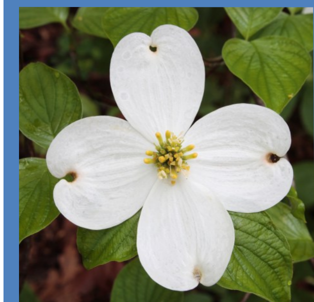


DEPARTMENT OF VETERANS SERVICES

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2024

Auditor of Public Accounts
Staci A. Henshaw, CPA
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AUDIT SUMMARY

Our audit of the adequacy of the Department of Veteran Services' (Veteran Services) corrective actions for seven prior audit findings and its implementation of the Commonwealth's human resource and payroll management system at Veteran Services, including the Davis & McDaniel Veterans Care Center (DMVCC), Sitter & Barfoot Veterans Care Center (SBVCC), and Jones & Cabacoy Veterans Care Center (JCVCC) (Puller Veterans Care Center (PVCC) was not operational during the period covered by this audit) for the fiscal year ended June 30, 2024, found:

- two matters involving internal control and its operation necessary to bring to management's attention;
- two matters involving internal control and its operation necessary to bring to management's attention that also represent instances of noncompliance with applicable laws and regulations or other matters that are required to be reported; and
- adequate corrective action with respect to prior audit findings identified as complete in the Findings Summary included in the Appendix.

In the section titled "Audit Findings and Recommendations," we have included our assessment of the conditions and causes resulting in the internal control and compliance findings identified through our audits 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 recommendations.

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AUDIT FINDINGS AND RECOMMENDATIONS

Implement Controls to Ensure Accurate Payroll
Type: Internal Control
Applicable to: SBVCC

Sitter & Barfoot Veterans Care Center (SBVCC) incorrectly paid double the approved shift differential rate to some employees for at least a 26-month period resulting in estimated overpayments to employees totaling approximately $828,000. These overpayments were a result of SBVCC not implementing a control to validate the accuracy of the data interface between its timekeeping system and the Commonwealth's human resource and payroll management system.

According to SBVCC management, the overpayments started in October 2022 when SBVCC updated the data interface between its timekeeping system and the Commonwealth's new human resource and payroll management system. In December 2024, when making another update to the same data interface, SBVCC identified and corrected the coding error in applying the differential rate. At that time, SBVCC management decided not to seek reimbursement from employees for the overpayments and communicated the identification of the error to its employees and the decision to not seek reimbursement. SBVCC also notified Veteran Services headquarters (headquarters) of the error but not the extent of the overpayments or of management's decision not to seek reimbursement for the overpayments.

Several factors resulted in the initial overpayments and caused them to continue without detection. First, SBVCC did not properly test to validate the appropriateness of the October 2022 changes to the data interface between its timekeeping system and the Commonwealth's human resource and payroll management system. Second, SBVCC did not implement an ongoing control to validate the accuracy of the data interface between these systems. Commonwealth Accounting Policies and Procedures (CAPP) Manual Topic 50515 requires agencies to establish internal controls to ensure the accuracy, completeness, and authorization of payroll transactions. Management should implement formal change management procedures for system changes and payroll reconciliation procedures to validate the accuracy of shift differential payments and other payroll components on a regular basis. Headquarters should also revisit Veterans Services' communication protocols for managers and care centers to ensure headquarters has the situational awareness needed to maintain appropriate oversight.

Improve Internal Controls over Employee Leave
Type: Internal Control and Compliance
Applicable to: SBVCC

SBVCC does not have adequate internal controls to ensure it is monitoring employee leave and recording employee leave activity in the Commonwealth's human resource and payroll management system in a timely manner. During our testing, we identified discrepancies between the Commonwealth's human resource and payroll management system and SBVCC's timekeeping system for eight of 30 (27%) employees sampled. Specifically, we noted instances where employees worked less than 40 full-time hours per SBVCC's timekeeping system; however, the leave SBVCC recorded in the

Commonwealth's human resource and payroll management system was not equal to the expected number of hours the employee did not work during the week.

CAPP Manual Topic 50105 requires agencies to gain an understanding of the controls available within the Commonwealth's human resource and payroll management system, properly employ available controls, and establish additional controls, if warranted, to reduce possible misuse of the payroll process and detect errors when they occur. Without effective controls to monitor and record leave activity in a timely manner, inconsistencies between SBVCC's timekeeping system and the Commonwealth's human resource and payroll management system will exist, which can create an opportunity for an employee to use leave in excess of their leave balance. Based on management's analysis of data in both systems, SBVCC has experienced a significant number of employees being absent from work without available leave balances to offset their absences by approximately 2,100 hours. While management has recently modified its process for recording leave activity, SBVCC still uses a manual process requiring supervisors to notify Human Resources when an employee uses leave and works less than the expected hours.

To reduce inconsistencies between the Commonwealth's human resource and payroll management system and SBVCC's timekeeping system, management should strengthen internal controls over timekeeping and leave tracking and recording. Specifically, management should consider fully integrating its timekeeping system with the Commonwealth's human resource and payroll management system, implement automated rules to deduct leave for unworked hours, and require timely supervisory review and recording of time worked and leave taken. Additionally, management should conduct regular reconciliations between these systems and enhance communication and training around leave policies and available leave balances.

Ensure Annual System Access Reviews are Performed
Type: Internal Control and Compliance
First Reported: Fiscal Year 2018
Applicable to: SBVCC, DMVCC, and JCVCC

Veterans Services skilled nursing facilities (care centers) are not consistently reviewing user access to sensitive systems. Specifically, Davis & McDaniel Veterans Care Center (DMVCC), SBVCC, and Jones & Cabacoy Veterans Care Center (JCVCC) did not perform annual system access reviews over the health records and billing system. The Commonwealth's Information Security Standard, SEC530 (Security Standard) requires an organization to conduct reviews on an annual basis, including reviews of the privileges assigned to all users of sensitive systems, to validate the need for such privileges.

Without management reviewing user accounts at least annually, there is an increased risk of users having unnecessary privileges and making unauthorized changes to applications and data. 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. For example, DMVCC and SBVCC's policies and procedures over system access reviews do not specify that the review should include all employees with system access.

DMVCC and SBVCC management should strengthen applicable policies and procedures to comply with the Security Standard requirements. Additionally, Veterans Services management should ensure staff perform access reviews in accordance with the procedures. To assist in oversight of compliance and internal controls, headquarters should consider requiring a certification of completion for annual system access reviews from management at each of the care centers.

Disable System Access for Terminated Employees

Type: Internal Control and Compliance
Applicable to: DMVCC

DMVCC did not consistently disable terminated employees' access to the medical records and billing system within the required timeframe. For 38 out of 140 (27%) terminated employees sampled, management did not disable system access within 24 hours of the employee's separation. Specifically, 22 employees retained access for up to one week after termination, another 10 employees retained access up to a month, and the remaining 6 employees retained their access between 74 and 250 days after termination.

The Security Standard requires that an organization disable information system access within 24 hours of employee separation and terminate any authenticators or credentials associated with the individual. By not disabling access as required, management increases the risk of unauthorized access to medical and financial records.

During the period covered by our testing, DMVCC relied upon a manual process which required Human Resources to identify whether a terminated employee has access to the medical records and billing system and notify a chain of employees, ending with the Director of Quality Improvement manually disabling access for the terminated employee. According to the Director of Quality Improvement, the untimely removal of access was the result of employee oversight. Additionally, DMVCC did not have a process for conducting a secondary review to ensure the Director of Quality Improvement timely disabled access for terminated employees.

Since the period covered by our testing, DMVCC has developed and implemented an automated process that compares system users to records in the Commonwealth's human resource and payroll management system. Based on the individual's employment status in the Commonwealth's human resource and payroll management system, the automated process will notify management of needed access changes. However, this automated process does not address that the initial manual identification and communication of access termination requests for employees is not always effective, as it only takes one missed communication about a termination to make the process ineffective.

As currently implemented and designed, the automated process runs every 90 days and requires an exact match on an employee's name to be effective. If DMVCC wants to continue relying on its automated process to comply with the Security Standard's requirement to disable access within 24 hours, it should redesign and test its automated process to ensure it is operationally effective in meeting the requirements as specified within the Security Standard. Also, DMVCC should consider implementing a secondary review to confirm that the new process is disabling access as required.

AGENCY HIGHLIGHTS

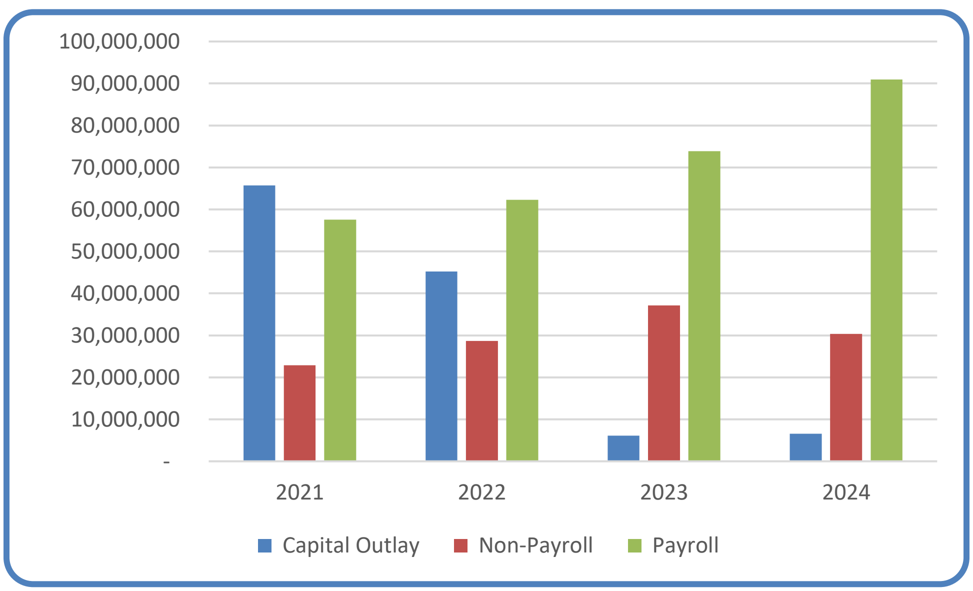
Veterans Services supports Virginia's veterans and their families by delivering and coordinating benefits, services, education, and care. The agency currently consists of a central administrative office, referred to as "headquarters," and four veterans care centers: Davis & McDaniel Veterans Care Center (DMVCC) in Roanoke, Sitter & Barfoot Veterans Care Center (SBVCC) in Richmond, Jones & Cabacoy Veterans Care Center (JCVCC) in Hampton Roads, and Puller Veterans Care Center (PVCC) in Fauquier County.

The care centers provide inpatient, or residential, long-term skilled nursing care, memory care, and short-term rehabilitative services for veterans. Headquarters provides administrative oversight and support to the care centers and oversees all other Veterans Services programs. Since our prior audit, Veterans Services transitioned from its legacy payroll system to the Commonwealth's human resource and payroll management system as the system of record for payroll, and related human resources processes. As part of the transition, payroll processing, system access, and supporting controls were aligned with the Commonwealth's standardized statewide operating model. In addition, Veterans Services opened two new care centers, JCVCC in November 2023 and PVCC in December 2025.

The chart below presents Veterans Services expenses, including those of the care centers, by category for fiscal years 2021 through 2024. As shown, capital outlay expenses decreased over this time period as construction was completed on JCVCC and PVCC with payroll expenses increasing in fiscal year 2024, primarily due to the opening of the JCVCC, which is a 128-bed skilled nursing facility featuring all private rooms and organized into eight 16-bed households that surround a central community center.

Veterans Services Expenses by Category for Fiscal Years 2021 – 2024

Chart 1



Our most recent audits of Veterans Services focused on expenses, capital assets, and patient revenue. For this audit, we evaluated Veterans Services' implementation of the Commonwealth's human resource and payroll management system to determine the effectiveness of applicable system interfaces in ensuring accurate and timely reporting of payroll expenses, including leave activity. We also followed up on prior audit findings to determine whether Veterans Services has taken appropriate corrective action.

Implementation of Commonwealth's human resource and payroll management system

Each veteran care center maintains its own payroll and human resource department and is responsible for managing its day-to-day payroll and human resource operations. While headquarters provides general guidance and policies, operational oversight of payroll and human resource activities largely resides at the individual care center level. Care centers were individually responsible for implementing the Commonwealth's human resource and payroll management system including ensuring applicable system interfaces are operating effectively. Two care centers, DMVCC and SBVCC, utilize a separate timekeeping system that interfaces with the Commonwealth's human resource and payroll management system. Per management, it is expected the two remaining care centers will implement the same timekeeping system in the future.

Commonwealth of Virginia

Auditor of Public Accounts

Staci A. Henshaw, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

June 12, 2026

The Honorable Abigail D. Spanberger
Governor of Virginia

Joint Legislative Audit
and Review Commission

John Maxwell
Commissioner, Department of Veteran Services

We have audited the adequacy of the **Department of Veteran Services**' (Veteran Services) corrective actions for prior audit findings and its implementation of the Commonwealth's human resource and payroll management system as of and for the year ended June 30, 2024. 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 Objectives

Our audit's primary objectives were to evaluate the adequacy of Veterans Services' corrective actions for seven prior audit findings and its implementation of the Commonwealth's human resource and payroll management system including reviewing the adequacy of internal controls and compliance with applicable laws, regulations, contracts, and grant agreements.

A listing of the prior findings along with the status of our follow-up on management's corrective action can be found in the Findings Summary included in the Appendix. Our review of Veterans Services' implementation of the Commonwealth's human resource and payroll management system encompassed its implementation at Davis & McDaniel Veterans Care Center (DMVCC) and Sitter & Barfoot Veterans Care Center (SBVCC), and Jones & Cabacoy Veterans Care Center (JCVCC).

Audit Scope and 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. Our review encompassed controls associated with prior audit findings related to capital assets, federal grant reporting, physical inventory, and system access. Our review also included the implementation of the Commonwealth's human resource and payroll management system.

We performed audit tests to determine whether the 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 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.

Conclusions

We found that Veterans Services has taken adequate corrective action for prior audit findings that are listed as completed in the Findings Summary in the Appendix. We found that Veterans Services corrective action related to system access requires management's continued attention and corrective action. This matter is described in the finding titled "Ensure Annual System Access Reviews are Performed." Additionally, we communicated another system access recommendation in the finding titled "Disable System Access for Terminated Employees."

We noted certain matters related to Veterans Services' implementation of the Commonwealth's human resource and payroll management system, requiring management's attention and corrective action, which are described in the findings titled "Implement Controls to Ensure Accurate Payroll" and "Improve Internal Controls over Employee Leave."

The financial information presented in this report came directly from the Commonwealth's accounting and financial reporting system.

Exit Conference and Report Distribution

We provided management with a draft of this report to review on May 28, 2026. 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

GDS/vks

FINDINGS SUMMARY

Finding Title	Status of Corrective Action*	Fiscal Year First Reported
Continue to Improve Controls over Physical Inventory	Complete	2017
Improve Controls over Capital Asset Reconciliations	Complete	2021
Properly Classify Federal Grants on Financial Attachments	Complete	2021
Record Donated Land in Capital Asset Accounting System	Complete	2021
Remove System Access for Terminated Employee	Complete	2021
Strengthen System Access over Financial Reporting System	Complete	2021
Implement Controls to Ensure Accurate Payroll	Ongoing	2024
Improve Internal Controls over Employee Leave	Ongoing	2024
Ensure Annual System Access Reviews are Performed	Ongoing	2018
Disable System Access for Terminated Employees	Ongoing	2024

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

COMMONWEALTH of VIRGINIA

Department of Veterans Services

John Maxwell
Commissioner

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Fax: (804) 786-0302

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

July 22, 2026

Dear Ms. Henshaw:

We have reviewed your audit report for the Department of Veterans services for fiscal year ended June 30, 2024. We appreciate your acknowledgement that our agency had taken adequate corrective action to prior audit findings. We are still working toward a positive resolution to the System Access Termination issues at our Care Centers and believe we have the correct path forward to resolve this issue.

We concur with your audit findings and recommendations concerning payroll & leave accuracy as well as system access issues at our Care Centers. We have already implemented some corrective actions and will ensure compliance going forward, with HQ level reviews, these actions will be outlined in our corrective action plan.

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.

T L Davidson

Tammy L. Davidson
Chief Financial Officer

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