



# **Virginia Economic Development Partnership**

**Internal Audit Risk Assessment for FY21**

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We have performed an internal audit risk assessment project for the Virginia Economic Development Partnership ("VEDP"). Our engagement was performed in accordance with Statements on Standards for Consulting Services established by the American Institute of Certified Public Accountants (AICPA). As a result of performing this project, we identified key risk priorities that would be most important to VEDP. However, VEDP management is responsible for making final determinations and reporting results to the Board.

We did not perform any management functions, make management decisions, or perform in a capacity equivalent to that of an employee of VEDP.

Our procedures did not constitute an examination, audit, attestation, special report or agreed-upon procedures engagement as those services are defined under relevant AICPA standards. The procedures performed did not constitute an examination of compliance with laws, regulations, or other matters. Accordingly, our performance of procedures did not result in the expression of an opinion or any other form of assurance on VEDP's financial statements or any part thereof, nor an opinion, or any other form of assurance, on VEDP's compliance with laws, regulations, or other matters.

We have enclosed our report, which summarizes the scope of the engagement, the procedures performed, and the results of our procedures. The information contained in this report is intended solely for the use of the management of VEDP and its Board, and is not intended to be and should not be used by anyone other than these specified parties.

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# Objective, Scope, and Procedures

## Objective

The objective of this engagement was to provide assistance to the Virginia Economic Development Partnership (VEDP) in risk assessment and audit planning. It is important to note that the potential risks identified in this report don't necessarily point to known control weaknesses, since testing would have to be performed to determine the controls that exist and how these risks are managed. To complete this engagement, we collaborated with VEDP to perform the following tasks, which are further outlined in the Scope and Procedures section below.

- Information Gathering
- Perform Risk Assessment
- Develop the FY21 Internal Audit Plan

## Scope and Procedures

This section provides a detailed outline of the key steps we performed when completing this engagement.

### **Information Gathering**

1. We obtained and reviewed:
  - VEDP's Organization Chart
  - VEDP's Operational Plan
  - Various VEDP Policy and Procedures
  - VEDP's Status Report on implementing JLARC's recommendations from the November 2016 Report
  - Recent external audits of VEDP performed by the Auditor of Public Accounts (APA)
  - Other documentation specific to individual VEDP functional areas
2. We performed 15 interviews, which included the following:
  - The Chairman of VEDP's Board of Directors
  - The Chairman of the Finance and Audit Committee (FAC) for VEDP's Board of Directors
  - The VEDP Executive Vice President
  - The Vice President or other leaders from each VEDP functional area

### **Perform Risk Assessment and Identify the Audit Universe**

For each functional area, we identified key processes and assessed their associated risks based on the information we gathered. We then assessed the potential likelihood of risks not being mitigated and the significance of its impact to VEDP based on the following table:

RISK LEVEL	EXAMPLES
<b>High</b>	<ul style="list-style-type: none"> <li>* Events may result in significant non-compliance with legal / regulatory requirements</li> <li>* Events may result in significant concerns with the accuracy of financial reporting</li> <li>* Events may result in sustained or serious loss of earnings, cash flow or credit</li> <li>* Events may create significant opportunity for fraud, such as misappropriation of assets or fraudulent financial reporting</li> <li>* Significant reliance on technology exists, and sufficient automation does not exist</li> <li>* Key operational processes are not mature or properly monitored / controlled</li> <li>* Significant issues remain unresolved from previous audits</li> <li>* Key personnel resources do not exist or are not competent</li> <li>* An issue materializing is probable and requires Board attention and Senior Management action</li> <li>* Volume of transactions is significant</li> <li>* Dollar amount of transactions is significant</li> <li>* Events may result in significant adverse publicity or serious loss in brand value</li> <li>* Events may have significant negative impact on the accomplishment of the Operating / Strategic Plan</li> </ul>
<b>Medium</b>	<ul style="list-style-type: none"> <li>* Events may result in a moderate level of non-compliance with legal / regulatory requirements</li> <li>* Events may result in some concerns with the accuracy of financial reporting</li> <li>* Events may result in some loss of earnings, cash flow or credit</li> <li>* Events may create some opportunity for fraud, such as misappropriation of assets or fraudulent financial reporting</li> <li>* Moderate amount of reliance on technology exists, and automation needs improvement</li> <li>* Some operational processes are not mature or properly monitored / controlled</li> <li>* Issues that remain unresolved from previous audits are not significant but need attention</li> <li>* Some personnel resources may not exist or are not competent</li> <li>* An issue materializing is possible and requires Senior Management attention and Middle Management action</li> <li>* Volume of transactions is moderate</li> <li>* Dollar amount of transactions is moderate</li> <li>* Events may result in moderate adverse publicity or moderate loss in brand value</li> <li>* Events may have moderate negative impact on the accomplishment of the Operating / Strategic Plan</li> </ul>

RISK LEVEL	EXAMPLES
<p style="text-align: center;"><b>Low</b></p>	<ul style="list-style-type: none"> <li>* Events are unlikely to result in non-compliance with legal / regulatory requirements</li> <li>* Events are unlikely to impact the accuracy of financial reporting</li> <li>* Events may result in minimal or no loss of earnings, cash flow or credit</li> <li>* Events are unlikely to create opportunities for fraud, such as misappropriation of assets or fraudulent financial reporting</li> <li>* Minimal reliance on technology exists, and sufficient automation exists</li> <li>* Operational processes are sufficient and properly monitored / controlled</li> <li>* Issues from previous audits are resolved or are minor</li> <li>* Personnel resources are sufficient in number and are competent</li> <li>* An issue materializing is unlikely and can be resolved by Middle Management</li> <li>* Volume of transactions is minor</li> <li>* Dollar amount of transactions is minor</li> <li>* Events may result in minimal impact on publicity or brand value</li> <li>* Events may have minimal negative impact on the accomplishment of the Operating / Strategic Plan</li> </ul>

We compiled the results of the risk assessment and classified the risk in each functional area as “High”, “Medium” or “Low” for each of the following seven risk categories, which were considered when developing the descriptions in the table above:

- Compliance
- Financial
- Fraud
- Technology
- Operational
- Reputation
- Strategic

We then assigned an overall composite risk rating of “High”, “Medium” or “Low” to the functional area based on the individual risk ratings of the seven risk categories (see Summary Risk Ratings section). These overall composite risk ratings were then used as the basis for identifying key risk priorities that would be most important to VEDP. However, VEDP management is responsible for making final risk determinations and reporting results to the Board.

Also included for each functional area is a list of potential risks (see Appendix A: Functional Area Potential Risks section) we identified during our information gathering and communications with VEDP Management and the Board. In total, we identified over 200 potential risks across all the functional areas. However, these listings are not intended to be all-inclusive.

**Develop the FY21 Internal Audit Plan**

After performing the risk assessment, identifying potential risks in the audit universe, and consulting with VEDP we drafted the FY21 Internal Audit Plan. Our Plan is a tool to help VEDP make business risk decisions. However, VEDP Management, in consultation with the Board, is responsible for determining the timing and extent of audit coverage based on their risk appetite and the amount of resources they want to devote to the internal audit process.

# Internal Audit Plan

The table on page 5 depicts the audits performed in FY18 thru FY20, and the tentative FY21 and FY22 Internal Audit Plan (Plan) for VEDP, which provides for greater coverage of functional areas whose composite risk rating was “High” or “Medium” based on our risk assessment. Coverage of functional areas with Low risk is also included in the Plan to ensure these areas are reviewed periodically.

We have also included in the Plan the completion of the annual risk assessment and follow-up on management action plans from findings issued during these internal audits. These are routine tasks that exist for any internal audit function.

## Summary Risk Ratings

The table below depicts our summary risk rating for each functional area, which are based on the risk rating of the seven risk categories. These individual risk categories are assigned 3 points if rated “High”, 2 points if rated “Medium”, and 1 point if rated “Low”. The points for each of the seven risk categories were totaled to determine the composite rating for each functional area, in accordance with the composite rating point scale below.

High (17 – 21 points)
Medium (13 - 16 points)
Low (7 - 12 points)

Functional Area	Compliance	Financial	Fraud	Technology	Operational	Reputation	Strategic	Composite Rating
Incentives	High	High	Medium	Medium	High	High	High	19
Business Investment	Medium	High	Medium	High	High	High	High	19
Talent Solutions	High	High	Medium	Medium	High	High	High	19
Marketing and Communications	Low	Medium	Medium	Medium	High	High	High	16
Research	Medium	Medium	Medium	High	High	Medium	Medium	16
International Trade	High	Medium	Medium	Medium	High	Medium	Medium	16
Human Resources	High	Medium	Medium	Low	High	Low	Medium	14
Economic Competitiveness	Low	Low	Low	Medium	High	Medium	Medium	12
Information Technology	Medium	Low	Low	High	Medium	Low	Medium	12
External Affairs	High	Low	Low	Low	Low	High	Medium	12
Fiscal & Support Services	Medium	High	Medium	Low	Low	Low	Low	11
General Counsel	High	Low	Low	Low	Low	High	Low	11

## Three-Year Internal Audit Plan

We have included a three-year Internal Audit Plan for VEDP Management and the Board. The table below also depicts which functional areas were audited in FY18 thru FY20. The Plan also included a one-time audit in FY20 to perform an audit of VEDP's efforts towards addressing the JLARC findings / recommendations in their November 2016 report. The extent of audit coverage for FY21 and FY22 will be determined by VEDP Management and the Board based on how many resources they want to leverage for the internal audit function. It should be noted that significant changes have occurred in the Business Investment and Talent Solutions Divisions in recent years and continue to incur changes. Therefore, these audits were scheduled for FY21 and FY22 to better reflect an appropriate time to perform these audits.

High (17 – 21 points)

Medium (13 - 16 points)

Low (7 - 12 points)

Functional Area	Composite Rating	FY2018 / FY2019	FY2020	FY2021	FY2022
Incentives	19		X		
Business Investment	19			X	
Talent Solutions (Custom)	19				X
Talent Solutions (VJIP)	19			X	
Marketing and Communications	16			X	
Research	16	X			
International Trade	16	X			
Human Resources	14		X		
Economic Competitiveness	12	X			
Information Technology	12	X			
External Affairs	12				X
Fiscal & Support Services	11				X
General Counsel	11				X
Annual - Risk Assessment	N/A	X	X	X	X
Annual - Action Plan Follow-up	N/A	X	X	X	X
JLARC Remediation Audit	N/A		X		

# Appendix A: Functional Area Potential Risks

This section includes several potential risks for each functional area. These potential risks don't necessarily point to known control weaknesses since testing would have to be performed to determine the controls that exist and how these risks are managed. These risks will be reviewed in future audits. Additionally, these potential risks for each functional area (and in the listing below) have not been ranked according to priority. These potential risks were identified during our information gathering and communications with VEDP Management and the Board.

While not specifically mentioned in the risks listed above, or in the functional area risk tables, **one risk that impacts VEDP as a whole is the impact of the COVID-19 virus on VEDP's ability to meet their goals due to business disruption and reduced travel plans for companies.**

## Functional Area – Incentives (High Risk)

### Risk of the following not existing or occurring...

- Written operational policies / procedures
- Management reporting and key performance measures
- Cross functional processes / relationships / communication with other VEDP functions
- Employee training / development
- Due diligence on companies
- Incentives structuring (ROI, etc.)
- Incentive management and program compliance – reporting / monitoring of job creation, wages paid, capital expenditures, etc. (during and after performance period)
- Project Review and Credit Committee approval
- Clawback provisions
- Certification of companies eligible to decrease income taxed
- Performance extensions adherence
- Salesforce data entry / documentation / reporting

## Functional Area – Business Investment (High Risk)

### Risk of the following not existing or occurring...

- Written operational policies / procedures
- Management reporting and key performance measures
- Cross functional processes / relationships / communication with other VEDP functions
- Employee training / development
- System integrity controls over data entry and reporting in Salesforce
- Marketing strategy / plan for targeting companies (high yield, impact, etc.)
- Project documentation (timely, accurate, complete, etc.)
- Project management
- Marketing campaigns
- Conflict of interest management
- Lead generation / industry teams (domestic and international)
- International contractor management
- Collaboration with external stakeholders
- Confidentiality of company information
- External stakeholder feedback mechanisms
- Outbound call center (scripting, metrics, lead generation, etc.)
- Type and location of customers targeted
- Foreign travel insurance
- Administration of business ready laws
- Cross divisional discussion about trade show success/issues

## Functional Area – Talent Solutions (High Risk)

### Risk of the following not existing or occurring...

- Written operational policies / procedures
- Management reporting and key performance measures
- Cross functional processes / relationships / communication with other VEDP functions
- Employee training / development
- Client needs and training analysis (consulting services)
- Client eligibility
- Project budgeting / approval
- Marketing presentations
- Client reimbursement requests (data validation / reconciliation with VA Employment Commission, duplicate payments, sufficiency of documentation, legitimacy of business, etc.)
- Grant reimbursement (timeliness, accuracy, etc.)
- Client assistance (communication, frequency, etc.)
- VJIP Workforce Development Reports
- Program funding
- Client letters (incentives, commitment, retraining, etc.)
- Salesforce data entry
- Project management / documentation
- VJIP incentive compliance
- Press releases
- Data collection / documentation standards
- Custom workforce program development
- Confidentiality of client information

## Functional Area – Marketing and Communications (Medium Risk)

### Risk of the following not existing or occurring...

- Written operational policies / procedures
- Management reporting and key performance measures
- Cross functional processes / relationships / communication with other VEDP functions
- Employee training / development
- Overall marketing plan and strategy
- Brand standards (graphics, logos, tag lines, etc.)
- Media communications (protocols, message crafting, etc.)
- Brand awareness
- Contractual agreements
- ROI (discretionary spend, volume, cost, etc.)
- Social media efforts
- Trade shows / missions / event management
- Data integrity and recordkeeping (capturing / documenting goals and objectives of events, and performance results)

## Functional Area – Research (Medium Risk)

### Risk of the following not existing or occurring...

- Written operational policies / procedures
- Management reporting and key performance measures
- Cross functional processes / relationships / communication with other VEDP functions
- Employee training / development
- Maintenance of VA SCAN real estate tool
- Workforce data
- Website content
- Custom proposals / prospect response
- Project Review and Credit Committee assistance
- Economic trend analysis
- Company targeting
- Return on investment analysis
- Review of Brownfields Assistance Fund applications
- Data integrity / protocols
- Tax rate data
- Sites and buildings data
- GIS
- Benchmarking economic development, etc.
- Lead generation support
- Salesforce administration
- Support of new utility law
- Participation in major projects team
- Maintain value proposition
- Support of business ready sites

**Functional Area – International Trade (Medium Risk)**

**Risk of the following not existing or occurring...**

- Written operational policies / procedures
- Management reporting and key performance measures
- Cross functional processes / relationships / communication with other VEDP functions
- Employee training / development
- Screening process for selecting clients / partners
- Advice / consulting on international business
- Contract development / review / approval
- Survey data analysis
- Market research services / Global networking
- Program expense reimbursements
- Salesforce data integrity / documentation
- Trade mission / show collaboration / alignment
- Certificates of Free Sale
- Monitoring changes in federal grants and legal / regulatory requirements
- Program / grant management and communication (VALET, GGDI, STEP, etc.)
- Education events
- Foreign travel insurance
- External partner communication

**Functional Area – Human Resources (Medium Risk)**

**Risk of the following not existing or occurring...**

- Written operational policies / procedures
- Management reporting and key performance measures
- Cross functional processes / relationships / communication with other VEDP functions
- Employee training / development
- Employee feedback mechanisms (engagement survey, etc.)
- Number of and skill sets of resources across all functional areas
- Diversity program
- Performance evaluation process and calibration
- Rewards and recognition program
- Job descriptions / employee work profiles
- New hire orientation programs / onboarding
- Recruiting / hiring practices
- Termination processing
- Fiscal related payroll assistance
- Background checks
- Benefits administration
- Overtime
- Career pathing
- Teleworking
- Human resource information / management system
- Virginia Tourism Corporation assistance

## Functional Area – Economic Competitiveness (Low Risk)

### Risk of the following not existing or occurring...

- Written operational policies / procedures
- Management reporting and key performance measures
- Cross functional processes / relationships / communication with other VEDP functions
- Employee training / development
- Internal organizational assistance (onboarding, best practices, training, etc.)
- GO Virginia collaboration / alignment
- Statewide economic strategy collaboration / alignment
- Corporate Intelligence
- National Ranking initiative
- Performance measure development
- Benchmarking other states
- Handling of confidential information
- Business ready sites

## Functional Area – Information Technology (Low Risk)

### Risk of the following not existing or occurring...

- Written operational policies / procedures
- Management reporting and key performance measures
- Cross functional processes / relationships / communication with other VEDP functions
- Employee training / development
- Automation of business processes
- Impact of technology on successful implementation of the Operating / Strategic Plan
- IT vendor risk management (SOC reports)
- Cybersecurity strategy and practices
- Overall IT governance strategy
- Disaster recovery / business continuity / incident response
- Granting and terminating access to systems / applications / periodic user access review
- System and application oversight / support
- Software licensing reviews
- Change control process for new technology or enhancements to current technology
- SharePoint and other internal communication mechanisms
- Data usage / storage space capacity
- System integrity controls over data entry and reporting
- Segregation of duties and principle of least privilege controls within IT systems
- Classification and identification of sensitive data within IT systems
- Risk assessments for IT systems
- Employee IT training (security, data privacy, etc.)
- Compliance with VITA technology policies
- Virginia Tourism Corporation assistance
- Succession planning

**Functional Area – External Affairs (Low Risk)**

**Risk of the following not existing or occurring...**

- Written operational policies / procedures
- Management reporting and key performance measures
- Cross functional processes / relationships / communication with other VEDP functions
- Employee training / development
- Tracking of new legislation, budget amendments, etc.
- Reporting to external stakeholders such as the legislature and external partners (accuracy, timeliness, etc.)
- Rural development strategy and performance tracking
- Partner relations and outreach (includes congressional / legislature relationships)
- Identifying federal opportunities
- Salesforce documentation
- Community engagement

**Functional Area – Fiscal & Support Services (Low Risk)**

**Risk of the following not existing or occurring...**

- Written operational policies / procedures
- Management reporting and key performance measures
- Cross functional processes / relationships / communication with other VEDP functions
- Employee training / development
- Payroll processing (approvals, leave, overtime, etc.)
- Budget development / amendments / monitoring / reallocation of funds
- Segregation of duties
- Travel / entertainment expense reimbursement
- Wire transfer verification
- Approval thresholds for certain transactions
- Financial reporting
- Facilities management
- Account reconciliations
- Cash management / accounts receivable
- Disbursements / accounts payable
- Lease management (Domestic and international)
- Split purchase monitoring
- Competitive bidding
- Bulk purchases / economies of scale with purchasing
- Purchase Card purchases / review / approval
- Vendor and contract database
- Travel Card purchases / review / approval
- Vendor and contract management (due diligence, contract language, ongoing monitoring, etc.)
- Fleet management
- Virginia Tourism Corporation assistance
- Foreign travel insurance

### Functional Area – General Counsel (Low Risk)

#### Risk of the following not existing or occurring...

- Written operational policies / procedures
- Management reporting and key performance measures
- Cross functional processes / relationships / communication with other VEDP functions
- Employee training / development
- Compliance with local, state, federal and international laws and regulations
- Protection of confidential information
- Non-disclosure agreements
- Outsourcing of litigation
- Performance agreements for incentives
- FOIA requests
- Compliance with statutory requirements and qualifications for incentive packages
- Business licensing (domestic and international)
- Transparency of communications

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