



DEPARTMENT OF VETERANS SERVICES

AUDIT OF PAYROLL OPERATIONS

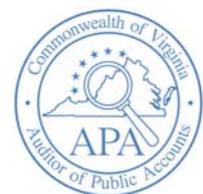
AS OF JUNE 30, 2016

Auditor of Public Accounts

Martha S. Mavredes, CPA

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AUDIT SUMMARY

Our audit of payroll operations at the Department of Veterans Services (Veterans Services), including the Sitter & Barfoot Veterans Care Center and the Virginia Veterans Care Center, for the fiscal year ended June 30, 2016 found:

- proper recording and reporting of payroll expenses, in all material respects, in the Commonwealth's payroll system;
- two matters involving internal control and its operation necessary to bring to management's attention;
- two instances of noncompliance with applicable laws and regulations of other matters that are required to be reported; and
- adequate corrective action with respect to prior year findings listed below.
 - Ensure a Supervisor Approves Each Time and Attendance Record
 - Improve Controls over the Virginia Retirement System Reconciliation Process
 - Strengthen Detailed Operating Procedures for Reconciling Financial Related Systems

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AUDIT FINDINGS AND RECOMMENDATIONS

Restrict Access to Information Systems

Type: Internal Control and Compliance

Repeat: No

Two employees had unnecessary information system access based on their job responsibilities. One employee at the Sitter & Barfoot Veterans Care Center (SBVCC) had unnecessary access to the Commonwealth's human resource system, and another employee at the Virginia Veterans Care Center (VVCC) had unnecessary access to the Commonwealth's payroll system. Both situations created separation of duties issues given the individuals' job responsibilities. Additionally, an employee from another agency had access to the human resource system at both SBVCC and VVCC.

Veterans Services should not grant employees more access than needed to perform their job responsibilities based on the principle of least privilege, as required by the Commonwealth's Information Security Standard, SEC 501-09 (Security Standard). Unnecessary access to the human resource and/or payroll systems increases the risk of inaccurate employee paychecks, whether due to error or fraud.

Neither SBVCC, VVCC, nor the employees were aware of the conflicting access or the excess access the employee from another agency had in these systems. Veterans Services should ensure that all access granted to employees is consistent with the principle of least privilege and follows Security Standard requirements.

Improve Employee Separation Process

Type: Internal Control and Compliance

Repeat: No

Veterans Services needs to improve their employee separation process to ensure information systems access is removed timely upon employee termination. Information system access was not removed timely in the following instances:

- Commonwealth's payroll system access was not removed timely for a Human Resources Assistant at SBVCC. Access was removed over seven months after separation;
- Commonwealth's human resource system access was not removed timely for a Human Resources Analyst at VVCC. Access was removed over a month after separation;
- Five out of 15 (33 percent) employees who separated during the fiscal year had some level of access that was not removed until 12 to 29 days after separation; and
- VVCC did not remove the access of an additional four employees until 19 to 99 days after separation. Additionally, they were not included on VVCC's internal separated employee listing.

These issues were the result of several internal control deficiencies in the employee separation process. First, VVCC did not maintain a complete listing of separated employees during the fiscal year.

Next, SBVCC could not provide evidence of timely access removal to the patient care system due to a lack of documentation and a system limitation. Lastly, VVCC and SBVCC have a decentralized process with limited written policies and procedures for removing access. The current process does not provide an adequate audit trail and as a result, information technology staff were not always notified about access deletions in a timely manner.

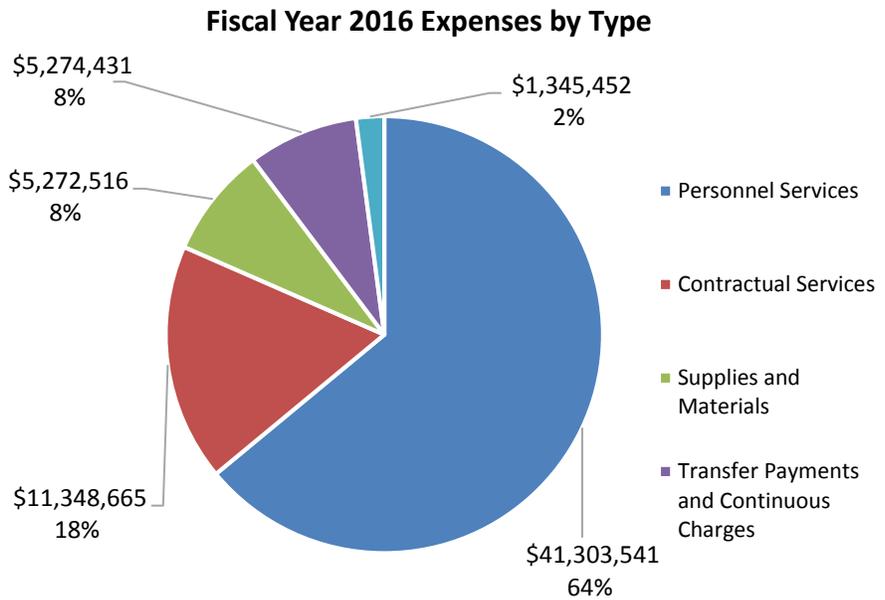
Veterans Services should manage access to information systems in accordance with the Security Standard, which requires modifying, disabling, and removing information system accounts when they are no longer necessary. Removing access in a timely manner after employee separation reduces the risk that a former employee could modify system data or use Commonwealth resources for personal benefit.

Veterans Services' care center human resources staff should improve the process for removing employee access to information systems and sufficiently document the related policies and procedures. A complete audit trail should be available to show the timely removal of employees and hold responsible employees accountable to maintain appropriate access levels in their respective information systems.

AUDIT SCOPE OVERVIEW

Veterans Services serves Virginia’s veterans and their families by providing or facilitating the delivery of benefits, services, education, and care. Veterans Services is comprised of a central agency (DVS) and two care centers, the Virginia Veterans Care Center (VVCC) in Roanoke and the Sitter & Barfoot Veterans Care Center (SBVCC) in Richmond. The VVCC and SBVCC provide long-term nursing and memory care, as well as short-term rehabilitation, for veterans with 240 and 200 beds, respectively. DVS provides administrative oversight and support for the care centers and oversees all other services.

Veterans Services’ overall expenses totaled \$65 million in fiscal year 2016, with payroll and fringe benefit costs making up the majority of expenses. These expenses, shown as Personnel Services in the chart, accounted for approximately 64 percent of total 2016 expenses. Given the significance of these expenses, as well as prior year management comments related to payroll operations, we selected payroll operations as the primary focus for this audit.



Source: Commonwealth’s accounting and reporting system

Veterans Services employed 660 salaried and 157 wage staff as of June 30, 2016. DVS primarily uses general funds for payroll costs, while the care centers rely exclusively on patient billings and various federal funds to pay their employees. As seen in the following table, close to 80 percent of employees work in one of the two veterans care centers.

Employment and Payroll Statistics – Fiscal Year 2016

Agency	Personnel Services	# of Salaried Employees	# of Wage Employees
Sitter & Barfoot Veterans Care Center	\$ 18.3 Million	277	80
Virginia Veterans Care Center	13.5 Million	238	52
Department of Veterans Services	9.5 Million	145	25
Totals	\$41.3 Million	660	157

Source: Commonwealth’s accounting and financial reporting system, and human resource system

In prior years, Veterans Services used the Department of Accounts' Payroll Service Bureau for their payroll processing; however, effective January 1, 2016, Veterans Services withdrew from this arrangement and began processing their own payroll and leave transactions. While DVS, VVCC, and SBVCC all have their own human resource departments, some payroll processing responsibilities are shared. SBVCC processes their payroll as well as the payroll for DVS, while VVCC processes their own payroll.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

May 26, 2017

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 payroll operations of the **Department of Veterans Services** for the year ended June 30, 2016. 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 with regard to payroll operations were to evaluate the accuracy of transactions recorded in the Commonwealth's payroll system, review the adequacy of the Veterans Services' internal controls, and test compliance with applicable laws and regulations. We also reviewed corrective actions for audit findings from the prior year report as follows: Ensure a Supervisor Approves Each Time and Attendance Record, Improve Controls over the Virginia Retirement System Reconciliation Process, and Strengthen Detailed Operating Procedures for Reconciling Financial Related Systems. We will follow up on remaining audit findings from the prior year report in subsequent audits.

Audit Scope and Methodology

Veterans Services' 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, both automated and manual, as they relate to the audit objectives, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether Veterans Services' controls over payroll operations were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations and contracts as they pertain to our audit objectives.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of Veterans Services' operations. We performed analytical procedures and tested details of transactions to achieve our objectives.

A non-statistical sampling approach was used. Our samples were designed to support conclusions about our audit objectives. An appropriate sampling methodology was used to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. We identified specific attributes for testing each of the samples and, when appropriate, we projected our results to the population.

Conclusions

We found that Veterans Services properly stated, in all material respects, the transactions recorded and reported in the Commonwealth's payroll system.

We noted certain matters pertaining to payroll operations, involving internal control and its operation as well as 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 agency has taken adequate corrective action with respect to audit findings reported in the prior year that are listed under the Audit Objectives section of this letter.

Exit Conference and Report Distribution

We discussed this report with management on June 19, 2017. Management's response to the findings identified in our audit is included in the section titled "Agency 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

LCW/clj



COMMONWEALTH of VIRGINIA

Department of Veterans Services

John L. Newby II
Commissioner

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June 27, 2017

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

Dear Ms. Mavredes:

We have reviewed your audit report for the Department of Veterans Services for the fiscal year ended June 30, 2016. We appreciate the acknowledgment of proper recording and reporting of all payroll expenses in all material respects, in the Commonwealth's payroll system. We concur with your findings and recommendations with regard to increased internal controls and ensuring compliance with applicable laws and regulations of other matters that are required to be reported.

Corrective action has already been taken to prevent future occurrences of the two audit findings.

We will file the required corrective action plan with the State Comptroller within 30 days of receipt of our official APA audit report. We thank you and your staff for your review and the assistance you have provided us.

Sincerely,

A handwritten signature in black ink, appearing to read "T. Davidson".

Tammy L. Davidson
Director of Finance

AN EQUAL OPPORTUNITY EMPLOYER
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DEPARTMENT OF VETERANS SERVICES

As of June 30, 2016

John L. Newby, II
Commissioner

Tammy Davidson
Director of Finance