



# DISABILITY SERVICES AGENCIES AUDIT OF SELECT FEDERAL PROGRAMS

REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2025

Auditor of Public Accounts  
Staci A. Henshaw, CPA

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## AUDIT SUMMARY

Our audit of the Rehabilitation Services Vocational Rehabilitation Grants to States federal grant program, administered by the Commonwealth's Disability Services Agencies including the Department for Aging and Rehabilitative Services (Aging and Rehabilitative Services) and the Department for the Blind and Vision Impaired (Blind and Vision Impaired), and the Disability Insurance/Supplemental Security Income Cluster of federal grant programs, administered by Aging and Rehabilitative Services, for the fiscal year ended June 30, 2025, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth's accounting and reporting system and the Disability Services Agencies' Vocational Rehabilitation (VR) case management system;
- three matters involving internal control and its operation requiring management's attention, that also represent instances of noncompliance with applicable laws and regulations that are required to be reported under Government Auditing Standards; however, we do not consider the matters to be material weaknesses; and
- adequate corrective action with respect to the prior audit finding identified as complete in the Findings Summary included in the Appendix.

Aging and Rehabilitative Services provides certain financial, grants management, and information technology services to Blind and Vision Impaired through a Memorandum of Understanding. We determined that the services Aging and Rehabilitative Services provides to Blind and Vision Impaired are material to Blind and Vision Impaired's compliance with the terms and conditions governing the Rehabilitation Services Vocational Rehabilitation Grants to States federal grant program. As a result, we included Blind and Vision Impaired's transactions in the scope of our audit at Aging and Rehabilitative Services.

In the section titled "Internal Control and Compliance Findings and Recommendations," we have included our assessment of the conditions and causes resulting in the internal control and compliance findings identified through our audit as well as recommendations for addressing those findings. Our assessment does not remove management's responsibility to perform a thorough assessment of the conditions and causes of the findings and develop and appropriately implement adequate corrective actions to resolve the findings as required by the Department of Accounts in Topic 10205 – Agency Response to APA Audit of the Commonwealth Accounting Policies and Procedures Manual. Those corrective actions may include additional items beyond our recommendation.

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## INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

### **Continue to Strengthen Internal Controls over the Vocational Rehabilitation Case Management System**

**Type:** Internal Control and Compliance

**Severity:** Significant Deficiency

The Department for Aging and Rehabilitative Services (Aging and Rehabilitative Services) continues to strengthen internal controls over the Disability Services Agencies' Vocational Rehabilitation (VR) case management system. To comply with the provisions in the Commonwealth's IT Security Audit Standard, SEC502 (IT Audit Standard), Aging and Rehabilitative Services' Internal Audit Division (Internal Audit) conducted an audit over the Disability Services Agencies' VR case management system and concluded fieldwork in December 2024. The audit included a risk-based selection of security controls from the Commonwealth's Information Security Standard, SEC530 (Security Standard) sections and control families, in addition to the controls in the IT Audit Standard.

Internal Audit identified 25 total findings affecting several control families and sections in the Security Standard and IT Audit Standard. We elected not to disclose the specific findings because they are considered to be Freedom of Information Act exempt (FOIAE) under § 2.2-3705.2 of the Code of Virginia due to containing descriptions of security mechanisms. Aging and Rehabilitative Services developed corrective action plans to remediate the findings Internal Audit communicated in its report and has resolved two of the 25 findings (8%) as of the end of fiscal year 2025. Internal Audit noted that many of the reported findings were the result of insufficient agency resources and/or a lack of formal policies and procedures.

The Security Standard requires that system owners maintain compliance with Commonwealth of Virginia information security policies and standards in all IT system activities. Additionally, Title 2 Code of Federal Regulations (CFR) § 200.303(e) requires federal grant recipients to take reasonable cybersecurity and other measures to safeguard information including protected personally identifiable information (PII) and other types of information. Inadequate or lacking IT security controls could potentially lead to a data breach or unauthorized access to confidential and mission-critical data, resulting in data corruption, data loss, or system disruption, if accessed by either internal or external malicious attackers. We recommend that Aging and Rehabilitative Services' management continue to dedicate the necessary resources to remediate the internal control deficiencies noted in the Internal Audit report covering the Disability Services Agencies' VR case management system.

### **Strengthen Internal Controls over Payroll Processes**

**Type:** Internal Control and Compliance

**Severity:** Significant Deficiency

Aging and Rehabilitative Services' Finance Division is not maintaining adequate internal control over several of its key payroll processes. During fiscal year 2025, Aging and Rehabilitative Services spent approximately \$213 million in federal funds, of which about \$85 million (40%) was for personal service expenses. We identified the following specific weaknesses:

- Aging and Rehabilitative Services’ Finance Division does not have written, agency-specific payroll policies and procedures governing all critical payroll processes, including payroll reconciliations and payroll certifications. The Department of Accounts’ (Accounts) Commonwealth Accounting Policies and Procedures (CAPP) Manual Topic 10305 requires agencies to develop and maintain their own written policies over critical processes, including payroll, rather than relying solely on system guidance or the CAPP Manual.
- Aging and Rehabilitative Services’ Finance Division was unable to provide documentation supporting the completion and review of payroll (pay period) reconciliations for five out of the five (100%) payroll (pay period) reconciliations selected. CAPP Manual Topic 50905 requires agencies to complete payroll (pay period) reconciliations to ensure payroll transactions are accurate, complete, and properly reviewed.

Aging and Rehabilitative Services’ Finance Division relies on Accounts’ Cardinal Human Capital Management (HCM) materials and CAPP Manual provisions to support its payroll activities. While the use of Accounts’ guidance provides a foundation for internal control, it is not intended to be a substitute for the agency’s own internal policies and procedures. The absence of documented internal policies and procedures limits consistency, accountability, and management oversight and increases the risk that Aging and Rehabilitative Services will not prevent and/or detect errors or discrepancies in a timely manner.

Title 2 CFR § 200.303(a) requires that federal grant recipients establish, document, and maintain effective internal control over the federal award that provides reasonable assurance that the recipient or subrecipient is managing the federal award in compliance with Federal statutes, regulations, and the terms and conditions of the federal award. Further, 2 CFR 200.430(g)(1)(i) states that charges to federal awards for salaries and wages must be supported by a system of internal control that provides reasonable assurance that the charges are accurate, allowable, and properly allocated.

Aging and Rehabilitative Services’ Finance Division experienced staffing shortages during the period under review because of turnover and was unable to devote the resources necessary to establish internal controls over several of its key payroll processes. Aging and Rehabilitative Services’ management should devote the necessary resources to establish and maintain proper internal control over its payroll processes.

### **Comply with Period of Performance Requirements for Vocational Rehabilitation Grants**

**Type:** Internal Control and Compliance

**Severity:** Deficiency

Aging and Rehabilitative Services’ Finance Division inappropriately applied \$166,000 in expenses to its federal fiscal year 2024 VR grant. Since this amount exceeded \$25,000 for the period of performance compliance requirement, we are required to report the known questioned cost identified during the audit through an audit finding in accordance with 2 CFR § 200.516(a)(4). The objective of this federal grant program is to assist states in operating a VR program that is designed to assess, plan,

develop, and provide services to individuals with disabilities so that they may prepare for and engage in gainful employment. During state fiscal year 2025, the Commonwealth of Virginia incurred approximately \$109 million in expenses under the VR federal grant program.

Aging and Rehabilitative Services received a vendor invoice in August 2024 for pre-employment transition services related to an obligation incurred in July 2023. However, the contract administrator inadvertently indicated that this expense should be applied to the federal fiscal year 2024 VR grant, which began on October 1, 2023, instead of the federal fiscal year 2023 VR grant when Aging and Rehabilitative Services incurred the obligation to the federal award. Aging and Rehabilitative Services' Finance Division did not consider the obligation date when reviewing the vendor invoice and as a result, did not identify that the contract administrator incorrectly applied this expense to the project code for the federal fiscal year 2024 VR grant. Aging and Rehabilitative Services uses project codes in its financial system to track and record expenses for its various federal grant programs and monitor compliance with the period of performance requirements.

Title 34 CFR § 76.707 states that an obligation for performance of work other than personal services occurs on the date on which the State makes a binding written commitment to obtain the services. Further, 2 CFR § 200.403(h) stipulates that costs must be incurred during the approved budget period or period of performance to be considered allowable. Finally, the United States Department of Education's Rehabilitative Service Administration's Frequently Asked Questions for Period of Performance for Formula Grant Awards mandates that States must track all expenditures against their obligation to ensure they are incurred during the period of performance and are properly reported to the federal government.

Without tracking expenses against their obligation date and verifying use of correct project codes, Aging and Rehabilitative Services risks posting expenses to incorrect award periods and risk having to return monies to the federal government. Aging and Rehabilitative Services' Finance Division should strengthen its review processes to ensure that it applies transactions to the correct project code pertaining to the award's period of performance.



# Commonwealth of Virginia

*Auditor of Public Accounts*

Staci A. Henshaw, CPA  
Auditor of Public Accounts

P.O. Box 1295  
Richmond, Virginia 23218

January 28, 2026

The Honorable Abigail Spanberger  
Governor of Virginia

Joint Legislative Audit  
and Review Commission

Marvin Figueroa  
Secretary of Health and Human Resources

Scott Grimes  
Chief Deputy Commissioner, Department for Aging and Rehabilitative Services

Richard Mitchell  
Commissioner, Department for the Blind and Vision Impaired

We have audited the financial records and operations of the Rehabilitation Services Vocational Rehabilitation Grants to States federal grant program, administered by the Commonwealth's Disability Services Agencies including the **Department for Aging and Rehabilitative Services** (Aging and Rehabilitative Services) and the **Department for the Blind and Vision Impaired**, and the Disability Insurance/Supplemental Security Income Cluster of federal grant programs, administered by Aging and Rehabilitative Services, for the year ended June 30, 2025. We conducted this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, in support of the Commonwealth's Single Audit. 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 objective was to audit the Rehabilitation Services Vocational Rehabilitation Grants to States federal grant program and the Disability Insurance/Supplemental Security Income Cluster of federal grant programs in support of the Commonwealth's Single Audit for the year ended June 30, 2025. In support of this objective, we evaluated the accuracy of recorded financial and

programmatically transactions in the Commonwealth’s accounting and financial reporting system and the Disability Services Agencies’ Vocational Rehabilitation (VR) case management system. We reviewed the adequacy of Aging and Rehabilitative Services’ internal controls over compliance with applicable laws, regulations, contracts, and grant agreements; and reviewed corrective actions with respect to an audit finding that originated in the 2019 Commonwealth of Virginia Single Audit Report.

### **Audit Scope and Methodology**

Aging and Rehabilitative 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, sufficient to plan the audit. We considered materiality and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the Rehabilitation Services Vocational Rehabilitation Grants to States federal grant program and Disability Insurance/Supplemental Security Income Cluster of federal grant programs.

We performed audit tests to determine whether Aging and Rehabilitative Services’ 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 Aging and Rehabilitative Services’ operations. We performed analytical procedures, including budgetary and trend analyses, and tested details of transactions to achieve our audit objectives.

A nonstatistical 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.

Our consideration of internal control over compliance was for the limited purpose described in the section “Audit Objectives” and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. We did identify certain deficiencies in internal control titled “Continue to Strengthen Internal Controls over the Vocational Rehabilitation Case Management System” and “Strengthen Internal Controls over Payroll Processes,” which are described in the section titled “Internal Control and Compliance Findings and Recommendations,” that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

In addition to the significant deficiencies, we detected a deficiency in internal control that is not significant to the Single Audit but is of sufficient importance to warrant the attention of those charged with governance. We have explicitly identified one finding in the section titled “Internal Control and Compliance Findings and Recommendations” as a deficiency.

### **Conclusions**

We found that Aging and Rehabilitative Services properly stated, in all material respects, the amounts and performance information recorded and reported in the Commonwealth’s accounting and financial reporting system and in the Disability Services Agencies’ VR case management system.

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 titled “Internal Control and Compliance Findings and Recommendations.”

Aging and Rehabilitative Services has taken adequate corrective action with respect to the prior audit finding identified as complete in the [Findings Summary](#) included in the Appendix.

Since the findings noted above include those that have been identified as significant deficiencies, they will be reported as such in the “Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance,” which is included in the Commonwealth of Virginia’s Single Audit Report for the year ended June 30, 2025. The Single Audit Report will be available at [www.apa.virginia.gov](http://www.apa.virginia.gov) in February 2026.

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

We provided Aging and Rehabilitative Services with a draft of this report on January 30, 2026. Government Auditing Standards require the auditor to perform limited procedures on Aging and Rehabilitative Services’ response to the findings identified in our audit, which is included in the accompanying section titled “Agency Response.” Aging and Rehabilitative Services’ response was not subjected to the other auditing procedures applied in the audit and, accordingly, we express no opinion

on the response. 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.

Staci A. Henshaw  
AUDITOR OF PUBLIC ACCOUNTS

MAS/vks

## FINDINGS SUMMARY

Finding Title	Status of Corrective Action*	Fiscal Year First Reported
Improve Oversight of Third-Party Service Providers	Complete	2019
Continue to Strengthen Internal Controls over the Vocational Rehabilitation Case Management System	Ongoing	2025
Strengthen Internal Controls over Payroll Processes	Ongoing	2025
Comply with Period of Performance Requirements for Vocational Rehabilitation Grants	Ongoing	2025

\* A status of **Complete** indicates management has taken adequate corrective action. A status of **Ongoing** indicates new and/or existing findings that require management's corrective action as of fiscal year end.



**COMMONWEALTH OF VIRGINIA**  
**DEPARTMENT FOR AGING AND REHABILITATIVE SERVICES**

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February 6, 2026

Staci A. Henshaw  
Auditor of Public Accounts  
James Monroe Building  
101 North 14<sup>th</sup> Street, 8<sup>th</sup> Floor  
Richmond, VA 23219

Dear Ms. Henshaw,

We have reviewed the Statewide Single Audit Report for the Department for Aging and Rehabilitative Services and Department for the Blind and Vision Impaired for Fiscal Year Ended June 30, 2025. We concur with the findings and are adopting strategies to improve the internal control environment of our agencies. Our responses are listed below.

**MP1: Continue to Strengthen Internal Controls over the Vocational Rehabilitation Case Management System**

The DARS Information Security Office and the System/Data Owner will continue to remediate the audit findings noted in the IAD audit report on the VR case management system. In addition, the ISO and System/Data Owner will continue to meet quarterly with Internal Audit to review remediation progress, address implementation challenges, and ensure corrective actions are completed in a timely manner.

*Responsible Party:* DARS Rehabilitative Services; DARS ISO  
*Estimated Completion Date:* September 30, 2026

**MP2: Strengthen Internal Controls over Payroll Processes**

DARS' Finance Division will develop agency-specific payroll policies and procedures governing all critical payroll processes, including payroll reconciliations and payroll certifications. Additionally, the Finance Division will ensure that payroll reconciliations are completed each pay period so that payroll transactions are accurate, complete, and properly reviewed.

*Responsible Party:* DARS Finance  
*Estimated Completion Date:* May 31, 2026

**MP3: Comply with Period of Performance Requirements for Vocational Rehabilitation Grants**

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To strengthen compliance with grant requirements and improve monitoring processes, the following corrective actions will be implemented:

- **Training:** DARS Grants Management staff will conduct training for DBVI program managers that defines their responsibilities for verifying contract and grant periods of performance, reviewing invoice service dates and documentation, monitoring obligated and expended amounts, and promptly submitting complete and accurate invoices for payment.
- **Contracts Management and Tracking Tools:** DARS Grants Management staff will continue to track contracts for sub-recipients and other contractual arrangements associated with grant-funded programs. As part of this function, DARS Grants Management will continue to maintain standardized contract tracking tools and reports that capture contract periods of performance, obligated amounts, expenditures, and outstanding balances, and will make these tools available to DBVI for monitoring purposes.
- **Monthly Grant Status Updates:** DARS Grants Management staff will continue to provide grant balances and project end-date updates during the DBVI/DARS Fiscal Management Monthly Meeting to support informed fiscal and programmatic decision-making.
- **Compliance Reviews:** DARS Grants Management staff will conduct compliance reviews quarterly, semi-annually, and during grant closeout to verify that services and related costs charged to grants occur within approved project periods.
- **Invoice and Voucher Review:** DARS Grants Management staff will review invoice service dates and voucher dates for grant-funded expenditures prior to processing to confirm compliance with period of performance requirements.
- **Journal Entry:** DARS Grants Management staff will investigate the \$166,000 discrepancy and process any necessary correcting journal entries prior to the FM07 closing deadline.

*Responsible Party:* DARS Finance  
*Estimated Completion Date:* May 31, 2026

Should you require more information, please do not hesitate to contact Greg Sands, Director of Internal Audit at [greg.sands@dars.virginia.gov](mailto:greg.sands@dars.virginia.gov) or 804-659-4062.

Sincerely,



Scott Grimes, DARS Chief Deputy Commissioner