



DEPARTMENTS FOR AGING
AND REHABILITATIVE SERVICES
AND THE BLIND AND VISION IMPAIRED

VOCATIONAL REHABILITATION
DISABILITY INSURANCE/SUPPLEMENTAL SECURITY
INCOME CLUSTER
FEDERAL PROGRAMS

FOR THE YEAR ENDED
JUNE 30, 2019

Auditor of Public Accounts
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AUDIT SUMMARY

Our audit of the Vocational Rehabilitation federal program, administered by the Department for Aging and Rehabilitative Services and the Department for the Blind and Vision Impaired, and the Disability Insurance/Supplemental Security Income Cluster federal program, administered by the Department for Aging and Rehabilitative Services for the fiscal year ended June 30, 2019, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth's accounting and reporting system, the internal accounting and reporting system, and in supplemental information submitted to the Department of Accounts;
- five matters involving internal control and its operation and noncompliance with applicable laws and regulations that are necessary to bring to management's attention; and
- adequate corrective action with respect to audit findings included in the 2016 Commonwealth of Virginia Single Audit Report.

- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
AUDIT FINDINGS AND RECOMMENDATIONS	1-5
INDEPENDENT AUDITOR'S REPORT	6-8
AGENCY RESPONSE	9-10
AGENCY OFFICIALS	11

AUDIT FINDINGS AND RECOMMENDATIONS

Why the APA Audits Compliance with Federal Requirements

The Department for Aging and Rehabilitative Services (Aging and Rehabilitative Services) and the Department for the Blind and Vision Impaired (Blind and Vision Impaired) collectively spend over \$170 million in federal dollars. Not complying with the federal requirements for these funds could lead to the loss or reduction in federal funding. We reviewed Aging and Rehabilitative Services' and Blind and Vision Impaired's compliance with requirements for the Vocational Rehabilitation federal program. We reviewed Aging and Rehabilitative Services' compliance with requirements for the Disability Income/Supplemental Security Income Cluster federal program. We also evaluated both Aging and Rehabilitative Services' and Blind and Vision Impaired's internal controls surrounding these federal programs.

Improve the Case Management System Access Review Process

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Aging and Rehabilitative Services did not perform a comprehensive system access review of the case management system. Aging and Rehabilitative Services, the Wilson Workforce and Rehabilitation Center, and Blind and Vision Impaired use this mission-critical system to process eligibility determinations, set up services planned for clients, and authorize payments. Aging and Rehabilitative Services is responsible for ensuring access is appropriate.

The Commonwealth's Information Security Standard, SEC 501 (Security Standard), Section AC-2j, requires agencies to "review accounts for compliance with account management requirements on an annual basis or more frequently..." The absence of a comprehensive access review increases the risk of unauthorized individuals inappropriately altering or viewing sensitive information or authorizing eligibility determinations. There is not a backup person to perform this review if the case management system manager is unable to complete it. This prevented completion of the annual access review.

Aging and Rehabilitative Services should perform an annual review of access to the case management system. In addition, Aging and Rehabilitative Services should ensure there are backups for mission-critical duties such as access reviews. This will reduce the risk of unauthorized transactions and ensure compliance with the Security Standard.

Improve Oversight of Third-Party Service Providers

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Aging and Rehabilitative Services does not gain assurance that a third-party service provider who manages and maintains an outsourced information technology (IT) system has a secure environment to

protect its sensitive and mission-critical data. For external IT systems, the Commonwealth's Hosted Environment Information Security Standard, SEC 525 (Hosted Environment Security Standard), Section SA-9-COV 3.1, requires agencies to "perform an annual security audit of the environment or review the annual audit report of the environment conducted by an independent, third-party audit firm on an annual basis."

Without gaining assurance over third-party service providers' IT environments, Aging and Rehabilitative Services cannot validate the effectiveness of the third-party's IT controls. This risks allowing the service provider to operate outside the Security Standard and the potential compromise of sensitive data.

Aging and Rehabilitative Services does not have a policy or formal process in place to identify third-party service providers or to review those service providers' audit reports. Additionally, Aging and Rehabilitative Services' contract with the third-party service provider does not require annual System and Organizational Controls (SOC) reports from the provider.

Aging and Rehabilitative Services should develop a formal process to identify all third-party service providers and obtain assurance that these providers have secure IT environments. Aging and Rehabilitative Services should also ensure contractual requirements exist for third-party service providers to provide annual SOC reports to satisfy the Hosted Environment Security Standard. Aging and Rehabilitative Services' process should include a review of the third-party providers' SOC report on an annual basis. Implementation of these practices into the information security program will help to ensure third-party providers' IT controls protect the confidentiality, integrity, and availability of sensitive and mission-critical data.

Improve the Eligibility Determination Process for Vocational Rehabilitation

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Aging and Rehabilitative Services' Vocational Rehabilitation (VR) counselors did not determine individuals' eligibility or process extensions within 60 days for 17% of individuals sampled. United States Code (29 USC 722), Eligibility and Individualized Plan for Employment, requires states to determine whether an individual is eligible for VR services within a reasonable period of time, not to exceed 60 days, after the individual has submitted an application for the services.

Not determining eligibility or processing extensions in a timely manner makes Aging and Rehabilitative Services out of compliance with this federal requirement. Additionally, if an individual's circumstances change, making them ineligible between the time the individual submits the application and the VR counselor makes the eligibility determination, this risks providing benefits to an ineligible recipient. Untimely eligibility determinations could also cause the individuals to miss certain job opportunities as they await assistance.

Significant turnover in VR counselors caused the untimely determinations of eligibility. This turnover and a prioritization of other tasks caused the counselors to be unresponsive to system notifications of eligibility due dates.

Aging and Rehabilitative Services should enhance the process by which it responds to the notifications and ensure counselors are available to determine eligibility or request extensions within 60 days as required by the VR grant. This will reduce the risk of providing benefits to ineligible recipients, ensure accurate and up-to-date records of clients' needs are maintained, and reduce noncompliance with this federal requirement.

Improve Processes to Comply with the Conflicts of Interest Act

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Aging and Rehabilitative Services did not identify 196 VR counselors and staff who determine eligibility and one grants manager as being in positions of trust to ensure all such individuals comply with Statement of Economic Interest (SOEI) requirements. Blind and Vision Impaired did not identify one VR counselor who transferred from Aging and Rehabilitative Services as occupying a position of trust. As a result, these individuals did not complete the required training and did not file SOEI disclosure forms.

Executive Order Number Eight (Executive Order) from the Office of the Governor requires agencies to submit a report to the Office of the Secretary of the Commonwealth identifying, by name and job title, the positions that must file SOEI forms. The Executive Order requires executive branch agencies to ensure that employees who occupy positions of trust file their SOEI disclosure forms in accordance with § 2.2-3114 of the Code of Virginia. Section 2.2-3130 of the Code of Virginia (Conflicts of Interest Act) requires individuals in positions of trust to undergo training within two months upon hire and every two years thereafter.

Without identifying and tracking all individuals in positions of trust, Aging and Rehabilitative Services and Blind and Vision Impaired cannot ensure these individuals file SOEI forms and complete the training as required. Individuals who do not complete the training may be unable to recognize or resolve conflicts of interest. This increases the risk of fraud and possible lawsuits involving these employees as those who do not complete the required SOEI form may, as stated by the Code of Virginia § 2.2-3124, be subject to a \$250 civil penalty.

Aging and Rehabilitative Services' existing process does not properly identify all job positions that it should consider to be positions of trust. This caused Aging and Rehabilitative Services' failure to obtain SOEI forms and provide training to these individuals.

Aging and Rehabilitative Services should enhance existing procedures and provide guidance to ensure that the SOEI program coordinators identify employees in positions of trust upon hire, transfer, or changes in job responsibilities. This will reduce the risk of noncompliance with the Conflicts of Interest Act and reduce the risk of conflicts associated with transactions processed by these employees.

Improve Documentation to Show Compliance

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Aging and Rehabilitative Services and Blind and Vision Impaired do not maintain adequate documentation to demonstrate compliance with their federal grant agreements and Commonwealth policies. During our review, we found the following deficiencies in the documentation that Aging and Rehabilitative Services and Blind and Vision Impaired provided:

- the Commonwealth's physician fee schedule for payments to consultative examination (CE) providers for the Disability Insurance/Supplemental Security Income Cluster federal program showed no evidence of review or approval;
- there was no evidence of a comprehensive oversight management review of the CE providers for suspension and debarment for the Disability Insurance/Supplemental Security Income Cluster federal program;
- twelve percent of benefit expenses sampled showed no evidence of counselor approval for the VR program;
- the IT department's business impact analysis showed no evidence of review; and
- the Aging and Rehabilitative Services Annual VR Program/Cost Report (RSA-2) showed no evidence of review or approval.

Section DI (Disability Insurance) 39545.600: Fee Schedules, of the Social Security Administration's Program Operations Manual System (POMS) requires retention of documentation to support payment rates and regional office approval of rate increases. Section DI 39569.300: Disability Determination Services Requirements, of POMS prohibits Aging and Rehabilitative Services from using CE providers who are currently excluded, suspended, or barred from participating in federal programs. United States Code (29 USC 722 (b)) and Aging and Rehabilitative Services' internal policy requires VR counselors to review and approve expenses for individuals' plans for employment to ensure the expense is allowable and reasonable. The Security Standard, Section 3.2.7 requires agencies to perform an annual review of its business impact analysis. Aging and Rehabilitative Services' VR Reporting policy requires review of each federal report prior to submission.

The lack of documentation of reviews and approvals is out of compliance with federal and Commonwealth guidelines. Although Aging and Rehabilitative Services and Blind and Vision Impaired have indicated they perform the necessary reviews, the absence of documentation increases the risk that these reviews and approvals may not occur. A lack of review increases the risk of inaccurate reporting, incorrect payment rates, improper payments and further instances of noncompliance.

Aging and Rehabilitative Services' and Blind and Vision Impaired's inadequate level of documentation was due to management and staff oversight. Aging and Rehabilitative Services and Blind and Vision Impaired should retain documentation over reviews and approvals. Additionally, Aging and Rehabilitative Services and Blind and Vision Impaired should provide training to all personnel regarding the need to retain documentation used to support compliance with federal and Commonwealth requirements. This will reduce instances of noncompliance with these requirements and reduce the risk of improper transactions and reporting.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

January 10, 2020

The Honorable Ralph S. Northam
Governor of Virginia

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

We have audited the financial records and operations of the **Vocational Rehabilitation federal program**, administered by 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 federal program** administered by Aging and Rehabilitative Services, for the year ended June 30, 2019. 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 Vocational Rehabilitation and the Disability Insurance/Supplemental Security Income Cluster federal programs in support of the Commonwealth's Single Audit. In support of this objective, we evaluated the accuracy of recorded financial transactions in the Commonwealth's accounting and financial reporting system, the internal accounting and reporting system, and supplemental information submitted to the Department of Accounts. We reviewed the adequacy of Aging and Rehabilitative Services' and Blind and Vision Impaired's internal controls over compliance with the federal programs; tested for compliance with applicable laws, regulations, contracts, and grant agreements; and reviewed corrective actions of audit findings included in the 2016 Commonwealth of Virginia Single Audit Report.

Audit Scope and Methodology

Aging and Rehabilitative Services and Blind and Vision Impaired's 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 Vocational Rehabilitation and the Disability Insurance/Supplemental Security Income Cluster federal programs.

We performed audit tests to determine whether Aging and Rehabilitative Services and Blind and Vision Impaired'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 Aging and Rehabilitative Services' and Blind and Vision Impaired's operations. We performed analytical procedures, including trend analysis, and 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.

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 and; 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 that we consider to be significant deficiencies, which are described in the section titled "Audit Findings and Recommendations."

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 with a type of compliance requirement of a federal program 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 a 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.

Conclusions

We found that Aging and Rehabilitative Services and Blind and Vision Impaired properly stated, in all material respects, the amounts recorded and reported in the Commonwealth's accounting and financial reporting system, the internal accounting and reporting system, and supplemental information submitted to the Department of Accounts for the Vocational Rehabilitation and Disability Insurance/Supplemental Security Income Cluster federal programs.

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."

Aging and Rehabilitative Services and Blind and Vision Impaired have taken adequate corrective action with respect to audit findings reported in the prior year.

Since the findings noted above 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, 2019. The Single Audit Report will be available at www.apa.virginia.gov in February 2020.

Exit Conference and Report Distribution

We discussed this report with management on January 27, 2020. 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.

Martha S. Mavredes
AUDITOR OF PUBLIC ACCOUNTS

BDH/clj



COMMONWEALTH OF VIRGINIA
DEPARTMENT FOR AGING AND REHABILITATIVE SERVICES

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January 28, 2020

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

Dear Ms. Mavredes

We have reviewed your Statewide Single Audit Report for the Department for Aging and Rehabilitative Services and Department for the Blind and Vision Impaired for the Fiscal Year Ended June 30, 2019. We concur with the findings and are adopting strategies to improve the internal control environment of our organizations. Our responses are listed below.

MP1: Improve the Case Management System Access Review Process

We concur with the audit finding and will develop a corrective action plan in the next 30 days following this report.

Responsible Party: TBD
Estimated Completion Date: June 30, 2020

MP2: Improve Oversight of Third-Party Service Providers

We concur with the audit finding and will develop a corrective action plan in the next 30 days following this report.

Responsible Party: TBD
Estimated Completion Date: December 31, 2020

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MP3: Improve the Eligibility Determination Process for Vocational Rehabilitation

We concur with the audit finding and will develop a corrective action plan in the next 30 days following this report.

Responsible Party: TBD
Estimated Completion Date: June 30, 2020

MP 4: Improve Processes to Comply with the Conflicts of Interest Act

We concur with the audit finding and will develop a corrective action plan in the next 30 days following this report.

Responsible Party: TBD
Estimated Completion Date: September 30, 2020

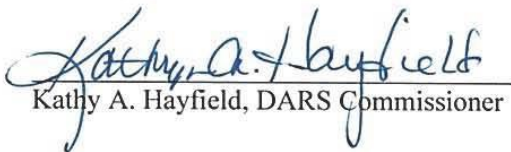
MP 5: Improve Documentation to Show Compliance

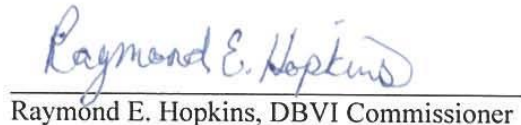
We concur with the audit finding and will develop a corrective action plan in the next 30 days following this report.

Responsible Party: TBD
Estimated Completion Date: September 30, 2020

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,


Kathy A. Hayfield, DARS Commissioner


Raymond E. Hopkins, DBVI Commissioner

AGENCY OFFICIALS

As of June 30, 2019

Kathryn Hayfield, Commissioner
Department for Aging and Rehabilitative Services

Raymond Hopkins, Commissioner
Department for the Blind and Vision Impaired