



VIRGINIA HEALTH WORKFORCE DEVELOPMENT AUTHORITY

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2014

Auditor of Public Accounts
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AUDIT SUMMARY

Our audit of the **Virginia Health Workforce Development Authority (VHWDA)** for the fiscal year ended June 30, 2014, found:

- matters regarding proper recording and reporting of all transactions in VHWDA'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.

VHWDA has only one funding source, a federal grant, and is currently using the maximum amount allowed, 25 percent, to maintain operations. In a comment to management, we emphasize the need for VHWDA to identify and secure additional funding to ensure its sustainability. Additionally, we provided management with 11 recommendations to aid them in improving their internal controls. Of the 11 recommendations, six are repeat issues that we included in our last audit report for VHWDA. While according to management one of the six prior year issues have been corrected, it was corrected after the end of the current audit period. We will evaluate the effectiveness of any new controls as part of our next audit of VHWDA. In the meantime, management should work to secure funding and implement internal controls as necessary.

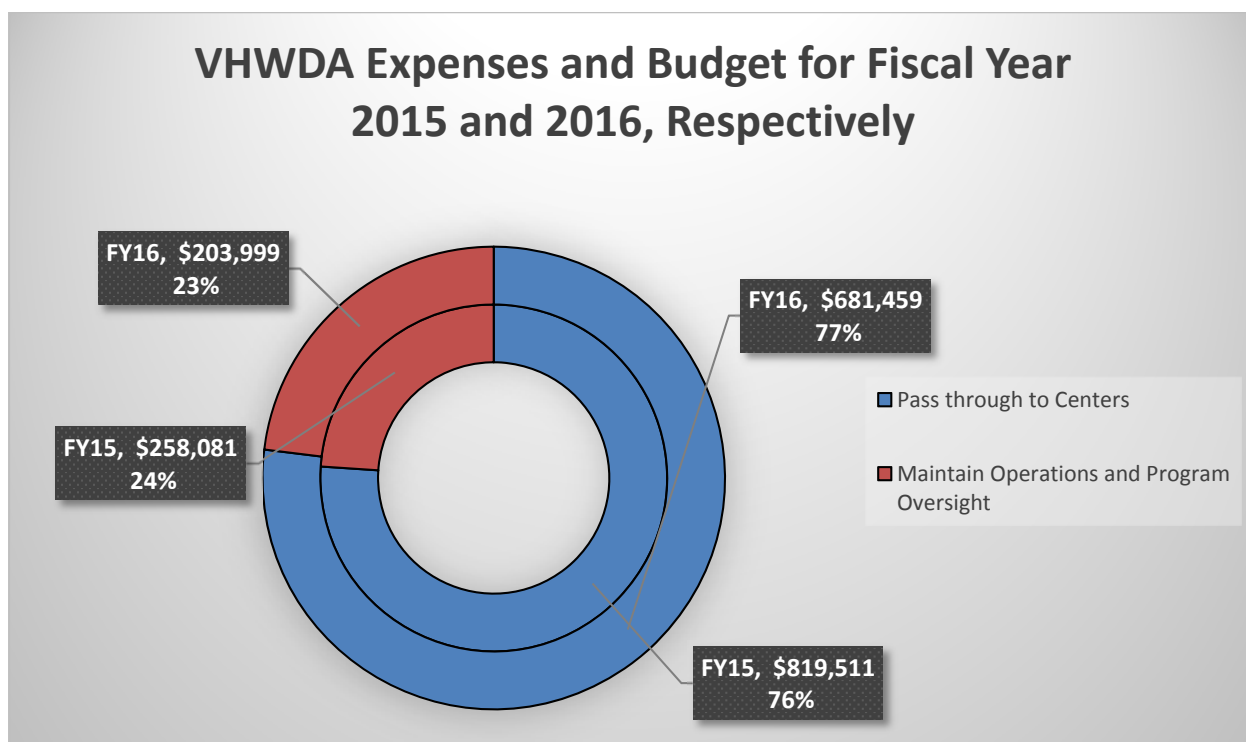
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COMMENT TO MANAGEMENT

Evaluate Funding to Ensure Sustainability

The Virginia Health Workforce Development Authority (VHWDA) currently spends just under 25 percent of its funding on operations and program oversight while it transfers just over 75 percent of its funding to recipient centers. The following graph shows VHWDA's expenses and budget for fiscal years 2015 and 2016, respectively. The graph illustrates the amount of funds used by VHWDA to maintain operations and program oversight as compared to funds that are transferred to recipient centers.



During the initial three years of its existence VHWDA received two sources of funding, the Affordable Care Act State Health Workforce Development Grant and the Area Health Education Centers (AHEC) Infrastructure Development Award. In September 2014 the ACA State Health Workforce Development Grant expired. As a result of no other funding sources materializing, the AHEC award is currently VHWDA's only source of funding.

VHWDA's current ratio of operational expenses to funds transferred to recipient centers, 25/75 is at the upper limit of "Acceptable" under its AHEC award. The AHEC award allows for VHWDA to spend up to 25 percent of the grant on operational expenses. If VHWDA's financial situation deteriorates, it could be perceived that it is not the best entity to manage these public funds in an economical manner. This perception could result in the General Assembly finding another entity to manage the AHEC award. There are two possible solutions for VHWDA to improve its financial situation. First, VHWDA could increase its portfolio of funding sources beyond the single award it

currently has from the federal government. In addition to improving its ratio, the additional funding may increase VHWDA's sustainability and allow it to fulfill more of its objectives outlined in the Code of Virginia. Second, VHWDA could decrease its operational expenses to provide a higher percentage of funding to recipient centers and ensure its sustainability.

AUDIT FINDINGS AND RECOMMENDATIONS

Define Employee Responsibilities

VHWDA has not developed and documented approved employee work profiles (EWPs) for its employees to define employee responsibilities. In the past, the former Executive Director began to change the roles of the staff to meet the needs of the organization but decided to wait until VHWDA finalized its plans for sustainability.

A job description describes the tasks, duties, functions, and responsibilities of a position. Job descriptions are used for a variety of reasons, such as a tool for recruiting, determining salary levels, conducting performance reviews, and establishing titles and pay grades, as well as for career and training plans. VHWDA was originally staffed with grant-knowledgeable employees from larger entities. These entities also included fiscal, procurement human resource, and administrative functions to support grants management. As a result of not developing EWPs, VHWDA may not be aware of the knowledge, skills, and abilities (KSAs) needed for the additional functions beyond grants management.

Without addressing these knowledge, skills, and abilities for VHWDA's staff, there is a risk that the internal control environment will continue to suffer in the future. Management at VHWDA should develop knowledge, skills, and abilities for all of its positions to ensure that VHWDA collectively has all the qualifications needed for the organization to have proper controls and to be sustainable.

Maintain Personnel Files

VHWDA has not created and maintained personnel files containing employee work profiles, personnel records, and approved pay rates. It is recognized as a best practice to maintain hiring records, basic employee information, pay rate, and employment actions (hires, separations, promotions) in individual employee files. Additionally, to date VHWDA does not have clear policies regarding which records need to be retained within personnel files nor does it have staff trained on common human resource practices.

Improper maintenance of employee records could lead to inappropriate administration, compensation, leave, and performance; and could also lead to fines and penalties if VHWDA does not comply with certain federal requirements. To reduce this risk, VHWDA should obtain knowledge of common human resource practices and create policies and procedures for the maintenance and custodianship of employee records.

Report Accurate Information to the Department of Accounts on Required Template Submissions

VHWDA 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, VHWDA incorrectly reported unused 2013 Program Revenue as 2014 General Revenues on the Statement of Net Activity.

Fiscal Year 2014 was the first time VHWDA submitted the attachment, and the preparer has limited experience in general accepted accounting principles used in financial statement reporting. 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.

VHWDA employees should improve their knowledge of the financial reporting framework used by the state and take more care in preparing the required attachment for the Department of Accounts. Further, supervisory reviews should ensure significant amounts are being properly reported.

Repeat: Complete and Review Reconciliation in Timely Manner

During state fiscal year 2014, VHWDA did not consistently reconcile bank statements timely and only one was reviewed by the Board Treasurer at the time. Four reconciliations were prepared after the 20th of the following month. The draft VHWDA Accounting and Financial Policy Manual states that bank reconciliations will be prepared by the Grant and Fiscal Administrator within one week of receipt of the statement. All bank reconciliations should then be reviewed by the Executive Director and Treasurer.

Monthly reconciliation is crucial to ensure accurate and comprehensive financial reporting because it identifies errors and inconsistencies requiring correction by verifying the accuracy of each account. At VHWDA, the same employee records cash receipts and disbursements and reconciles the bank statement, which makes the review of the reconciliation by a third party a critical control to detect misappropriation and errors.

The Grant and Fiscal Administrator has stated that reconciliations were performed by agreeing the bank statement to QuickBooks, although QuickBooks was not the official accounting system of VHWDA. According to the Grant and Fiscal Administrator, a spreadsheet is the official accounting system of VHWDA. While VHWDA bank reconciliations have been reviewed by the Executive Director since the prior year finding, no reconciliations have since been reviewed by the Treasurer.

With the aid of the Treasurer, VHWDA should determine which product will be used to house their official accounting records, as maintaining two sets of books is not efficient. Additionally, VHWDA should complete reconciliations timely, and should have them reviewed by the Executive Director and Treasurer as required in the policy and procedures manual to maintain proper controls over VHWDA's cash and fiscal reporting.

Repeat: Improve Recording of Transactions

VHWDA did not properly code expenses to the correct fund/expenditure combination in its accounting records and spreadsheets. Twenty expenditures were coded to incorrect expenditure types, resulting in \$3,190 in incorrect reporting.

The draft VHWDA Accounting and Financial Policy Manual requires invoices and related general ledger account distribution codes be reviewed prior to posting to the subsidiary system. Proper recording of transactions ensures proper reporting of business operations to the Board and proper reporting of federal financial reports.

There was confusion regarding how to code three tax penalties totaling \$148.70 for late payments. VHWDA originally coded them as program direct expenses and transferred them to indirect admin; however, they are not allowable under federal regulations. Additionally, VHWDA created a new expenditure type midway during the year; however, VHWDA did not reclassify prior expenditures of \$890.00 using the new classification. The remaining errors of \$2,151.68 are the result of data entry errors that caused the expenditure to be posted to the wrong expenditure type.

Not properly coding expenses results in misstatements and misclassifications when reporting financial information to the federal government, the Board, and the general public. To reduce this risk, VHWDA should implement a review of entries through reconciliation or analysis.

Improve Timeliness of Payments for Goods and Services

VHWDA paid invoices late. Seventeen invoices and 12 tax payments were paid after the noted due dates. This is 13 percent of payments that had applicable due dates, equaling a total of \$17,856 in late payments.

Five Virginia Employment Commission unemployment tax payments, including the fourth quarter of 2012 and all four quarters of 2013, and five federal unemployment tax payments for the same period were paid in February 2014. Two Virginia monthly withholding tax payments were paid after the 25th of the following month. Two Dominion Virginia Power bills were paid after the bill's due date.

The Prompt Payment Act requires that agencies should assign a payment due date of 30 calendar days after the receipt of the goods, services, or invoice whichever is later, or the due date specified in the vendor's contract. Also, it requires that agencies should have a due date of approximately five working days earlier than that specified on the invoice of a utility service. Prompt payments promote sound cash management and enhances vendor relationships by ensuring timely payments for goods and services.

Unemployment tax payments were late due to a lack of understanding that this tax was mandatory. The other late payments were due to staff turnover at VHWDA and late drawdowns and reimbursement requests during the year.

Late payments could impair vendor relationships, tarnish the name of the Commonwealth, and incur unnecessary costs in the form of late fees. To reduce the associated risk, VHWDA should develop and document internal control procedures to ensure it makes each payment by its respective due date.

Repeat: Enter into Contracts Using Required Procurement Principles

VHWD A did not use proper procurement procedures in contracting services for VHWD A's Sustainability Plan. VHWD A entered into a \$58,000 contract with Virginia Tech's Office of Economic Development to create a sustainability plan.

OMB Circular A-110 (2 CFR part 215), in place during state fiscal year 2014, states in §215.44 Procurement Procedures that "Recipients shall upon request make available for the Federal awarding agency, pre award review and procurement documents when...the procurement is expected to exceed the small purchase threshold (currently \$25,000)..."

The Executive Director at the time stated that during this period, no bidding procedures were used by VHWD A. Without evidence of how VHWD A selected its contractors, entities granting funds to VHWD A may disallow related expenses if they are not able to determine if the costs are reasonable. VHWD A should create and implement procurement policies which, at a minimum, conform to applicable federal requirements.

Repeat: Ensure Accounting and Financial Policy Manual Does Not Conflict with Actual Business Practices

As a result of last year's management recommendation, the Board approved updated policies and procedures in January 2015; however, the approved policies do not cover all areas of operations. An example is that the updated policies do not include grant management, document retention, or procurement policies.

Maintaining complete and well-considered policies and procedures is a critical component of a strong management system. They are used to establish an organization's internal controls and for ensuring compliance with regulatory standards, as many federal funders expect grantees to comply with specific policy and procedure guidelines. Documenting an organization's policies and procedures also serves as an important tool for clarifying roles and responsibilities.

While management attempted to develop policies and procedures by adopting those of a larger agency, management did not include all areas of their operation. Without policies and procedures covering all areas of its operations, employees may not be aware of expectations and it may prevent the Board and Executive Director from holding employees accountable. Management should continue to designate resources to ensure that policies and procedures are comprehensive and approved.

Repeat: Improve Budget Approval and Financial Reporting to the Board

VHWD A's Board is not approving a budget prior to the beginning of the fiscal year. For example, for the state fiscal year starting on July 1, 2013, the Board approved the operating budget on December 4, 2013. Also, for the state fiscal year starting on July 1, 2014, the Board approved the operating budget on September 26, 2014.

Additionally, VHWDA's fiscal reports provided to the Board do not agree to VHWDA's internal financial information. For example, the budget to actual reports that are submitted to the Board do not use the same classifications in the internal financial system and have not been reconciled to internal financial information.

The draft VHWDA Accounting and Financial Policy Manual states that VHWDA is to adopt a final budget at least 30 days before the beginning of the state fiscal year. Also, it asserts that proposed budgets should be accompanied by a narrative explaining the sources and uses of funds; and also that on a monthly basis, financial reports comparing actual year-to-date income and expenses with budgeted year-to-date amounts shall be produced by the Grant and Fiscal Administrator.

VHWDA still does not have an approved budget policy to abide by for elements needed for format, use, timeliness, and approval. A good budgeting process engages those who are responsible for adhering to the budget and implementing the organization's objectives in creating the budget. Without approving VHWDA's budget in a timely manner, the Board is not communicating its expectations to management, which limits the Board's ability to hold management accountable. Additionally, without a clear budget creation and approval policy in place, there could be confusion over the information the budget is trying to communicate, and also accountability for unbudgeted expenses. Budgets should be used not just to determine final bank and grant balances, but also as tools to anticipate problems and evaluate whether goals are being met.

Before the beginning of the fiscal year, the Board should approve an annual budget that includes all of VHWDA's funding sources, planned use of funds, and a description of restrictions, if any. Additionally, management should provide the Board with comprehensible periodic reports comparing VHWDA's actual activities and balances to the approved budget.

Ensure that VHWDA's Funds are Considered Public Deposits

VHWDA has notified its bank that funds in its checking account are public deposits; however, based on the bank's preliminary understanding, they are still not protected as public deposits. The Code of Virginia's Security for Public Deposit Act (Act) (Title 2.2-4400) states that "Public depositors are required to secure their deposits pursuant to several applicable provisions of law..." This Act requires that banks be properly notified to classify certain funds as public deposits.

As part of the prior two audits, management was provided with a verbal recommendation to notify the bank that their funds are considered public deposits. During fiscal year 2015, the Interim Executive Director, Board Treasurer, and Grant and Fiscal Administrator went to the local Wells Fargo branch to assign VHWDA's bank account as one which holds public funds. They were told by a bank employee that VHWDA did not meet the requirements of such a designation, and they did not research the situation further.

Without identifying its account as holding public funds, the balance is not included in the bank's reports to the Department of Treasury which trigger the protections under the Act. As VHWDA is attempting to increase their grant portfolio, this level of protection will be desirable as the account exceeds federal deposit insurance limits.

We provided the Executive Director and Grant and Fiscal Administrator with contact information at the Virginia Department of Treasury's Security for Public Deposit Act Administration area. Management should take the appropriate measures to follow up with the bank to identify VHWDA's funds as public deposits to reduce its risks.

Repeat: Establish Separation of Duties

This finding is a repeat from fiscal year 2013 which was not corrected during fiscal year 2014; however, based on discussions with VHWDA personnel it appears that corrective action is being taken to develop and implement controls that will be tested for effectiveness during the fiscal year 2015 audit.

During fiscal year 2014, VHWDA did not have separated fiscal duties between authorizing payments; custody of cash; and recording, reporting and reconciling. The Grant and Fiscal Administrator had:

- Authority to collect VHWDA's receipts;
- Custody of VHWDA's bank account; and
- Recording and reporting responsibility for VHWDA's fiscal activities and balances.

VHWDA had only one fiscal employee who had custody of incoming revenue, recorded financial transactions, and prepared fiscal reports to the Board. Without adequate separation of duties, VHWDA is susceptible to fraud, fiscal errors, and non-compliance. Additionally, the Board and grantors do not have reasonable assurance that the fiscal information they receive from VHWDA is materially correct.

During fiscal year 2015, new procedures were implemented at VHWDA to separate processes. An example is that checks received in the mail are recorded in a check log by the Executive Director, and then given to the Grant and Fiscal Administrator for recording and deposit. Also, a stamp has been purchased for incoming invoices. The stamp has lines to allow for approval signature, date, and QuickBooks account number to be documented. We encourage VHWDA to consistently follow their new procedures so that we can evaluate them during our next audit.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

October 15, 2015

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable John C. Watkins
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial accounts and records and operations of the **Virginia Health Workforce Development Authority (VHWDA)** for the year ended June 30, 2014. 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 VHWDA's accounting records, review the adequacy of VHWDA'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

VHWDA'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. 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

We performed audit tests to determine whether VHWDA'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 VHWDA's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses. We confirmed the fiscal year end bank balance with outside parties.

Conclusions

We found that VHWDA did not properly state, in all material respects, the amounts recorded and reported in the VHWDA financial accounts and records as described in the section entitled "Audit Findings and Recommendations." The VHWDA 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 VHWDA's financial accounts and records.

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."

VHWDA 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 October 15, 2015. 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/alh



October 28, 2015

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

Dear Ms. Mavredes:

The Virginia Health Workforce Development Authority (the Authority) has reviewed the audit report issued by your office for the fiscal year that ended June 30, 2014. The Authority agrees with the results and management is diligently working to address findings detailed in the report.

We appreciate the recommendations given to us during the exit conference on October 15, 2015, and are currently making operational changes to ensure that each area is adequately addressed. The Authority shares your goals with respect to ensuring efficient fiscal management, and establishing and maintaining adequate internal controls to strengthen overall operations.

Thank you for the valued input received from your staff during this audit. Please contact me at (804) 562-4928 or ksmith@vhwda.org if I need to provide anything further.

Sincerely,

A handwritten signature in black ink, which appears to read 'Keisha L. Smith', is positioned above the printed name and title.

Keisha L. Smith, MPA
Executive Director

VIRGINIA HEALTH WORKFORCE DEVELOPMENT AUTHORITY

As of June 30, 2014

BOARD MEMBERS

As of June 30, 2014

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MANAGEMENT

Erin Wittwer
Interim Executive Director