comprehensive Agreement Review
- APA Annual Report

Special Projects: Risk Based Analysis

- Progress Report on Selected Systems Development Projects in the Commonwealth
- State of Information Security in the Commonwealth
- Capital Project Monitoring

Special Projects: Risk Based Analysis

- Comparative Report for Higher Education
- Statewide Analysis of Cardinal
- Fraud Monitoring
- Review for Potential Improper Payments

Requested Actions

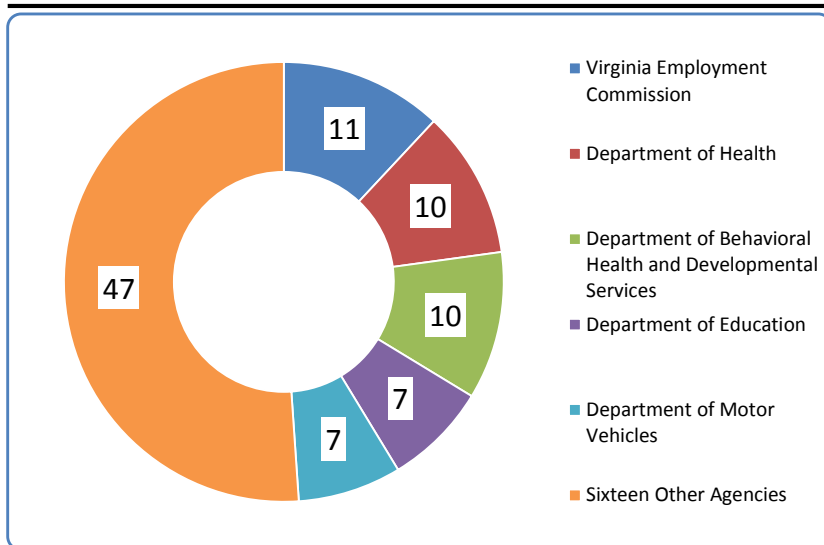
- Approval of the Overall Work Plan
- Approval of Salary Scales

PRIOR WORK PLAN RESULTS

Prior Work Plan Results

- Issued 629 Reports
 - Including financial statement, financial related and special reviews
 - Including audit of the Commonwealth's financial statements (CAFR) and federal programs (Single Audit)

CAFR and SSA Results



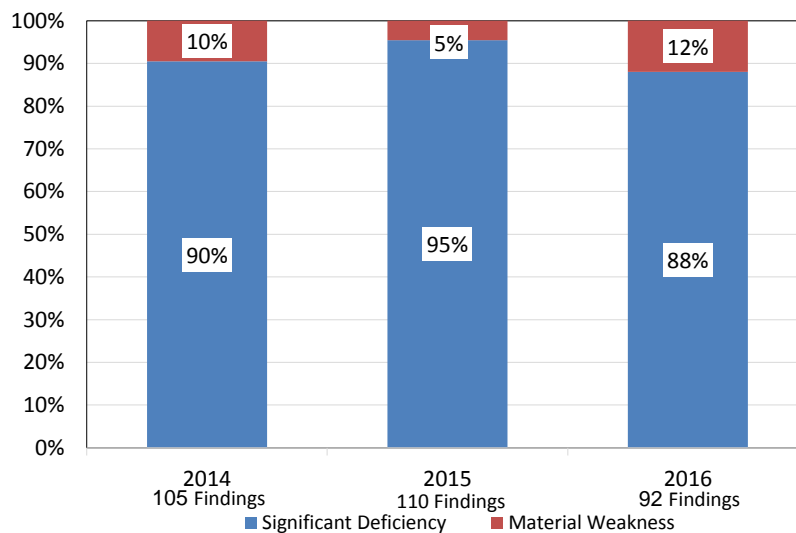
Behavioral Health and Developmental Services

- 2 Risk Alerts and 15 Findings, 10 of which related to Single Audit and/or CAFR
- 1 risk alert and 11 findings were repeated from prior year
- New risk alert concerns planning for the state's new payroll system
- Overstated construction obligations by appr. \$38.7 million and understated other obligations by appr. \$11.2 million

Behavioral Health and Developmental Services, cont.

- 6 findings related to Information Technology
 - Improve IT Governance
 - Upgrade Unsupported Technology
 - Develop Baseline Configurations
 - Improve SQL Database Security
 - Improve Access Controls over Financial Management System
 - Improve Controls Surrounding Sensitive Documents

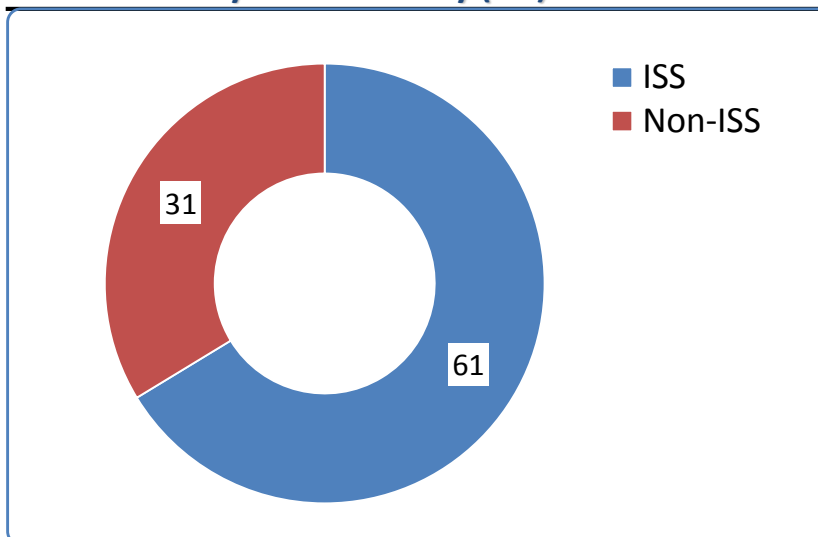
2016 Single Audit Findings: Material Weakness vs. Significant Deficiency



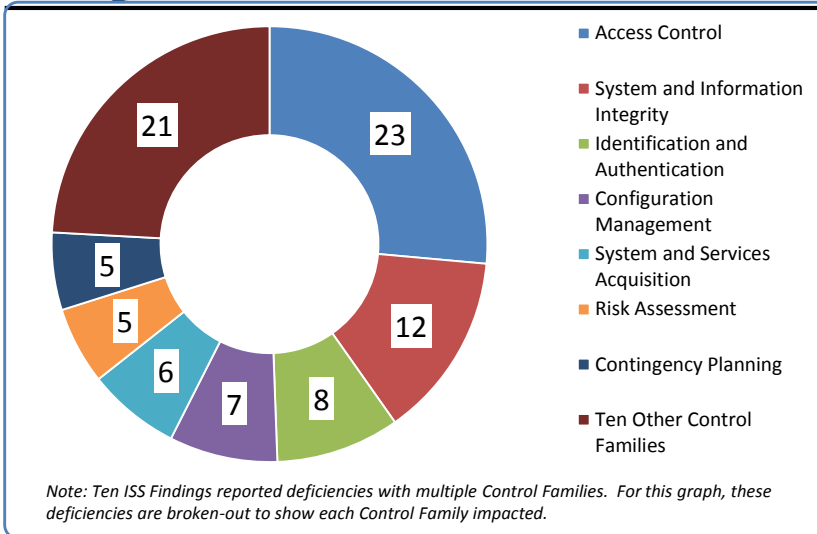
Count of 2016 Single Audit Findings: Material Weaknesses by Agency and Category/Control Family

	Behavioral Health and Developmental Services	Education	General Services	Health	Motor Vehicles	Virginia Lottery	Grand Total
Financial Reporting	1	2	1		1		5
Inventory				1			1
Access Control						1	1
Information Security Roles and Responsibilities		1					1
Multiple Information System Security Control Families		1				1	2
System and Information Integrity		1					1
Grand Total	1	5	1	1	1	2	11

Count of 2016 Single Audit Findings: Information Systems Security (ISS) vs. Non-ISS



Count of 2016 Single Audit Control Families in ISS Findings

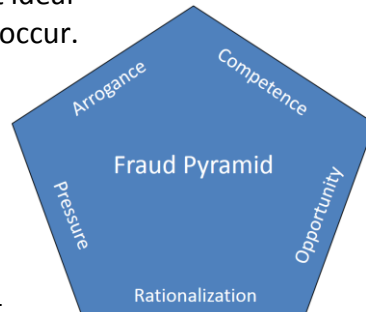


Review of Bristol Virginia Utilities Authority (BVUA)

- Required by Chapters 724 and 725 of the 2016 Acts of Assembly.
- This legislation made multiple changes to the Code of Virginia that established the BVUA due to an ongoing criminal investigation that began in 2013.
- This investigation resulted in the conviction and sentencing of nine individuals on multiple felony charges, including, but not limited to, falsified invoices, kickbacks, bribes, tax evasion, false income tax filings, wire fraud, mail fraud, and perjury.
- Our report includes 56 recommendations for the BVUA to consider as they develop and implement internal controls.

BVUA: Why This Fraud, Waste, and Abuse Happened

- All of the elements of fraud existed at the BVUA making the environment ideal for fraud, waste, and abuse to occur.
- The BVUA Board and management created the opportunity for fraud to occur by not developing, implementing, and enforcing good internal controls.
- In addition, since management and the board were involved in the fraud, there was collusion and management override of the few controls that did exist.



BVUA: Critical Findings

- BVUA does not have and has not had any formal, written financial and accounting policies and procedures, and they have not updated their personnel policies and procedures since implementation in 2002.
- BVUA often paid excessive amounts for transportation, meals, and hotels for employees, board members, and contractors.
- BVUA has cross-subsidized funds to pay its bond debt over the years. Without cross-subsidization, they cannot make bond payments, specifically the portion related to interest.
- BVUA did not comply with the Virginia Public Procurement Act when procuring most contracts, specifically the contracts under which the fraudulent activities occurred. There was collusion with the contractor.

BVUA: Critical Findings (continued)

- BVUA did not have policies to ensure they charged and billed the proper rates for internet service to businesses or for pole attachment fees internally among divisions or externally with other internet, telephone, and cable providers.
- BVUA did not follow a defined process to award and manage \$2.5 million in economic incentive grants over five years, resulting in awarding funds to non-compliant entities, including one that went bankrupt.
- BVUA made \$205,385 in donations to outside organizations that violated Code of Virginia sections related to conflicts of interest, faith-based organizations, and service area.
- BVUA did not have a fair and equitable compensation plan in relation to giving raises, commissions, and bonuses. The OptiNet sales force received \$1.1 million in commissions over five years.
- BVUA made cash and gift card payments to employees totaling almost \$50,000 that they did not report as income for the employee.

BVUA: Going Concern Issue

- BVUA's OptiNet Division has a potential going concern issue, as it appears that they do not have the resources to continue operating without cross-subsidization, which the Code of Virginia prohibits.
- BVUA has cross-subsidized services within OptiNet over the years by not properly allocating interest and principle debt payments across OptiNet services, by improperly writing off \$13.7 million of interfund debt between OptiNet and the Electric Division, and by not paying OptiNet's share of pole attachment fees.
- Even without correcting these improper cross-subsidization issues, telephone revenues have been cross-subsidizing internet since 2012 and cable since at least 2011.

BVUA: Going Concern Recommendations

- If BVUA does not sell the OptiNet Division under the current proposal, they will need either to put the division up for sale to another entity or find options to make OptiNet profitable so they can continue to operate it.
- If BVUA continues to operate OptiNet, they should work with the General Assembly to propose legislation to authorize cross-subsidization across its services and divisions.

Statewide Review of Travel Expenses – Part 2

- 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.
- Alternatively, cooperative contracting for areas of common need such as airlines or hotels should be considered.

Statewide Review of Travel Expenses – Part 2, cont.

- The General Assembly should consider adding language to further require coordination between General Services and universities when considering cooperative procurements.
 - *General Services’ enabling legislation (Code of Virginia § 2.2-1111)*
 - *Restructured Higher Education Financial and Administrative Operations Act (Code of Virginia § 23-38.110, or § 23.3-1017 effective October 1, 2016)*

UVA Strategic Investment Fund

- The University’s investment program is in compliance with the relevant Code of Virginia sections, regulations, and autonomy extended through restructuring.
- Board resolutions appropriately authorized the University’s liquidity policy and the Strategic Investment Fund (SIF).
- Balances included in the Strategic Investment Fund have been audited by the APA as part of the University’s annual financial statement audit.

Department of Alcoholic Beverage Control

- Many of ABC's sensitive systems rely on technologies that run on software components that have reached their end-of-life.
- Over the past 10 years, ABC's information technology related position growth and investment has not kept pace with its revenue and profit growth.

System Development Status: New Payroll System

- In August 2016, the Cardinal team launched the Cardinal Payroll project to replace CIPPS
- CIPPS was implemented in 1986 and vendor support will cease May 31, 2018
- Will deploy in 2 releases – April 2018 and October 2018
- Estimated total cost of \$42 million

System Development Status: New Payroll System

- Risks
 - Restrictive implementation timeline
 - New module for the implementation team
 - Work load on agencies to ensure ready
 - Dependency on Cardinal Financials upgrade

System Development Status: Fixed Asset System

- Commonwealth uses numerous systems for managing its assets, each owned by a different agency
 - Fixed Asset Accounting and Control System
 - Virginia Agency Property System
 - Integrated Real Estate Management System
- FY 2014 work group established to identify a centralized information system solution
- Project currently on hold due to resource limitations

Risk Alert: Server Vulnerabilities

- IT Infrastructure Partnership with NG is not maintaining current server operating system security patches as required by the Commonwealth's Information Security Standard
- One critical and 490 highly important patches were absent
- Increases the risk of cyberattack, exploit and data breach by malicious parties

ADDITIONAL QUESTIONS?