



COMMONWEALTH of VIRGINIA

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November 1, 2023

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 1, 2023 Virginia Acts of Assembly Special Session I, I am submitting the risk assessment for executive branch agencies receiving federal pandemic funding. This 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 generally 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 ensuring agency fiscal officers are aware of federal record retention requirements and discussing the modification of Library of Virginia records retention requirements to comply with federal requirements. The Department of Accounts will coordinate efforts to address these opportunities.

Additionally, as noted in the report, the Commonwealth's decentralized reporting structure leads to inherent challenges regarding central oversight. Within available resources, the Department of Accounts is using a risk-based approach to perform Quality Assurance Reviews to evaluate individual agency processes and compliance with the applicable policies and procedures. 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 1, 2023 Special Session I Virginia Acts of
Assembly**

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RICHMOND
2023**

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I. Executive Summary

In 2023, the Department of Accounts (DOA), with the assistance of a third-party, conducted a second-year 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. Such practices include: the ARMICS self-assessment process that evaluates agency internal control, aided by DOA's standardized guidance and tools; the Department of Planning and Budget's (DPB's) review of project eligibility and agency attestations of compliance; and DOA-hosted SLFRF trainings and ARPA reporting system, facilitating compliance with Treasury requirements. Additionally, agencies generally rely on comprehensive grant management systems to ensure compliance and maintain transparent project documentation.

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:

- Inherent risks arise from Virginia's decentralized federal funds management approach. These include a lack of real-time visibility into agency internal control activities for federal funds, reliance on self-assessments, reliance on self-reported data, and dependence on agencies to respond to audit and/or other requests appropriately and in a timely manner;
- Lack of knowledge transfer and cross-training can impact agency-level control over funds and can impact accuracy and timeliness of reporting;
- Consistent implementation and validation of IT-related control activities by agency management are essential for safeguarding sensitive information;² and

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](#), [Item 486, Chapter 2, 2022 Acts of Assembly Special Session I](#), [Item 486.10, Chapter 769, 2023 Acts of Assembly](#), and [Item 486, Chapter 1, 2023 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.

- The current Library of Virginia’s records retention schedule notes that records relating to federal grant money should be maintained for three years³ after project completion, while SLFRF requirements are five years.

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

II. Updates Since the 2022 Report

Below are relevant updates related to Virginia’s activities over the past year. Other updates were made to the risk assessment methodology, which are covered in more detail in further sections of the report.

1. Subrecipient monitoring questions incorporated in ARMICS certification questionnaire

To address a gap noted in last year’s report, DOA has integrated questions related to federal grants management and subrecipient monitoring within the annual Agency Risk Management and Internal Control Standards (ARMICS) certification questionnaire. The ARMICS questionnaire addresses the need for effective subrecipient oversight by prompting agencies with the question: "Did your agency receive Federal awards to disburse to non-Federal entities for the purpose of carrying out Federal programs?" If answered affirmatively, agencies are directed to review regulation 2 CFR § 200.332, which outlines pass-through entity responsibilities. Subsequently, they must respond to a series of questions, evaluating their compliance with these responsibilities. The ARMICS system helps create consistency in how agencies are certifying that they complete their monitoring responsibilities.

2. Third-party monitoring corrective action completed

In last year’s report, one agency had a material weakness related to CRF with regards to “Ensuring Proper Monitoring Over Outsourced Programmatic Functions.” This agency has completed the corrective action developed in response to this finding.

3. CRF Funding

In June 2022, U.S. Department of the Treasury (U.S. Treasury) conducted a desk review to evaluate the Commonwealth of Virginia's utilization of the CRF authorized by the CARES Act.⁴ The review aimed to assess the documentation supporting CRF expenditure claims and gauge the risk of unallowable fund use, covering the period from March 1, 2020, through June 30, 2022. Findings revealed that Virginia's documentation did not comply with CARES Act and Treasury's guidance, resulting in questioned costs totaling \$870,559,763.10. Report recommendations included corrections to descriptions, obtaining additional documentation, and proposing a focused audit for specific payment types. Ultimately, the review concluded that Virginia’s risk of unallowable use of funds is high.

³ [GS-102 \(virginia.gov\)](https://www.virginia.gov)

⁴ [Commonwealth of Virginia CRF Final Desk Review Report \(8.9.23\) \(oversight.gov\)](https://www.oversight.gov)

DOA and state agencies receiving CRF should proactively prepare for an audit of CRF in response to the recommendations provided in the desk review.

III. Background

The Secretary of Finance, via DOA, conducted this risk assessment as required by [Item 257 B, Chapter 1, 2023 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 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](#)), U.S. Treasury has published specific guidance for both funds (see example of various SLFRF regulations and guidance in Figure 1).⁵

⁵ As of October 2023, SLFRF eligible uses have been expanded per the 2023 Consolidated Appropriations Act, and U.S. Treasury has released an updated [Interim Rule](#) regarding the expanded uses. The Commonwealth has not appropriated funds towards these new uses at the time of this report. Additionally, the conclusion of the national public health emergency related to the COVID-19 pandemic also marked the end of premium pay as an eligible use of SLFRF after April 10, 2023.

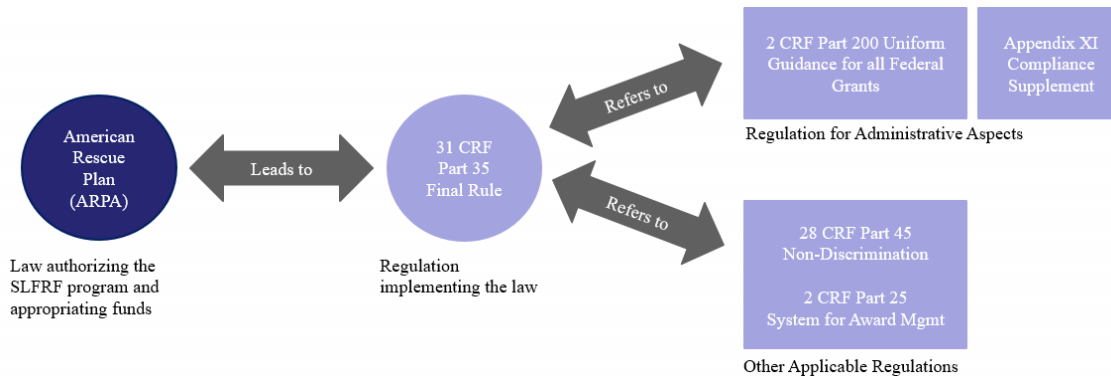


Figure 1 Laws and regulations governing use of SLFRF

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) [2023 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 control is both necessary and beneficial to all parties involved.

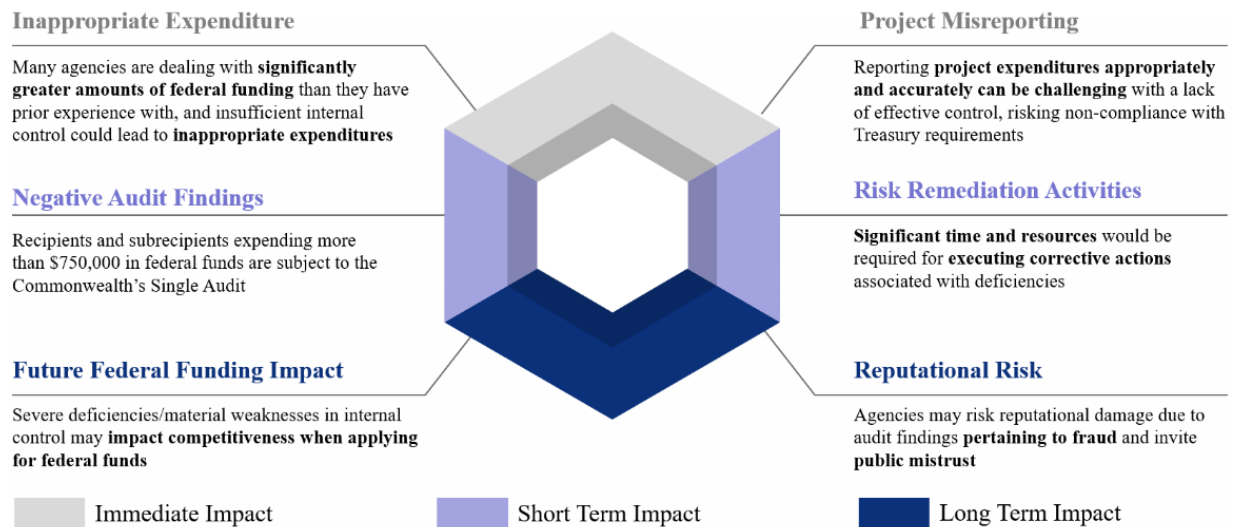


Figure 2: Outcomes associated with insufficient internal control over federal funds

IV. 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 funds. The decision to narrow the scope was driven by the fact that CRF and SLFRF represent the most substantial inflows of federal funds in recent history, posing a heightened level of risk due to their unique allocation at the state level and the diverse range of potential fund utilization. Information and documents reviewed as part of this assessment included CRF expenditures, SLFRF appropriations, SLFRF detailed expenditure reporting data, SLFRF readiness assessments, 2021 and 2022 Statewide Single Audit reports, Statewide Financial Management and Compliance Quarterly Report as of March 31, 2023 and June 30, 2023, the 2022 ARMICS assessment results and associated ARMICS documents for select agencies, and information gathered in interviews with select agencies.



Figure 3: Scope of risk assessment

V. 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 within the agencies. There may be opportunities to improve the efficiency and effectiveness of controls through greater oversight of the portfolio as a whole. **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.**

Virginia's Federal Funds Internal Control Maturity

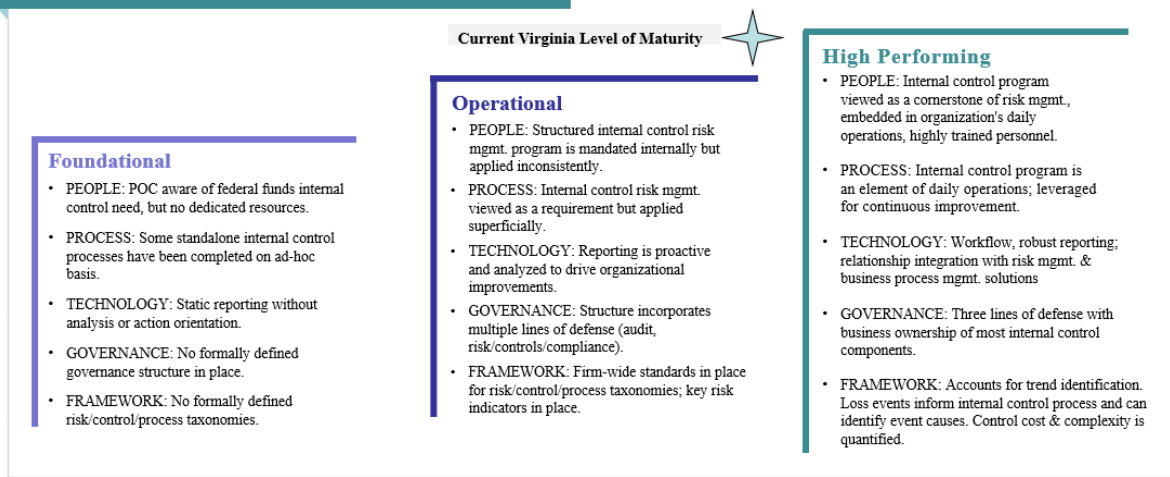


Figure 4: Federal funds maturity scale for Commonwealth of Virginia agencies

Factors Contributing to Greater Maturity

Though the assessment revealed gaps, Virginia's current approach does offer many benefits that should be noted. 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 quarterly for agencies on Treasury requirements regarding SLFRF reporting. Additionally, the ARPA reporting system implemented by 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, 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.

Additionally, review of select agencies identified that most had controls in place for processes related to operating SLFRF programs, specifically relevant to the OMB compliance areas. However, agency documentation of these controls and backup documentation of relevant SLFRF transactions varied agency to agency.

Factors Contributing to Lower Maturity

The assessment recognized the following potential gaps:

1. **Inherent risks arise from Virginia's decentralized federal funds management approach**
 - Real-Time Visibility Gap: 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.

- Dependency on Self-Assessments: Self-assessments are 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.
- Reliance on Agencies for Accurate Reporting and Transaction Documentation: Generally, self-reported data can result in less reliable reported results compared to verified data. The DOA collects and aggregates detailed expenditure and performance data from agencies, including the CRF and SLFRF related expenses. While expenditures can mostly be verified in Cardinal, other detailed obligation information cannot be independently verified against a centralized system, and DOA depends on the accuracy of agency reporting. While DOA conducts data reviews and applies various logic checks before submitting data to the U.S. Treasury, there are certain aspects that DOA cannot fully verify. Moreover, some higher-risk agencies with higher-dollar-value transactions may require additional assistance to ensure that their reporting passes these initial reviews. Any discrepancies in the reported data may invite additional scrutiny during desk reviews and/or audits. Additionally, several agencies utilize their own financial management systems and/or grants management systems, meaning DOA is reliant on agency personnel to provide transaction detail documents when requested upon audit and/or other review. As evidenced in the CRF desk review, not all agencies are prepared to respond to such requests adequately or in a timely manner.

2. 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 2022 Single Audit, one agency was found to have a repeated 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.

3. 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 2022 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.

VI. Risk Assessment Process

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

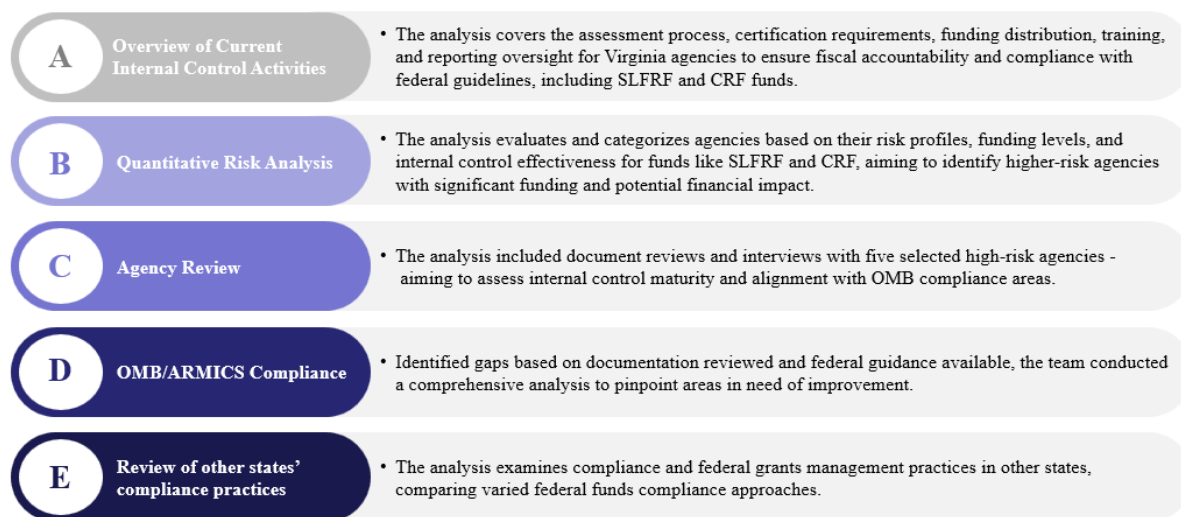


Figure 5: Steps taken for risk assessment.

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.⁶

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

⁶ [ARMICS COSO Crosswalk \(virginia.gov\)](https://www.virginia.gov/committees/coso/crosswalk)

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 1) control environment, 2) risk assessment, 3) control activities, 4) information and communication, as well as 5) monitoring activities. ARMICS requires agencies to assess their control environment, complete an agency level risk assessment, and assess control activities, information and communication, and monitoring efforts. 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, DOA provides several tools and templates for agencies to follow with regards to ARMICS and assessing their internal control.

New for 2023, the ARMICS certification questionnaire now specifically asks questions regarding federal grants management and subrecipient monitoring.

DPB Key Control

Agencies receiving CRF and/or SLFRF were required to complete an attestation process involving DPB. Agency heads were required to complete certification forms and submit funding requests outlining their use of the funds. For CRF funds, agencies committed to using them for necessary COVID-19-related expenditures, retaining proper records, and following specific usage restrictions. DPB reviewed and made recommendations to the Governor for approval. For SLFRF funds, agencies were required to certify compliance with usage guidance, including addressing public health and economic impacts. Agencies needed to adhere to criteria set by ARPA, ensuring timely expenditure and returning unused funds by a specified deadline. The DPB played a similar role in reviewing proposals and recommending allocations to the Governor for approval, with the General Assembly appropriating the funds accordingly. Nuances exist in the eligibility criteria, permissible uses, and reporting requirements for each funding type.

1. CRF Funding

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 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, 2021.

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.

2. SLFRF Funding

For the SLFRF appropriated in August 2021, agencies completed the State and Local Fiscal Recovery Funds Certification Form⁷ to certify that they understand the requirements for using the funds and that they will comply with all use, documentation, and reporting requirements established in state and federal guidelines and laws. The agency head signed the State and Local Fiscal Recovery Funds Certification Form to assume responsibility for ensuring that the funds will be used for necessary expenditures incurred due to the public health emergency with respect to COVID-19, to address negative economic impacts caused by the public health emergency, to provide premium pay for essential workers, or to invest in water, sewer, and broadband infrastructure as described in the Interim Final Rule and the guidance issued by the U.S. Department of Treasury.⁸

This form also noted that agencies must also ensure that the intended action qualifies for the use of the funds under the ARPA criteria and that they will not rely on the provisions for replacing lost public sector revenue as a qualifying criterion without receiving prior written approval from the Governor. The funds must be expended to cover necessary obligations incurred within the statutory period between March 3, 2021, and December 31, 2024, and any funds that are not obligated on or before December 31, 2024, by the agency or its grantee(s), must be returned to the Commonwealth of Virginia no later than December 31, 2024.

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. Webinars are conducted each quarter 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 reference.

SLFRF Reporting Process Overview

DOA has facilitated reporting among 150 projects and provided support for more than 40 agencies. DOA has implemented an ARPA reporting system to gather data that is reported by agencies on a

⁷ [ARPA Execution Instructions For Agencies \(virginia.gov\). Agencies are required to complete this form when they first receive SLFRF, and are not required to complete it for subsequent appropriations of SLFRF.](#)

⁸ Treasury's Final Rule was issued later on January 27, 2022.

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, DOA reviews the complete reporting submission prior to uploading to the U.S. Treasury reporting system.

B. Quantitative Risk Analysis

Approach

The Figure 6 below illustrates the overarching approach employed during the quantitative risk analysis.

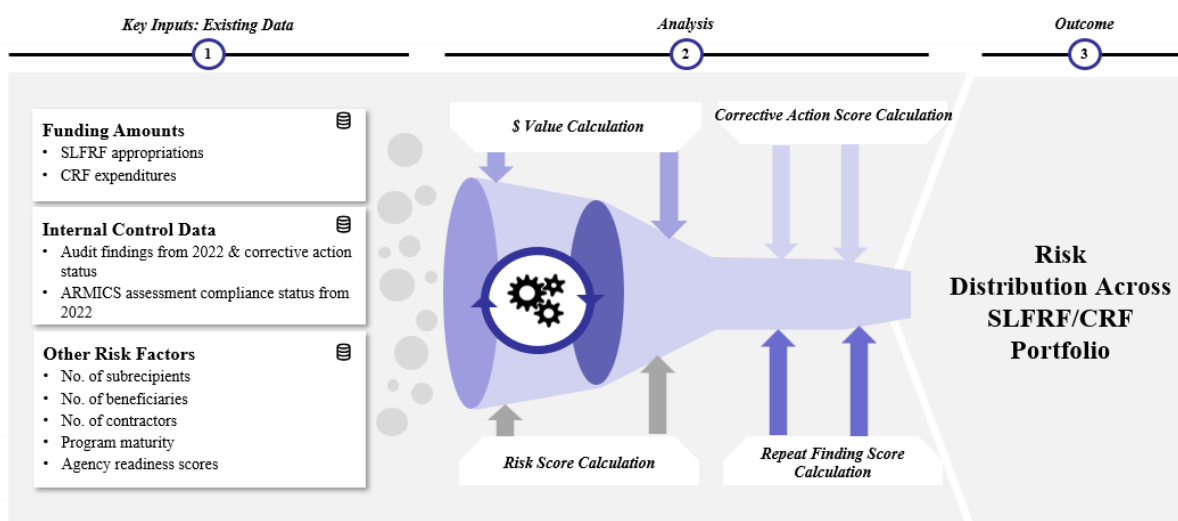


Figure 6: Quantitative risk analysis

Available data points for a given agency were grouped into three core categories—Funding Data, Internal Control Risk, and Other Risk Factors—to evaluate the agency's risk profile.

The first category, 'Funding Data,' involved calculating the SLFRF appropriation amount and CRF expenditure amount. Funding amount is used as an approximation of the impact of a risk event occurring – i.e., if a risk event occurs within an agency with a greater amount of funding, the overall impact to the Commonwealth will be larger.

In the second category, 'Internal Control Risk,' four specific parameters were assessed: 1) audit findings highlighted in the Single Audit Report for 2022, 2) ARMICS compliance status during 2022, 3) the status of corrective actions noted in quarterly reports, and 4) the recurrence of findings observed in the 2022 and 2021 Single Audit reports.

The 'Other Risk Factors' category considered various data points related to agencies with SLFRF funding. These factors included the number of subrecipients, beneficiaries, and contractors

reported by agencies, program maturity, and agency readiness scores. Program maturity was assessed from appropriation language and other program knowledge, while agency readiness scores considered inherent risk, compliance and control risk, program risk, and detection risk. The analysis of other risk factors aimed to provide insights into each agency's capacity and readiness to manage SLFRF projects. By categorizing available data points into these three distinct categories, the analysis facilitated a clearer understanding of risk distribution and funding allocation among the agencies, supporting more informed decision making.










Funding	 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
Internal Control	 Audit Findings	Findings noted in the State Single Audit Report for the year ended June 30, 2022
	 ARMICS Compliance Status	Agency assessment results for FY2022
	 Corrective Action	Corrective Action Status noted in the Comptroller's Report on Statewide Financial Management and Compliance (Quarterly Report)
	 Repeat Finding	Findings that were present in both the 2022 State Single Audit Report and the 2021 Report
Other Risk Factors	 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

Figure 7: 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 amounts of funding.

Detailed Analysis

To incorporate qualitative risk factors, a weighted grading scale was assigned to assess agencies for risk differentiation, and specific thresholds were established for two categories of risk scores to differentiate agencies. The 'Internal Control Score' categorized agencies with scores of 8 or higher as high risk, determined through an outlier analysis. Similarly, the 'Other Risk Factor Score' identified agencies with scores of 3 or higher as high risk, aligning with insights from agency readiness surveys. For the 'High Dollar Value' classification, agencies receiving \$100 million or more in funding were considered.

Following the calculation of these scores, agencies were categorized into four distinct clusters based on their Risk Scores and the combined SLFRF and CRF allocations. This categorization is graphically depicted in a four-quadrant risk matrix, serving as a visual aid to pinpoint agencies that may warrant more comprehensive analysis.

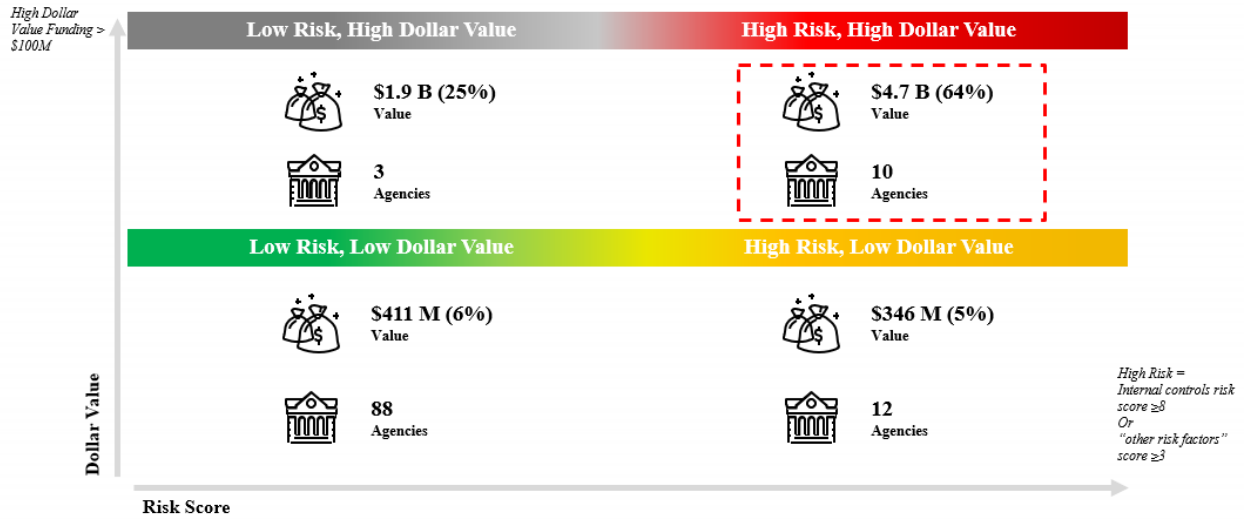


Figure 8: Risk mapping of agencies

Results Summary

Ultimately, ten agencies with funding greater than \$100 million were identified as higher risk, representing an increase of one agency compared to the previous year. These ten agencies have a combined total of \$4.7 billion in allocated SLFRF and CRF funds as shown in Figure 9. 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 (High Dollar Value >\$100 mil)
1	Virginia Employment Commission	\$1.34B
2	Department of Housing and Community Development	\$631 M
3	Direct Aid to Public Education	\$588 M
4	Department of Environmental Quality	\$582 M
5	Department of Small Business and Supplier Diversity	\$500 M
6	Department of Health	\$488 M
7	Department of Behavioral Health and Developmental Services	\$238 M
8	State Council of Higher Education for Virginia	\$133 M
9	Department of Social Services (<i>new this year</i>)	\$106 M
10	Department of Criminal Justice Services	\$103 M

Figure 9: List of ten agencies designated as high risk, high dollar value

C. Agency Review

The risk analysis identified ten agencies as high-risk with significant dollar values. Of these, five agencies and projects were chosen for an in-depth analysis, based on factors including existence of subrecipients and spending levels.

Agency Review Approach



Figure 10: Agency review approach overview

The agency review process had four components for assessment.

- 1. Agency Understanding:** Interviews were held and documents collected from stakeholders of chosen agencies to grasp the management processes of identified SLFRF projects.

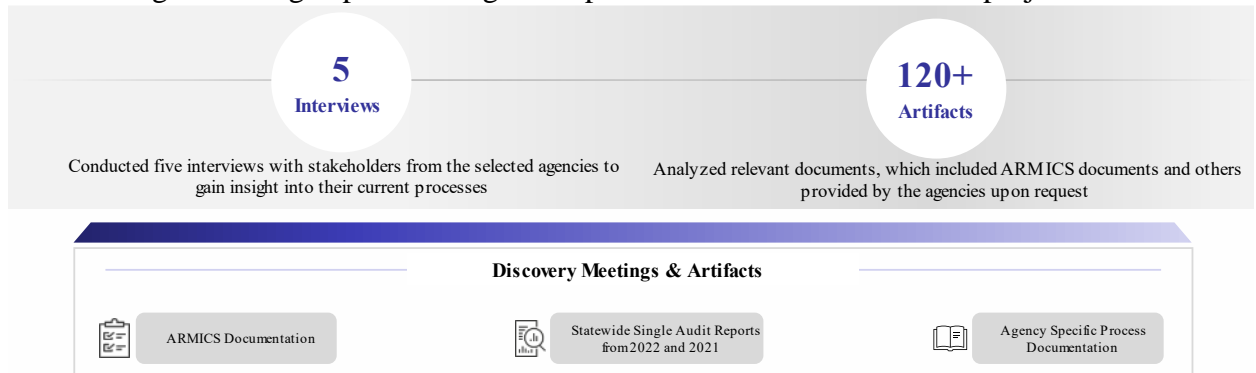


Figure 11: Agency information reviewed

- 2. Internal Control Maturity Assessment:** Using the Internal Control Maturity Assessment Framework (as shown in Figure 4 earlier in this report), the agency's process maturity was gauged, ranging from foundational to high performing. The criteria for assessment encompassed people, process, technology, governance, and framework.

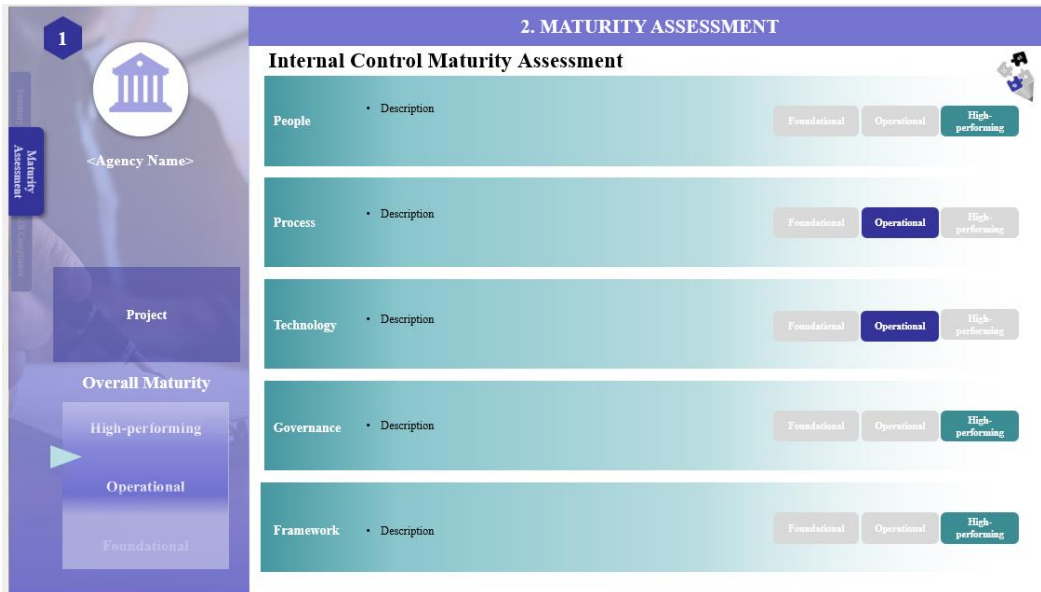


Figure 12: Internal control maturity assessment summary

3. **OMB Compliance Assessment:** The aim was to discern how these agencies aligned with OMB compliance areas relevant for SLFRF. This analysis assessed the presence of control documentation and its alignment with compliance standards.

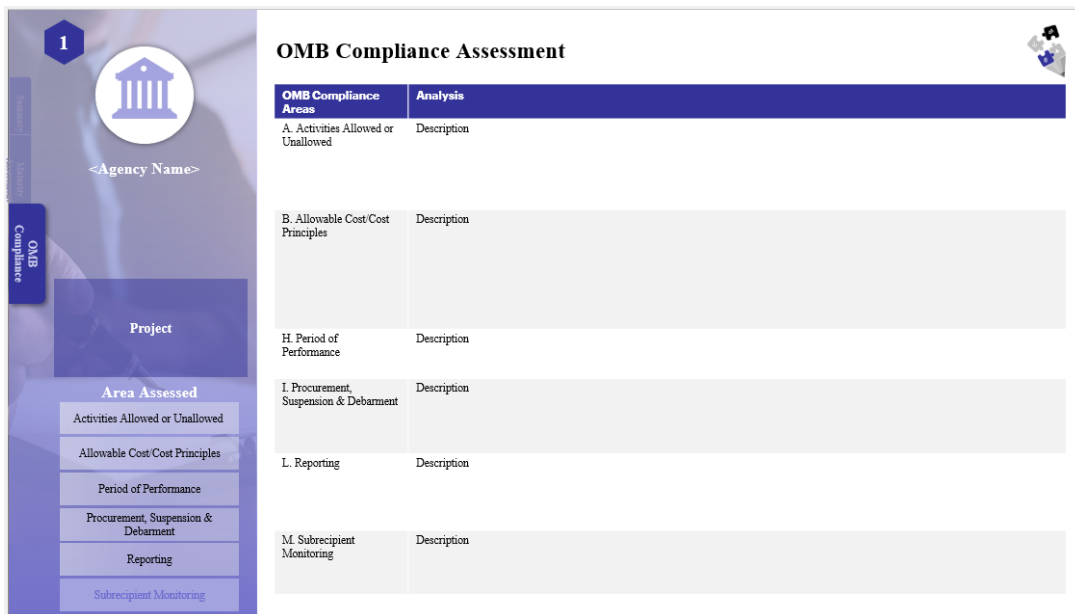


Figure 13: OMB compliance assessment

The results of this assessment were systematically organized using risk charters:

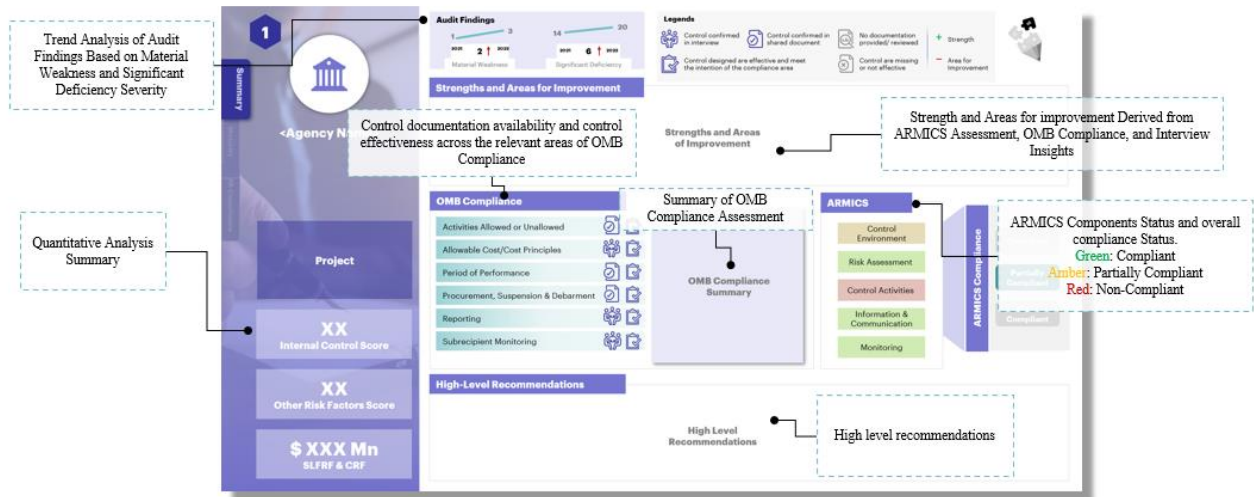


Figure 14: Agency risk charters

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

No.	Area
1	ARMICS certification questionnaire responses & attachments
2	Statewide Single Audit Report for 2021 and 2022
3	Comptroller's Report on Statewide Financial Management and Compliance
4	OMB Compliance Supplement related evidence and responses from Agency POCs

Table 1: Agency review document list

Limitations/Assumptions of Agency Reviews

The analysis was based on certain assumptions/limitations:

- Findings were derived from interviews with agency and project POCs, documentation from these POCs, ARMICS documents, and audit findings up to 9/30/2023.
- The analysis assesses whether described processes and controls, based on documentation or interviews, appear to mitigate risk. Control effectiveness was not tested.
- Future documentation or information might alter the conclusions presented.
- Some conclusions, drawn from ARMICS or audit findings, might reflect agency-wide challenges rather than project-specific ones.
- The conclusions presented do not ensure that agencies will avoid related findings in the future.

Conclusions of Agency Reviews

In the evaluation, several key factors, including ARMICS documentation, adherence to OMB regulations, past audit findings, data provided by specific agencies, as well as new insights, have solidified the assessment conclusions and reiterated earlier discoveries. The analysis identified common weaknesses shared across agencies. These encompass concerns related to record retention, post-funding project eligibility verification, and a necessary reliance on agencies to produce transaction documentation upon audit and/or other requests. Additionally, we noted

opportunities to standardize grants management system requirements and to share best practices across agencies managing federally funded grant programs. It is noteworthy that most agencies have established robust grants management systems governing grant-related processes. These factors contribute to their overall compliance with federal regulations. However, there remains an opportunity for agencies to enhance documentation practices and invest in cross-training initiatives.

D. 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 (i.e., compliance with 2 CFR Part 200, Subpart E)
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) Program obligations or costs must be incurred from the period beginning March 3, 2021 and ending on December 31, 2024. Recipients must liquidate all obligations incurred by December 31, 2026
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 expenditure and performance reports associated with the funds Notes requirements regarding capital expenditure written justifications
6	Subrecipient monitoring	<ul style="list-style-type: none"> Lists monitoring requirements for subawards

Table 2: Applicable uniform guidance areas subject to audit for SLFRF

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

No.	OMB Compliance Supplement Area	No.	ARMICS	CAPP Identifier
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	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
		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

No.	OMB Compliance Supplement Area	No.	ARMICS	CAPP Identifier
		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 3: ARMICS, CAPP & OMB compliance supplement areas mapping

Federal grants management is a key ARMICS assessment area which addresses monitoring of federal funding. For this year, DOA updated the ARMICS certification questionnaire to specifically incorporate federal grants management, subrecipient monitoring-related questions. This helps ensure more consistent and specific certification from agencies operating federally funded grant programs.

Additionally, the agency review included an assessment to verify the existence of contractor suspension and debarment checks. This was noted as a gap last year, and the agency analysis confirmed that agencies are implementing controls in this area.

Alongside monitoring of federal funding, ARMICS encompasses various other essential controls such as those related to appropriations, cash disbursements, and inter-agency transactions.

E. Review of Other States Compliance Practices

The analysis also included a review of other states' compliance practices related to federal funds. Highlights of this review included the following:

- Agency Internal Control Officers (ICOs)** - The Mid-Atlantic state requires each agency to complete a self-assessment on their internal controls like the ARMICS certification 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.

- **Federal Compliance Officers** - 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.
- **Risk-based Project Monitoring** – A Midwestern state has instated a risk-based monitoring approach for its SLFRF projects. After projects are appropriated, but before funds are expended, projects are instructed to complete a risk assessment form. Based on their risk score from this assessment, the state determines if agency monitoring is appropriate, or, in the case of high-risk projects, if a third-party monitor should be engaged. This third-party assists with monitoring compliance activities. Additionally, the state has setup an “accountability office” for COVID-relief dollars to assist with management and oversight of these funds. Among other activities, the accountability office helps mobilize programs and reviews grant documentation prior to grants being issued to help ensure compliance with SLFRF guidance.

In addition to the compliance reviews above, the analysis also identified examples of states implementing structures similar to a grants management “community of practice” in an effort to streamline grants management practices across the state. Both initiatives demonstrate a proactive approach to grant management, emphasizing collaboration, training, and centralized resources to achieve effective resource utilization. Highlights of these examples are below:

- **Midwestern State Grants Partnership** - In a Midwestern state, the Office of Budget and Management (OBM) has established the Midwestern State Grants Partnership, aimed at enhancing the capabilities of grant seekers and recipients while optimizing the utilization of federal resources. This partnership extends its support not only to state agencies, boards, and commissions but also to local governments, non-profit organizations, and other grant recipients. It fosters collaboration through forums like the Enterprise Grants Forum and an Advisory Committee, offering training, centralized grant-related resources, and striving to become the single point of contact for federal grant applications. OBM's role includes providing guidance on federal funding management and facilitating collaboration among state partners, emphasizing a commitment to streamlining and standardizing grant processes.
- **Statewide Grant Managers Group** - In a Western state, the Grants Unit, within the Office of the State Comptroller, oversees a grant management function that provides strategic direction and best practices to state agencies managing both state and federal grant funds.

The Statewide Grant Managers Group, organized by the Grants Unit, plays a crucial role by offering regular training sessions for grant managers, enabling collaboration and knowledge sharing among financial and program grant managers. The introduction of Grant Manager 101 live training in 2023, along with resources for managing state-funded grants in collaboration with the State Grant Cohort group, reflects their commitment to strong grants management practices. Additionally, they provide specialized guidance related to CRF and SLFRF.

VII. Conclusion

The risk assessment identified several potential gaps for improvement in internal control over federal funding. These areas were identified through analysis of agency documents and information, 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:

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

- *Inherent risks arise from Virginia's decentralized federal funds management approach which include a lack of real-time visibility into agency internal control activities for federal funds, reliance on self-assessments, reliance on self-reported data, and dependence on agencies to respond to audit and/or other requests appropriately and in a timely manner;*
- *Lack of knowledge transfer and cross-training can impact agency-level control over funds and can impact accuracy and timeliness of reporting;*
- *Consistent implementation and validation of IT-related control activities by agency management are essential for safeguarding sensitive information; and*
- *The current Library of Virginia’s records retention schedule notes that records relating to federal grant money should be maintained for three years after project completion, while SLFRF requirements are five years.*