

**VIRGINIA HEALTH WORKFORCE
DEVELOPMENT AUTHORITY**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2012**



AUDIT SUMMARY

Our audit of the Virginia Health Workforce Development Authority (Authority), found:

- a matter regarding the recording and reporting of transactions in the Authority's financial system that is necessary to bring to management's attention which is discussed in the section entitled "Audit Findings and Recommendations";
- matters involving internal control and its operation necessary to bring to management's attention which are discussed in the section entitled "Audit Findings and Recommendations"; and
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

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AUDIT FINDINGS AND RECOMMENDATIONS

Improve Board Resources to Ensure Proper Governance

As a new entity, the Virginia Health Workforce Development Authority (Authority) has an opportunity to strengthen its resources for the Board to ensure proper governance. As a result of its structure, the Authority and its management rely on the Board to provide oversight. Our review of Board resources found the following areas could be strengthened:

- Budget Approval and Financial Reporting
- Officer Responsibilities
- Procurement Policies and Procedures
- Media Communications

The Board has approved budgets for individual grants; however, has not approved an annual budget for the Authority's operations nor has it communicated to management how, or to what level of detail, financial information should be presented to the Board so they can practice their oversight of the Authority. While the Board members receive financial information about the Authority in advance of their meetings, we could not find evidence that the Board was reviewing and approving the financial information. Without approving the Authority's budget, the Board is not communicating its expectations to management, which limits the Board's ability to track the Authority's progress and hold management accountable. At a minimum, the Board should approve an annual budget for the Authority and monitor management against the budget and authorize adjustments as needed.

The Bylaws of the Board (Bylaws) list Officer responsibilities that are more akin to those of management. Specifically, the Bylaws list responsibilities of the Board's Treasurer that are currently being performed by the Authority's fiscal staff. Having policies that conflict with current practices can cause confusion and may prevent the Board from holding individuals accountable. The Board should adjust its Bylaws to reflect the responsibilities they want employees to have or keep the Bylaws the same and align the actions of employees with the responsibilities described in the Bylaws.

The Code of Virginia Section 32.1-122.7:2 E. exempts the Authority from the Virginia Public Procurement Act (Act). While according to management, the Authority has followed the principles of the Act for their contracts procured in fiscal 2013, the Board has not adopted procurement policies to guide management in developing procedures for awarding contracts. Without policies and procedures there is a risk that future employees or Board members could view their exemption as consent by the General Assembly not to follow procurement processes that are conducted in a fair and impartial manner to ensure high quality goods and services are obtained at a reasonable cost from qualified vendors without any impropriety or appearance of impropriety. To limit the risk associated with purchasing and awarding contracts, the Board should adopt procurement policies for management to implement.

The Authority is utilizing social media; however, the Board has not approved a media communications policy for management or Board members to follow. Without a media

communications policy or a policy addressing who can represent the Authority publicly, there is a risk that individuals could make statements which are interpreted by the public as being an authorized communication; however, the statements may not reflect the official position of the Authority. To protect the Authority, the Board, and its members, the Board should instruct management to develop a media communications policy for the Board's approval.

The above list of areas where the Authority could strengthen its resources for the Board to ensure proper governance is not intended to be all inclusive as it is management's and the Board's responsibility to develop and implement sufficient controls. As the Authority's governing body, it is the Board's responsibility to ensure appropriate policies and procedures are in place. As a new entity, the Authority may want to look at entities with a governance structure similar to that of the Authority for examples of the type of resources the Board may find helpful in carrying out its governance and oversight responsibilities.

Improve Controls over Bank Account Disbursements

The Authority lacks proper separation of duties surrounding authorizing, recording, and reconciling disbursements from its bank account. Specifically, the Grant and Fiscal Administrator is authorized to make disbursements from the Authority's bank account, records the Authority's financial transactions, and reconciles the bank account to the financial records of the Authority. Best practice is to separate authorization, recording, and reconciliation between three different employees.

Permitting the record keeper to authorize disbursements and reconcile their own transactions increases the risk that funds could leave the entity without proper monitoring and oversight. This could result in errors or fraudulent activities occurring without being discovered by management or the Board.

The Authority should evaluate its current practices for authorizing, recording, and reconciling disbursements from its bank account in light of best practices. This should be done to implement proper separation of duties and to mitigate risk of errors and frauds.

Implement Fund Accounting

The Authority has not implemented fund accounting within its accounting system and uses spreadsheets outside of its accounting system to track particular expenses. Fund accounting is required to separate fiscal activities and balances for specific purposes in accordance with laws and regulations or special restrictions and limitations. Without being able to separate its fiscal activities, the Authority is limited in its ability to show how funds are spent for each of its grants. The Authority has not implemented funding accounting because it was only operating under one grant; however, fund accounting will be needed as the Authority is awarded more grants.

The Grants and Fiscal Administrator should implement fund accounting within the Authority's financial system. With fund accounting, the Grants and Fiscal Administrator should be able to provide the Board and grantors with reports showing how the Authority spent its resources as required.

AUTHORITY HIGHLIGHTS

The General Assembly created the Virginia Health Workforce Development Authority (Authority) after receiving a study lead 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.

State Health Care Workforce Development Grant

In 2010 the Virginia Department of Health (Health) applied for and was awarded a \$1.9 million grant from the U.S. Department of Health and Human Services' (HHS) Health Resources and Services Administration to fund the Authority for two years. The Authority is a sub-awardee of the Affordable Care Act: State Health Care Workforce Development Grant (Implementation Grant) from Health. The Authority receives this funding from Health to establish the Authority's operations and implementing workforce development initiatives. Recently, Health received a one year no-cost extension through September 2013 for its Implementation Grant.

Financial Operations

Prior to fiscal 2012, the Authority did not have any financial activities. To aid in the establishment of the Authority, Health employees developed and signed all memorandums of agreements and grants on behalf of the Authority. The Authority made its first deposit and disbursement in the first half of fiscal 2012. During fiscal 2012, the Authority received \$231,060 in available resources. The largest source of funding for the Authority, 88 percent, was from the Implementation Grant through Health. The remaining 12 percent came from the Virginia Health Care Foundation for the creation and sale of career manuals.

The Authority disbursed \$204,552 in fiscal 2012. Nearly half of these disbursements, 45 percent, were payments to contractors to conduct research on the health workforce in Virginia. Halfway through fiscal 2012 the Board hired the Executive Director for the Authority. Under its Implementation Grant, the Authority provided fiscal support for the annual Choose Virginia Conference for students and residents with an interest in primary care. Additionally, the Authority contracted with the Virginia Health Care Foundation (Foundation) to aid the Authority with grants

management. Under this contract the Foundation will develop scoring criteria for the Authority's grants, provide technical assistance to the Authority's grantees, review concept papers from grantees and provide feedback, and notify applicants of their eligibility.

Deposits

Implementation Grant from Health	\$ 204,000
Support for Career Manual Project from the Virginia Health Care Foundation	27,000
Sale of Career Manuals	<u>60</u>
Total Deposits	<u>231,060</u>

Disbursements

Research on the Health Workforce	91,491
Salary and Benefits	47,284
Choose Virginia Conferences	25,750
Fiscal and Administrative Services	21,500
Virginia Health Care Foundation for Grants Management	12,300
Other	<u>6,227</u>
Total Disbursements	<u>204,552</u>

Year-End Balance	<u>\$ 26,508</u>
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Source: The Authority's QuickBooks accounting system

Model State-Supported Area Health Education Centers Grant

In addition to the Implementation Grant to establish the Authority, HHS Services Administration continues to awards funds under the Model State-Supported Area Health Education Centers (AHEC) grant to Virginia Commonwealth University (VCU). VCU then awards and disburses the AHEC funds to the eight Area Health Education Centers (Centers) in Virginia to "promote health careers and access to primary care for medically underserved populations through community-academic partnerships." This mission mirrors the mission of the Authority. Currently, VCU is continuing its role with managing the AHEC grant; however, the Authority's management and Board have a long-term plan for the Authority to start receiving AHEC funds and assume responsibility of awarding them to the Centers in the future.

While the Authority's employees were responsible for monitoring the Centers that received funding from VCU for the AHEC grant, this fiscal activity is not included in the Authority's fiscal information above because no AHEC funds related to the Centers were transferred to the Authority in fiscal 2012. Instead, according to the Authority's management, VCU paid their funds directly to the Area Health Education Centers and the Authority's personnel as grantees and employees of VCU, respectively, for their participation.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

May 29, 2013

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Virginia Health Workforce Development Authority** for the year ended June 30, 2012. 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 system, review the adequacy of the Authority's internal controls, and test compliance with applicable laws, regulations, contracts, and grant agreements.

Audit Scope and Methodology

The Authority's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. 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, 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
Deposits
Disbursements
Accounting Practices

While the Authority's employees were responsible for monitoring Area Health Education Centers that receive funding from Virginia Commonwealth University's (VCU) Model State-Supported Area Health Education Centers (AHEC) grant; this activity was not within the scope of the Authority's audit because no AHEC funds related to the Centers were transferred to the Authority in Fiscal 2012. Instead, according to the Authority's management, VCU paid their funds directly to the Area Health Education Centers and the Authority's personnel as grantees and employees of VCU, respectively, for their participation.

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 confirmed the year-end balance in the Authority's checking account with the bank.

Conclusions

With the exception of needing to implement fund accounting described in the section entitled "Audit Findings and Recommendation," we found that the Authority properly stated, in all material respects, the amounts recorded and reported in the Authority's accounting system. 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. The financial information presented in this report came directly from the QuickBooks accounting software.

We noted certain matters involving internal control and its operation that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

The results of our tests of compliance with applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Exit Conference and Report Distribution

We discussed this report with management on June 12, 2013. 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

GDS/clj



June 12, 2013

Ms. Martha Mavredes, CPA
Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23218

Dear Ms. Mavredes:

The Virginia Health Workforce Development Authority has reviewed your Draft Report on Audit for the Fiscal Year Ended June 30, 2012. Management concurs with your findings and will continue corrective action as indicated below.

Corrective Action Plan:

VHWD has been working to address the findings of your Compliance Audit. A summary of the corrective action plan for each finding follows:

1. Improve Board Resources to Ensure Proper Governance

Management plans will share the audit report with the Board Chair and Executive Committee at their meeting on July 19 and with the full Board at the next full Board meeting scheduled for June 28, 2013, at the Perimeter Building, 9960 Mayland Drive in Richmond, VA.

- a. Budget Approval and Financial Reporting
VHWD management shares the budget/financial reporting with the Board; however, funding currently comes from two federal grants with fixed budgets. Management will continue to share the budgets from all sources with the Board for review, comments and approval. Management will recommend the establishment of an active Finance Committee Development at their quarterly meeting on June 28, 2013.
- b. Officer Responsibilities
Management plans to have a discussion with the Executive Committee pertaining to Officers responsibilities, in particular, the Treasurer's responsibilities. This will be addressed with the full Board on June 28. Development of an Orientation Manual for Board members with revised officer responsibilities will be circulated to the Board prior to the September 27 meeting.
- c. Procurement Policies and Procedures
Management has developed a draft Procurement Policies and Procedures manual and are researching entities with similar staff resources. A draft copy will be circulated to the Board prior to the September 27 meeting. In addition, management has been

developing policy and procedures related to Conflict of Interests in both board management and subrecipient research projects. A final manual will be available at the September 27 meeting after review and recommendation are made by the Auditor of Public Accounts.

d. **Media Communications**

The Executive Director and the Director of Development and Communications will provide a VHWDA media communications policy for the Board to review and approve at the June 28 meeting.

2. **Improved Controls over Bank Account Disbursements**

This control proves to be challenging with only three full time employees. Management is currently researching other entities with similar structures and will discuss at the next Executive Committee meeting on June 19 with recommendations made to the full Board at the June 28 full Board meeting. Currently the fiscal administrator only pays invoices and expenditures connected to the two fixed federal budgets which are cost reimbursable. The Executive Director signs all checks with the exception of her two monthly paychecks which are signed by the fiscal administrator. The fiscal administrator is also required to disburse some checks electronically (i.e. Virginia withholding tax and forthcoming direct deposit of employee paychecks).

3. **Implement Fund Accounting**

The fiscal administrator is researching the possibility of fund accounting through QuickBooks no later than September 2013. The fiscal administrator plans to share this information with the Board.

Responsible Party: Gay S. Plungas, MPH
 Executive Director

Estimated Completion Date: December 2013

Thank you for your assistance with the first audit of the Virginia Health Workforce Development Authority. If you have any questions, please do not hesitate to contact me at gplungas@vhwda.org or (804) 562-4928.

Sincerely,

A handwritten signature in blue ink, appearing to read "G. S. Plungas", is written over a light blue horizontal line.

Gay S. Plungas, MPH
Executive Director

VIRGINIA HEALTH WORKFORCE DEVELOPMENT AUTHORITY
As of June 30, 2012

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MANAGEMENT

Gay Plungas
Executive Director