



COMMONWEALTH of VIRGINIA

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November 14, 2022

MEMORANDUM

TO: The Honorable Glenn Youngkin, Governor of Virginia
The Honorable Barry D. Knight, Chair, House Appropriations Committee
The Honorable Janet D. Howell, Co-Chair, Senate Finance and Appropriations Committee
The Honorable George L. Barker, Co-Chair, Senate Finance and Appropriations Committee

FROM: Stephen E. Cummings

SUBJECT: Report of the Risk Assessment of Executive Branch Agency Internal Controls for Administering and Disbursing Federal Pandemic Relief Funds

Pursuant to Item 257.B, Chapter 2, 2022 Virginia Acts of Assembly Special Session I, I am submitting the risk assessment for executive branch agencies receiving federal pandemic funding. This initial risk assessment was limited in scope to the Coronavirus Relief Funds (CRF) from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), and the State and Local Fiscal Recovery Funds (SLFRF) from the American Rescue Plan Act (ARPA).

This high level review indicates that the Commonwealth has developed and implemented adequate internal controls over the appropriate use and reporting of federal funds. While this provides a sound basis for managing federal assets and ensuring compliance with federal regulations, the risk assessment also identifies potential opportunities for improvement. Such opportunities pertain to expanding the Agency Risk Management Internal Control Standards (ARMICS) assessment process, and we have developed a plan with the Department of Accounts to make the appropriate modifications. I look forward to working with you to strengthen the internal control structure over all Commonwealth financial assets.

Please let me know if you have any questions.

Report of the Risk Assessment of Executive Branch Agency Internal Controls for Administering and Disbursing Federal Pandemic Relief Funds

**Pursuant to Item 257B, Chapter 2, 2022 Special Session I Virginia Acts of
Assembly**

TO:

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RICHMOND
2022**

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I. Executive Summary

In October 2022, the Department of Accounts (DOA), with the assistance of a third-party, conducted a risk assessment of executive branch agency internal controls for federal funds. The risk assessment relied upon existing data and documentation and was limited in scope to the Coronavirus Relief Funds (CRF) from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), and the State and Local Fiscal Recovery Funds (SLFRF) from the American Rescue Plan Act (ARPA).¹ While there are additional federal regulations for other pandemic funding that are not applicable to the CFR and SLFRF, this risk assessment does not address all federal compliance requirements.

Through this high-level review, the assessment concluded that executive branch agencies have adequate internal control over federal funds. However, a lack of portfolio-level oversight and centralized data systems leads to inherent challenges of managing and tracking the funds at a Commonwealth-wide level. The current decentralized system makes a review of agency-level controls difficult due to the lack of real-time visibility into agency activities.

Specific potential gaps in the Commonwealth's current state of internal control over federal funds are:

- Lack of real-time visibility into agency internal control activities for federal funds which can lead to reactive responses to issues versus proactive prevention;
- Reliance on self-assessments is inherently less reliable than independent, verified reviews of agencies' risk management activities and give less insight into agency internal control activities;
- Reliance on manual, self-reported data can lead to reported results that are less reliable than verified data and reporting discrepancies can invite additional scrutiny;
- Subrecipient monitoring activities are conducted and validated inconsistently by agency management, and an opportunity exists to more explicitly prompt agencies to review these policies;
- Third-party provider monitoring activities are conducted and validated inconsistently by agency management and can lead to improper distributions of funds;
- Lack of knowledge transfer and cross-training can impact agency-level control over funds and can impact accuracy and timeliness of reporting; and
- Information technology (IT) related control activities are conducted and validated inconsistently by agency management and can lead to breaches of sensitive information.²

The remainder of this report details the analysis performed as part of this risk assessment.

¹ The CRF and SLFRF were appropriated among agencies via [Item 479.10, Chapter 56, 2020 Acts of Assembly Special Session I](#), [Item 479.20, Chapter 1, 2022 Acts of Assembly Special Session I](#), and [Item 486, Chapter 2, 2022 Acts of Assembly Special Session I](#).

² IT controls are relevant for federally funded projects where agencies are upgrading or implementing new systems or when they are collecting sensitive data.

II. Background

The Secretary of Finance, via DOA, conducted this risk assessment as required by [Item 257 B, Chapter 2, 2022 Acts of Assembly Special Session I](#) that states (in part):

The Secretary of Finance shall engage internal or third-party assistance to perform a risk assessment of executive branch agency internal controls for administering and disbursing federal pandemic relief funds, economic stimulus, or loan funds. Upon engaging internal or third-party assistance, the Secretary of Finance shall consult with the Auditor of Public Accounts and executive branch agencies conducting similar risk assessments or audits regarding the scope of work performed by the Auditor of Public Accounts and such executive branch agencies over federal funds. The Secretary of Finance shall provide oversight over any resulting contracts and compile the findings and provide a report to the Governor, the Chair of the House Appropriations Committee and the Chair of the Senate Finance and Appropriations Committee by November 1 of each year.

DOA is well situated to conduct this assessment as they are responsible for reporting on two of the largest and broadest pandemic relief funding packages, the CRF included in the CARES Act and the SLFRF included in ARPA. Additionally, DOA oversees the Commonwealth’s Agency Risk Management and Internal Controls Standards (ARMICS) assessment process.

Applicable Federal Guidance

Both the SLFRF and CRF funding comes with a wide variety of requirements on the use and administration of the funding, as well as specifications under allowable and nonallowable uses. In addition to the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ([2 CFR Part 200](#)), the U.S. Department of the Treasury (U.S. Treasury) has published specific guidance for both funds (see example of various SLFRF regulations and guidance in Figure 1).

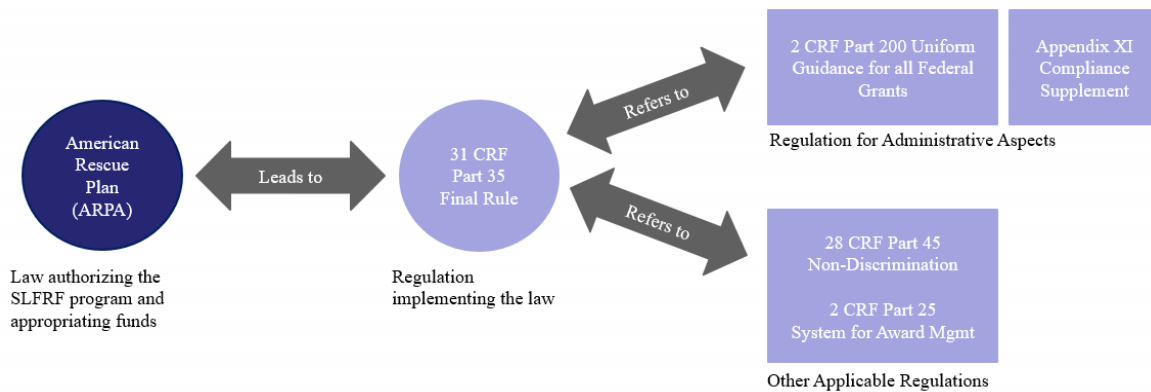


Figure 1: Laws and regulations governing use of SLFRF

For example, [2 CFR 200.303](#) addresses compliance in regard to internal controls for non-federal entities receiving federal awards:

The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).*
- (b) Comply with the U.S. Constitution, Federal statutes, regulations, and the terms and conditions of the Federal awards.*
- (c) Evaluate and monitor the non-Federal entity's compliance with statutes, regulations and the terms and conditions of Federal awards.*
- (d) Take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings.*
- (e) Take reasonable measures to safeguard protected personally identifiable information and other information the Federal awarding agency or pass-through entity designates as sensitive or the non-Federal entity considers sensitive consistent with applicable Federal, State, local, and tribal laws regarding privacy and responsibility over confidentiality.*

The Office of Management and Budget’s (OMB’s) [2022 Compliance Supplement \(whitehouse.gov\)](#) details which of the compliance requirements are subject to be reviewed upon audit of CRF and SLFRF projects. This document specifies that agency management is generally responsible for ensuring compliance with the following:

- Activities allowed or unallowed;
- Allowable costs/cost principles;
- Period of performance;
- Procurement, suspension, and debarment;
- Reporting; and
- Subrecipient monitoring.

U.S. Treasury’s [SLFRF-Compliance-and-Reporting-Guidance.pdf \(treasury.gov\)](#) provides additional description of these areas of the Uniform Guidance that are applicable for the SLFRF (and similarly, were applicable for CRF).

Potential Consequences of Insufficient Internal Control Over Federal Funds

As shown in Figure 2, there can be negative outcomes associated with insufficient internal control over federal funds. These negative outcomes range from those with immediate impact like misreporting of fund uses to U.S. Treasury, to those with short term impact like requiring resources to implement corrective action plans due to audit findings, to longer-term impacts like negative

reputational impact resulting in public mistrust and reducing competitiveness for future federal funds. Due to these risks, an assessment of internal controls is both necessary and beneficial to all parties involved.

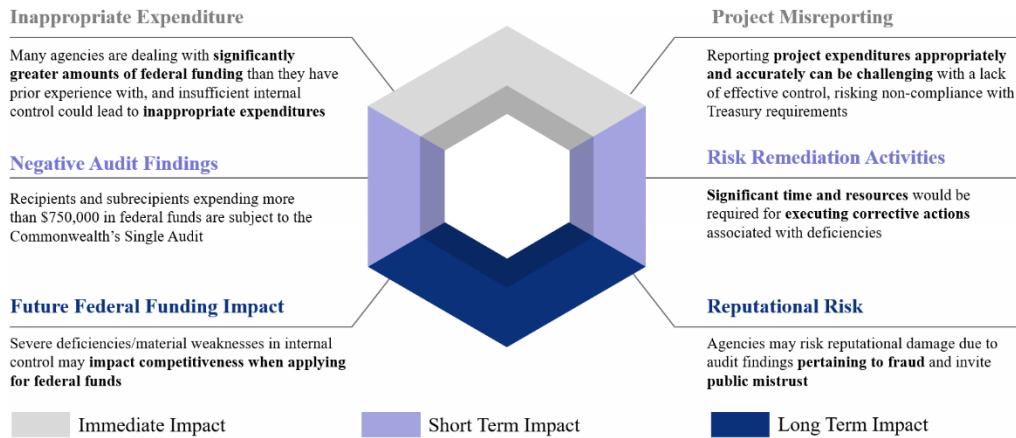


Figure 2: Outcomes associated with insufficient internal controls over federal funds

III. Scope of Risk Assessment

Per the appropriation language, this assessment was limited in scope to executive branch agencies. Within the executive branch agencies, the assessment was further refined to only CRF and SLFRF agencies as DOA has centrally reported on these two types of funds. Information and documents reviewed as part of this assessment included CRF expenditures, SLFRF appropriations, SLFRF detailed expenditure reporting data, SLFRF readiness assessments, 2021 Single Audit Results, the Statewide Financial Management and Compliance Quarterly Report as of December 31, 2021, 2022 ARMICS assessment results and attachments for select agencies, and agency provided documents for select agencies.



Figure 3: Scope of risk assessment

IV. Assessment Results

The risk assessment resulted in a determination that adequate controls were in place with several potential areas to improve the state of internal control over federal funding across Commonwealth executive branch agencies. The assessment outcomes recognized below are a result of both agency-specific review and review of the overall oversight of the funds within the Commonwealth. First, the assessment compared the Commonwealth against a maturity scale of internal control activities, as detailed in Figure 4. Based on a high-level understanding of internal control activities related to federal funds, the Commonwealth was determined to be at an “Operational, Approaching Maturity” level. Generally, adequate controls and processes are in place, both at the Commonwealth-wide level and then within the agencies. Within agencies, however, the internal control standards appear to be applied inconsistently. The following instances illustrate inconsistent reporting procedures (e.g., responses and attachments provided in ARMICS

assessment vary in quality and content; some self-assessment responses are more thorough than others). Additionally, there may be opportunities to improve the efficiency and effectiveness of controls through greater oversight of the portfolio as a whole and analysis of reported data. The assessment concludes that the Commonwealth of Virginia has an adequate level of control, but risks and areas for enhancement have been identified and are included in this report.

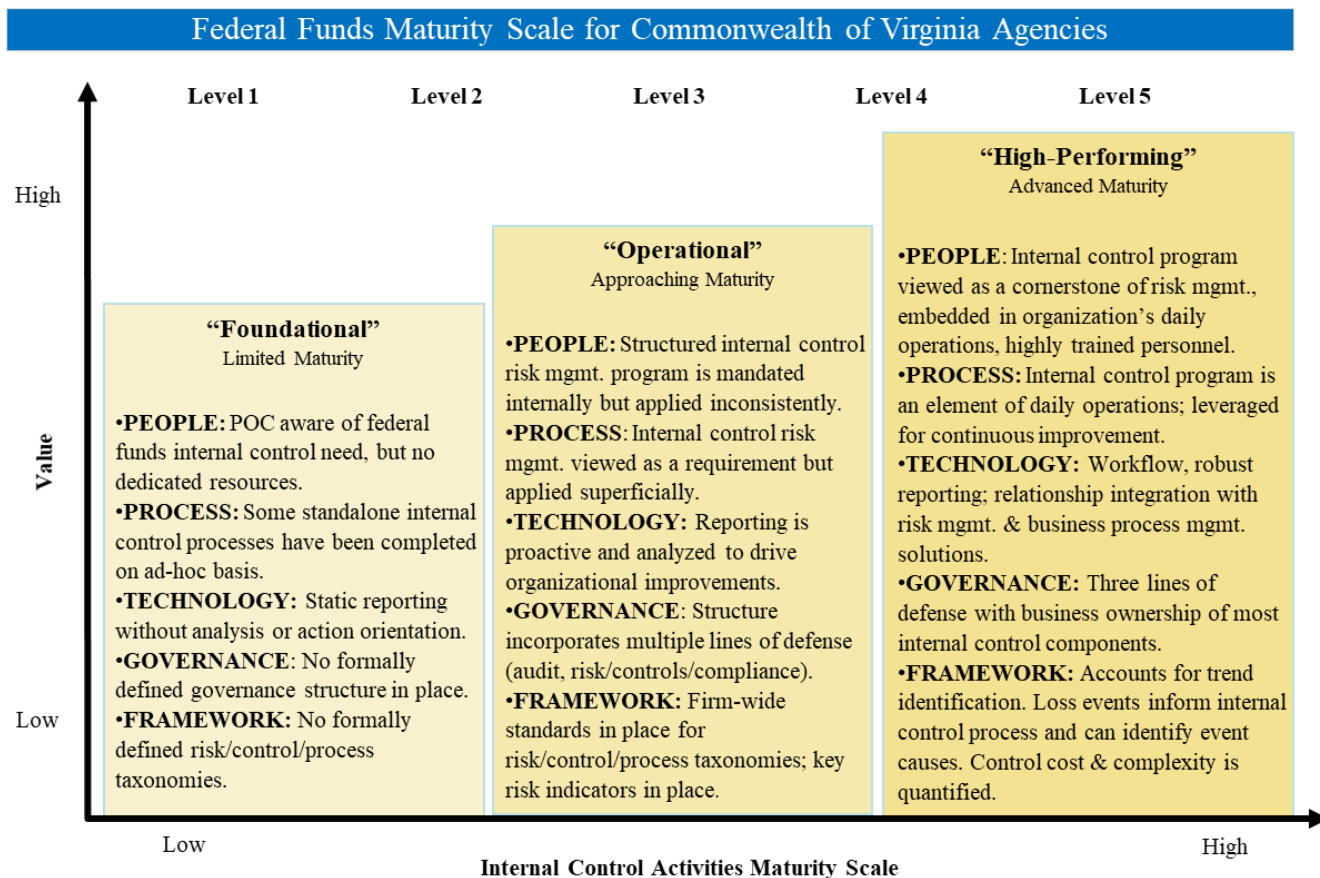


Figure 4: Federal funds maturity scale for Commonwealth of Virginia agencies

Factors Contributing to Greater Maturity

Though the assessment revealed gaps, Virginia’s current approach does offer many benefits that should be noted as well. The ARMICS self-assessment process requires agencies to evaluate their internal control environment and activities across a number of areas. Additionally, DOA provides standardized guidance and questionnaires for agencies to use during this process. Factors of the SLFRF reporting process also demonstrate higher maturity in Virginia’s current approach. For example, training webinars and tools are offered for agencies on Treasury requirements regarding SLFRF reporting. Additionally, the ARPA reporting system implemented by the DOA provides for a centralized way to review information being reported to U.S. Treasury.

During the allocation and appropriation decision making process for uses of CRF and SLFRF within the Commonwealth, the Department of Planning and Budget (DPB) required agencies to attest to eligibility of proposed projects. DPB evaluated the associated requests and made

recommendations to the Governor and General Assembly. Eligibility is a key area that will be reviewed upon audit of the funds.

Factors Contributing to Lower Maturity

The assessment recognized the following potential gaps:

1. **Lack of real-time visibility into agency internal control activities for federal funds creates inherent challenges to understanding existing, ongoing compliance activities related to federal funds.** Several higher-risk agencies are exhibiting reporting challenges for various activities, including federal funds reporting. Another state examined during the assessment requires compliance plans to be provided in advance of receiving funds which provides more timely insight into planned activities. This challenge in oversight of the funds could have impacts across various compliance areas.
2. **Reliance on self-assessments is inherently less reliable than independent, verified reviews of agencies' risk management activities.** ARMICS assessments are self-reported by agencies and not as reliable as independent reviews of agency policies, processes, and controls. Related to the gap mentioned above, this could have impacts across various compliance areas should agencies not fully understand federal guidance associated with the funds. Additionally, the quality and content of attachments varies across agencies.
3. **Reliance on manual, self-reported data can lead to reported results that are less reliable than verified data.** DOA collects and aggregates CRF and SLFRF detailed expenditure and performance data from agencies. This detailed information cannot be verified against a central system, and DOA is reliant on the accuracy of agency reporting. DOA conducts reviews of data and applies numerous logic checks prior to submitting data to U.S. Treasury, but there are many aspects that DOA is unable to verify. Additionally, several higher risk, higher dollar value agencies require additional assistance to submit reporting that passes these initial levels of review. Reporting will be reviewed upon audit and data discrepancies can invite additional scrutiny.
4. **Subrecipient monitoring activities are conducted and validated inconsistently by agency management.** Three agencies had findings related to subrecipient risk assessments and/or monitoring in the 2021 Single Audit. Additionally, while implicitly covered in the federal grants management ARMICS questionnaire, there is no question specifically addressing an agency's subrecipient monitoring controls. Subrecipient risk assessments and monitoring will be reviewed upon audit, and this topic is specifically addressed in [2 CFR 200.331 – 2 CFR 200.333](#). Insufficient subrecipient risk assessments and monitoring could result in audit findings and improper uses of funds.
5. **Third-party provider monitoring activities are conducted and validated inconsistently by agency management.** In the 2021 Single Audit, one agency was found to have a material weakness related to monitoring outsourced programmatic functions for the Rebuild VA program, which is funded by CRF and SLFRF, which resulted in improper payments. One agency was also found to have a material weakness related to obtaining assurance over third-party providers' internal controls. Other agencies received less severe findings related to oversight of third-party providers. Agencies are responsible for oversight of their service providers and for ensuring that services meet the terms outlined

via the procurement (i.e., contract). This gap could have impacts across a variety of areas, most notably improper financial transactions.

6. **Insufficient staffing and a lack of knowledge transfer and cross-training can impact agency-level control over funds and can impact accuracy and timeliness of reporting.** In the 2021 Single Audit, one agency was found to have a material weakness related to controls over financial reporting. Turnover was cited as a contributing factor for this finding, and cross-training was identified as part of a potential solution. Another agency also had several findings related to other federal requirements where insufficient staffing was cited as a contributing factor to the deficiencies. Lack of knowledge transfer is frequently encountered during quarterly reporting for the SLFRF, and newer reporting points-of-contact (POCs) generally require assistance to clear reporting errors. While this gap has the most immediate impact on reporting, it may also impact various other areas of administering federally funded programs.
7. **IT-related control activities are conducted and validated inconsistently by agency management.** While likely only relevant for a subset of federally funded projects, IT controls can play an essential role in safeguarding sensitive data. One agency had numerous instances of systems access and other IT-related control findings in the 2021 Single Audit. There are several agencies working on implementing corrective action plans related to systems access and other IT controls. Protecting sensitive data is specifically highlighted in the Uniform Guidance’s section on internal control.

Additionally, the CRF and SLFRF funding is concentrated among a few agencies. Across the 113 agencies within the executive branch receiving these funds, funding at the top 13 agencies accounts for 90% of the funds. This concentration of funding also means that through targeted work with a minimal number of agencies, the Commonwealth may be able to realize great improvement with a lower level of effort.

V. Risk Assessment Process

As shown in Figure 5, the risk assessment was conducted in four steps and relied upon existing data and documentation.

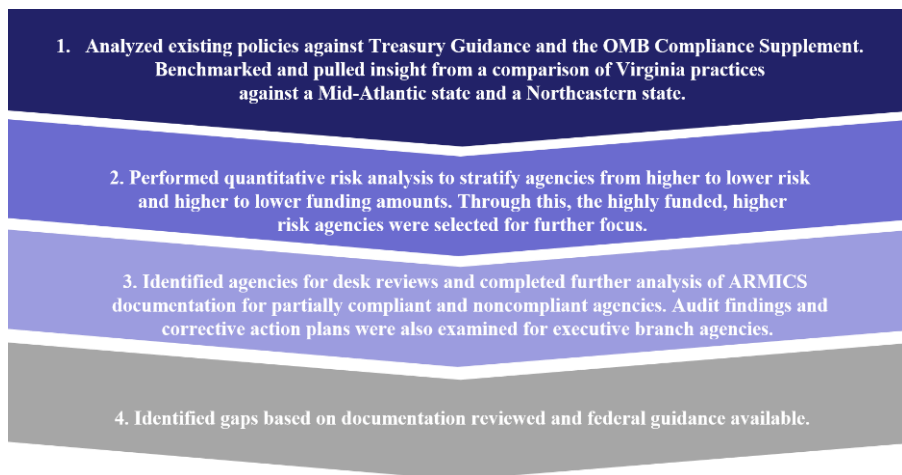


Figure 5: Steps taken for risk assessment

Findings from document reviews and analyses have been summarized in this report, along with identified strengths and weaknesses of the current state of agencies' internal controls related to federal pandemic relief funds.

A. Overview of Current Internal Control Activities

The assessment first included a review of existing risk management and internal control activities to gain an understanding of the current state.

ARMICS Assessment Process

ARMICS is in place “to ensure fiscal accountability and safeguard the Commonwealth’s assets.” ARMICS outlines the policies and processes agencies must follow to maintain sufficient internal control. DOA has mapped the ARMICS and the Internal Control Policy (CAPP Topic No. 10305) to the Committee on Sponsoring Organizations (COSO) principles and maintains that mapping on their website.³

Agencies are required to assess internal control and supporting control activities to provide reasonable assurance of the ongoing efficiency and effectiveness of internal control within the agency and report annually to DOA its compliance via the ARMICS Certification Process. This is done through a system that provides a secure and accurate means of submitting the information to DOA. Each section of ARMICS addresses one of the five key components of internal control – meaning there is a section on control environment, risk assessment, control activities, information and communication, as well as monitoring activities. For each component, agencies answer a series of yes or no questions and upload documentation when necessary. Questions require a corrective action plan for each answer that is not within compliance. Many questions also ask for the agency to upload a document of proof when the answer does indicate compliance. At the end of the questionnaire, a report summary is prepared for agencies to have a final opportunity to view or make corrections to any previous answers. Additionally, ARMICS requires agencies to quantify on a scale from 1-5 how strongly they agree or disagree with statements regarding specific controls. These include a control environment section, agency level risk assessment, agency level control activity assessment, agency level information and communication assessment, and an agency level monitoring assessment in Stage 1. In Stage 2, agencies must perform a risk assessment of each fiscal process and then test the effectiveness of control activities and document the results. Any weakness found during these self-assessments requires a corrective action plan that the agency must remediate to maintain proper controls over the Commonwealth’s assets.

DPB Key Control

During the initial allocations of CRF funding among Commonwealth agencies, agency heads were required to complete a form called a “Certification for Use of Coronavirus Relief Funds”, along with their request for funding, and submit this form to DPB. In these certifications, the agency head agreed to assume responsibility in assuring that, if granted, the CRF funds would be used to cover costs that were necessary expenditures incurred due to the public health emergency with

³ [ARMICS COSO Crosswalk \(virginia.gov\)](https://www.virginia.gov/committees/coso/crosswalk/)

respect to COVID-19; were not accounted for in the budget approved as of March 27, 2020; and were incurred during the period beginning on March 1, 2020 through December 30, 2020.

Additional requirements of receiving CRF funds included retaining documentation and upholding proper accounting records. Agency heads had to acknowledge their understanding that CRF funds could not be used as a revenue replacement for lower-than-expected non-general fund revenue collections or to replace any activities currently funded from the general fund or non-general fund revenues. Additionally, CRF funds provided could not be used to offset future budget reductions. For each certification completed, the agency had to agree to use the funding only for the purpose at which they were requesting. It was also not permissible for CRF funds to be used for purposes of matching other federal funds unless specifically authorized by federal statute, regulation, or guideline. These certifications were then reviewed by DPB, who made recommendations to the Governor, who ultimately approved or denied these funding requests. Following initial administrative allocations, the General Assembly appropriated remaining CRF funds.

DPB played a similar role in the distribution of SLFRF funds. Cabinet secretaries submitted proposal requests for funding that were then collected by DPB. In these funding proposals, agencies provided a description of their proposed use of funds and an explanation of why the proposal would be an eligible use of SLFRF according to federal guidelines, excluding the revenue replacement use. DPB then reviewed the proposals and made a recommendation for the allocation of funding. Proposals recommended by the Governor were included in the introduced appropriations bill for 2021 Special Session II and in the 2022-2024 biennial budget. Ultimately, the General Assembly appropriated funding for specific uses, which included proposals from the introduced budget, modified proposals, or new proposals identified by the General Assembly, in the 2021 Special Session and the 2022-2024 biennial budget.

Webinars and Office Hours

The DOA has partnered with a third-party to host webinar trainings and office hours for the agencies to help ensure reporting compliance for the SLFRF. Six webinars have been conducted over the course of 2022 in order to keep the agencies up to date on U.S. Treasury requirements. These webinars have covered a wide range of information including reporting requirements, key performance indicators, expenditure categories, capital expenditure written justifications, labor practice requirements, DOA reporting and compliance processes, and subrecipient monitoring. Additionally, office hours serve as a forum for agencies to ask general and topic-specific questions. Agency project contacts, fiscal/budget officers, and compliance staff were encouraged to attend these sessions. Attendees were also provided with the materials after each session for later reference.

SLFRF Reporting Process Overview

DOA has facilitated reporting among more than 140 projects and provided support for nearly 40 agencies. DOA has implemented an ARPA reporting system to gather data that is reported by agencies on a quarterly basis. DOA has also developed a reporting template to capture detailed obligation and expenditure information. Additionally, agencies are provided with several tools, including a user guide and reporting checklist to assist with their reporting.

The DOA reporting system has a number of system checks to review agency reported data against several logic checks. For example, the system displays errors when reported expenditures exceed obligations. The team also reviews reported data against a checklist and follows up with agencies to resolve any remaining issues or reconcile any data anomalies. Finally, the DOA reviews the complete reporting submission prior to uploading to the U.S. Treasury reporting system.

B. Quantitative Risk Analysis

Approach

As shown in Figure 6, the available data points for a given agency were grouped into two categories of risk: internal control risk and other risk factors. The available data on funding amounts were grouped into the category “funding data” for which the internal control risk and other risk factors were mapped against.








Items		Definitions
Internal Control Data	 Audit Findings	Findings noted in the State Single Audit Report for the year ended June 30, 2021
	 ARMICS Compliance Status	Agency assessment results for FY2022
Other Risk Factors Data	 Subrecipients, Beneficiaries, and Contractors	Subrecipients, beneficiaries, and contractors reported by agencies in quarterly SLFRF reporting
	 Program Maturity	Considers if a program was newly created using CRF/SLFRF and/or if program POCs have limited experience working with federal funds
	 Agency Readiness Score	How “ready” is an agency to administer its SLFRF projects, scored in terms of inherent risk, compliance & control risk, program risk, and detection risk
Funding Data	 Amount of SLFRF Appropriated	Total appropriation for SLFRF projects administered by the agencies
	 Amount of CRF Expended	Total CRF spend by agency based on Cardinal data

Figure 6: Internal control risk, other risk factors, and funding data

This information was then used to create a quadrant mapping of agencies from lower to higher risk and from lower to higher levels of funding to identify the higher-risk agencies with the greatest amount of funding.

The internal control risk category was comprised of audit findings and ARMICS compliance status. The other risk factors analysis was performed for agencies with SLFRF and was comprised of available data points primarily relating to an agency's number of subrecipients, contractors, and beneficiaries, agency readiness, and program maturity (assessed from appropriation language and/or other knowledge of programs).

Detailed Analysis

To incorporate qualitative risk factors such as compliance status, numeric values that were consistent with previous risk assessment grading scales were assigned. For example, a weighted grading scale for the material weaknesses versus significant deficiencies. Next, this weighted audit sum was added to the ARMICS compliance status score to give an overall risk score. This overall internal control risk score (x-axis) was measured against the total sum of CRF and SLFRF funds allocated to the agency (y-axis). For the category of other risk factors, it was concluded that having a higher number of subrecipients, contactors or beneficiaries introduces more risk to an agency, thus the numbers for each category were grouped into ranges and the range is assigned a score. For program maturity, a simple yes or no criteria was applied. The assigned risk value of subrecipients, beneficiaries, contractors, agency risk score and program maturity were added to give the final overall other risk factors value (x-axis) for a given agency. This overall risk value is measured against the total sum of SLFRF and CRF funding allocated (y-axis) for the agency.

For a given agency, when their overall risk score is plotted against their allocated funding, it provides a clear visual picture into the distribution of agencies and their level of risk against four quadrants: higher risk and higher dollar value, higher risk and lower dollar value, lower risk and higher dollar value and lower risk and lower dollar value. For the 113 agencies studied, the majority fall below \$100 million allocated funding dollars, which was used as the threshold to define lower dollar value. Higher dollar value was defined as funding greater than \$100 million, and while only 12 agencies fell within this range, combined they hold nearly \$6.5 billion in allocated funding. Increased scrutiny should be assigned to agencies that hold more funding, due to greater impact of adverse outcomes. Additionally, the assessment determined the threshold between higher and lower risk to be nine for the internal control risk and three for the other risk factors. Figure 7 shows the distribution of agencies among the four quadrants.

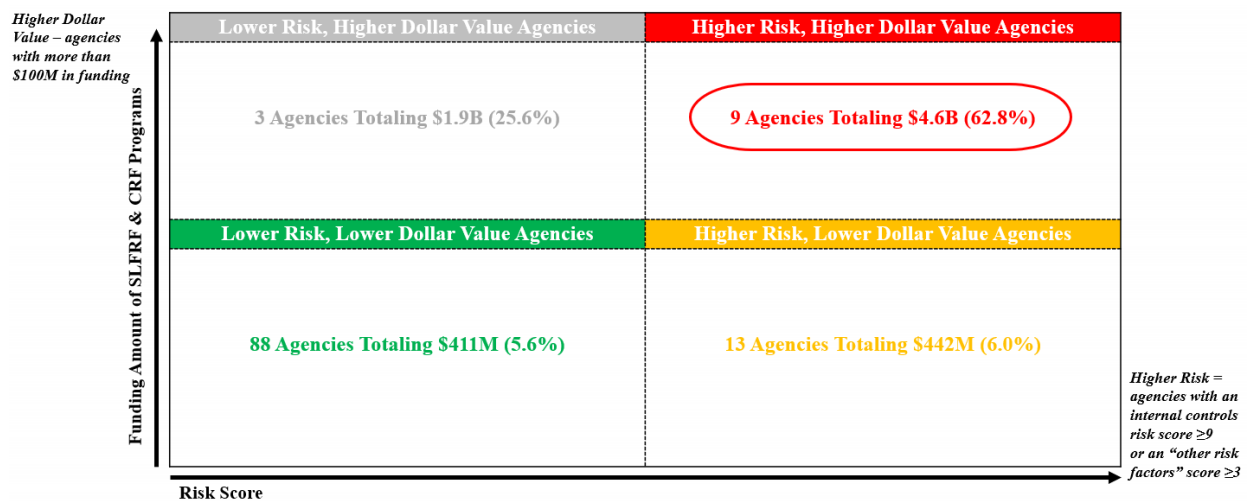


Figure 7: Risk mapping of agencies

Results Summary

A combination of multiple audit findings, prior agency risk scores, limited experience in administering funds and high numbers of subrecipients placed nine agencies into the higher risk, higher dollar category as shown in Figure 8. These nine agencies have a combined total of \$4.6

billion in allocated funds. Due to the higher dollar allocation, these higher risk agencies have potential to produce the greatest negative financial impact. Given the magnitude of impact, these agencies should have resources prioritized to further assess, mitigate, and control risk.

No.	Agency Name	Total CSFRF and SLFRF Value (In \$ M)	Status
1	Virginia Employment Commission	\$1,344	●
2	Department of Housing and Community Development	\$631	●
3	Direct Aid to Public Education	\$589	●
4	Department of Environmental Quality	\$583	●
5	Department of Small Business and Supplier Diversity	\$500	●
6	Department of Health	\$488	●
7	Department of Behavioral Health and Developmental Services	\$239	●
8	State Council of Higher Education for Virginia	\$133	●
9	Department of Criminal Justice Services	\$103	●

Figure 8: Nine agencies in the higher risk, higher dollar value category

C. OMB/ARMICS Comparison

The OMB Compliance supplement contains six compliance requirements for SLFRF. These are outlined in the table below with their brief descriptions.

No.	Area	Description
1	Activities allowed/unallowed	<ul style="list-style-type: none"> Lists eligible uses for fund payments Lists prohibited uses for fund payments
2	Allowable cost/cost principles	<ul style="list-style-type: none"> Addresses cost principles associated with funds
3	Period of performance	<ul style="list-style-type: none"> Addresses timeliness of incurred costs by agencies and limits them to a specified time (e.g., funds must be obligated by December 31, 2024)
4	Procurement, suspension & debarment	<ul style="list-style-type: none"> Lists that recipients, subrecipients, and contractors need to follow procurement standards as identified in the Uniform Guidance Lists the verification obligation of agencies regarding suspended and debarred vendors/subrecipients before entering into contracts
5	Reporting	<ul style="list-style-type: none"> Lists the various types of reports aimed at expenditure, performance, and recovery that Agencies must prepare
6	Subrecipient monitoring	<ul style="list-style-type: none"> Lists audit and risk assessment of subrecipients as mandatory

Table 1: Applicable Uniform Guidance areas subject to audit for SLFRF/CRF

As part of the assessment, ARMICS assessment control areas and the Commonwealth Policies and Procedures Manual were mapped to the OMB Compliance supplement outlined in the table below.

No.	OMB Compliance Supplement Area	No.	ARMICS	CAPP Identifier
1	Activities Allowed/Unallowed	1.1	Appropriations Appropriations, Allotments, and Transfer	20105
		1.2	Appropriations Operating Expenditure Plan	20110
		1.3	Federal Grants Management	20605
2	Allowable Cost/Cost Principles	2.1	Indirect Cost Recovery	20705
3	Period of Performance	3.1	Cash Disbursement Capital Outlay	20340
		3.2	Cash Disbursement Revenue Refund	20325
		3.3	Cash Disbursement Petty Cash	20330
		3.4	Cash Disbursements Non-state funds	20350
		3.5	Cash Disbursements Moving & Relocation	20345
		3.6	Cash Receipts Deposits	20205
		3.7	Federal Grants Management	20605
		3.8	Cash Disbursements Receiving Reports	20305
		3.9	Cash Disbursements Expenditures	20310
		3.10	Cash Disbursements Prompt Payments	20315
		3.11	Cash Disbursements Purchase Charge Cards	20355
4	Procurement, Suspension & Debarment (Procurement)	4.1	Cash Disbursements Receiving Reports	20305
		4.2	Cash Disbursements Expenditures	20310
		4.3	Cash Disbursements Prompt Payments	20315
		4.4	Cash Disbursements Purchase Charge Cards	20355
		4.5	Cash Disbursements Non-state funds	20350
		4.6	Fixed Assets - Fixed Assets Acquisition Method	30205
5	Reporting	5.1	Cash Disbursement Capital Outlay	20340

No.	OMB Compliance Supplement Area	No.	ARMICS	CAPP Identifier
		5.2	Cash Disbursement Revenue Refund	20325
		5.3	Cash Disbursement Petty Cash	20330
		5.4	Cash Disbursements Non-state funds	20350
		5.5	Cash Disbursements Moving & Relocation	20345
		5.6	Cash Receipts Deposits	20205
		5.7	Federal Grants Management	20605
		5.8	Cash Disbursements Receiving Reports	20305
		5.9	Cash Disbursements Expenditures	20310
		5.10	Cash Disbursements Prompt Payments	20315
		5.11	Cash Disbursements Purchase Charge Cards	20355
6	SubRecipient Monitoring	6.1	Federal Grants Management	20605

Table 2: ARMICS, CAPP & OMB Compliance Supplement areas mapping

Federal grants management is a key ARMICS assessment area which addresses monitoring of federal funding. Various other controls related to appropriations, cash disbursements, and inter-agency transactions also act as controls for federal grants management.

Two key findings arise from the mapping of OMB Compliance supplement area to ARMICS assessment:

1. Contractor/vendor suspension & debarment screening process

The OMB Compliance Supplement area mentions that recipients must verify the status of contractors/vendors before entering contracts as well as that of subrecipients before granting funds. Preventive control markers pertaining to policy documents mentioning how to treat suspended/debarred vendors, checks done before transacting with such vendors and detective control markers such as the transactional interaction of the agencies with suspended/debarred vendors are not observed in the ARMICS assessment area.

2. Subrecipient risk assessment & monitoring process

In the federal grants management area of the ARMICS assessment there is no explicit mention of an agency’s subrecipient risk assessment process or monitoring procedures. Although implicitly covered under the federal grants management questionnaire as part of “*Federal grant acquisition and management policies and procedures are in accordance with federal and State requirements, clearly stated and systematically communicated through manuals, handbooks, or other media*”,

there may be benefits to explicitly including it due to its inclusion as a specific compliance requirement to be examined upon audit. This area is divided into two sub-areas:

2.1 Risk Assessment of subrecipients

A post-grant risk assessment of subrecipients should be done to understand whether they should be given the awards and to better inform the level of monitoring to be performed.

2.2 Monitoring of subrecipients

A monitoring process involving post grant audits, reviews, and other concurrent monitoring to check compliance with federal regulations and other programmatic policies.

D. Desk Review

Pursuant to the agency risk analysis conducted, nine agencies were marked as higher risk, higher dollar value agencies. Desk reviews were conducted for select agencies.

Desk Review Approach

The desk review process had three components:

1. Understanding the significant fiscal processes related to federal funds for each agency and reviewing the process maps;
2. Identifying the risk and controls, policies, and procedures aligned to various process areas; and
3. Documenting the process gaps and observations pertaining to missing controls.

The document universe for the desk review is noted in the table below:

No.	Area
1	ARMICS Assessment Questionnaire Responses & Attachments
2	Past Audit Findings
3	OMB Compliance Supplement related evidence and responses from Agency POCs

Limitations/Assumptions of Desk Reviews

Key assumptions/limitations while conducting desk reviews:

- The conclusions below are based on the documents provided by the agencies pertaining to process flows, contracts, and key controls mentioned in the ARMICS assessment.
- Controls identified by agencies are assumed to be effective both in design and operation.

Conclusions of Desk Reviews

ARMICS documentation, past audit findings, and information presented by selected agencies support the previous observations. Agencies are generally compliant with federal regulations. However, they have opportunities to improve documentation and cross-training.

E. Review of other states compliance practices

The assessment also included a review of compliance-specific documents from a Mid-Atlantic state and a Northeastern state to help identify best practices in other states' federal funds compliance practices.

The Mid-Atlantic state requires each agency to complete a self-assessment on their internal controls like the ARMICS assessment process conducted in Virginia. A feature of this self-assessment is that it requires each agency to appoint an Internal Control Officer (ICO). The ICO reports to the agency head, and they are required to implement and review the internal control responsibilities established by the state. The ICO completes the yearly internal control certification, and one section of this self-assessment relates entirely to their role. It is expected that the ICO evaluates compliance to standards of conduct and the internal control plan, addresses any digressions with timeliness, adjusts the scope and regularity of internal control reviews as needed, and routinely revises policies and procedures. Establishing a position such as an ICO in each agency has potential benefits as it would allow increased awareness of deficiencies in their internal controls before the ARMICS assessment takes place. An ICO ensures ongoing monitoring that could unlock continuous improvement in overall compliance, whereas it is currently common to see agencies have reoccurring deficiencies in the same areas. While Virginia's agency heads and fiscal officers complete the ARMICS, this role differs in its increased focus on the internal control environment and control activities.

Like the Mid-Atlantic state, the Northeastern state requires the head of each department receiving SLFRF funds to designate a person as the Department Federal Compliance Officer. The Department Federal Compliance Officer is responsible for creating a compliance plan and must understand federal compliance and reporting requirements. Additionally, in the Northeastern state, agencies must provide a compliance plan before the state distributes SLFRF funding to them.

While Virginia agencies are required to explain how their request is an eligible use of funding, they are not required to submit compliance plans to DOA, or any other overseeing agency, that detail how they plan to administer funds in accordance with the guidance.

VI. Conclusion

The risk assessment identified several potential gaps for improvement to internal controls of federal funding. These areas were identified through analysis of existing documents, review of policies, and quantitative analysis, while also looking at the best practices from other states. Agencies were also classified by their potential for risk through evaluating potential risk factors such as total funding, audit findings, and ARMICS compliance.

In summary, internal control over federal funds among executive branch agencies was assessed to be at an “Operational, Approaching Maturity” level. Essentially, while Commonwealth-wide internal control policies and activities appear to be adequate, they are applied inconsistently among and within specific agencies. Specific activities that strengthened the result of the assessment included the DOA-run ARMICS self-assessment process, DOA facilitated reporting trainings and reporting reviews, and the initial eligibility review provided by DPB. Specific gaps identified are listed below:

- Lack of real-time visibility into agency internal control activities for federal funds;
- Reliance on self-assessments is inherently less reliable than independent, verified reviews of agencies’ risk management activities;
- Reliance on manual, self-reported data can lead to reported results that are less reliable than verified data;
- Subrecipient monitoring activities are conducted and validated inconsistently by agency management;
- Third-party provider monitoring activities are conducted and validated inconsistently by agency management;
- Lack of knowledge transfer and cross-training can impact agency-level control over funds and can impact accuracy and timeliness of reporting; and
- IT-related control activities are conducted and validated inconsistently by agency management.