Audit Report

Department of Veterans Affairs

October 2001

Office of Legislative Audits
Department of Legislative Services
Maryland General Assembly
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October 9, 2001

Delegate Samuel I. Rosenberg, Co-Chair, Joint Audit Committee
Senator Nathaniel J. McFadden, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Department of Veterans Affairs for the period beginning April 15, 1998 and ending February 11, 2001.

Our audit disclosed certain Federal fund reimbursement requests were not made in a timely manner, resulting in lost interest to the State of $85,000. In addition, adequate controls and procedures had not been established over the Department’s disbursements, cash receipts and equipment.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor
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Background Information

Agency Responsibilities

The Department of Veterans Affairs delivers services and administers programs to assist veterans, their families and survivors in obtaining federal, state and local benefits provided by law in recognition of their service to state and country. The Department also manages five veterans’ cemeteries, maintains four veterans’ war memorials, and is responsible for supervising the operation of the Charlotte Hall Veterans Home. The Home provides care for military veterans residing in the State of Maryland who are either unable to care for themselves because of disability or advancing age or have need of skilled nursing care in a comprehensive care setting. The Home currently has a licensed capacity of 100 domiciliary care (that is, room and board) residents and 278 comprehensive care (that is, nursing home) residents. During fiscal year 2000, the Home had an average daily population of 86 domiciliary care residents and 241 comprehensive care residents. A private contractor is responsible for all aspects of resident care at the Home and the Department is responsible for monitoring the contractor’s performance.

Organizational Change

Chapter 125, Laws of Maryland, 1999, effective October 1, 1999, created the Department of Veterans Affairs as a principal department of State government. This Department is comprised of the former Maryland Veterans Commission and the former Maryland Veterans’ Home Commission. Our current audit included the former Maryland Veterans Commission for the period from April 15, 1998 through September 30, 1999 and the former Maryland Veterans’ Home Commission for the period from March 25, 1999 through September 30, 1999.
Charlotte Hall Veterans Home – Underutilized Beds

Since fiscal year 1999 the average number of domiciliary beds utilized at the Charlotte Hall Veterans Home has significantly declined while the number of domiciliary beds budgeted (and related appropriations) has significantly increased. Specifically, we noted the following:

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<tbody>
<tr>
<td>Budgeted Beds</td>
<td>98</td>
<td>102</td>
<td>160</td>
</tr>
<tr>
<td>Actual Beds Utilized</td>
<td>98</td>
<td>86</td>
<td>74</td>
</tr>
<tr>
<td>% Occupancy - Actual</td>
<td>100%</td>
<td>84%</td>
<td>46%</td>
</tr>
</tbody>
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As a result, a portion of the general funds that was originally appropriated for direct patient care in fiscal years 2000 and 2001 were used for other purposes. For example, fiscal year 2000 vacancies resulted in excess general funds to the Department of approximately $182,000 that the Department advised were used to fund several non-routine maintenance projects at the Home. In fiscal year 2001, excess funds were transferred to other department units or reverted. The surplus funding arose in part because the Department budgeted for new beds that were to be provided in the Home’s new wing. Because of construction delays, the new wing was not ready for occupancy as expected.

Current Status of Findings From Preceding Audit Report

Our audit included a review to determine the current status of the four fiscal/compliance findings included in our preceding audit report dated August 5, 1998 on the Maryland Veterans Commission. We determined that one of the four findings had been satisfactorily addressed and the three remaining findings are repeated in this report. Our audit also included a review to determine the current status of the four fiscal/compliance findings included in our preceding audit report dated June 29, 1999 of the Maryland Veterans’ Home Commission. We determined that one of the four items had been satisfactorily addressed and the three remaining findings are repeated in this report.
Since the preceding reports contained two similar findings, they have been combined in this report; therefore, this report includes a total of four findings that are identified as repeated items. In its responses to our preceding audit reports, the Commissions generally agreed to implement the recommendations related to those findings.
Findings and Recommendations

Federal Funds

Finding #1
Reimbursement requests for federal funds totaling $2.8 million were not submitted timely resulting in a loss of interest income of approximately $85,000.

Analysis
The Department had not requested Federal reimbursement for construction expenditures related to the Charlotte Hall Veterans Home on a timely basis. For example, our test disclosed that reimbursement requests totaling approximately $2.8 million for fiscal year 2000 were submitted up to 11 months after the end of the month in which the related expenditures were incurred and could have been requested. As a result, State funds which otherwise would have been available for investment purposes were used to finance these expenditures. As a result of untimely requests for Federal funds, we estimate that the State lost interest income totaling approximately $85,000 during this fiscal year. This same condition was commented upon in our preceding audit report of the Maryland Veterans’ Home Commission.

Recommendation #1
We again recommend that the Department submit reimbursement requests for Federal funds on a timely basis.

Purchasing and Disbursements

Finding #2
Proper internal controls were not established over the processing of purchasing and disbursement transactions.

Analysis
The Department did not use the security features available on the State’s Financial Management Information System (FMIS) to establish proper internal control over purchases and disbursements. For example, one employee could both initiate and approve certain disbursement transactions that were not subject to further independent approvals. In addition, this employee could release disbursement transactions to the Comptroller of the Treasury - General Accounting Division for payment and establish vendors on FMIS.
Consequently, unauthorized transactions could be processed that may not be readily detected. During the fiscal year 2000, this employee both initiated and approved disbursement transactions totaling approximately $8.4 million. Similar conditions were commented upon in our preceding audit reports on the Maryland Veterans’ Home Commission and the Maryland Veterans Commission.

**Recommendation #2**

We again recommend that the Department fully utilize the available FMIS security features by establishing independent on-line approval requirements for all critical purchasing and disbursement transactions.

**Cash Receipts**

**Finding #3**

Sufficient controls were not established over certain cash receipts.

**Analysis**

Internal controls over collections received at the Department’s main office were not adequate to ensure that all receipts were subsequently deposited. During fiscal year 2000, these receipts totaled approximately $472,000, including approximately $110,000 received from the cemeteries.

Specifically, the employee of that office who verified that recorded receipts were deposited also delivered the deposits to the bank, and therefore was not independent of the cash receipts function. Furthermore, while we were advised that an employee of the main office verified that all receipts received and recorded by the cemeteries were ultimately submitted to the office for deposit, these verifications were not documented. In addition, the Department did not periodically reconcile the fees received by the cemeteries for interments and grave liners with the related collections submitted for deposit.

A similar condition regarding the lack of independent verifications that collections were deposited was commented upon in our preceding audit report of the Maryland Veterans Commission.

**Recommendation #3**

We again recommend that an employee independent of the cash receipts process verify recorded receipts to the validated deposit ticket. This verification should include cash receipts initially recorded by the cemeteries. We also recommend that the Department perform monthly reconciliations of
interments and grave liners used to ensure that all collections were received and deposited. We advised the Department on accomplishing the necessary separation of duties using existing personnel.

Property

Finding #4
Property records were not adequately maintained and physical inventories of equipment were not conducted at required intervals.

Analysis
The Department’s record keeping and physical inventory procedures were not in compliance with certain requirements of the Department of General Services’ Inventory Control Manual. The Veterans Home maintains its own equipment records whereas the Baltimore office maintains all other property records. As of June 30, 2000, the book value of the Department’s property, as reported to the Comptroller of the Treasury, totaled approximately $51.2 million, including equipment valued at $2.2 million.

- The Department did not maintain equipment control accounts.

- The Baltimore office did not accurately maintain detail equipment records. Specifically, our test of 10 capital equipment items purchased at a cost of $33,328 during fiscal years 2000 and 2001 disclosed that 2 items costing $10,406 were not recorded in the detail records. In addition, 3 of the 15 equipment items that we physically sighted were not recorded in the detail records.

- Physical inventories of equipment were not completed as required. As of May 31, 2001, the Baltimore office and the Veterans Home had not conducted complete physical inventories of equipment since fiscal year 1995 and fiscal year 1994, respectively.

- The June 30, 2000 property balance recorded on the State’s accounting records exceeded the balance on the Department’s records by $237,648 and the Department had not investigated and resolved this difference. In addition, expenditures totaling $22,461,067 for land and building at the Veterans Home, that were already included in the State’s accounting records, were again recorded in fiscal year 2001. 
The Department of General Services’ Inventory Control Manual requires that a control account be maintained for equipment and that the aggregate balance of the equipment detail records be periodically reconciled with the related control account balance. In addition, the Manual requires that all capital equipment items be recorded in the detail equipment records and physical inventories of non-sensitive equipment every three years and sensitive equipment annually. Similar conditions were commented upon in our preceding audit reports of the Maryland Veterans Commission and the Maryland Veterans’ Home Commission.

Recommendation #4
We again recommend that the Department comply with the provisions of the Department of General Services’ Inventory Control Manual. We also recommend that the Department make the appropriate adjustments to ensure that property is accurately reflected in the State’s accounting records.
Audit Scope, Objectives, and Methodology

We have audited the Department of Veterans Affairs for the period beginning April 15, 1998 and ending February 11, 2001. The audit was conducted in accordance with generally accepted government auditing standards.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine the Department’s financial transactions, records and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the current status of the findings contained in our preceding audit reports on the former Maryland Veterans Commission and the former Maryland Veterans’ Home Commission.

In planning and conducting our audit, we focused on the major financial related areas of operations based on assessments of materiality and risk. Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Department’s operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives.

We did not audit the Department’s Federal financial assistance programs for compliance with Federal laws and regulations because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies.

The Department’s management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules and regulations are achieved.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.
This report includes findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect the Department’s ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules and regulations. Our report also includes findings regarding significant instances of noncompliance with applicable laws, rules, or regulations.

The Department’s response to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise the Department regarding the results of our review of its response.
October 3, 2001

Bruce A. Myers, CPA
Legislative Auditor
Department of Legislative Services
Office of Legislative Audits
301 West Preston Street, Room 1202
Baltimore, Maryland 21201

Dear Mr. Myers:

Enclosed is our response to the draft audit report on the Department of Veterans Affairs for the period beginning April 15, 1998 and ending February 11, 2001. Our response addresses the four findings cited by the Office of Legislative Audits.

It was a pleasure working with your staff and if you require further information or clarification of the enclosed, please contact us.

Sincerely,

Thomas E. Bratten
Secretary

Cc: Calvin E. Patton, Chairman, Maryland Veterans Commission
    Robert M. Johnson, Chairman, Maryland Veterans Home Commission
    Richard E. Shatzer, Deputy Secretary
DEPARTMENT OF VETERANS AFFAIRS
RESPONSE TO OFFICE OF LEGISLATIVE AUDITS
AUDIT REPORT FOR THE PERIOD
April 15, 1998 - February 11, 2001

Federal Funds

Finding #1
Reimbursement requests for federal funds totaling $2.8 million were not submitted timely resulting in a loss of interest income of approximately $85,000.

Agency Response:
Charlotte Hall Veterans Home was consolidated under the Department effective October 1999. FY 2000 was a transition period during which the Department familiarized itself with the mission, function, and business processes of the Veterans Home. The untimely submission of reimbursement requests for federal funds was not immediately discovered. As of this date, all costs eligible for reimbursement through the period ending June 30, 2001 have been identified and submitted to the U.S. Department of Veterans Affairs for processing and transfer to the State. Effective FY 2002, the Department will submit federal fund reimbursement requests for construction expenditures on a quarterly basis.

Purchasing and Disbursements

Finding #2
Proper internal controls were not established over the processing of purchasing and disbursement transactions.

Agency Response:
The Department acknowledges that it cannot make appropriate use of the security features available on the State’s Financial Management and Information System (FMIS) due to insufficient authorized positions in the agency’s fiscal services department. This will continue to be an issue so long as authorized positions remain at the current level. The Fiscal Chief is authorized to initiate, approve, and release disbursement transactions to the Comptroller of the Treasury. This security level is deemed essential by the Department to assure continued processing of finance transactions in the absence of the Fiscal Accounts Clerk. However, the Fiscal Chief rarely initiates transactions. His role is to approve and release disbursement transactions after the transactions have been initiated by the Fiscal Accounts Clerk. The concern regarding security to establish vendors is valid, but the Department processes a very small number of new vendors each fiscal year. Finally, it should be noted that the Department has established internal controls independent of FMIS to assure that unauthorized transactions have not been processed. All invoices are reviewed, coded, and authorized for payment by the Assistant Secretary and reconciled to payment transmittals and FMIS reports. Certain security authorizations relevant to FMIS are under
review by the Department and, to the extent practicable, will be modified to minimize the potential for unauthorized transactions.

Cash Receipts

Finding #3
**Sufficient controls were not established over certain cash receipts.**

**Agency Response:**
The Department concurs with the audit finding. Subsequent to the conclusion of the audit, the issues identified by the Office of Legislative Audits have been rectified. Segregation of activities pertaining to receipts and fund deposits was initiated on August 1, 2001. The former process of performing and documenting reconciliation of fees for interments and grave liners was reinstated on July 31, 2001.

Property

Finding #4
**Property records were not adequately maintained and physical inventories of equipment were not conducted at required intervals.**

**Agency Response:**
The Department concurs with the audit findings and is in the process of correcting deficiencies in this area. A number of the audit observations are the result of inadequate staffing in the agency’s fiscal services department due to position vacancies and recruitment difficulties. For nearly a two-year period, only one employee was available to perform a broad range of finance duties, creating neglect with respect to inventory control and data entry into the Fixed Assets component of FMIS. The Department has procured the bar code technology endorsed by the Department of General Services and is engaged in conducting physical inventory inspections at all facility locations. Reconciliation and appropriate amendments to the FMIS Fixed Assets system will be completed prior to the close of FY 2002. Thereafter, the Department will comply with the provisions of the Department of General Services’ Inventory Control Manual.