

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2015-001 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.

Homeless Veterans Reintegration Program

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 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.

Homeless Veterans Program

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 \$1.5 million of grant funding from King County in fiscal year 2015.

The program does not require veterans to apply for the program. Veterans who could show their DD Form 214, Certificate of Release or Discharge from Active Duty to Department staff were considered eligible to receive gift cards. They are not required to provide the Department with original receipts.

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.

In our fiscal year 2014 audit, we reported the Department lacked adequate internal controls over the issuance of gift cards to veterans.

Description of Condition

Homeless Veterans Reintegration Program

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

We examined records for 43 clients who received 145 gift cards, totaling \$17,478, to determine if the veterans met program requirements. In 93 instances, totaling \$11,301, the Department did not have documentation to support if veterans used the gift cards for the purpose intended and followed program requirements.

Homeless Veterans Program

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

We examined 28 purchases of gift cards, totaling \$7,285, to determine if supporting documentation of the gift card issuance was obtained. In 27 instances we found documentation was missing to support \$6,985 awarded in gift cards.

Cause of Condition

Inconsistent procedures for maintaining veteran files and staff turnover resulted in the lack of internal 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.

Due to the timing of the 2014 audit report issued, implementation of the Department's corrective action plans was not feasible during the audit period.

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.

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 and logs 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. The 2014 SAO Audit Finding for this item was issued in June 2015 which was the 12th month of the current audit review period. Due to the timing, it was not feasible for the agency to implement the 2014 corrective action plan at the beginning of the current audit review period (July 1, 2015). The agency will continue to follow policies, procedures, and internal controls implemented in the fall of 2015 and revise accordingly. Audits will be conducted to validate corrective measures have been fully implemented.

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.

38 U.S.C. § 101 Definitions, states in part:

(2) 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.

Homeless Veterans Reintegration Program Eligibility Requirements, states in part:

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

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.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2015-002 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 veteran's homes: the Washington Veterans Home in Retsil, the Washington Soldiers Home in Orting and the Spokane Veterans Home. The Department is currently building a fourth home in Walla Walla with an estimated completion date in the winter of 2016-17.

These homes are long-term, skilled nursing facilities providing a "Resident Centered Care" concept that focuses resources around the individual resident. Each of the homes have 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.

Each home follows different procedures for collecting money. The Orting home uses a dining hall cashier, while the other homes use cash boxes and the honor system.

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 central cashier who performs a review in the presence of a second individual. Documentation of any cash over/short is to be noted by the food service employee and central cashier and investigated. Due to use of the honor system, there is limited source documentation available to perform an adequate reconciliation.

Washington Veterans Home

At the Washington Veterans Home, there are five dining halls where residents and guests can purchase a meal. At the main dining hall, a log is placed by the cash box that residents and guests fill out when they receive a meal. Staff are not required to be present during check-in to verify that the guests have checked in and paid for their meals. Guests that dine at one of the other four dining halls pay dining staff to receive their meal. Staff then send the cash collected to the main

dining hall to be submitted to the central cashier. Staff do not issue receipts or tickets to guests when meals are paid for at the dining hall.

Spokane Veterans Home

Guests at the Spokane Veterans Home can purchase a meal ticket in advance from the central cashier, or can pay at the dining hall. The money is given to a dining hall staff member who places it in a locked cash box to be reconciled at the end of the day. Staff do not issue receipts or tickets to guests when meals are paid for at the dining hall.

Orting Veterans Home

The Orting facility has a dedicated cashier who collects money and tickets in the dining hall. We found no significant internal control weaknesses at the Orting location.

Revenues collected from the dining halls at the Washington Veterans and Spokane homes totaled approximately \$26,500 for state fiscal year 2015.

In our fiscal year 2014 audit, we reported the Department lacked adequate internal controls over its dining hall cash receipting process.

Description of Condition

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

Washington Veterans Home

- Money in the cash box was not always collected twice a week.
- A cash report was not prepared for 1 out of the 12 deposits we examined.
- One cash report lacked the required two signatures.

Spokane Veterans Home

- Money in the cash box was not always collected twice a week. Reconciliations between the number of meal tickets sold and cash receipts were not performed and counted by two staff members.
- A cash report was not prepared for all 9 deposits we examined.

Both homes have established different procedures for collecting money. We found there was inadequate source documentation maintained at both homes to perform adequate reconciliations.

Cause of Condition

Staff did not follow established policies and procedures and could not provide an explanation as to why they were not followed. At two of the homes, there is no cashier set up to collect funds at the dining hall.

Due to the timing of the 2014 audit report issued, implementation of the Department's corrective action plans was not feasible during the audit period.

Effect of Condition

By not having adequate internal controls in place, public funds are at risk of theft, misuse, or abuse.

Recommendation

We recommend the Department:

- Ensure dining hall cash receipting policies are followed to safeguard public funds.
- Require staff to issue receipts or tickets to guests when collecting money for meals.
- Reconcile meal tickets sold to cash receipt reports to ensure all revenues are accounted for and collected.

Department's Response

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(1) ...The director of financial management shall adopt and periodically update an accounting procedures manual. Any agency maintaining its own accounting and reporting system shall comply with the updated accounting procedures manual and the rules of the director adopted under this chapter.

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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.
- 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.

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.