



APA Annual Update

May 20, 2024

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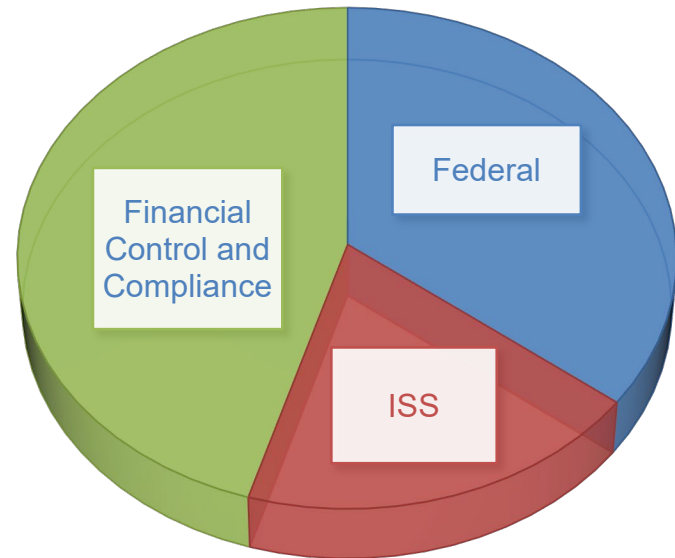
Jimmy Quesenberry, Audit Manager – Higher Education Programs

Objectives

- Recent Audit Results and Findings
 - Information System Security Update
 - Financial Controls and Compliance Update
- Workplan 2025
 - What's new in Fiscal Year 2024
 - Other Office Updates
- Federal Workplan Update

Fiscal Year 2022 Findings

- 141 total findings issued in fiscal year 2022 for Higher Education Institutions
 - 64 Financial Control and Compliance
 - 50 Federal
 - 27 Information System Security
- 4 material weaknesses (all financial reporting)



Information System Security Update

The Information Systems Security (ISS) Team



- Who is ISS?
- What does ISS do?

ISS Compliance - Information Systems Security Standards and Best Practices

- The Commonwealth's Information Security Standard
- The International Organization for Standardization and the International Electrotechnical Commission Standard, ISO/IEC 27002
- The National Institute of Standards and Technology Standard, 800-53
- The Center for Internet Security Benchmarks
- The Department of Defense Security Technical Implementation Guides (DISA STIGs)

ISS Controls – General Control Reviews

- Service Provider
- Backup & Restoration
- Systems & Data Security
- Security Awareness Training
- Logical Access Controls
- Physical Security
- Change Control
- Information Security Officer Designation
- IT Security Audits
- Threat Management
- IT Asset Management
- IT Risk Management and Contingency Planning

ISS Controls - Information Security Program and IT Governance Reviews

- Information Security Program and IT Governance
- Enforcement of Cybersecurity Requirements under the Gramm-Leach-Bliley Act
- End-of-Life Technology
- Vulnerability Scanning

ISS Controls – Technology Specific Reviews

- Mobile Device Security
- Wireless Local Area Network Security
- Router Security
- Firewall Security
- Virtual Private Network Security
- Database Security
- Server Operating System Security
- Web Application Security

ISS Management Recommendation (MP) Considerations

Control Deficiencies

- Deficiency
- Significant Deficiency
- Material Weakness

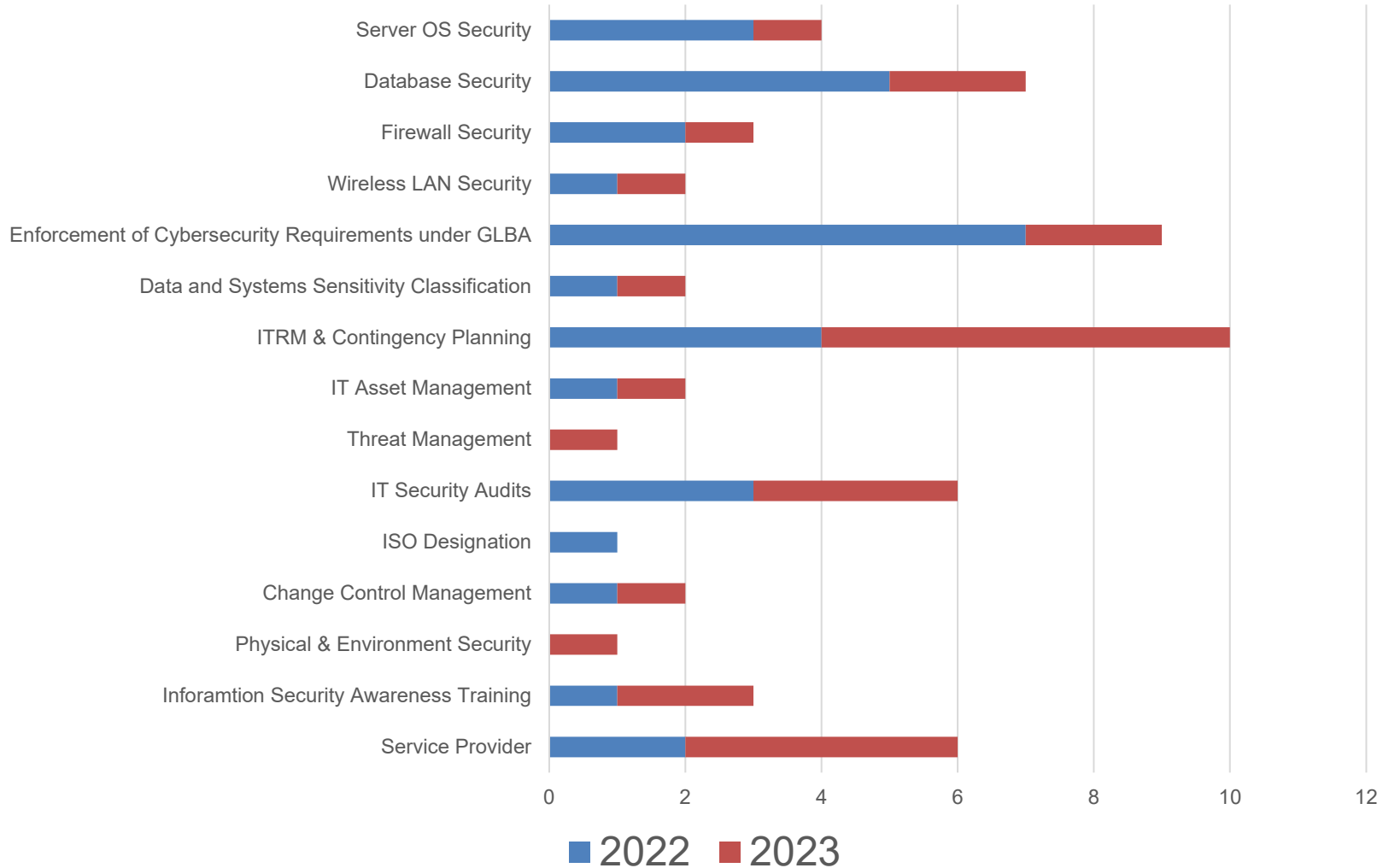


FOIA Exempt

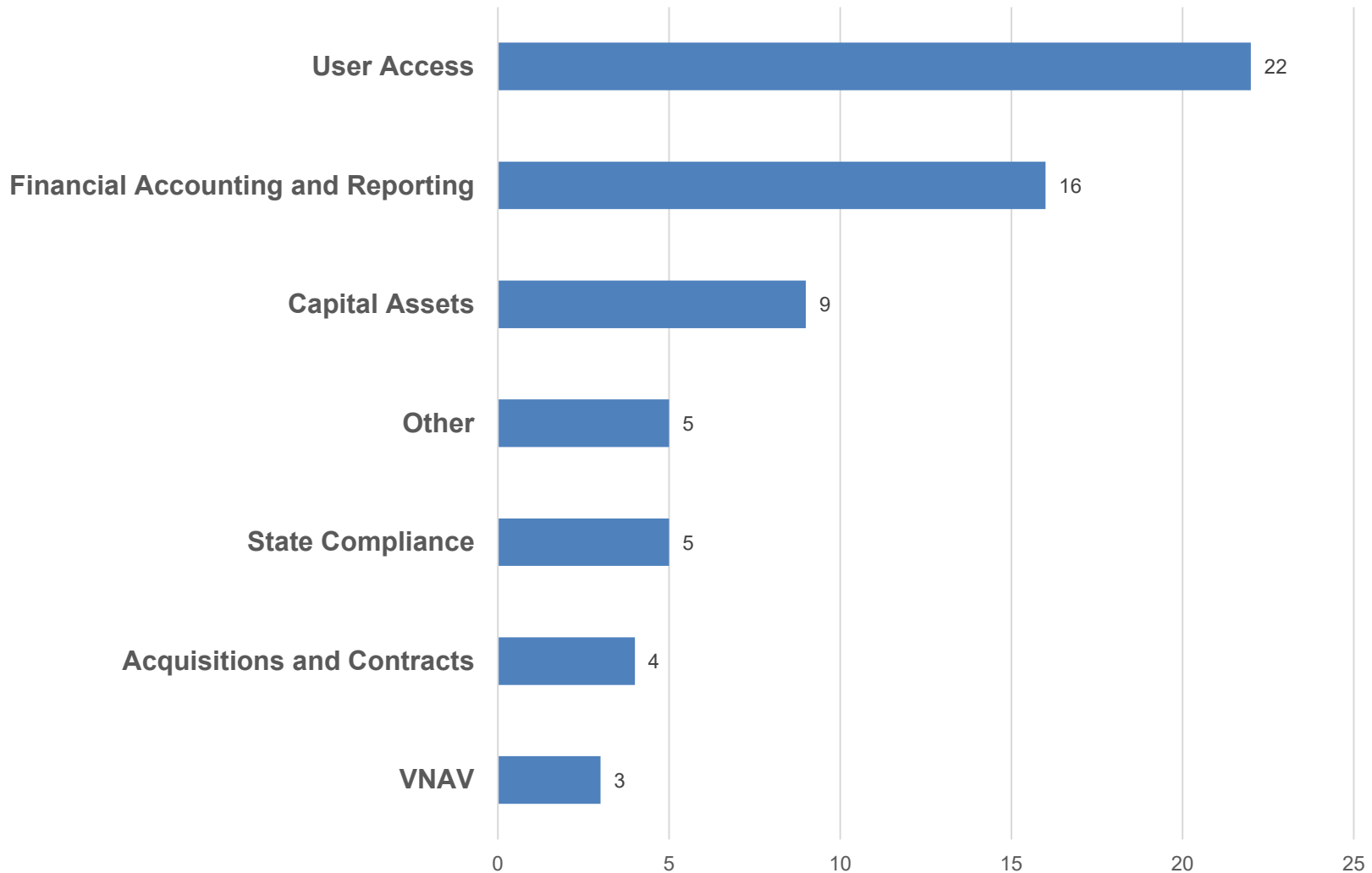
- Security Process Required by Standards
- Descriptions of Security Mechanisms



ISS Findings by Control Area



Financial Control and Compliance Findings



Financial Accounting and Reporting

- Financial accounting and reporting findings are on the rise in recent years
- Increase is partially related to new complex GASB standards
- Common theme is an inadequate review by management of financial statements and applicable disclosures

Risk Alert Issued to DOA

“In fiscal year 2023, of the nineteen agencies and three component units we audited in support of the ACFR, thirteen entities had audit adjustments totaling \$2.4 billion; while in fiscal year 2022, nine entities had audit adjustments totaling \$3.2 billion. Audit adjustments relating to the Accounts’ ACFR compilation process totaled \$469.5 million in 2023 and \$229.1 million in 2022. Audit adjustment totals are reported gross and do not represent the impact on net position. Additionally, we have issued 25 internal control findings related to financial reporting (findings) between fiscal year 2019 and 2023 for ACFR-support audits.”

Primary Causes of Financial Reporting Findings

Insufficient Staff or Staff
Turnover/ Lack of P&P



Increasing Volume and
Complexity of Reporting



Governance/ Lack of
Management Oversight

Financial Reporting Heading in Wrong Direction

Signs and Symptoms

Audit
adjustments

Late
submissions and
missed
deadlines

Unpreparedness
for new
standards

Competing
priorities

Apathy/fatigue

Opposition to
audit and/or
accountability

The Power of Reading the Financial Statements

Example audit from Fiscal 2022 with adjustments:

AMOUNT	ADJUSTMENT	HOW WE IDENTIFIED
\$38.4 million	Operating revenues to non-operating	Followed HEERF guidance, reviewed the statements
\$21.6 million	Removed revenues and expenses	Followed HEERF guidance, reviewed statements and noted unexplainable material variances
\$3.4 million	Non-Depr. Capital Assets to Depr.	Reviewed financial statements and noted new land additions were previously shown as leased buildings
\$3.3 million	Scholarship allowance reclassified from dining to room contracts in auxiliary footnote	Reviewed financial statements and noted unexplainable material variances, reviewed scholarship calculation and entries
\$2.9 million	Increased 2.6 assets and 2.9 liabilities primarily for last lease payment to Carillion	Reviewed support for material long-term lease during GASB 87 implementation year
\$2.2 million	Appropriations available moved from unrestricted to restricted NP, outflow adjusted in cash flows	Reviewed financial statements and noted new line item. Investigated what it was and where it should be reported.
\$1.4 million	Current prepaid asset to non-current	Reviewed service beginning and end date fields in prepaid support
\$1.4 million	Increased accounts payable/expense	Reviewed statements and noted that A/P went down while expenses and CIP went up. Reviewed significant potential payables crossing fiscal periods

Recommendations

- Stay up to date on new Standards
 - Staffing and Training
- Prepare analytical reviews of financial statements
- White papers or position papers

2025 Workplan

- Fiscal Year 2024 Financial Statement Audits
- Student Financial Aid
- NCAA Audits for UVA, VT, and VCU
- Reaccreditation and ICQ work (VCCCS)

Higher Education Budget

Program	Budget
Financial Statement Audit	50,987
Student Financial Aid	3,325
NCAA Audit (UVA, VT, VCU)	1,705
Reaccreditation (VCCCS)	1,228
ICQ Work (VCCCS)	2,600
NCAA Subsidy (UVA, VT, VCU)	110
Total	59,955

Executive Branch Budget

Department	Budget 2025	Budget 2024
Executive Branch	110,405	113,180
Executive Offices and Administration	3,070	2,945
Commerce and Trade	3,400	3,640
Education	2,010	2,990
Education – Higher Education Institutions	59,955	58,525
Finance	22,800	25,355
Health and Human Resources	12,420	12,635
Natural Resources	150	100
Public Safety and Homeland Security	960	1,150
Transportation	5,640	5,840

Statements Effective for Fiscal Year 2024

- **GASB 100: Accounting Changes and Error Corrections**
- **Implementation Guide 2021-1**
- **Implementation Guide 2023-1**

GASB 100: Accounting Changes and Error Corrections (FY24)

Accounting Changes

Treatment

- Accounting Principles → Retroactive
- Accounting Estimates → Prospective
- Financial Reporting Entity → Beginning Balance adjustment in current period

Disclosures

- Nature of change
- Reason for change
- Quantitative effects on beginning balances – reconciliation in tabular format

RSI or SI

GASB 100: Accounting Changes and Error Corrections (FY24)

- Error Corrections
 - Mathematical errors
 - Errors in application of Accounting Principles
 - Omitted or misused facts
 - Change from Accounting Principle that is NOT GAAP to one that IS GAAP
- Treatment
 - Retroactive
- Disclosures
 - Nature of Error and its Correction
 - Quantitative effects on beginning balances – reconciliation in tabular format
- RSI or SI

Implementation Guide 2021-1

- New Q&As
 - Derivatives – 1
 - Fiduciary Activities – 2
 - Leases – 19
 - Non-Exchange Transactions – 1
- Amendments to Previous Q&As
 - **Capitalization Policy – 1 (FY2024)**
 - Revenue from Fines – 1
 - Inconsistent Classification as Major Funds – 1
 - Intra-Entity Transfers of Assets – 1
- Four Q&As were removed



Implementation Guide 2021-1

- IG 2015-1 Q 7.9.8

Capitalization policies adopted by governments include many considerations such as finding an appropriate balance between ensuring that all significant capital assets, collectively, are capitalized and minimizing the cost of record keeping for capital assets. ***It may be appropriate for a government to establish a capitalization policy that would require capitalization of certain types of assets whose individual acquisition costs are less than the threshold for an individual asset.***

- IG 2021-1 Q 5.1

Capitalization policies adopted by governments include many considerations such as finding an appropriate balance between ensuring that all significant capital assets, collectively, are capitalized and minimizing the cost of recordkeeping for capital assets. ***A government should capitalize assets whose individual acquisition costs are less than the threshold for an individual asset if those assets in the aggregate are significant.***

DOA Guidance

Memo to Agencies **July 21, 2023**

- **All** tangible capital assets that are purchased as a group where the value of the group meets the capitalization threshold of \$5,000 or greater should be added to FAACS.
- Agencies/Institutions that do not use FAACS will need to apply this guidance to their individual capital asset systems with an appropriate threshold.

DOA Guidance

DOA Issued a 2nd Memo to Agencies **May 8, 2024**

- Agencies must develop their own implementation methodology. This includes which items should be grouped based on the operational environment, the type of assets purchased, and the useful lives of those assets.
- Agencies are also responsible for determining the earliest period in which to analyze purchases and apply the beginning balance restatement.
- Agencies should develop internal procedures and use professional judgement to determine which assets should be considered an aggregate purchase. These internal procedures should be clearly documented and available for audit.

APA Process Innovation Team

Scott Booker was promoted to be Director of the new team in May 2023

The team's mission is to facilitate process innovation at the APA by empowering our teams in deploying solutions that enhance efficiency and effectiveness, providing resources to encourage the adoption of innovative practices, and ensuring our agency is well-equipped to drive positive change

Other Office Updates

- Amy Stokes was promoted to Director of the Acquisitions and Contracts Team (replacing Mike Reinholtz)
- Megan Richard was promoted to Director of the Risk Analysis and Monitoring Team (replacing Kevin Savoy)
- APA Relocation – we will be moving but timing and location is still TBD

Federal Work Plan

- Student Financial Aid
- Federal Perkins Loan Liquidation Program
- Changes to Compliance Supplement

What is the Audit Process?

- Student Financial Aid is subject to the Statewide Single Audit as a major program every three years (2024, 2027, 2030 etc.) During “in-cycle” years, all compliance requirements are tested.
- We perform an evaluation of the percentage of aid distributed by institutions for coverage which means that not all institutions will be included during the Statewide Single Audit cycle.
- For schools not included within the Statewide Single Audit cycle, audits will be performed every five years to coincide with the reaccreditation 5 – year and 10 – year cycles.
- All institutions will be evaluated, using the SACSCOC website, to determine the need for a reaccreditation student financial aid audit depending on timing of the previous audit.
- Follow-up will be performed on recommendations included within the Statewide Single Audit. For “out-of-cycle” years, follow-up will be performed if the institutions reports the status as “resolved” while a status of “on-going” will result in fieldwork not being performed and the recommendation will remain in the Statewide Single Audit.
- For both “in-cycle” and “out-of-cycle” years, if follow-up is performed and non-compliance is noted, a “repeat” recommendation may be issued to the institution.

Federal Perkins Loan Liquidation Program

- **Audience Question: How many institutions have initiated or considered initiating the liquidation of the Federal Perkins Loan Program?**
- Due to timing and staffing constraints, it is vital for the APA to know which institutions are in process of or planning to liquidate.
- The institution will coordinate with the APA on completing the required liquidation audit in accordance with the *"Federal Loan Assignment and Liquidation Guide"*.
- The APA has an established model audit program that will be compared to the most current version of the Guide at the time the institution has sought to liquidate its loan program.
- For 2024, institutions will have their Federal Perkins Loan Liquidation audits completed in conjunction with the Statewide Single Audit.
- If the Federal Perkins Loan Liquidation Audit is not completed in conjunctions with the Statewide Single Audit, an individual report will be issued to each institution for submission to the Federal Department of Education.

Expanded Program Level Testing Requirements – Compliance Supplement

Beginning with your next audit, Auditors will be asking about and auditing the following, if deemed applicable:

- ❖ Clery Act Reporting
- ❖ Foreign Payments to Institutional Employees



QUESTIONS?

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