



VIRGINIA HEALTH WORKFORCE DEVELOPMENT AUTHORITY

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS AS OF JANUARY 2023

Auditor of Public Accounts
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Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
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April 27, 2023

Harrison Hayes, Executive Director
Virginia Health Workforce Development Authority
7818 E Parham Road
Richmond VA 23294

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire for the **Virginia Health Workforce Development Authority** (Authority). We completed the review on January 11, 2023. The purpose of this review was to evaluate if the agency has developed adequate internal controls over significant organizational areas and activities and not to express an opinion on the effectiveness of internal controls. Management of the Authority is responsible for establishing and maintaining an effective control environment.

Review Process

During the review, the agency completes an Internal Control Questionnaire that covers significant organizational areas and activities including payroll and human resources; revenues and expenses; procurement and contract management; capital assets; grants management; debt; and information technology and security. The questionnaire focuses on key controls over these areas and activities.

We review the agency responses and supporting documentation to determine the nature, timing, and extent of additional procedures. The nature, timing, and extent of the procedures selected depend on our judgment in assessing the likelihood that the controls may fail to prevent and/or detect events that could prevent the achievement of the control objectives. The procedures performed target risks or business functions deemed significant and involve reviewing internal policies and procedures. Depending on the results of our initial procedures, we may perform additional procedures including reviewing evidence to ascertain that select transactions are executed in accordance with the policies and procedures and conducting inquiries with management. The "Review Procedures" section below details the procedures performed for the Authority. The results of this review will be included within our risk analysis process for the upcoming year in determining which agencies we will audit.

Review Procedures

We evaluated the agency's corrective action for all prior review findings. The agency has taken adequate corrective action with respect to review findings reported in the prior review conducted in 2019 that are not repeated in the "Review Results" section below.

We reviewed a selection of system and transaction reconciliations in order to gain assurance that the statewide accounting system contains accurate data. We also evaluated the Authority's process of completing and submitting attachments to Department of Accounts (Accounts).

We reviewed the Internal Control Questionnaire and supporting documentation detailing policies and procedures. As a result of our review, we performed additional procedures over the following areas: payroll and human resources, revenues and expenses, procurement and contract management, grants management, and information technology and security. These procedures included validating the existence of certain transactions; observing controls to determine if the controls are effectively designed and implemented; reviewing transactions for compliance with internal and Commonwealth policies and procedures; and conducting a review over management's risk assessment process.

As a result of these procedures, we noted areas that require management's attention. These areas are detailed in the "Review Results" section below.

Review Results

We noted the following areas requiring management's attention resulting from our review:

- **Repeat** - The Authority does not perform a risk assessment to analyze potential events that would keep the Authority from achieving its objectives. Accounts' Agency Risk Management and Internal Control Standards (ARMICS) do not apply to the Authority since it is a component unit of the Commonwealth. However, as a best management practice, a thorough risk assessment would identify significant risks to the Authority and serve as a baseline from which to design appropriate controls. As risk assessment is a key component of internal control, the Authority should perform a risk assessment as part of its strategic planning process. The Authority could use ARMICS standards as a guide to perform this assessment.
- **Repeat** - The Authority does not track its balance of federal funds separately from other sources of funding. While the Authority does track the activity of the funds annually and ensures annual amounts spent do not exceed the amount of federal funds awarded, management cannot determine the remaining balance of non-federal funds from year to year. The Code of Federal Regulations (2 CFR § 200.403) outlines which items are allowable under federal grants, but the Authority can spend funds raised in addition to amounts required to match the federal funds at the Authority's discretion. Without keeping segregated running totals of non-federal funds, the Authority risks spending grant funds on unallowable costs and risks not fully utilizing its additional non-grant funds. The Authority

should determine the balance of its non-federal funds and track this balance as these funds accumulate over time. This will enable management to know exactly the amount of federal and non-federal funds it holds at any point in time.

- **Repeat** - The Authority has not implemented an appropriate information security framework. While the Authority has adopted the Commonwealth's Information Security Standard, SEC 501 (Security Standard) for its Password Protection Policy, the Authority has not established a program to address the remaining aspects of its information security. Management should implement an information security program that incorporates, at a minimum, the applicable security controls outlined in the Security Standard to protect its sensitive and critical data from unauthorized disclosure, corruption, and loss.
- **Repeat** - The Authority does not have information security policies and procedures applicable to the agency's information technology (IT) environment to govern its information security program and establish controls over both sensitive and non-sensitive information systems. The Authority should complete formalized policies and procedures to comply with section 1.4 of the Security Standard. Once completed, the Authority should complete risk management and contingency documentation that aligns with the requirements in the newly implemented IT Security Policy and the Security Standard.
- **Partial Repeat** - Since the last review, the Authority has evaluated the controls of its third-party service provider by obtaining a System and Organization Controls (SOC) Report. However, the Authority did not document a review of the third party's SOC report nor formally document the review of complimentary user controls listed in the SOC Report to ensure the Authority has identified, implemented, and deemed the controls to be effective. The Authority should formally document its review of the third-party's SOC report and document its evaluation of the Authority's complimentary controls.
- **Partial Repeat** - For some key business areas, the Authority could not provide internal policies and procedures. As Topic 20905 and other sections of the Commonwealth Accounting Policies and Procedures Manual require each agency to "publish its own policies and procedures documents, approved in writing by agency management," the Authority should draft and implement formalized policies and procedures over all key business areas and retain evidence of management's approval over the policies.
- The Authority is not reviewing Area Health Education Center (AHEC) Grant monthly progress reports for completeness. Four out of five AHEC Grant monthly progress reports reviewed did not have the section requiring AHEC Centers to indicate how they meet each AHEC Center requirement completed. The Authority uses these progress reports to ensure that grant award recipients are properly using the funds received and meet or continue to meet the requirements of an AHEC; therefore, not having the reports fully completed impedes the Authority's ability to monitor grant funds. The Authority should ensure that AHEC grant recipients fully complete all monthly progress reports.

- For a limited selection of accounting system and bank reconciliations, there was no documented review to support proper separation of duties. Normally the preparer and the reviewer sign the reconciliation as evidence of proper review and separation of duties; however, in this case only the preparer signed the reconciliation. The Authority should update this process to ensure there is evidence to support proper separation of duties for these reconciliations.

We discussed these matters with management on April 26, 2023. Management's response to the findings identified in our review is included in the section titled "Authority Response." We did not validate management's response and, accordingly, cannot take a position on whether or not it adequately addresses the issues in this report.

This report is intended for the information and use of management. However, it is a public record and its distribution is not limited.

Sincerely,

Staci A. Henshaw
Auditor of Public Accounts

JDE/clj

June 2, 2023

Re: Results of Internal Control Questionnaire Review conducted on 1/11/2023
Jennifer Eggleston, CPA, CISA, CGFM, Project Manager
Melinda Crawford, CFE, VCCO, In-Charge

Auditor of Public Accounts
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To Whom It May Concern:

The Virginia Health Workforce Development Authority (VHWDA) has reviewed and agrees with the results of the Internal Control Questionnaire Review conducted for the fiscal year ending on June 30, 2022. The Authority had new leadership start in September 2022, when the review was in its final stages. The Authority became fully staffed in December 2022. Absent of results from the “Internal Control Questionnaire Review,” the Authority has already started implementing opportunities to strengthen controls, some of which were outlined. The following changes are being implemented.

Policies and Procedure

- A new fiscal administrator has been hired, and policies and procedures have been developed for submitting future financials to the Auditor of Public Accounts (APA). Currently, the Authority’s finances are audit ready, and we can provide information promptly to APA for future audits and reviews.
- The Authority has contract and grants management procedures in place; however, these need to be updated to reflect Authority’s needs and shared in a folder for all staff.
- The Authority now has procedures regarding staff resignation and termination, particularly around updating account access to services and systems frequently used by the Authority.

Procurement and Contract Management

The Authority hired a Director of Virginia AHEC & Programs and a Director of Data & Evaluation. Both roles have been critical in updating the monthly progress reports. Structures are in place to better align those reports to monthly draw-down activity. AHECs must complete all aspects of the updated monthly progress report before funds are disbursed to Centers. The updated monthly progress report was launched in February 2023.

Additionally, all AHECs will undergo an extensive in-house evaluation to ensure accountability of the HRSA AHEC grant and that the needs of the Commonwealth and their region are being met. The annual evaluation will be launched in August 2023. A tracking system is being implanted in May 2023 to track federal funds spent separately from other funding sources. The software system will delineate spending from all sources of income for transparent

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reporting. Policies are in place that clearly outline allowable fund spending items based on HRSA requirements.

Financial System Reconciliations

Starting in May 2023, the Authority will be using a system to approve spending and putting reconciliation procedures in place that align with our internal policies. There will be more frequent reconciliations and a review and signoff process from the fiscal administrator, Executive Director, and Board Treasurer.

Information System Security


The Authority developed an information security policy and procedure in January 2023. These policies and procedures are related to data obtained from our AHEC regions for program services. This policy and procedure include required training from all Authority staff and AHEC Directors. The Authority will complete risk management and contingency documentation that aligns with the information security policy.

Thank you for your recommendations to strengthen the internal controls of the Virginia Health Workforce Development Authority. Please contact me at (804) 562-4928 or hhayes@vhwda.org if you have any questions or concerns.

Sincerely,




Harrison L. Hayes
Executive Director

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