



# VIRGINIA HEALTH WORKFORCE DEVELOPMENT AUTHORITY

REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2017

Auditor of Public Accounts  
Martha S. Mavredes, CPA

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## AUDIT SUMMARY

Our audit of the Virginia Health Workforce Development Authority (Authority) for the fiscal year ended June 30, 2017, found:

- matters regarding the recording and reporting of transactions in the Authority's financial accounts and records necessary to bring to management's attention;
- matters involving internal control and its operation necessary to bring to management's attention; and
- instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

In a comment to management this year, the Auditor of Public Accounts recommends that the Authority establish an organizational structure that would separate fiscal responsibility from program objectives and ensure the fiscal administrator is experienced in federal grant reporting and compliance. In addition, we provide four recommendations to management to aid them in improving their internal controls.

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## COMMENT TO MANAGEMENT

APA has conducted six audits since the Authority's creation in 2010 and management has not demonstrated the ability to establish and maintain effective internal controls from year to year. The Authority has experienced continual turnover in the fiscal administrative position and has not been able to consistently employ staff with sufficient knowledge of accounting processes and internal controls. The Authority is also experiencing turnover on its primary source of governance, its Board of Directors.

The Authority consists of a supervisory board of directors, an Executive Director, and a fiscal administrative position. The Board is responsible for oversight of the Authority including hiring and management of the Executive Director, approval of the Authority's budget and approval of certain expenses made by the Executive Director. The Treasurer is primarily responsible for these approvals and in past years has also supplied the Executive Director with a rent-free office space and use of CPA services when necessary. The current Board has not had a Vice-Chair since January 2018 and no appointment by the Board of Directors has been made to date. The current Treasurer's term is also set to expire in September 2018. With the turnover of key positions on the Board there is reduced oversight and an increased risk of noncompliance could occur.

The Executive Director's primary responsibility is to lead the programmatic aspects of the federal grant and also to secure additional funding to promote the agency's mission. The fiscal administrator is responsible for the processing of fiscal transactions under the direction of the Executive Director. With minimal staff, turnover in the fiscal administrator position, the Authority being 100 percent federally funded, and an Executive Director with primary focus on programmatic operations, it is imperative that a structure be established to maintain effective internal control over federal awards. Without effective internal controls, the Authority is susceptible to fraud, fiscal errors, and non-compliance. Additionally, the Executive Director is at risk of presenting information to its Board and grantors that is not materially correct. Deficiencies in controls puts the Authority at risk of generating expenses unallowable under its federal grant that may become a liability of its Board members or the Commonwealth. Finally, prolonged issues at the Authority could ultimately lead to the perception that it is not capable of managing federal funds.

The Authority should establish an organizational structure that separates fiscal responsibility from program objectives. The Authority should consider hiring a fiscal administrator, independent from the Executive Director, with sufficient knowledge of accounting processes and internal controls. The Executive Director should focus on achieving programmatic accomplishments and less on fiscal operations.

## AUDIT FINDINGS AND RECOMMENDATIONS

### **Improve Accounting of Funds and Financial Reporting**

**Type:** Internal Control and Compliance

**Repeat:** No

The fiscal administrator, under direction from the Executive Director, does not have proper accounting procedures in place to ensure compliance with grant terms and maintain adequate financial reporting capabilities. During our audit, the Authority was unable to provide sufficient documentation to demonstrate compliance with federal grant terms. Based on documentation provided, the Authority did not monitor and ensure compliance with the program specific terms of their federal grant agreement, including ensuring the Area Health Education Centers (AHEC) centers received at least 75 percent of the grant. In addition, they could not provide documentation that all expenses were allowable expenses under the grant. The Authority also did not properly code 27 expenses leading to inaccurate financial reporting.

The Executive Director informed us during the audit that the Authority had non-federal funds from when the program was initially administered by Virginia Commonwealth University (VCU) and transferred to the Authority on September 1, 2014. The Authority could not provide any documentation as to the existence and amount of the non-federal funds that were carried forward from VCU as these funds were combined into a single account with no separate accounting records. Without proper accounting for and segregation of federal and non-federal funds, we could not ensure compliance with the grant terms nor ensure that non-grant expenses were paid with non-federal funds.

In addition to the lack of segregation of funds, with the Authority only employing two full-time individuals to perform both fiscal and programmatic functions, it is difficult to maintain consistency and ensure all expenses are accurately recorded in the accounting system. When expenses are not properly coded, the Authority is at risk of presenting information to its Board and grantors that is not materially correct.

After our completion of fieldwork, the Authority contracted with an independent Certified Public Accountant to perform certain agreed-upon procedures. These procedures identified non-federal funding received prior to fiscal year 2017 that could have been used for non-grant expenses. Despite the agreed-upon procedures, the Authority did not have procedures in place during fiscal year 2017 to ensure proper segregation of funds and a method in place to monitor compliance with grant terms. We recommend the Authority implement policies and procedures to ensure federal and non-federal funds are accounted for separately and compliance with the federal grant is monitored during the year. The Authority should also ensure proper documentation is retained showing any non-federal funds received and expensed since inception of the Authority until proper accounting was implemented. As discussed in our Comment to Management above, to achieve this the Authority should consider hiring a fiscal administrator with sufficient knowledge of accounting processes and internal controls independent from the Executive Director.

### **Improve Timely Removal of Account Authorized Signer and User Access**

**Type:** Internal Control

**Repeat:** No

The Executive Director did not remove an authorized signer from the Authority's bank account timely. In addition, the Executive Director did not remove the individual's user access from the Authority's credit card timely.

The Executive Director did not remove the Vice-Chair of the Board's access to the bank account nor the credit card until three months after the individual was no longer a Board member. When an individual no longer serves on the Authority's Board, proper procedures should be followed to remove the individual from all access to bank and credit card accounts immediately. The Authority should not wait for a new replacement Board member to align with the removal of access of the former individual who is no longer associated with the Authority's Board.

The Authority should ensure internal controls are implemented to ensure timely removal of bank account access and credit card user access.

### **Ensure Compliance with Employment Eligibility Verification Form**

**Type:** Internal Control and Compliance

**Repeat:** No

The Authority did not complete the Employment Eligibility Verification Form (Form I-9) in accordance with guidance issued by the U.S. Citizenship and Immigration Services of the Department of Homeland Security. During fiscal year 2017, one out of four employees employed at the Authority did not have a completed and signed Form I-9 in their personnel file. The former fiscal administrator did not obtain a completed and signed Form I-9 during the completion of the new hire documents for the employee.

Federal guidance states the employer is responsible for ensuring that employees complete the form before the first day of employment. Additionally, the employer must document the issuing authority and document number for any document examined to establish work eligibility or identity. Furthermore, the employer must certify the form within three days of the employee's start date.

The Authority should implement a process and ensure the I-9 verification process is completed for each new hire and complies with federal regulations.

### **Properly Track Fixed Asset Additions and Disposals**

**Type:** Internal Control

**Repeat:** No

The Authority does not consistently track fixed asset additions and disposals. All assets belonging to the Authority were reviewed and the following issues were found:

- Two additions acquired in 2017 did not have a purchase cost associated with the asset;
- Nine asset disposals in 2017 did not have any supporting documentation to verify the disposal; and
- One asset on the asset listing did not belong to the Authority.

The Authority's current policies and procedures for fixed assets are minimal and only state that "...all fixed assets, regardless of price, is to be maintained by a designated staff member for purposes of fire or theft claims." Due to the Authority being primarily federally funded, deficiencies in internal controls puts the Authority at risk of generating expenses unallowable under its federal grant that may become a liability of its Board members or the Commonwealth.

The Authority should maintain internal controls that ensures the proper tracking and safeguarding of all Authority owned fixed assets. The Authority's policies and procedures on fixed assets should include the proper procedures for recording and disposing of all fixed assets and the Authority should ensure those procedures are followed throughout the year.

## AUTHORITY HIGHLIGHTS

The General Assembly created the Virginia Health Workforce Development Authority (Authority) in 2010 after receiving a study led by the Department of Health (Health) regarding the infrastructure that would be required for Virginia to address future demand for healthcare workers. Health's study recommended the establishment of a statewide system for health workforce pipeline development. It is the Authority's mission to "move the Commonwealth forward in achieving its vision of ensuring a quality health workforce for all Virginians." The Code of Virginia classifies the Authority as a political subdivision of the Commonwealth with the mission of facilitating the "development of a statewide health professions pipeline that identifies, educates, recruits, and retains a diverse, appropriately geographically distributed and culturally competent quality workforce."

### **Board of Directors**

The Board of Directors of the Authority is a supervisory board comprised of 13 members. Members of the Board are appointed by the House, Senate, and Governor and they guide the organization and are directly responsible for the overall strategic vision, mission, health, and financial stability of the organization. Additionally, the Authority's Board sets priorities for the Virginia Area Health Education Centers Program. The Executive Director of the Authority is hired by and reports directly to the Board.

### **Grant Support**

The Authority was a sub-awardee of the Affordable Care Act: State Health Care Workforce Development Grant (Implementation Grant) from Health and the program ended in October 2014. Currently the Authority's sole source of funding is from the U.S. Department of Health and Human Services under the Model State-Supported Area Health Education Centers (AHEC) grant. The Authority was awarded \$843,504 for the award period of September 1, 2016, through August 31, 2017. Under the grant agreement, the Authority can spend up to 25 percent of the grant on operational expenses and the remaining 75 percent is transferred to Area Health Education Centers in Virginia to promote health careers and access to primary care for medically underserved populations through community-academic partnerships.





Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

November 30, 2018

The Honorable Ralph 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 **Virginia Health Workforce Development Authority** (Authority) 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 Objectives**

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in the Authority's accounting records, review the adequacy of the Authority's internal controls, and test compliance with applicable laws, regulations, contracts, and grant agreements.

## **Audit Scope and Methodology**

The Authority'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 sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Board governance  
Federal grant revenues and expenses  
Contractual services expenses  
Payroll expenses  
Deposits  
Cash balance  
Fixed Assets

We performed audit tests to determine whether the Authority'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 the Authority's operations. We tested transactions and performed analytical procedures. We confirmed the fiscal year end bank balance with outside parties.

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 the Authority did not properly state, in all material respects, the amounts recorded and reported in the Authority financial accounts and records as described in the section entitled "Audit Findings and Recommendations."

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."

### **Exit Conference and Report Distribution**

We discussed this report with management on November 7, 2018. Management's response to the findings identified in our audit is included in the section titled "Authority 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

AVC/clj



January 25, 2019

Martha S. Mavredes  
Auditor of Public Accounts  
P. O. Box 1295  
Richmond, Virginia 23218

Dear Ms. Mavredes:

The Virginia Health Workforce Development Authority (the Authority) has reviewed the audit report issued by your office for the fiscal year that ended June 30, 2017. The Authority agrees with the findings and is diligently working to address the deficiencies detailed in the report.

We appreciate the recommendations provided to us during the exit conference, and we are currently making operational changes to ensure that each area is adequately addressed. The Authority is committed to implementing additional measures to continue to mitigate audit issues raised.

We appreciate the thorough review and recommendations to improve our internal controls.

Sincerely,

Keisha L. Smith, MPA  
Executive Director

## **VIRGINIA HEALTH WORKFORCE DEVELOPMENT AUTHORITY**

As of June 30, 2017

### **BOARD MEMBERS**

Honorable George L. Barker  
Chair

Honorable Joseph Yost  
Vice-Chair

Ron Clark, MD  
Secretary

R. Neal Graham  
Treasurer

David E. Brown, DC  
Craig Herndon, PhD  
John White, EdD, MS, CDP  
Elayne Philips, RN, MPH, PhD, FAAN

Honorable Patrick A. Hope  
Deborah Johnson, RN  
Marissa Levine, MD, MPH  
Lori Rutherford, MSN, GNP  
Sunil K. Sinha, MD, MBA, FACP

### **MANAGEMENT**

Keisha L. Smith  
Executive Director