



DEPARTMENT OF VETERANS SERVICES

AUDIT OF PATIENT CARE REVENUE

FOR THE YEAR ENDED

JUNE 30, 2018

Auditor of Public Accounts
Martha S. Mavredes, CPA
www.apa.virginia.gov
(804) 225-3350



AUDIT SUMMARY

Our audit of patient revenue at the Department of Veterans Services, including the Sitter-Barfoot Veterans Care Center and the Virginia Veterans Care Center, for the fiscal year ended June 30, 2018, found:

- proper recording and reporting of care center revenue, in all material respects, in the Commonwealth's accounting and financial reporting system;
- four matters involving internal control and its operations necessary to bring to management's attention; and
- four instances of non-compliance with applicable laws and regulations.

We did not review management's corrective action on prior year findings as identified in the Findings Summary to allow sufficient time for the Department to implement corrective action. We will follow up on these findings in a future audit.

- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
AUDIT FINDINGS AND RECOMMENDATIONS	1-3
AUDIT SCOPE OVERVIEW	4-5
INDEPENDENT AUDITOR'S REPORT	6-7
APPENDIX – FINDINGS SUMMARY	8
AGENCY RESPONSE	9
AGENCY OFFICIALS	10

AUDIT FINDINGS AND RECOMMENDATIONS

Review and Document Service Organization Control Reports

Type: Internal Control and Compliance

Repeat: No

The Department of Veterans Services (Veterans Services) does not document the review of their independent information security audits of their electronic health records and financial management system (system). Veterans Services obtained a System and Organizational Controls (SOC) report for the system and sent it to the Commonwealth's Enterprise Cloud Oversight Service (ECOS) for review; however, Veterans Services was not able to provide any documentation of the ECOS review nor did they provide any documentation of their own internal review showing an evaluation of SOC report findings or results.

The Commonwealth's Information Security Standard, SEC 501 (Security Standard), *Section 1.1: Intent*, requires that agency heads remain accountable for maintaining compliance with the Security Standard for information technology equipment, systems, and services procured from providers, and agencies must enforce the compliance requirements through documented agreements and oversight of the services provided.

Additionally, the Commonwealth's Accounting Policies and Procedures (CAPP) Manual Topic 10305 – Internal Control, requires agencies to obtain assurance over the internal control environment of outsourced operations. Agencies are required to obtain a SOC report to obtain this assurance. Without performing a review of SOC reports, Veterans Services cannot ensure that the system provider's controls are designed, implemented, and operating effectively.

Veterans Services could not provide documentation of the SOC report review due to the lack of a formal process or policies and procedures over this area. Veterans Services should develop and implement policies and procedures to review, assess, and document the effectiveness of provider controls reported through SOC reports. Veterans Services should also use the reviews to evaluate whether any identified deficiencies require compensating controls to reduce risk. In addition, Veterans Services should use SOC reports as a component of its oversight activities over its providers to confirm they comply with the requirements outlined in the Security Standard and CAPP Manual.

Ensure Annual System Access Reviews are Performed

Type: Internal Control and Compliance

Repeat: No

The Virginia Veteran's Care Center (VVCC) is not performing an annual access review over its electronic health records and financial management system (system). In addition, the Sitter-Barfoot Veteran's Care Center (SBVCC) is not properly documenting its annual access review over the same system.

The Security Standard, *Sections AC-2: Account Management* and *AC-6: Least Privilege*, require annual account reviews, including reviews of the privileges assigned to all users of sensitive systems, to validate the need for such privileges. In addition, the care centers' policies state, "A periodic review will be completed to ensure that no separated employees inadvertently were overlooked." Without reviewing privileged user accounts at least annually, users may have unnecessary privileges, which violates the principle of least privilege and increases the risk users could make inadvertent changes to applications or data, jeopardizing system availability and data integrity.

VVCC staff were not aware that they should perform a review. SBVCC staff did perform a review; however, there was no documentation to show when the staff performed the review and what the outcome of that review was. Both of these instances occurred due to a relatively vague policy that does not outline specifically what an access review should entail and what should be documented. The care centers should strengthen their policies and procedures over system access reviews and ensure the staff perform these reviews as required.

Strengthen Procedures over Terminated Employee System Access

Type: Internal Control and Compliance

Repeat: No

The VVCC and SBVCC do not maintain documentation to show that terminated employee's electronic health records and financial management system (system) access was removed in a timely manner. Although the care centers could not provide evidence of timely removal of system access, they were able to provide documentation to show that none of their terminated employees accessed the system after termination.

The Security Standard, *Section PS-4: Personnel Termination*, states an organization must disable information system access within 24 hours of employee separation and terminate any authenticators or credentials associated with the individual. The care centers' policy indicates that when an employee separates from employment and no longer needs system access, the Security Administrator/Designee will remove/disable access to the system. The policy does not require the care centers to document the date of removal nor does it establish a required timeframe. The lack of adequate policies increases the risk that a former employee can access potentially sensitive information and make unauthorized changes.

The care centers should strengthen and update their policies and procedures to establish documentation standards and a required timeframe for terminated employee system access removal. This will help to ensure that terminated employees access is deactivated timely and properly documented.

Grant System Access on the Principle of Least Privilege

Type: Internal Control and Compliance

Repeat: No

Four employees at VVCC had unnecessary system access privileges based on their job responsibilities. These four employees had the Admin Security role, which allowed them to grant and remove user access to VVCC's electronic health records and financial management system (system); however, this access was not necessary given their job responsibilities.

The Security Standard, *Section AC-6: Least Privilege*, states, "The organization employs the principle of least privilege, allowing only authorized accesses for users (or processes acting on behalf of users) which are necessary to accomplish assigned tasks in accordance with organizational missions and business functions." When access is not based on the principle of least privilege, it increases the risk that employees may misuse their access (either intentionally or unintentionally), and compromised accounts are more likely to have access to critical functions. These users with system administrator access had this access unreasonably assigned when the user's account was initially established, and this was not subsequently detected because no periodic review of system access was performed. This occurred due to inadequate management oversight combined with inadequate policies and procedures.

VVCC should perform a specific review of current system users that have the ability to activate and disable other system users to determine if their access is reasonable and based on the least privilege principle defined in the Security Standard.

AUDIT SCOPE OVERVIEW

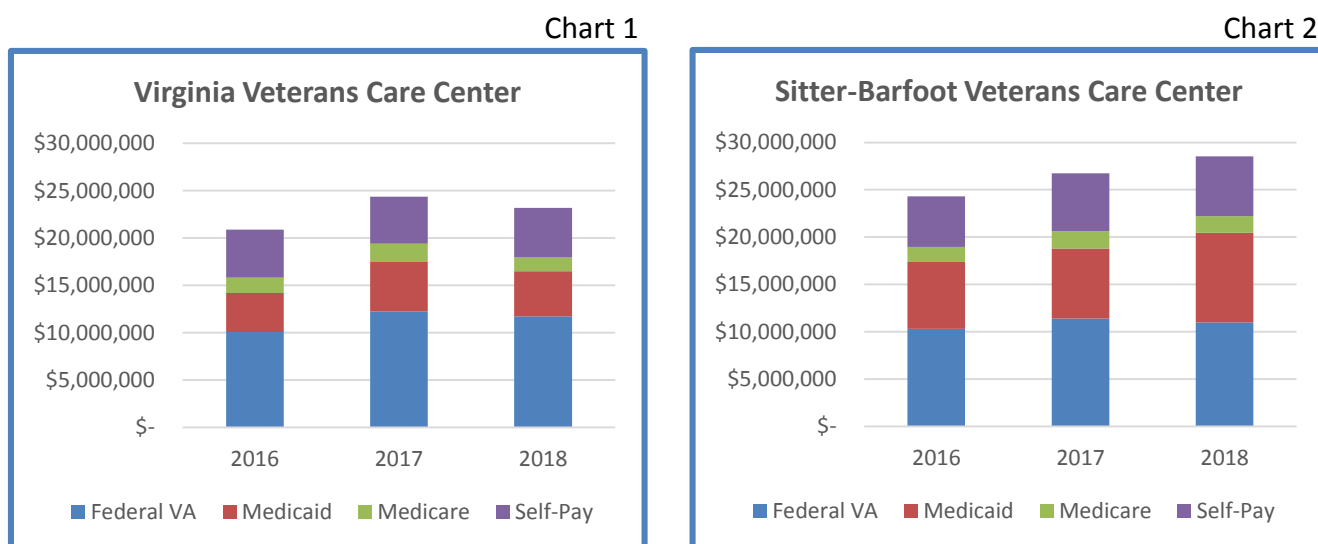
Veterans Services serves Virginia's veterans and their families by providing or facilitating the delivery of benefits, services, education, and care. Veterans Services is comprised of a central agency and two care centers, the VVCC in Roanoke and the SBVCC in Richmond. The care centers are an alternative to similar nursing home facilities, and are available only to veterans with an honorable discharge from the U.S. Armed Forces and Virginia residency at the time of admission.

Veterans Services provides administrative oversight and support for the care centers and oversees all other services; however, the care centers are responsible for implementing and maintaining internal controls at their respective care center. The care centers are funded from various sources including a federal grant from the Department of Veterans Affairs (VA), Medicaid, Medicare, and receipts from self-pay patients. The care centers do not rely on any General Fund appropriations for their operating expenses.

We selected patient care revenue as our primary focus for this audit given the care centers' reliance on these funds for operations and given plans to open new care centers in the next few years. Both care centers use an electronic health records and financial management system that is managed by an outside service provider. The system houses patient census data, is used for billing and receipt processing, and holds care center financial data that is used for entry into the Commonwealth's accounting and financial reporting system.

The following charts show the breakdown of patient revenue by type over the last three years at each facility. As seen below, the two largest funding sources at each care center are the federal grant from the VA and Medicaid.

Patient Revenue by Type - Fiscal Years 2016-2018



Source: Commonwealth's accounting and financial reporting system

The VVCC is a skilled nursing and assisted living facility, with a skilled nursing capacity of 180 patients and an assisted living capacity of 60 patients, while SBVCC is strictly a skilled nursing facility with a capacity of 160 patients. The nursing facility at both care centers operates at around 95 percent capacity, while the assisted living facility at VVCC operates between 55 percent and 65 percent capacity. Patient turnover at each facility is relatively high as the care centers are usually an end of life living situation for veterans. Day to day census changes are also expected as patients can be in and out of the hospital during their time at the care center.

Veterans Services plans to open two new care centers in 2021, the Puller Veterans Care Center in Fauquier County and the Jones & Cabacoy Veterans Care Center in Virginia Beach. These care centers were originally approved by the 2013 General Assembly and are estimated to cost \$60 million each. Both care centers will feature 128-bed facilities with all private rooms organized into households and neighborhoods. Services offered at the new care centers will be consistent with services offered at VVCC and SBVCC.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

June 7, 2019

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 patient care center revenues of the **Department of Veterans Services** (Veterans Services) for the year ended June 30, 2018. 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 objectives with regard to patient care center revenues were to evaluate the accuracy of transactions as recorded in the Commonwealth's accounting and financial reporting system; review the adequacy of Veterans Services' internal controls; and test compliance with applicable laws, regulations, contracts, and grant agreements. We did not review corrective actions for audit findings from the prior year report given that corrective action was ongoing. See Findings Summary included in the Appendix for a listing of prior year findings and the status of follow-up on management's corrective action. We will follow up on these findings in a future audit.

Audit 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. We performed audit tests to determine whether 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 budgetary and trend analyses. We also tested details of transactions to achieve our objectives.

A non-statistical 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 properly stated, in all material respects, transactions recorded and reported in the Commonwealth's accounting and financial reporting system relating to the audit objectives.

We noted certain matters pertaining to patient care center revenue, 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 June 25, 2019. 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

LCW/vks

APPENDIX FINDINGS SUMMARY

Finding	Follow-Up Status	Year(s) Issued
Review and Document Service Organization Control Reports	New	2018
Ensure Annual System Access Reviews are Performed	New	2018
Strengthen Procedures over Terminated Employee System Access	New	2018
Grant System Access on the Principle of Least Privilege	New	2018
Improve Capital Asset Accounting Policies and Procedures	Deferred*	2017
Improve Controls over Capital Assets	Deferred*	2017
Properly Record Capital Asset Additions	Deferred*	2017
Perform Physical Inventory	Deferred*	2017

*Follow-up Status on prior year findings identified as “Deferred” indicates review of management’s corrective action on a prior year finding will be performed in a future audit.



COMMONWEALTH of VIRGINIA

Department of Veterans Services

John L. Newby II
Commissioner

Telephone: (804) 786-0286
Fax: (804) 786-0302

June 28, 2019

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

Dear Ms. Mavredes:

We have reviewed your audit report for the Department of Veterans Services for the fiscal year ended June 30, 2018. We appreciate the acknowledgment of properly stated, in all material respects, transactions recorded and reported in the Commonwealth's accounting and financial reporting system relating to the audit objectives.

We concur with your findings and recommendations with regard to certain matters pertaining to patient care center revenue, involving internal control and its operation and compliance with applicable laws, regulations, contracts and grant agreements that require management's attention and corrective action.

Corrective action has already been taken to prevent future occurrences of the 4 audit findings. Procedures have been updated and policies are currently being updated as well to reflect the APA recommendations.

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 us.

Sincerely,

A handwritten signature in black ink that reads "T.L. Davidson".

Tammy L. Davidson
Director of Finance

AN EQUAL OPPORTUNITY EMPLOYER
900 East Main Street, Richmond, Virginia 23219
www.dvs.virginia.gov

DEPARTMENT OF VETERANS SERVICES

As of June 30, 2018

John L. Newby, II
Commissioner

Tammy Davidson
Director of Finance

Sitter-Barfoot Veterans Care Center

Robyn Jennings
Administrator

Tracy Morrison
Director of Finance

Virginia Veterans Care Center

Todd Barnes
Administrator

Cheri Lankford
Director of Finance