



DISABILITY SERVICES AGENCIES

AUDIT OF SELECT CYCLES FOR THE YEAR ENDED JUNE 30, 2017

Auditor of Public Accounts
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AUDIT SUMMARY

We audited the **Disability Services Agencies'** travel card charges and travel expenses and followed up on eight findings related to payroll and check deposits for the audit period ended June 30, 2014, and four findings related to information security for the fiscal year ended June 30, 2016. We reviewed an interfund liability between Aging and Rehabilitative Services and the Neurotrauma Initiative Advisory Board. In addition, we audited the **Department for Aging and Rehabilitation Services'** information systems security controls over change management for the fiscal year ended June 30, 2017. We found:

- proper recording and reporting of travel expenses, in all material respects, in the Commonwealth's accounting and reporting system;
- matters involving internal control and its operation pertaining to check deposits and payroll processes necessary to bring to management's attention;
- a matter involving internal control and noncompliance with applicable laws and regulations or other matters that are required to be reported related to the Neurotrauma Initiative Trust Fund; and
- adequate corrective action with respect to prior audit findings listed below.
 - Create Payroll Policies and Procedures and Document Pre-Certification Activities
 - Improve Documentation to Support Pay Actions
 - Ensure Hours Worked by Wage Employees Do Not Exceed 1,500 Hours
 - Remove CIPPS Access Promptly
 - Perform CIPPS/CARS Reconciliations
 - Re-evaluate myVRS Access
 - Improve Firewall Management
 - Improve Physical and Environmental Security
 - Improve IT Asset Management Process and Procedures
 - Improve Security Awareness Training Process

We did not follow up on the non-information security findings issued in the prior Disability Services Agencies audit report for the period July 1, 2015, through June 30, 2016. Due to the timing of the prior report, Disability Services Agencies have not implemented corrective action for all findings. We will follow up on the remaining findings from the prior audit in future audits.

The Disability Services Agencies include the following:

- Department for Aging and Rehabilitative Services (including Wilson Workforce Rehabilitation Center)
- Department for the Blind and Vision Impaired (including Virginia Industries for the Blind and Virginia Rehabilitation Center for the Blind and Vision Impaired)
- Department for the Deaf and Hard-of-Hearing
- Virginia Board for People with Disabilities

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AUDIT FINDINGS AND RECOMMENDATIONS

Comply with the Commonwealth Neurotrauma Initiative Trust Fund Requirements

Type: Internal Control and Compliance

Repeat: No

The Department for Aging and Rehabilitative Services and the Commonwealth Neurotrauma Initiative Advisory Board's (Board) use of the Commonwealth Neurotrauma Initiative Trust Fund (Trust Fund) does not comply with Code of Virginia § 51.5-179. The Board can use five percent of the revenues collected each year for administration and staffing. Aging and Rehabilitative Services provides administration and staff for the Board. However, during fiscal year 2017, Aging and Rehabilitative Services spent \$93,196 in administrative expenses, which was \$50,973 over the limit of \$42,222. Aging and Rehabilitative Services does not have an adequate method to monitor administrative expenses against the five percent limit.

The Code of Virginia requires that the moneys in the Trust Fund go to support grants for rehabilitative services and research on the mechanisms and treatment of neurotrauma. During fiscal years 2013 through 2016, Aging and Rehabilitative Services borrowed \$1.5 million from the Trust Fund to aid in cash shortages within their operations due to increases in information technology costs, which include VITA costs, and several reimbursement basis federal grants, which require upfront payment before reimbursement. Due to the increase and changes in information technology costs, Aging and Rehabilitative Services did not have cash available for ongoing operations. The funds borrowed totaled 35 percent of the revenues collected during those four fiscal years. Aging and Rehabilitative Services use of these funds was inappropriate as it reduced the funds available for the Board to award in grants, and; therefore, did not comply with the Code of Virginia. Aging and Rehabilitative Services began repaying the loan in fiscal year 2016 and, at the request of the Board, developed a payment plan to repay the funds by fiscal year 2020.

Aging and Rehabilitative Services should develop and implement a method to monitor the administrative and staffing expenses for the Trust Fund to ensure the expenses do not exceed the five percent limit. In addition, Aging and Rehabilitative Services should not use Trust Fund cash to supplement their operations. The Commonwealth provides agencies with access to Treasury loans specifically to support the initial expenses under a reimbursement basis federal grant. Aging and Rehabilitative Services needs to explore this option and repay the funds to the Trust Fund quickly so as not to continue to limit the Board's ability to grant funds.

Improve Documentation and Reconcile Checks Received

Type: Internal Control

Repeat: Partial (first issued in 2014, with limited progress)

Prior Title: Improve Policies and Procedures and Documentation of Checks Received at the Industries for the Blind

The Virginia Industries for the Blind is not maintaining a check log or reconciling checks sent to Aging and Rehabilitative Services Fiscal Department timely for payments that the Virginia Industries for

the Blind receives. Typically, Aging and Rehabilitative Services receives payments directly and deposits them. However, there are instances where customers remit payments directly to the Virginia Industries for the Blind. Virginia Industries for the Blind forwards the payment to Aging and Rehabilitative Services, but does not consistently log or reconcile the checks received to what Aging and Rehabilitative Services deposits to ensure all payments are deposited.

Aging and Rehabilitative Services Fiscal Department and the Virginia Industries for the Blind created a formal policy that requires the Aging and Rehabilitative Services Fiscal Department and the Virginia Industries for the Blind to perform monthly reconciliations of checks and resolve all discrepancies. However, the Virginia Industries for the Blind did not follow this policy during fiscal year 2017. Due to high turnover, the Virginia Industries for the Blind reconciled only three months of checks received to checks deposited by Aging and Rehabilitative Services Fiscal Department. We could not audit the timeliness of deposits because there was no log for nine months of the year.

Not following the policy and process created over the receipt, recording, forwarding, and reconciling of payments received by the Virginia Industries for the Blind and deposited by Aging and Rehabilitative Services increases the risk of payments being lost, stolen, or deposited untimely. Virginia Industries for the Blind and Aging and Rehabilitative Services Fiscal Department should enforce the formal policy and procedures to ensure the timely and accurate deposit of checks received by Virginia Industries for the Blind.

Improve Documentation and Timeliness of the Commonwealth's Benefit System Reconciliations

Type: Internal Control

Repeat: Partial (first issued in 2014, with limited progress)

Prior Title: Perform MyVRSNavigator Reconciliations

The Department for Aging and Rehabilitative Services' Human Resources Department is not performing Commonwealth retirement benefits system (Benefits System) reconciliation to the Commonwealth's human resource system (HR System) in a timely manner. Three out of seven agency reconciliations reviewed did not include evidence of completion prior to the snapshot confirmation date. In addition, Human Resources did not review the HR System cancelled record reports for exceptions reported in the Benefits System prior to the contribution snapshot confirmation date. For five out of seven agency cancelled record reports reviewed, the Benefits Manager reviewed the reports after the snapshot confirmation date. No records were retained for one out of the seven agency cancelled record reports to provide evidence that a review was completed. Furthermore, the Human Resources and Payroll Departments do not have documented procedures that adequately reflect the department's reconciliation and confirmation process.

CAPP Manual Topic 50410 requires the agency to complete the reconciliation prior to certifying the snapshot confirmation. In addition, the same topic states, "...employers must review the Cancelled Record Report daily to ensure all information was recorded in [the Benefits System]." Reviewing and correcting items in the cancelled record report is essential to ensure that retirement benefits are accurately calculated and properly transmitted between the HR and Benefits Systems.

The Payroll Department created payroll policies and procedures to document the tasks required to perform reconciliations; however, the policies and procedures do not outline when the procedures should be performed or what level of standard documentation should be retained. Also, the policies do not include a sign-off for the activities completed. Finally, payroll policies and procedures do not include the activities performed by the Human Resources Department.

Without devoting the appropriate amount of resources to the reconciliation process and maintaining the appropriate supporting documentation, Human Resources cannot provide assurance that employee records in the Benefit and HR Systems are accurate. Inadequate reconciliations can cause errors in members' retirement related data. It can also lead to the Disability Services Agencies under- or overpaying retirement contributions to the Benefit System, which can create complications when members retire.

The Department for Aging and Rehabilitative services should consider implementing a manual sign-off after reconciliation procedures are completed. The agency should also retain documentation of performed procedures such as printing reports for evidence of work completed. The Human Resources and Payroll Departments should gain an understanding of the procedures performed by each other. The agency should update the policies and procedures over reconciliations for these changes.

AUDIT SCOPE OVERVIEW

The Disability Services Agencies provide a number of services to the Commonwealth's disabled and aging population. Aging and Rehabilitative Services provides administrative services in the areas of human resources, payroll, information technology, procurement, fleet, fiscal, and internal audit for the Disability Services Agencies through a memorandum of understanding.

Travel Expenses

Employees of the Disability Services Agencies travel around the Commonwealth while executing their duties and providing disability services to citizens. Employees use travel cards to pay for official Commonwealth business expenses, thereby reducing the need to issue cash travel advances to employees. Aging and Rehabilitative Services' Fiscal Department is responsible for the travel card program for all Disability Services Agencies, except for Wilson Workforce Rehabilitation Center (Wilson Workforce), which has its own program administrator. Travel card program administrators are responsible for ensuring agency and cardholder compliance with Commonwealth travel regulations in the CAPP Manual.

Disability Services Agencies use the CAPP Manual and internal policies and procedures for the agencies' travel guidelines. Aging and Rehabilitative Services documents procedures for all Disability Services Agencies, with the exception of Wilson Workforce, who documents its own procedures. Disability Services Agencies have a significant amount of travel and use a large number of travel cards. Given the inherent risk of credit cards in general, previous issues surrounding purchasing cards, and the significant amount of travel expenses during fiscal year 2017, we included a review of travel cards and travel expenses in our objectives.

Travel Cards and Related Expenses

For the Period June 1, 2016 – June 30, 2017

| Agency | Number of Cards | Card Charges | Travel Expenses |
|--|-----------------|-----------------|--------------------|
| Department for Aging and Rehabilitative Services | 91 | \$ 29,326 | \$ 1,179,800 |
| Department for the Blind and Vision Impaired | 50 | 18,527 | 621,479 |
| Department for the Deaf and Hard-of-Hearing | 2 | - | 20,692 |
| Virginia Board for People with Disabilities | - | - | 78,981 |
| Wilson Workforce Rehabilitation Center | 46 | 8,410 | 203,578 |
| Total | 189 | \$56,263 | \$2,104,530 |

Source: Commonwealth accounting and financial reporting system and Bank of America's online program management system

Prior Year Management Recommendations

We followed up on eight management recommendations from the fiscal year 2014 audit report to determine if management implemented adequate corrective action. Seven of the findings related to payroll processes performed by Agency and Rehabilitation Services and one finding related to timely depositing of checks at Agency and Rehabilitation Services. We also followed up on four information technology findings from the fiscal year 2016 audit as detailed below.

Information Technology

The majority of the Disability Services Agencies' information technology (IT) assets are in-scope to the Virginia Information Technologies Agency and Northrop Grumman Partnership (Partnership). Aging and Rehabilitative Services relies solely on the Partnership for their IT infrastructure; however, Wilson Workforce has IT assets that are in-scope to the Partnership and IT assets that they manage outside of the Partnership. The audit scope included follow-up reviews over four prior year recommendations at Wilson Workforce. In addition, we performed a review over Aging and Rehabilitative Service's new change management application.

2018 Audit Scope Planning

The Department of Blind and Visually Impaired (Blind and Visually Impaired) is one of the six disability service agencies for which Aging and Rehabilitative Services provides fiscal services. Blind and Visually Impaired provides employment options for blind Virginians. As part of the current year scope, we obtained an understanding of Blind and Visually Impaired operations and determined that their most significant operations relate to the sales and manufacturing of products produced by the Virginia Industries for the Blind. We plan to audit the significant operations identified at the Virginia Industries for the Blind during the fiscal year 2018 audit.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

August 7, 2018

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission

We have audited travel card charges and travel expenses; corrective action for eight prior audit findings issued during fiscal year ended June 30, 2014, related to payroll processes and check deposits; and four prior audit findings issued during the fiscal year ended June 30, 2016, related to information security at **Disability Services Agencies**. In addition, we audited information systems security controls over change management at the **Department for Aging and Rehabilitative Services** for the year ended June 30, 2017. 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 objective with regard to travel card charges and travel expenses was to review and evaluate whether internal controls were adequate; and charges and expenses were reasonable and in compliance with applicable laws and regulations. We reviewed Aging and Rehabilitative Services' controls over the change management process for compliance with the Commonwealth's Information Security Standard SEC 501. We also reviewed corrective actions for audit findings from prior reports as follows:

- Create Payroll Policies and Procedures and Document Pre-Certification Activities
- Improve Documentation to Support Pay Actions
- Ensure Hours Worked by Wage Employees Do Not Exceed 1500 Hours

- Remove CIPPS Access Promptly
- Perform CIPPS/CARS Reconciliations
- Perform MyVRSNavigator Reconciliations
- Re-evaluate myVRS Access
- Improve Policies and Documentation of Checks Received at the Industries for the Blind
- Improve Firewall Management
- Improve Physical and Environmental Security
- Improve IT Asset Management Process and Procedures
- Improve Security Awareness Training Process

We will follow up on the remaining audit findings from prior reports in subsequent audits.

Audit Methodology

The Disability Services Agencies 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 the Disability Services Agencies' 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 the Disability Services Agencies' 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 noted certain matters pertaining to payroll, check deposits, and the Commonwealth Neurotrauma Initiative Trust Fund, 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."

The Disability Services Agencies have taken adequate corrective action with respect to audit findings reported in the prior year that are listed under the Audit Objectives section of this letter that are not repeated in this letter.

Exit Conference and Report Distribution

We discussed this report with management on August 15, 2018. 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

DBC/clj



COMMONWEALTH OF VIRGINIA
DEPARTMENT FOR AGING AND REHABILITATIVE SERVICES

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August 7, 2018

Martha S. Mavredes, CPA
Auditor of Public Accounts
James Monroe Building
101 N. 14th Street, 8th Floor
Richmond, Virginia 23219

Dear Ms. Mavredes:

We have reviewed your Disability Services Agencies Audit Report for the Fiscal Year Ended June 30, 2017. We concur with the findings and are adopting strategies to improve the internal control environment of our agencies. Our responses are listed below.

Improve Documentation and Reconcile Checks Received

The agency will ensure that checks are mailed directly to DARS Fiscal Division to meet the requirement to have checks deposited same day or next day. Additionally, checks mailed in error directly to VIB Charlottesville warehouse will be deposited locally same day or next day. DARS Fiscal Division, General Accounting will reconcile the manual check log with VIB monthly.

Responsible Party: Solomon Girmay, Controller
Estimated Completion Date: October 31, 2018

Improve Documentation and Timeliness of the Commonwealth's Benefit System Reconciliations

The agency will establish documented procedures on the reconciliation of the Benefit System and will ensure Human Resources and Payroll collaboratively establish and document the procedures to include reconciliation signoff and training within the divisions.

Responsible Parties: Solomon Girmay, Controller and Chris Turnage,
Benefits Manager
Estimated Completion Date: March 31, 2019

dars@dars.virginia.gov · www.dars.virginia.gov

Comply with the Commonwealth Neurotrauma Initiative Trust Fund Requirements

The agency will add to the yearend checklist and implement procedures to ensure proper allocation of administrative and staffing expenses for the Trust Fund to ensure the expenses do not exceed the five percent limit. The agency will restrain from utilizing Trust Fund cash to supplement operations and the loan repayment agreement will be adhered to as established with the Commonwealth Neurotrauma Initiative Advisory Board.

Responsible Party: Solomon Girmay, Controller
Estimated Completion Date: March 31, 2019

Should you require more information, please do not hesitate to contact John Thaniel, Chief Financial Officer at john.thaniel@dars.virginia.gov or 804-662-7520.

Sincerely,



Kathryn A. Hayfield

DISABILITY SERVICE AGENCIES

As of June 30, 2017

James Rothrock, Commissioner
Department for Aging and Rehabilitative Services

Raymond Hopkins, Commissioner
Department for the Blind and Vision Impaired

Ronald Lanier, Director
Department for the Deaf and Hard-of-Hearing

Heidi Lawyer, Executive Director
Virginia Board for People with Disabilities