



# Washington State Auditor's Office

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## Accountability Audit Report

# Department of Veterans' Affairs

For the period July 1, 2013 through June 30, 2014

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Report No. 1014538





## Washington State Auditor's Office

June 22, 2015

Ms. Lourdes Alvarado Ramos, Director  
Department of Veterans' Affairs

### Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for Department operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

The attached comprises our report on the Department's compliance and safeguarding of public resources. Our independent audit report describes the overall results and conclusions for areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

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## AUDIT SUMMARY

### Results in brief

In most areas we audited, Department operations complied with applicable requirements and provided adequate safeguarding of public resources. The Department also complied with state laws and regulations and its own policies and procedures in the areas we examined.

However, we identified areas in which the Department could make improvements.

We recommended the Department:

- Ensure dining hall cash receipting policies are followed to safeguard public funds.
- Reconcile meal tickets sold to cash receipt reports to ensure all expected revenues are accounted for and collected.
- Continue to develop and implement policies and procedures to track the issuance and distribution of gift cards to veterans.
- Ensure client files are properly maintained to provide evidence that only eligible veterans received gift cards.

These recommendations were included in our report as findings.

We also noted certain matters that we communicated to Department management in a letter dated June 16, 2015, related to Welfare and Betterment Fund expenses and purchase cards. We appreciate the Department's commitment to resolving those matters.

### About the audit

This report contains the results of our independent accountability audit of the Department of Veterans' Affairs from July 1, 2013 through June 30, 2014.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

Our audit involved performing procedures to obtain evidence about the Department's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Purchase cards
- Donations
- Stewardship funds
- Cash receipting
- Local funds

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### **2014-001    The Department of Veterans Affairs lacked adequate internal controls over its dining hall cash receipting process.**

#### ***Background***

The Department of Veterans Affairs provides claims and referral services for veterans and their families. The Department also runs three state veterans' homes: the Washington Veterans Home in Retsil, the Washington Soldiers Home and Colony in Orting and the Spokane Veterans Home.

The homes are long-term care/skilled nursing facilities providing a "Resident Centered Care" concept that focuses resources around the individual resident. Each of the homes has a dining hall that is accessible to residents, staff and guests. Staff and guests can eat a meal in the dining hall by paying five dollars or using a pre-purchased meal ticket.

According to Department policies, money and tickets in cash boxes should be collected twice a week. Two employees are required to be present when the cash is collected. They are then required to prepare a cash report and sign the report when cash is removed from the box. The cash and the cash report are delivered to the cashier who performs a reconciliation in the presence of a second individual.

Revenues collected from dining halls totaled approximately \$58,000.

#### ***Description of Condition***

The Department did not follow its established policies over its dining hall cash receipting process. We found:

- Money in the cash box was not always collected twice a week at the Washington Veterans and Spokane Veterans homes.
- Reconciliations between the number of meal tickets sold and cash receipts was not performed.
- A cash report was not prepared for seven out of 15 transactions we reviewed.
- Three out of six cash reports lacked the required two signatures.

### ***Cause of Condition***

Staff did not follow established policies and procedures and could not provide an explanation as to why they were not followed. A cashier was no longer set up in the dining hall at one of the homes.

### ***Effect of Condition***

By not having adequate internal controls in place public funds are at risk of theft, misuse or abuse. Our analysis of revenues reported for fiscal year 2014 showed an average of 11 meals per day were purchased at the three homes. The three homes had 506 staff that provided services to residents. The Department could not verify whether the average number of meals purchased was reasonable for the staff and guests that purchased meals.

### ***Recommendation***

We recommend the Department:

- Ensure dining hall cash receipting policies are followed to safeguard public funds.
- Reconcile meal tickets sold to cash receipt reports to ensure all expected revenues are accounted for and collected.

### ***Department's Response***

*WDVA concurs with the State Auditor's Office (SAO) recommendations. We are currently reviewing all existing applicable policies, procedures and staff training to ensure these recommendations are appropriately incorporated. We are also expanding an internal audit program conducted through our Corporate Compliance Committee to include issues identified by SAO audits.*

### ***Auditor's Remarks***

We appreciate the Department's commitment to resolve these issues. We will follow-up in our next scheduled audit.

### ***Applicable Laws and Regulations***

RCW 43.88.160 Fiscal management – Powers and duties of officers and agencies, states in part:

This section sets forth the major fiscal duties and responsibilities of officers and agencies of the executive branch. The regulations issued by the governor pursuant to this chapter shall provide for a

comprehensive, orderly basis for fiscal management and control, including efficient accounting and reporting therefor, for the executive branch of the state government and may include, in addition, such requirements as will generally promote more efficient public management in the state . . .

(4)(a) Develop and maintain a system of internal controls and internal audits comprising methods and procedures to be adopted by each agency that will safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies for accounting and financial controls. The system developed by the director shall include criteria for determining the scope and comprehensiveness of internal controls required by classes of agencies, depending on the level of resources at risk.

The Office of Financial Management's *State Administrative and Accounting Manual* (SAAM), states in part:

Section 20.15.30.a. Who is responsible for internal control?

The agency head or authorized designee is ultimately responsible for identifying risks and establishing, maintaining, and reviewing the agency's system of internal control. If the agency head delegates this responsibility, the designated person should have sufficient authority to carry out these responsibilities. Normally, this person is a senior agency manager who does not serve in the internal audit function.

Section 20.15.40.c. Control Activities.

Control activities help ensure risk responses are effectively carried out and include policies and procedures, manual and automated tools, approvals, authorizations, verifications, reconciliations, security over assets, and segregation of duties. These activities occur across an agency, at all levels and in all functions, and are designed to help prevent or reduce the risk that agency objectives will not be achieved. Managers set up control activities to provide reasonable assurance that the agency and business unit objectives are met. An example of a control activity is something as simple as listing tasks assigned to staff members and then periodically checking the list to verify that assignments are completed on time. Refer to Section 20.25 for further discussion of control activities.



#### Section 20.15.40.e. Monitoring.

Things change and, by monitoring the risks and the effectiveness of control measures on a regular basis, an agency can react dynamically to changing conditions.

Monitoring evaluates the effectiveness of an agency's internal controls and is designed to ensure that internal controls continue to operate effectively.

Monitoring is effective when it leads to the identification and correction of control weaknesses before they materially affect the achievement of the agency's objectives. An agency's internal control is most effective when there is proper monitoring, results are prioritized and communicated, and weaknesses are corrected and followed up on as necessary.

There are two types of monitoring: ongoing and periodic. Ongoing monitoring occurs in the course of operations. It includes tasks such as supervisory reviews of reconciliations, reports, and processes. Periodic monitoring includes tasks such as periodic internal audit sampling and annual reviews of high-risk business processes. Internal control deficiencies uncovered by monitoring should be reported to higher levels of management.

Section 85.50.40 requires daily reconciliation of cash receipts and deposits and monthly reconciliations of associated bank accounts. Specifically,

- a. Daily, cash is to be counted and reconciled with the appropriate records reflecting the day's transactions. All differences are to be investigated to ascertain the reason for the discrepancy.
- b. Agencies are to review the GL Code Series 71XX "In-Process" report timely. To aid in this reconciliation, agencies receive AFRS report DTR9002 - Unbalanced In-Process Reconciliation Report. Report DTR9002 shows in detail outstanding in-process transactions for both the agency and the OST.
- c. Accounts maintained in commercial institutions (e.g., banks, savings and loan associations, etc.), including petty

cash accounts, are to be promptly reconciled with agency records on a monthly basis. The balance shown on the bank statement may not agree with the agency's book balance.

d. Variances can occur because of outstanding checks, deposits in transit, bank service charges, or other adjustments. Adjusting entries may be required when entries appear on the bank statement without corresponding entries in the agency's books. Adjusting entries, if necessary, are to be promptly prepared and recorded in the agency's records.”

Department of Veterans Affairs Operating Procedure 200.205-VH, states in part:

1. Twice weekly two food service supervisors or a supervisor and the department office assistant will remove the cash accumulated in the TIP workers' cash box.
  - a. They will count the money it contains, verify its contents, and check that the money inside equals the count of paid meals marked on the outside of the envelope and on the meal count sheet.
  - b. Both will verify that the cash box contains the proper amount of money for making change. The total should always be \$25.00.
2. Checks and the money by denominations will be entered on the Cash Report form (DVA 065).
3. The money and checks entered on the Cash Report form will be totaled, with both parties verifying and initialing the total.

The cash and report will be put in a locked cash box

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### **2014-002    The Department lacked adequate internal controls over the issuance of gift cards to veterans, increasing the risk of misuse, abuse and theft of public funds.**

#### ***Background***

The Department of Veterans Affairs provides claims and referral services for veterans and their families. Services include advocating for the preservation and enhancement of rights and entitlements for veterans. The Homeless Veterans Reintegration Program and the Homeless Veterans Program are two of the Department's programs that aid veterans.

The Homeless Veterans Reintegration Program helps homeless veterans get off the street and back to being productive members of society. The program offers a structured, individually designed case management plan to assist veterans to become employable and more secure. The program receives the majority of its funding from the Department of Labor.

The Homeless Veterans Program aids homeless veterans in King County by identifying and targeting eligible veterans who are homeless, or at risk of homelessness, and are not currently using available services. Program staff reach out to homeless veterans through events and being on-site where homeless veterans gather. They also work with homeless shelters that house veterans to ensure veterans receive assistance. The program received \$1.7 million of grant funding from King County in fiscal year 2014.

Both programs use gift cards to provide financial assistance to eligible veterans. The gift cards range from \$5 to \$600 and can be used to purchase food, gas, clothing and tools.

The Homeless Veterans Reintegration Program requires veterans to apply and maintain constant communication with an assigned case manager. They are required to provide the Department with original receipts within seven days of receiving gift cards.

During the audit period, the Homeless Veterans Program did not require veterans to apply for the program. Veterans who could show their DD Form 214 or Certificate of Release or Discharge from Active Duty to Department staff were considered eligible to receive gift cards.

## *Description of Condition*

### Homeless Veterans Reintegration Program

The Department lacked adequate internal controls to ensure veterans who received gift cards used them for the purpose intended and followed program requirements.

We reviewed 109 purchases of gift cards, totaling \$11,526, to determine whether veterans met the program requirements. In 83 instances, documentation was lacking to support \$7,780 awarded in gift cards.

### Homeless Veterans Program

The Department lacked adequate internal controls to ensure gift cards were issued to veterans. Supporting documentation for the issuance of gift cards was not consistently obtained during the audit period.

We reviewed 61 purchases of gift cards, totaling \$11,390, to determine whether supporting documentation of the gift card issuance was obtained. In 31 instances we found documentation was missing to support \$9,890 awarded in gift cards.

## *Cause of Condition*

Inconsistent manual processes for maintaining veteran files and staff turnover resulted in the lack of controls within the Homeless Veterans Reintegration Program.

Because the Homeless Veterans Program's performance is based on the number of veterans they reach out to, documenting the issuance of gift cards was not a priority with previous program management.

## *Effect of Condition*

The Department's lack of monitoring increases the risk of misuse, abuse and theft of public funds. The lack of internal controls also increases the risk that the programs could lose funding to continue assisting veterans.

As of March 2015, the program has been working to develop and implement new policies and procedures to strengthen controls related to the issuance and distribution of gift cards.

## ***Recommendation***

We recommend the Department:

- Continue to develop and implement policies and procedures to track the issuance and distribution of gift cards to veterans.
- Ensure client files are properly maintained to provide evidence that only eligible veterans received gift cards.

## ***Department's Response***

*WDVA concurs with the State Auditor's Office (SAO) recommendations. We are currently reviewing all existing applicable policies, procedures and staff training to ensure these recommendations are appropriately incorporated. We are also expanding an internal audit program conducted through our Corporate Compliance Committee to include issues identified by SAO audits.*

## ***Auditor's Remarks***

We appreciate the Department's commitment to resolve these issues. We will follow-up in our next scheduled audit.

## ***Applicable Laws and Regulations***

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comprehensiveness of internal controls required by classes of agencies, depending on the level of resources at risk.

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Control activities help ensure risk responses are effectively carried out and include policies and procedures, manual and automated tools, approvals, authorizations, verifications, reconciliations, security over assets, and segregation of duties. These activities occur across an agency, at all levels and in all functions, and are designed to help prevent or reduce the risk that agency objectives will not be achieved. Managers set up control activities to provide reasonable assurance that the agency and business unit objectives are met. An example of a control activity is something as simple as listing tasks assigned to staff members and then periodically checking the list to verify that assignments are completed on time. Refer to Section 20.25 for further discussion of control activities.

Section 20.15.40.e. Monitoring.

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Monitoring is effective when it leads to the identification and correction of control weaknesses before they materially affect the achievement of the agency's objectives. An agency's internal control is most effective when there is proper monitoring, results are prioritized and communicated, and weaknesses are corrected and followed up on as necessary.

There are two types of monitoring: ongoing and periodic. Ongoing monitoring occurs in the course of operations. It includes tasks such as supervisory reviews of reconciliations, reports, and processes. Periodic monitoring includes tasks such as periodic internal audit sampling and annual reviews of high-risk business processes. Internal control deficiencies uncovered by monitoring should be reported to higher levels of management.

Homeless Veterans Reintegration Program Eligibility Requirements state:

To be eligible for participation under HVRP, an individual must be a veteran and homeless as defined:

The term "veteran" means a person who served in the active US military, naval, or air service and who were discharged or released under conditions other than dishonorable.

[Reference 38 USC 101 (2)]

The term "homeless or homeless individual"

- (1) an individual or family who lacks a fixed, regular, and adequate nighttime residence;
- (2) an individual or family with a primary nighttime residence that is a public or private place not designed for or ordinarily used as a regular sleeping accommodation for human beings, including a car, park, abandoned building, bus or train station, airport, or camping ground;
- (3) an individual or family living in a supervised publicly or privately operated shelter designated to provide temporary living arrangements (including hotels and motels paid for by Federal, State, or local government programs

for low-income individuals or by charitable organizations, congregate shelters, and transitional housing);

(4) an individual who resided in a shelter or place not meant for human habitation and who is exiting an institution where he or she temporarily resided;

(5) an individual or family who—

(A) will imminently lose their housing, including housing they own, rent, or live in without paying rent, are sharing with others, and rooms in hotels or motels not paid for by Federal, State, or local government programs for low-income individuals or by charitable organizations, as evidenced by—

(i) a court order resulting from an eviction action that notifies the individual or family that they must leave within 14 days;

(ii) the individual or family having a primary nighttime residence that is a room in a hotel or motel and where they lack the resources necessary to reside there for more than 14 days; or

(iii) credible evidence indicating that the owner or renter of the housing will not allow the individual or family to stay for more than 14 days, and any oral statement from an individual or family seeking homeless assistance that is found to be credible shall be considered credible evidence for purposes of this clause;

(B) has no subsequent residence identified; and

(C) lacks the resources or support networks needed to obtain other permanent housing [42 U.S.C. 11302 (a)]

Memorandum For Record states in part:

Agree to provide the Washington State Department of Veterans Affairs with the original receipts within seven days of receiving this assistance.



## RELATED REPORTS

### Financial

We perform an annual audit of the statewide basic financial statements, as required by state law (RCW 43.09.310). Our opinion on these financial statements is included in the Comprehensive Annual Financial Report (CAFR) prepared by and available from the Office of Financial Management.

The CAFR reflects the financial activities of all funds, organizations, institutions, agencies, departments and offices that are part of the state's reporting entity. That report is issued by the Office of Financial Management in December of each year and can be found at [www.ofm.wa.gov](http://www.ofm.wa.gov).

A summary of the audit for the period ending June 30, 2014 can be found at: <http://www.sao.wa.gov/resources/Pages/AnnualReports.aspx>.

### Federal programs

In accordance with the Single Audit Act, we annually audit major federal programs administered by the state of Washington. Rather than perform a single audit of each agency, we audit the state as a whole. The results of that audit are published in a report issued by the Office of Financial Management in March of each year.

A summary of the audit for the period ending June 30, 2014, can be found at: <http://www.sao.wa.gov/resources/Pages/AnnualReports.aspx>.

## INFORMATION ABOUT THE DEPARTMENT

The Legislature created the Department of Veterans' Affairs in 1976 to serve Washington's veterans and family members. These services include Operating the state's Veterans Homes, connecting veterans and families to the benefits earned through military service, and advocating for the preservation and enhancement of rights and entitlements for veterans and their families. The Department provides an environment that respects individual dignity and worth, while assisting veterans and dependents in achieving quality of life. In addition, the Department acts as a fiduciary for veterans who cannot manage their own finances. The Department provides these services to more than 602,000 veterans and over one million family members through various service organizations located throughout the state. The three state veterans' homes include Washington Veterans Home at Retsil, the Washington Soldiers Home at Orting and the Spokane Veterans Home. The veterans' homes provide long-term nursing care for honorably discharged veterans, their widows, and Gold Star Parents.

The Department receives funding from state appropriations, federal grants and county and local funds. For the 2013-2015 biennium, the Department had an operating budget of \$119,131,000. The Governor appoints the Director, who oversees the Department's approximately 836 employees.

Contact information related to this report	
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*Information current as of report publish date.*

### Audit history

You can find current and past audit reports for the Department of Veterans' Affairs at <http://portal.sao.wa.gov/ReportSearch>.

## ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
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