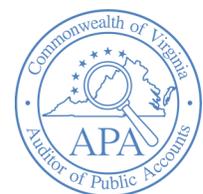




# VIRGINIA HEALTH WORKFORCE DEVELOPMENT AUTHORITY

## REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2015

Auditor of Public Accounts  
Martha S. Mavredes, CPA  
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## AUDIT SUMMARY

Our audit of the Virginia Health Workforce Development Authority (Authority) for the fiscal year ended June 30, 2015, found:

- matters regarding the recording and reporting of transactions in the Authority's financial accounts and records necessary to bring to management's attention;
- matters involving internal control and its operation necessary to bring to management's attention; and
- instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

The Authority has been audited by the Auditor of Public Accounts four separate times since its inception in 2010. During these audits, the Authority has received a total of twenty-five written recommendations resulting from its deficiencies in internal controls. In a comment to management this year, the Auditor of Public Accounts recommends that the Authority should determine if it can develop and maintain proper controls over its fiscal operations or consider acquiring controls through another entity. In addition, we provide four recommendations to management to aid them in improving their internal controls. While several of the recommendations from previous audits have been corrected, management should work to establish and maintain effective internal controls throughout the Authority as necessary.

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## COMMENT TO MANAGEMENT

### **Establish and Maintain Effective Internal Controls or Acquire Them**

The Authority has not established and maintained effective internal controls. Since the Authority's creation in 2010, it has been audited by the Auditor of Public Accounts four separate times. In each audit, the Authority has not demonstrated it has effective internal controls.

In the past four audits, including fiscal year 2015, the Authority has received a total of twenty-five written recommendations. While some of been corrected, many were repeated throughout the years, including:

- Complete Reconciliation in Timely Manner and Retain Evidence of Completion
- Establish Accounting and Financial Policies that do not Conflict with Actual Practices
- Improve Controls over Bank Account Disbursements
- Evaluate Existing Contracts Using Required Procurement Principles
- Improve Timeliness of Payments for Goods and Services
- Improve Board Resources to Ensure Proper Governance
- Ensure that [Authority] Funds are Considered Public Deposits
- Report Accurate Information to the Department of Accounts on Required Template Submissions

In the beginning, the Authority hired and employed staff without considering their knowledge about controls and accounting processes, which contributed to the audit recommendations listed above. In the last ten months, management was replaced and a new employee was hired to assist with fiscal duties and other administrative functions. However, the Authority recently lost its newest employee and has not yet replaced the individual. As a result of the recent turnover, the Authority is not able to maintain, on its own, proper separation of duties until it fills the position or acquires fiscal services with the proper controls.

The Authority is a public entity that is 100 percent federally funded. As a result, it is required to establish and maintain effective internal control over federal awards to provide reasonable assurance it is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the related federal award. Without effective internal controls, the Authority is at risk of a host of issues. Without proper controls, the Authority is susceptible to fraud, fiscal errors, and non-compliance. Additionally, the Authority is at risk of presenting information to its Board and grantors that is not materially correct. Deficiencies in controls puts the Authority at risk of generating expenses unallowable under its federal grant that may become a liability of its Board members or the Commonwealth. Finally, prolonged issues at the Authority could ultimately lead to the perception that it is not the best entity to manage federal funds.

The Authority should determine if it can develop and maintain proper controls over its fiscal operations. If the Authority believes it cannot do this, it should consider acquiring controls through

another entity. Recently, the Authority acquired payroll services from another entity and has since eliminated its need to pay late fees and penalties. If the outsourcing of fiscal operations is structured correctly with proper agreements and audit clauses, the Authority could dedicate more of its efforts on achieving programmatic accomplishments and less on the administrative tasks of developing and maintaining proper controls over fiscal operations. Regardless of the method used, establishing and maintaining internally or acquiring externally, the Authority needs better controls.

## AUDIT FINDINGS AND RECOMMENDATIONS

### **Repeat: Accurately Complete and Review Reconciliations in a Timely Manner**

During fiscal year 2015, the Authority did not accurately or consistently reconcile bank statements or have them reviewed by a supervisor. Four of the twelve monthly bank statements were not accurately reconciled to the Authority's accounting system. Seven reconciliations were not reviewed by the Executive Director and none of the reconciliations were reviewed by the Board Treasurer. The Authority's accounting policies and procedures require all bank reconciliations to be performed accurately and timely and then reviewed by the Executive Director and the Board Treasurer as part of the Authority's system of controls.

Monthly reconciliation is crucial to ensure accurate and comprehensive financial reporting. The Authority records all disbursement and deposit activity in its accounting system, which the Authority needs to reconcile to bank statements to ensure both are accurate. A previous staff member performed the reconciliations during fiscal year 2015 and current management is unable to determine how four months of activity in the accounting system reconcile to the respective monthly bank statements. However, the current staff and management were able to reconcile the accounting system in total to bank statements through fiscal year 2016 but it is not evident that the four months are individually reconciled. If the Authority's accounting records do not reconcile to bank statements it is not possible for management to detect misappropriations or errors. It is also not possible for management to assert that transactions are accurate, classified correctly, or recorded within the correct reporting period.

According to the Authority's current management, the previous staff had difficulty understanding the Authority's accounting system and did not accurately reconcile the accounting records. Since the departure of the previous staff member, a new staff member and an employee of the Board's Treasurer have reentered all prior transactions into the Authority's accounting system; however, they are not able to reconcile every month and create a complete audit trail for fiscal year 2015. Additionally, complicating the Authority's progress is that the new staff member, who has been processing current transactions, recently left the Authority.

The Authority should work to ensure that reconciliations are completed timely and accurately and have them reviewed by the Executive Director and the Treasurer for proper separation of duties. Additionally, the Authority should work with its Board to obtain an appropriate level of fiscal services to ensure that the Authority maintains adequate separation of duties and proper controls over fiscal reporting and resources.

### **Improve Controls, Record Keeping, and Accountability of Assets**

The Authority is unable to locate two electronic tablets it purchased for \$1,379 in fiscal year 2015 with federal funds. Federal regulations, specifically Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards §200.62, require the Authority to maintain accountability over assets and safeguard all assets against loss from unauthorized use or disposition.

According to current management, the tablets were lost in transition as former employees left the Authority and the Authority has no records of the employees having custody of the assets. As a result of not having formal policies governing the assignment of equipment to employees, the Authority is not able to hold employees accountable for missing tablets, which can no longer be used to fulfil the mission of the Authority.

The Authority should implement policies and procedures regarding the recording and safeguarding of assets to maintain accountability of public funds.

**Repeat: Improve Recording and Processing of Payroll Taxes**

The Authority did not properly code, process, or pay certain transactions to the Virginia Department of Taxation (Taxation) in fiscal year 2015. As an employer, the Authority is required to submit monthly tax payments to Taxation with the support of a VA-5 or VA-6 tax form. Of the expenses tested, the Authority does not have support for one monthly payment, thus making it impossible to determine if the Authority paid the correct amount. Another payment to Taxation was for a late penalty charged because the Authority failed to pay taxes in February 2015. Additionally, this late penalty was incorrectly coded as reimbursable by the federal government when it is considered an unallowable expense under federal regulations.

The Prompt Payment Act requires agencies make these payments as specified by Taxation. Failing to pay these amounts on time incurs unnecessary costs to the Authority. Federal regulations require the Authority to establish and maintain effective internal controls over compliance requirements for federal awards. By incorrectly coding penalty payments, the Authority is at risk of reporting incorrect financial information to the federal government, the Board, and the general public. To help prevent future issues, the Authority should implement or obtain proper controls over processing and paying taxes. Additionally, proper support should be maintained and payments should be coded correctly.

**Repeat: Report Accurate Information to the Department of Accounts**

The Authority did not report accurate information to the Department of Accounts for inclusion in the Commonwealth's financial statements. On the Component Unit Financial Statement Template, the Authority incorrectly reported Program Revenue and Expenses.

As previously reported, 2014 was the first time the Authority submitted that attachment and the preparer had limited experience. The same preparer submitted the 2015 report and made similar errors in the templates. Improper financial reporting impedes informed decision-making and policy implementation. Responsible stewardship of public money is integral to governmental accountability and financial reports supply information that links stewardship to accountability.

Management of the Authority should ensure that knowledgeable, trained employees are reporting required information to the Department of Accounts. Additionally, management should conduct supervisory reviews to ensure that reported amounts are accurate and supported.

## AUTHORITY HIGHLIGHTS

The General Assembly created the Virginia Health Workforce Development Authority (Authority) in 2010 after receiving a study led by the Department of Health (Health) regarding the infrastructure that would be required for Virginia to address future demand for healthcare workers. Health's study recommended the establishment of a statewide system for health workforce pipeline development. It is the Authority's mission to "move the Commonwealth forward in achieving its vision of ensuring a quality health workforce for all Virginians." The Code of Virginia classifies the Authority as a political subdivision of the Commonwealth with the mission of facilitating the "development of a statewide health professions pipeline that identifies, educates, recruits, and retains a diverse, appropriately geographically distributed and culturally competent quality workforce."

### **Board of Directors**

The Board of Directors of the Authority is a supervisory board comprised of 13 members. This is a volunteer Board of Directors that guides the organization and is directly responsible for the overall strategic vision, mission, health, and financial stability of the organization. Additionally, the Authority's board sets priorities for the Virginia Area Health Education Centers Program. The Executive Director of the Authority is hired by and reports directly to the Board.

### **Grant Support**

The Authority was a sub-awardee of the Affordable Care Act: State Health Care Workforce Development Grant (Implementation Grant) from Health and the program ended in October 2014. Currently the Authority's sole source of funding is from the U.S. Department of Health and Human Services under the Model State-Supported Area Health Education Centers (AHEC) grant. The Authority was awarded \$815,999 for the award period of September 1, 2014, through August 31, 2015. Under the grant agreement, the Authority can spend up to 25 percent of the grant on operational expenses and the remaining 75 percent is transferred to Area Health Education Centers in Virginia to promote health careers and access to primary care for medically underserved populations through community-academic partnerships.



Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

July 29, 2016

The Honorable Terence R. McAuliffe  
Governor of Virginia

The Honorable Robert D. Orrock, Sr.  
Chairman, Joint Legislative Audit  
and Review Commission

We have audited the financial records and operations of the **Virginia Health Workforce Development Authority** (Authority) for the year ended June 30, 2015. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **Audit Objectives**

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in the Authority's accounting records, review the adequacy of the Authority's internal controls, test compliance with applicable laws, regulations, contracts, and grant agreements, and review corrective actions of audit findings from prior year reports.

## **Audit Scope and Methodology**

The Authority's management has responsibility for establishing and maintaining internal control and complying with applicable laws, regulations, contracts, and grant agreements. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Board governance  
Federal grant revenues and expenses  
Contractual services expenses  
Payroll expenses  
Deposits and disbursements  
Cash balance  
Financial reports to the Department of Accounts

We performed audit tests to determine whether the Authority's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Authority's operations. We tested transactions and performed analytical procedures, including trend analyses of cash balances. We confirmed the fiscal year end bank balance with outside parties.

### **Conclusions**

We found that the Authority did not properly state, in all material respects, the amounts recorded and reported in the Authority financial accounts and records as described in the section entitled "Audit Findings and Recommendations." The Authority records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

We noted certain matters involving internal control and its operation and compliance with applicable laws, regulations, contracts and grant agreements that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

The Authority has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this letter.

### **Exit Conference and Report Distribution**

We discussed this report with management on August 2, 2016. Management's response to the findings identified in our audit is included in the section titled "Authority Response." We did not audit management's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

GDS/clj



August 2, 2016

Martha S. Mavredes  
Auditor of Public Accounts  
P. O. Box 1295  
Richmond, Virginia 23218

Dear Ms. Mavredes:

Thank you for the opportunity to review the findings and recommendations made in the audit issued by your office for fiscal year ending June 30, 2015.

The Virginia Health Workforce Development Authority (Authority) agrees with the findings and as noted in the report, has worked diligently to address areas of deficiencies attributable to former staff. The Authority is committed to implementing additional measures to continue to mitigate audit issues raised.

We appreciate the thorough review and recommendations to improve our internal controls.

Sincerely,

Keisha L. Smith, MPA  
Executive Director

## VIRGINIA HEALTH WORKFORCE DEVELOPMENT AUTHORITY

### **BOARD MEMBERS**

As of June 30, 2015

Joseph R. Yost  
Chairman

George L. Barker  
Co-Chair

Ralph R. Clark  
Secretary

R. Neal Graham  
Treasurer

David E. Brown  
Eleanor Sue Cantrell  
Nancy Dunlap  
Shirley R. Gibson

Patrick A. Hope  
Deborah Johnson  
Marissa Levine  
Lori Rutherford

Craig Herndon

### **MANAGEMENT**

As of July 5, 2015

Keisha L. Smith  
Executive Director