



DEPARTMENT OF VETERANS SERVICES

AUDIT OF SELECT BUSINESS CYCLES FOR THE YEAR ENDED JUNE 30, 2021

Auditor of Public Accounts
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AUDIT SUMMARY

Our audit of capital outlay and other non-payroll expenses at the Department of Veterans Services (Veterans Services), including the Sitter-Barfoot Veterans Care Center (SBVCC) and the Virginia Veterans Care Center (VVCC), for the fiscal year ended June 30, 2021, found:

- proper recording and reporting of capital outlay and other non-payroll expenses, in all material respects, in the Commonwealth's accounting and financial reporting system and the Commonwealth's capital asset system, except for donated land, which was not properly recorded in the Commonwealth's capital asset system;
- seven matters involving internal control and its operations necessary to bring to management's attention; and
- three instances of noncompliance with applicable laws and regulations.

We also reviewed Veterans Services' corrective action for eight prior audit findings from reports issued for fiscal years 2017 and 2018. We found that Veterans Services has taken adequate corrective action with respect to prior audit findings identified as resolved in the section titled "Appendix - Findings Summary."

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AUDIT FINDINGS AND RECOMMENDATIONS

Record Donated Land in Capital Asset Accounting System

Type: Internal Control

Repeat: No

Applicable to: Veterans Services

Veterans Services' Financial Reporting staff (Financial Reporting) did not properly record donated land in the Commonwealth's capital asset system. Veterans Services received two significant parcels of donated land in 2016 as part of the construction of new veterans' care centers; however, Veterans Services did not record the land in the capital asset system at the time of the donation.

Commonwealth Accounting Policies and Procedures (CAPP) Manual Topic 30205 states that in most instances, land will not be a component of construction in progress and should be recorded into the Commonwealth's capital asset system (system) directly in the land asset category. Additionally, all recordable assets, except constructed assets, should be recorded in the system as soon as possible after title passes.

Financial Reporting staff were not familiar with the requirements for recording donated land given that it is not a routine occurrence. As a result, information in the Commonwealth's capital asset system is not accurate which also impacts the Commonwealth's financial statements. Financial Reporting should record all assets in the system timely in accordance with the Commonwealth's accounting policies and procedures.

Properly Classify Federal Grants on Financial Attachments

Type: Internal Control

Repeat: No

Applicable to: Veterans Services

Financial Reporting did not properly classify a federal grant on Veterans Services' Attachment 15 (the Attachment) – Federal Schedules as required by Comptroller's Directive 1-21. Financial Reporting incorrectly reported expenditures corresponding to Assistance Listing Number 64.005 – Grants to States for Construction of Home Facilities under the Assistance Listing Number 64.203 – Veterans Cemetery Grants Program. The error resulted in a misclassification of \$16,491,627 of federal expenditures on the Attachment submitted to the Department of Accounts (Accounts).

Veterans Services prepares the Attachment and submits it to Accounts for use in preparing the Schedule of Expenditures of Federal Awards (SEFA) for the Commonwealth's Single Audit report. The Single Audit Act Amendments of 1996 and 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, outline the Commonwealth's required reporting for the Single Audit report.

The misclassification was due to an error in the data that Financial Reporting used to create the federal schedules for the Attachment. Errors in the Attachment submitted to Accounts affect the

accuracy of information in the Commonwealth's SEFA. Financial Reporting should strengthen its current process for preparing and reviewing information for the Attachment to ensure information reported to Accounts is accurate and reasonable.

Remove System Access for Terminated Employee

Type: Internal Control and Compliance

Repeat: No

Applicable to: VVCC

VVCC has not removed system access for a terminated employee who has advanced access privileges to the electronic health records and financial management system. The individual terminated employment in April 2021 and continues to retain system access as of June 2022. The advanced access privileges allow them to make significant changes to the system including granting and deleting access among other functions.

The Commonwealth's Information Security Standard, SEC 501 (Security Standard), *Section PS-4: Personnel Termination*, states that an organization must disable information system access within 24 hours of employee separation and terminate any authenticators or credentials associated with the individual.

VVCC staff have attempted to disable the individual's system access, but do not have the technical expertise to remove the access. The inability to remove this access significantly increases the risk of unauthorized transactions and compromises the integrity of system data given the advanced access privileges retained by the individual. VVCC should immediately identify a resolution to this issue given the critical nature of the system and sensitivity of data maintained in the system. In addition, VVCC should ensure it has adequate technical expertise going forward to appropriately manage all aspects of its information systems.

Strengthen System Access over Financial Reporting System

Type: Internal Control and Compliance

Repeat: No

Applicable to: Veterans Services, VVCC, and SBVCC

Veteran Services, including VVCC and SBVCC, lacks properly documented policies and procedures over granting and deleting access to the Commonwealth's accounting and financial reporting system. In addition, VVCC did not retain supporting documentation for one of seven (14%) user access deletions for the system and, as a result, we could not determine if VVCC deleted this access in a timely manner.

CAPP Manual Topic 20905 states that CAPP Manual procedures alone do not eliminate the requirement for each agency to develop its own internal policies and procedures which agency management should approve in writing. Additionally, Security Standard, *Section PS-4: Personnel Termination*, requires that organizations disable system access within 24 hours of employee separation and terminate any authenticators or credentials associated with that individual. The lack of documented policies and procedures, customized to reflect the agency's operations or documentation to provide

evidence of timely access removal, increases the risk of user access being granted or removed improperly.

It is our understanding that Veterans Services is in the process of developing policies and procedures over system user access for the Commonwealth's accounting and financial reporting system, and we encourage them to continue with these efforts, especially given that the new care centers will be operational soon.

Ensure Annual System Access Reviews are Performed

Type: Internal Control and Compliance

Repeat: Yes, first issued in fiscal year 2018

Applicable to: VVCC and SBVCC

VVCC and SBVCC did not perform annual system access reviews over their electronic health records and financial management system. The care centers' policies and procedures over system access reviews are vague and do not specify that the review should include all employees with system access, as opposed to just terminated employees who had access.

Security Standard *Sections AC-2: Account Management* and *AC-6: Least Privilege* require annual account reviews, including reviews of the privileges assigned to all users of sensitive systems, to validate the need for such privileges. The care centers did not perform the required system access reviews due to a lack of management oversight, in combination with inadequate policies and procedures.

Without reviewing privileged user accounts at least annually, there is an increased risk of users having unnecessary privileges and making unauthorized changes to applications and data. VVCC and SBVCC management should strengthen applicable policies and procedures to ensure they meet Commonwealth requirements and perform subsequent reviews in accordance with the procedures. As the new care centers will be operational soon, it will be important for all the care centers to have clear and consistent policies and procedures.

Continue to Improve Controls over Physical Inventory

Type: Internal Control

Repeat: Yes, first issued in fiscal year 2017

Prior Title: Perform Physical Inventory

Applicable to: VVCC

VVCC did not adequately document its physical inventory of capital assets in accordance with policies and procedures. Although VVCC provided documentation to support its physical inventory, we were unable to determine if the source report used for the inventory was the proper report specified in internal policies and procedures.

Veterans Services' policies and procedures require a FAC316 report be used as the basis for the physical inventory. In addition, CAPP Manual Topic 30505 requires a physical inventory of capital assets at least once every two years to properly safeguard assets and maintain fiscal accountability.

The lack of adequate documentation showing that a physical inventory was performed in accordance with policies and procedures was due to management oversight. Not retaining proper documentation leads to an insufficient audit trail and increases the risk of inaccurately reporting capital assets.

VVCC should complete capital asset physical inventories in accordance with agency policies and procedures, along with CAPP Manual Topic 30505 and retain adequate documentation to support the physical inventory.

Improve Controls Over Capital Asset Reconciliations

Type: Internal Control

Repeat: No

Applicable to: VVCC

VVCC Finance staff did not adequately document reconciliations between the Commonwealth's capital asset system and the Commonwealth's accounting and financial reporting system. Finance staff did not document review dates for two of two (100%) monthly reconciliations reviewed; therefore, we were unable to determine if VVCC performed the reconciliations timely.

CAPP Manual Topic 20905 requires all internally prepared accounting records, data submission logs, and other accounting data to be reconciled to the reports produced by the Commonwealth's accounting and financial reporting system. Additionally, Veterans Services' policies and procedures require an approver to sign and date the reconciliation as part of Veterans Services' monthly reconciliation process.

The lack of documentation showing the review date for the reconciliations was a result of management oversight. Not retaining adequate documentation leads to an insufficient audit trail and increases the risk of inaccurately reporting capital assets. VVCC should ensure that reconciliations between the Commonwealth's capital asset system and the Commonwealth's accounting and financial reporting system are adequately documented in accordance with policies and procedures.

AUDIT SCOPE OVERVIEW

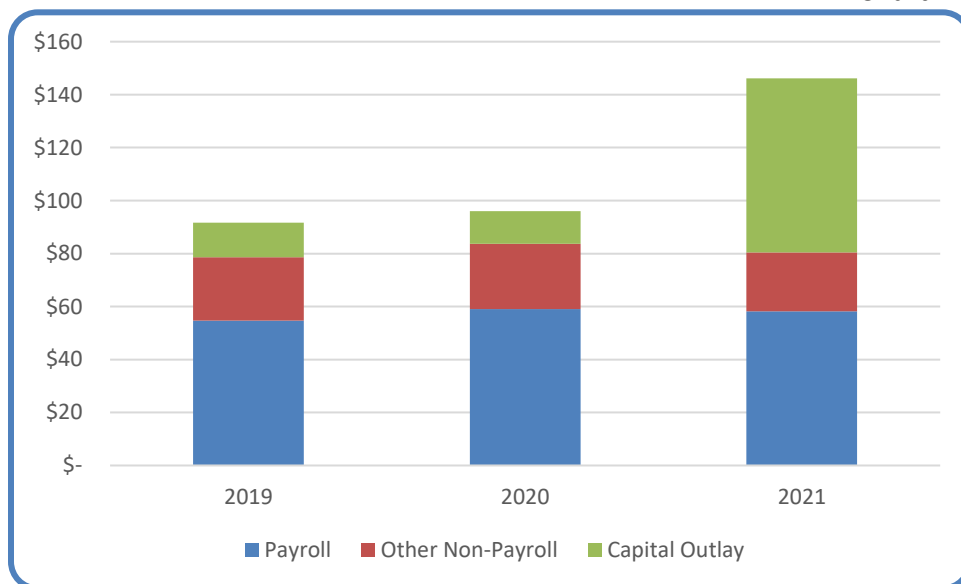
Veterans Services serves Virginia’s veterans and their families by providing or facilitating the delivery of benefits, services, education, and care. Veterans Services is comprised of a central agency and two care centers, the VVCC in Roanoke and the SBVCC in Richmond. The VVCC and SBVCC both provide nursing home care and services for veterans while the central agency provides administrative oversight and support for the care centers and oversees all other services.

Our last several audits of Veterans Services have focused on the areas of payroll expenses, capital assets, and patient revenue. For this audit, we selected the area of non-payroll expenses for review with a significant emphasis on capital outlay expenses since Veterans Services is in the process of expanding operations and building new care centers. In addition, we followed up on findings from our previous audits to determine if adequate corrective action had been taken by the agency.

The following chart shows expenses for Veterans Services, including the care centers, by category for fiscal years 2019 through 2021. As shown, overall expenses increased significantly in fiscal year 2021 due to increased capital outlay expenses and these are discussed in more detail below.

Veterans Services Expenses by Category for Fiscal Years 2019 – 2021
(in millions)

Chart 1



Source: Commonwealth accounting and financial reporting system

Capital Outlay Expenses

Capital outlay expenses have increased significantly over the last few years due to construction of two new care centers, the Puller Veterans Care Center in Fauquier County, and the Jones & Cabacoy Veterans Care Center in Virginia Beach. The 2013 General Assembly approved these care centers, and the applicable localities subsequently donated the land in 2016. Construction began in 2020 using a similar design for each care center. The Department of General Services (General Services) is overseeing both projects on behalf of Veterans Services. General Services is performing project management, contract administration, and procurement functions for both care center projects.

A combination of Virginia Public Building Authority bond funds and federal grant funds is funding construction of the care centers. The initial appropriation in 2013 was based on a 65/35 split between federal grant funds and bond funds, but the General Assembly appropriated additional bond funds in 2016. The estimated total cost for each care center is \$65 to \$70 million, and capital outlay expenses in fiscal year 2021 were approximately \$66 million for the two care centers combined. The following table includes some relevant information on each of these projects.

Summary Information for New Care Centers

Table 1

	Jones & Cabacoy Veterans Care Center	Puller Veterans Care Center
Number of planned beds/patients	128 beds	128 beds
Amount of donated land	26 acres	30 acres
Total project budget	\$64,154,446	\$69,461,337
Total expenses as of 6/30/21	\$37,209,648	\$37,690,805

Source: Performance Budgeting System, Building Information Tracking System

The opening of the two new care centers is intended to provide services to a population of veterans that previously did not have ease of access to nursing home care. Veterans Services will begin taking patient applications in August 2022 and estimates both care centers will open in late 2022.

Other Non-Payroll Expenses

Aside from capital outlay expenses, other non-payroll expenses are close to \$22 million each year as shown in Chart 1. Of these expenses, approximately \$14 million relates to care center operations, which primarily includes expenses for medical and other care-related expenses for patients. The remaining \$8 million represents Richmond central office expenses for various programs and services for veterans, as well as routine operating costs. Veterans Services pays many of these expenses through the agency's small purchase charge card program and as such, we included purchase card transactions in the scope of our audit.



Commonwealth of Virginia

Auditor of Public Accounts

Staci A. Henshaw, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

July 15, 2022

The Honorable Glenn Youngkin
Governor of Virginia

Joint Legislative Audit
and Review Commission

We have audited capital outlay and other non-payroll expenses of the **Department of Veterans Services** (Veterans Services) for the year ended June 30, 2021. 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 Scope and Objectives

Our audit's primary objectives with regard to capital outlay and other non-payroll expenses were to evaluate the accuracy of transactions recorded in the Commonwealth's accounting and financial reporting system and the Commonwealth's capital asset system; review the adequacy of Veterans Services' internal controls; and test compliance with applicable laws, regulations, contracts, and grant agreements. We also reviewed corrective actions for audit findings from prior reports. See the [Findings Summary](#) included in the Appendix for a listing of prior audit findings and the status of follow-up on management's corrective action.

Audit 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 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, as they pertain to our audit objectives.

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

Conclusions

We found that Veterans Services properly stated, in all material respects, transactions recorded and reported in the Commonwealth's accounting and financial reporting system and the Commonwealth's capital asset system, relating to the audit objectives, except for donated land which was not properly recorded.

We noted certain matters pertaining to capital outlay and non-payroll expenses involving internal controls 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 "Audit Findings and Recommendations."

Veterans Services has taken adequate corrective action for audit findings reported in prior years that are listed as resolved in the [Findings Summary](#) in the Appendix.

Exit Conference and Report Distribution

We discussed this report with management on August 3, 2022. 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.

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

LCW:vks

APPENDIX - FINDINGS SUMMARY

Finding	Follow-Up Status	Year(s) Issued
Review and Document Service Organization Control Report	Resolved	2018
Grant System Access on the Principle of Least Privilege	Resolved	2018
Strengthen Procedures over Terminated Employee System Access	Resolved	2018
Improve Capital Asset Accounting Policies and Procedures	Resolved	2017
Improve Controls over Capital Assets	Resolved	2017
Properly Record Capital Asset Additions	Resolved	2017
Ensure Annual System Access Reviews are Performed	Repeat**	2018, 2021
Continue to Improve Controls over Physical Inventory	Repeat**	2017, 2021
Record Donated Land in Capital Asset Accounting System	New	2021
Properly Classify Federal Grants on Financial Attachments	New	2021
Remove System Access for Terminated Employee	New	2021
Strengthen System Access over Financial Reporting System	New	2021
Improve Controls Over Capital Asset Reconciliations	New	2021

**Follow-up Status on prior year findings identified as “Repeat” indicates sufficient corrective action on a prior recommendation is not complete; therefore, the prior year finding has been fully or partially repeated.



COMMONWEALTH of VIRGINIA

Department of Veterans Services

Daniel M. Gade, PhD
Commissioner

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The Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

August 10, 2022

Dear Ms. Henshaw:

We have reviewed your audit report for the Department of Veterans Services for the fiscal year ended June 30, 2021. We appreciate the acknowledgement of properly stated, in all material respects, transactions recorded and reported in the Commonwealth's accounting and reporting system, relating to the audit objectives. The donated land which was not recorded in the Commonwealth's Capital Asset system (FAACS), was added during the audit and is properly reflected in FAACS.

We concur with your findings and recommendations on certain matters involving internal controls and our operation and compliance with applicable laws, regulations, contracts and grant agreements that require management's attention and corrective action. Corrective action has already been taken to resolve and prevent future occurrence of all 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.

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

Tammy L. Davidson
Chief Financial Officer

AN EQUAL OPPORTUNITY EMPLOYER
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DEPARTMENT OF VETERANS SERVICES

As of June 30, 2021

Commissioner
John Maxwell

Tammy Davidson
Director of Finance

Sitter-Barfoot Veterans Care Center

Robyn Jennings
Administrator

Tracy Morrison
Finance Director

Virginia Veterans Care Center

Todd Barnes
Administrator

Cheri Lankford
Finance Director