

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

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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.