



Presentation of 2020 Annual Work Plan Review of Prior Year Results

May 13, 2019

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Overview

- Office Update and Proposed Salary Scales
- Proposed 2020 Work Plan
- Prior Work Plan Results

OFFICE UPDATE AND PROPOSED SALARY SCALES

Top Workplace in Metro Area – 6 years running



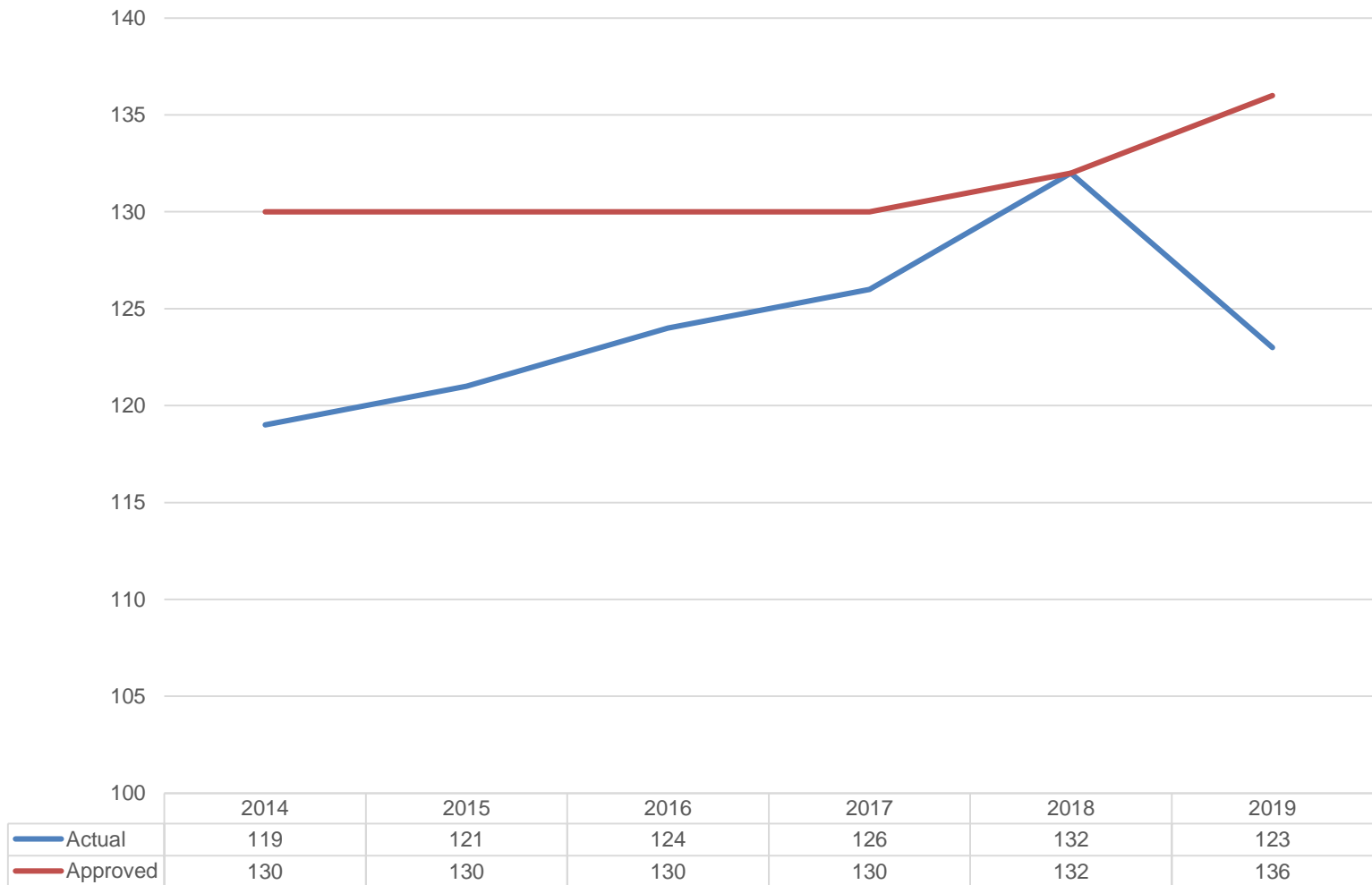
Salary Scales

- Adjustments reflect salary increase in budget approved by General Assembly
- Minimum and maximum scales increase 5% effective June 10, 2019
- Bonuses may also be given during the year to reward exceptional performance or passing professional exams
- Raises may be given within the salary bands and will follow our compensation plan and budget

Salary Scales

Position	Number of Positions	Salary Scale
Deputy	1	100,655 - 194,106
Project Leader	15	77,054 - 180,290
Auditor	102	51,000 - 120,583
Staff	18	31,751 - 84,699
Total	136	

Staffing Levels



PROPOSED 2020 WORK PLAN

Proposed 2020 Work Plan

- Annual work plan = work performed primarily during fiscal year 2020
- 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)

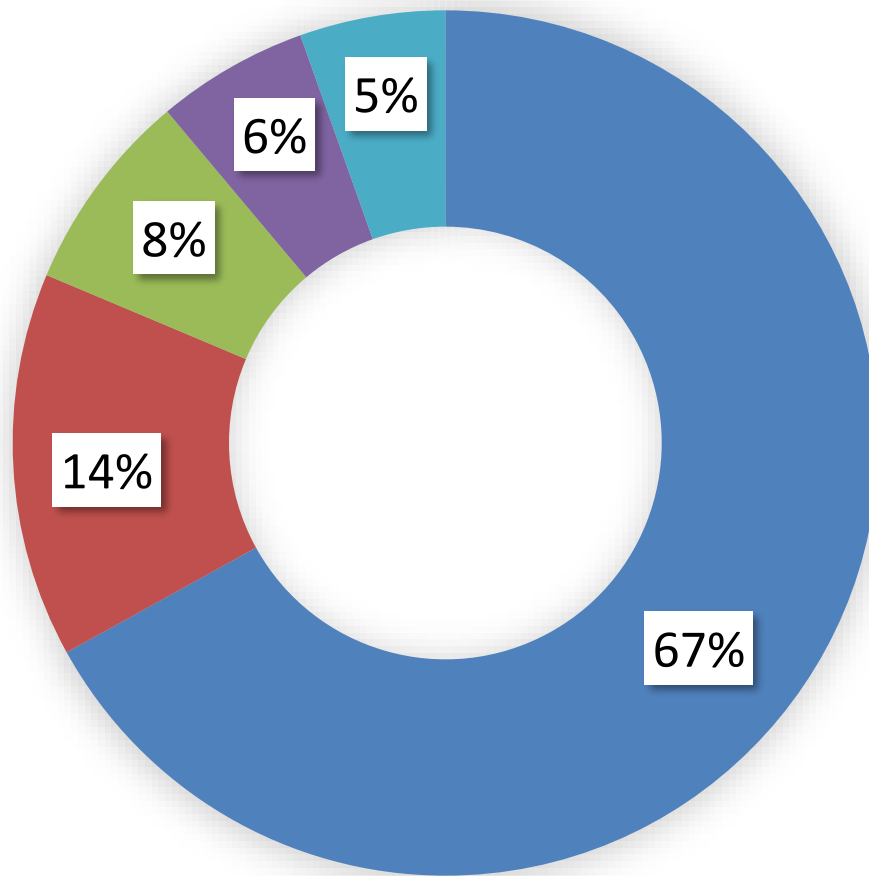
Proposed FY 2020 Work Plan	147,715
Prior Year Work Plan	<u>142,675</u>
Increase	5,040

Changes spread across multiple areas and include increases in some areas offset by decreases in other areas

Total Hours by Function

Function	Hours
Statewide and Agency Projects:	
Special Projects	8,035
Executive Departments	98,915
Cycled Agencies	11,150
Independent Agencies	8,375
Judicial (Agencies, Clerks, and Courts) and Local Governments	21,240
TOTAL 2020 WORK PLAN	147,715

Total Hours by Function



- Executive (excluding cycled agencies)
- Judicial (agencies, clerks, and courts) and Local Government
- Cycled Agencies
- Independent Agencies
- Special Projects

Hours by Executive Departments (Total 98,915)

Department	Hours
Executive Offices and Administration	2,415
Commerce and Trade	3,540
Education	2,600
Education – Higher Education Institutions	49,235
Finance	21,030
Health and Human Resources	10,675
Natural Resources	120
Public Safety and Homeland Security	2,925
Transportation	6,375

Cycled Agencies

- Approximately 70 agencies
 - No mandatory annual audit requirement
 - Generally, do not support the CAFR or Single Audit of federal funds
- This is our third year under the new approach for cycled agencies by dividing into two pools based on risk

Cycled Agencies Pools

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
- Includes on-site visit

Cycled Agencies – Internal Control Questionnaire

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

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

- Local Government Fiscal Distress Analysis
- Review of Chapter 759/769 Bond Issuance Limit
- *Commonwealth Data Point* Internet Database

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

- APA Annual Report
- MEI Project Approval Commission
- PPEA Comprehensive Agreement Review
- Review of Performance Measures

Special Projects: Risk Based Analysis

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

Special Projects: Risk Based Analysis

- Comparative Report for Higher Education
- Fraud Monitoring
- Statewide Analysis of Cardinal

Special Projects: Risk Based Analysis

- Review of Capital Outlay and Maintenance Reserve Expenses at the Department of General Services
- Review System Implementation for GASB 87 Leases

Audit Support Projects

- New this year, added section for audit support projects (4,315 hours), which had not previously been included in the work plan report
- These activities are not related to a specific agency audit, but are necessary to support audit work

Requested Action

- Approval of the proposed 2020 work plan
- Approval of Salary Scales

PRIOR WORK PLAN RESULTS

Local Fiscal Distress Model

- Chapter 836 of the 2017 Virginia Acts of Assembly, Item 4-8.03
- Refined the model
 - No longer using overall “FAM score”
 - No longer applying the FAM ranking or comparison methodology when evaluating localities’ financial ratio results

Updates to Model

- Focus of new methodology
 - Individually analyze each locality's ratio results
 - Assign quantifiable evaluation using a points-based scale based on performance results of each ratio
 - Weighted points allocated for each ratio based on
 - Common industry/professional benchmarks
 - APA's professional judgment after review of ratios
 - Higher number of points will indicate locality showing weak/undesirable performance in ratios
 - Threshold of total sum of ratio points to direct further analysis using demographic and qualitative factors

Updates to Model, continued

- Re-examined prior financial ratios, and added new ratios (total of 12 ratios in updated model)
- Make any adjustments to ratio data as needed
 - School system debt for capital assets
 - Committed fund balances for reserves/rainy day funds
- Include assessment of demographic, qualitative, and other external factors
 - Unemployment rate, poverty rate, and population growth or decline
 - Commission on Local Government's fiscal stress rankings on locality revenue capacity and effort

Locality Submissions

CAFRs	Filed by 11/30	Filed by 2/1	Filed after 2/1
2018	97	51	17
2017	114	38	18
2016	85	64	22

Transmittals	Filed by 11/30	Filed by 2/1	Filed after 2/1
2018	146	14	6
2017	156	9	5
2016	150	15	6

City of Hopewell has not filed its CAFR or transmittals for 2017.

Cities of Hopewell, Norton, and Petersburg, and Counties of Clark, Russell and Warren have not filed CAFRs for 2018 and all but Warren have not filed transmittals.

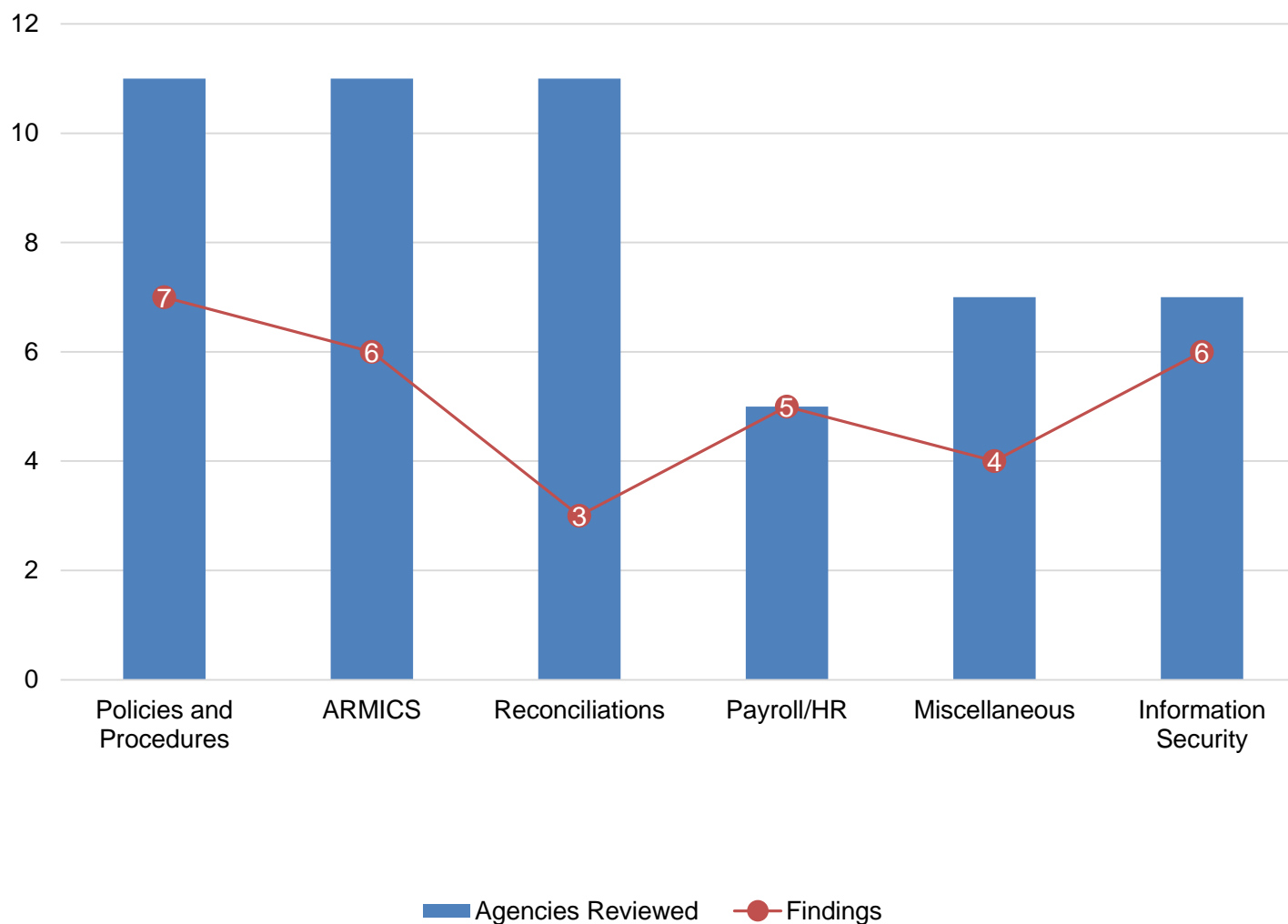
Current Status of Monitoring Process

- Identified 14 localities in 2018 model based on FY2017 audited financial data and qualitative analysis
 - 4 Cities, 4 Counties, and 6 Towns
- 11 reviews completed and no assistance needed
- Will soon publish formal report to summarize updates to model and results of follow up process
- Finalizing FY18 Ratio calculations and further qualitative analysis for 2019 model

ICQ Process

- Historically, the APA audited agencies not significant to the CAFR at least once every three years
- Two years ago began a new process to send these agencies an internal control questionnaire at least once every three years – included 12 agencies this year
- We reviewed the responses, designed and performed procedures tailored to each agency, and reported results in letters

Summary of Results – ICQ Process



Statewide Project - Procurement

- Selected 11 of the smaller agencies to do detailed testing of procurement
- Findings included (# of agencies):
 - Ensure Compliance with Prompt Pay (2)
 - Improve Contract Procurement/Management Process (2)
 - Strengthen Controls over SPCC Operations (2)
 - Comply with Competitive Procurement Requirements (1)
 - Establish Clear Contractual Scope of Work (1)
 - Discontinue Disallowed Charge Card Program (1)
 - Evaluate Third-Party Service Provider Controls (1)

Public Safety Audits

- State Police and Emergency Management are non-mandatory audits and are subject to our risk-based approach, which classifies them as Pool II agencies
- Fire Programs was in Pool I as low risk, but we noted significant issues in executing the Internal Control Questionnaire, which resulted in issuance of a special report and move to Pool II for next cycle of audits

Department of State Police

- The Information Technology Division
 - Manages 63 sensitive systems
 - Many run on end-of-life software components
 - IT expenses at \$17M
 - Salaries and wages comprise around \$3M
 - All findings (13 Findings) involve non-compliance with the Information Security Standard including improving the security program, improving web application security, reviewing third-party service providers' reports, and improving user access

Department of State Police

- The Property and Finance Division
 - Oversees all financial functions
 - Audit scope limited to the following functions:
 - Fixed Assets
 - Procurement
 - Purchase and Sworn Charge Cards
 - Federal Grants Accounting
 - Cash Management and Accounts Receivable
 - Financial Reconciliations
 - Retirement Benefits Reconciliations

Department of State Police

- Property and Finance (25 audit findings)
 - Fixed Assets – Equipment \$202M; Infrastructure \$92M (8 Findings)
 - Procurement – \$61M in eVA (3 Findings)
 - Purchase and Sworn Charge Cards – 2,019 cards with \$11.4M in purchases (5 Findings)
 - Federal Grants – \$13M in Grants (1 Finding)
 - Cash Management and Accounts Receivable – Treasury Loan and Receivables such as Work Zone Billings for VDOT (5 Findings)
 - Financial Reconciliations (1 Finding)
 - Retirement Benefits Reconciliations (2 Findings)

Department of Emergency Management

- Audit covered fiscal years 2017 and 2018 and was the first year in the three-year cycle
- Audit Scope focused on
 - Federal grants management over certain compliance requirements for non-disaster related grants
 - Financial management practices over the Radiological Emergency Preparedness Fund

Department of Emergency Management

- Audit Results
 - 5 Audit Findings and Recommendations
 - Continue to Strengthen Time and Effort Reporting
 - Strengthen Internal Controls Over Journal Entries
 - Improve Controls Over Payroll Adjustments
 - Improve Process for Allocating Overhead Costs
 - Continue to Improve Management of the Radiological Emergency Preparedness Fund
 - \$851,000 in Federal questioned costs due to a lack of documentation to support charges

Department of Emergency Management

- Our audit report also includes a “Comment to Management,” which discusses concerns about the agency’s ability to sustain the current level of operating expenses going forward
- DEM has undergone significant organizational and operational changes since 2015, which have resulted in increases in operating expenses
- Funding for operating expenses has remained relatively stable over this period and any carryforward funds have been exhausted

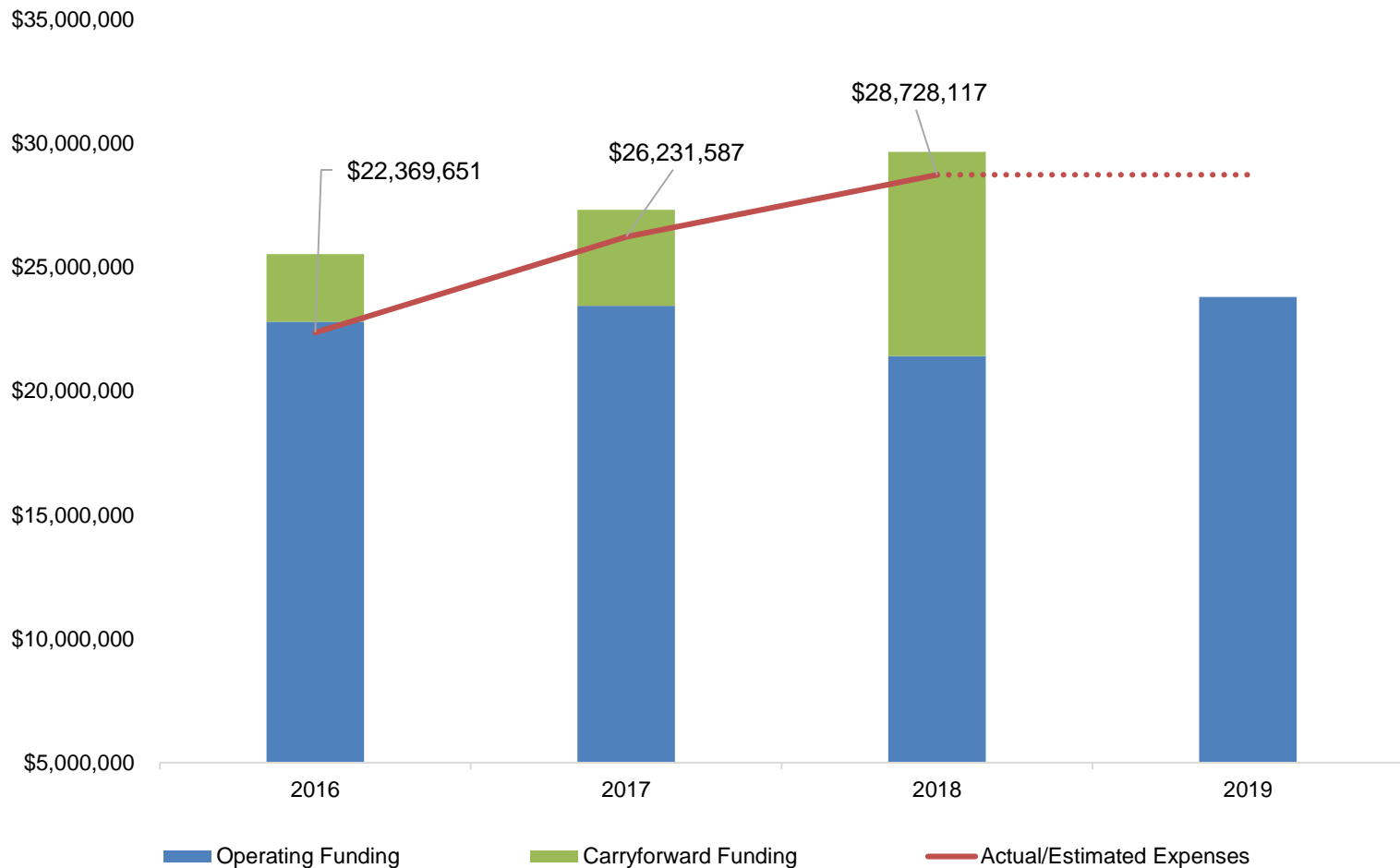
Department of Emergency Management

Analysis of Operating Expenses – Fiscal Years 2016 – 2018

	2016	2017	2018	\$ Change 2016 - 2018	% Change 2016 - 2018
Payroll and fringe benefits	\$10,278,525	\$11,798,214	\$13,917,146	\$3,638,621	35%
Overhead and fixed costs	4,578,212	5,551,505	5,165,792	587,580	13%
Program expenses	7,512,914	8,881,868	9,645,179	2,132,265	28%
Total Operating Expenses	\$22,369,651	\$26,231,587	\$28,728,117	\$6,358,466	28%

VDEM Operating Expenses vs. Operating Revenues

Fiscal Years 2016 – 2018, with 2019 Projection



Department of Fire Programs

- June 2017 – APA sent an Internal Control Questionnaire (ICQ), but management was unable to respond or provide any policies and procedures over critical business processes
- June 2018 – APA sent another ICQ and during our follow-up interviews, we received additional unsolicited information from employees that we followed up

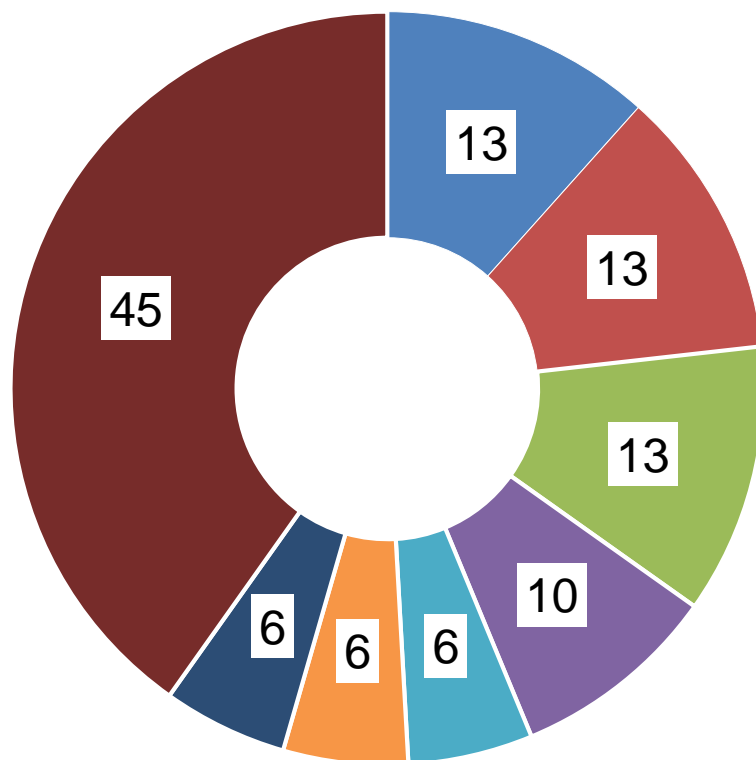
Department of Fire Programs Finding Areas

- Control Environment
- Oversight of Localities
- Management of Funds
- Vehicles
- Travel
- Assets
- Tuition Reimbursement

Department of Fire Programs Finding Areas, cont.

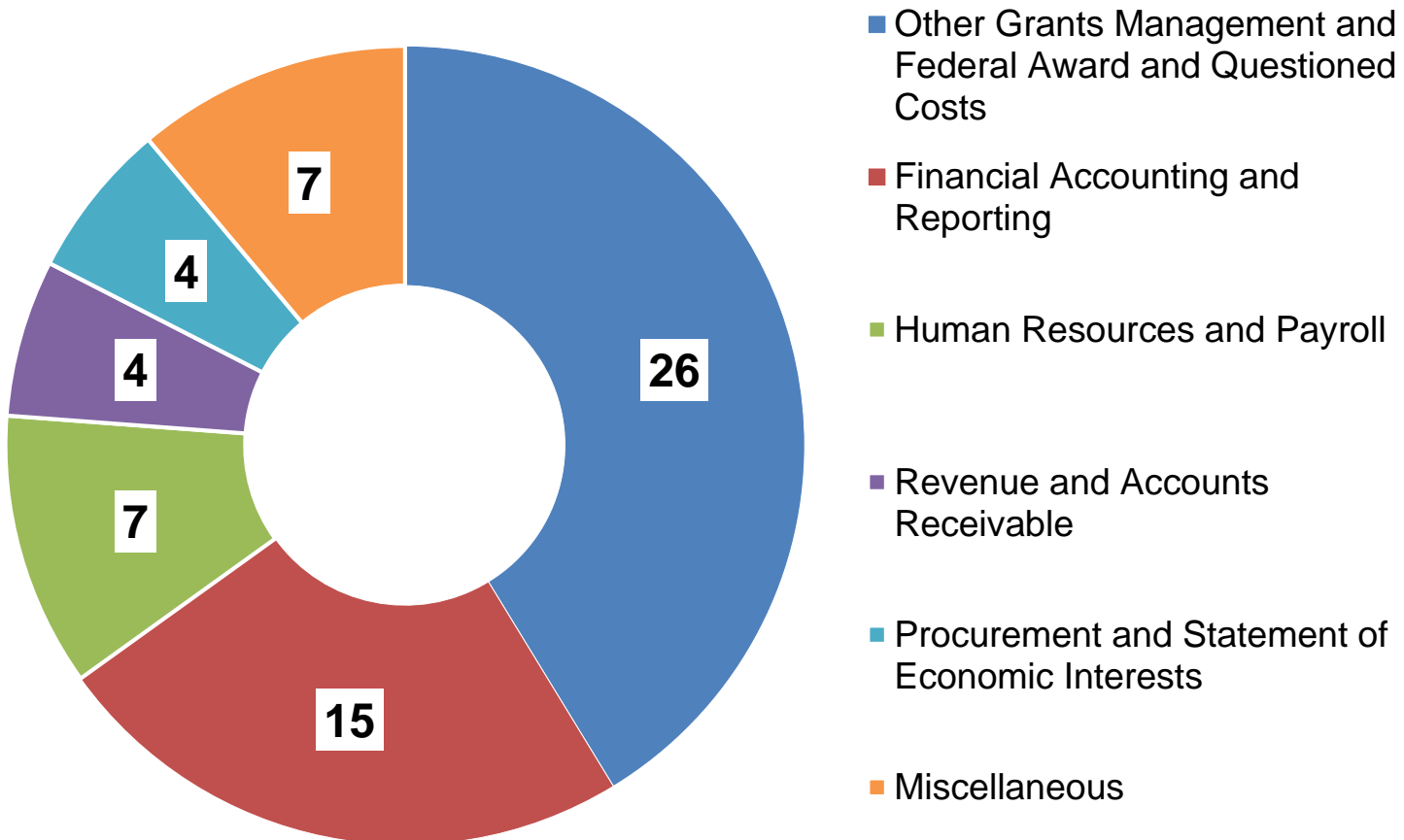
- Signature Stamps
- Agency Risk Management and Internal Control Standards (ARMICS)
- Agreements with Other Agencies
- Internal Audit
- Executive Leave
- Reconciliations
- Information System Security

CAFR and SSA Results

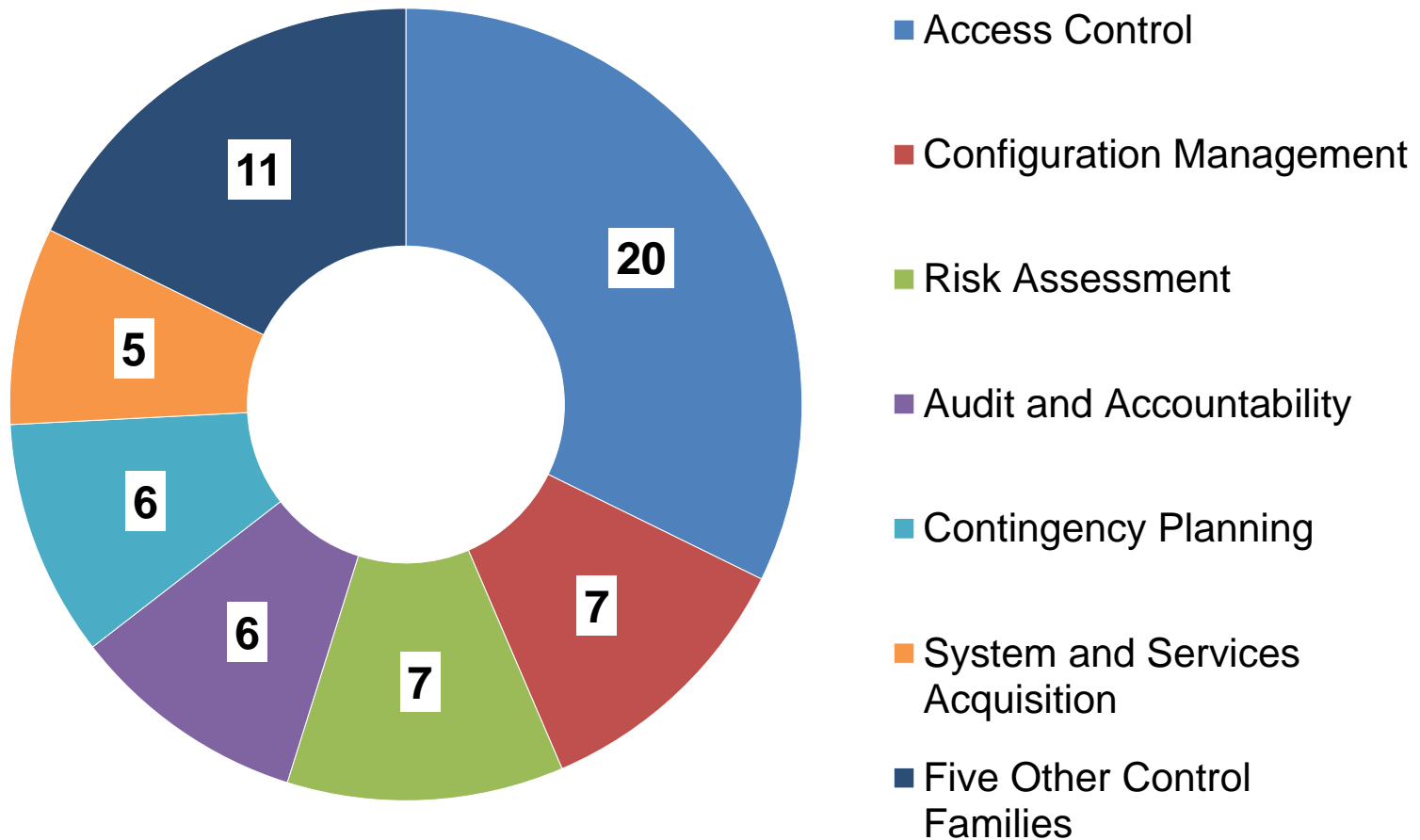


- Department of Behavioral Health and Developmental Services
- Department of Health
- Department of Social Services
- Department of Education
- Department of Human Resource Management
- Department of Transportation
- Department of Taxation
- Twenty Six Other Entities

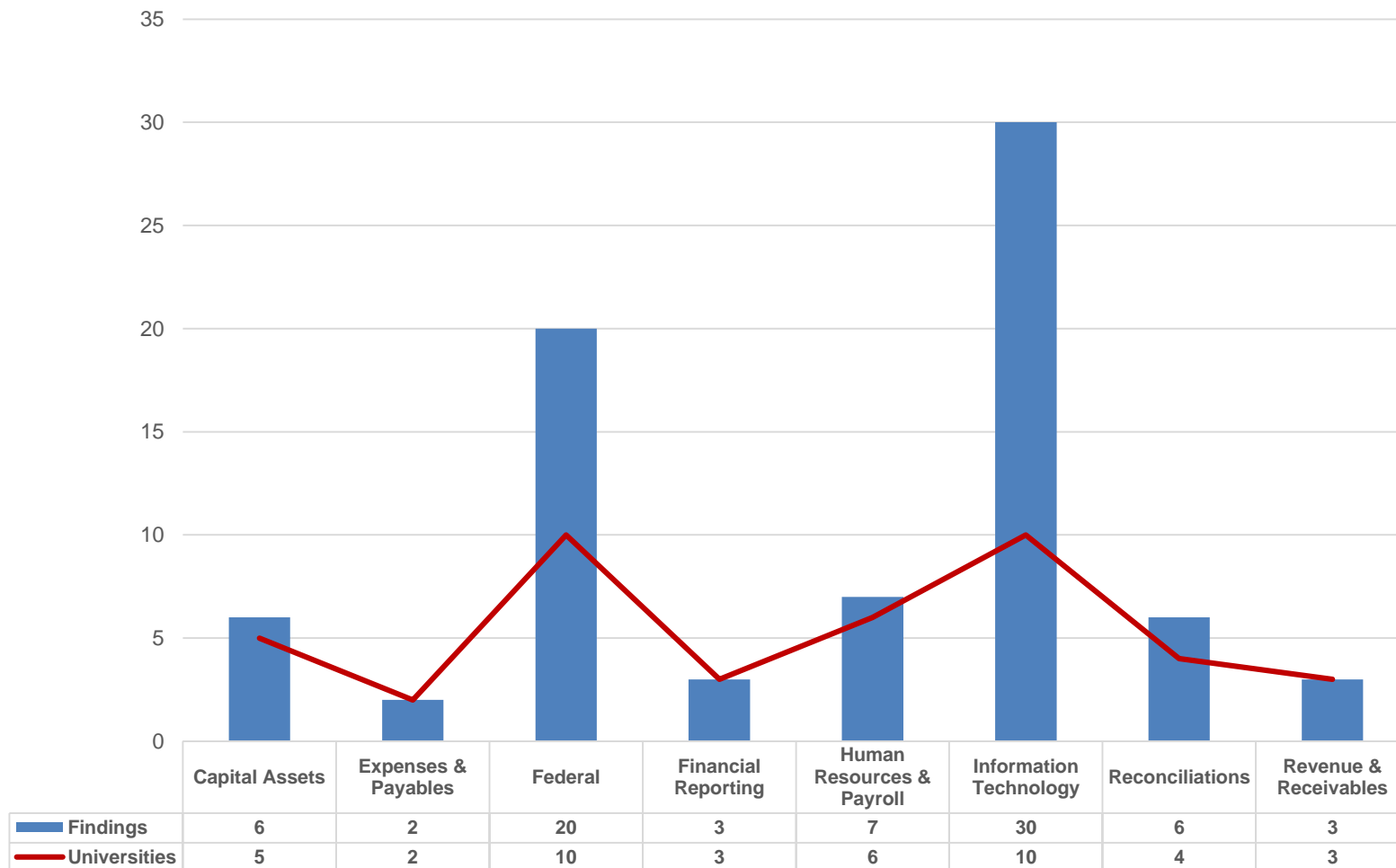
CAFR and SSA Results – Non IT Issues



CAFR and SSA Results – IT Issues



University Results



2017 Virginia Community College System Results

- 4 Findings Directly Related to the new Shared Service Center
 - Implement Service Level Agreements
 - Monitor the Internal Controls of the Shared Services Center
 - Confirm that No Reconciliation is Appropriate for SPCC holders
 - Retain Supporting Documentation for Payments
- 49 Other Findings

Higher Education Initiatives

- Progress Report on Implementation of JLARC Recommendations
- Report on Compliance – NCAA Subsidy Percentage Requirements
- Higher Education Comparative Report
- Student Financial Assistance Programs Report

QUESTIONS?