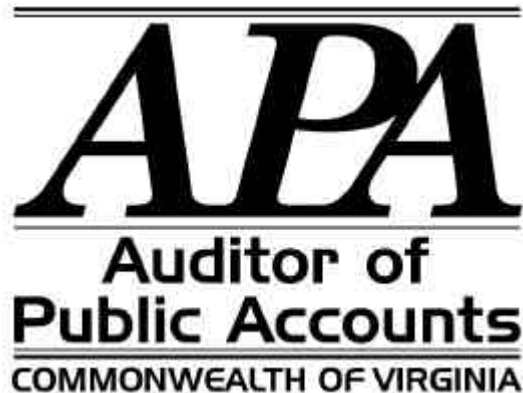


**VIRGINIA VETERANS CARE CENTER
RICHMOND, VIRGINIA**

**SPECIAL REPORT
FOR THE PERIOD
JANUARY 1, 1998 TO FEBRUARY 6, 2002**



July 12, 2002

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Kevin G. Miller
Chairman, Joint Legislative Audit
and Review Commission

Board of Trustees
Virginia Veterans Care Center

We have conducted a special review of certain accounts and records of the **Virginia Veterans Care Center** for the period January 1, 1998 to February 6, 2002. The review was a result of a request from the Attorney General's Office and included the Virginia State Police. The State Police are continuing to review and investigate certain matters related to the Virginia Veterans Care Center and they have reviewed the information in this report. We believe the matters in this report require the Board's attention and should not wait for the conclusion of the State Police investigation.

The report makes certain recommendations on improving internal control and changing certain policies and procedures. Since the Board of Trustees of the Virginia Veterans Care Center terminated its contract with the Care Center's contractor mentioned in this report and signed a contract with a new facilities manager, the Board should consider these matters with its new contractor.

In addition, the Board has worked with the Secretary of Administration to have the Director of the Department of Veteran's Affairs act as Executive Director to the Board. Since, this provides the Board the opportunity to work with a director and agency familiar with state government and its operations, the Board may wish to not only incorporate the recommendations in this report, but review and possibly update all of its operating policies and procedures.

EXIT CONFERENCE

We discussed this report with management and representatives of the Office of the Secretary of Administration at an exit conference held on July 25, 2002.

AUDITOR OF PUBLIC ACCOUNTS

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SPECIAL REVIEW OF LOCAL FUND DISBURSEMENTS

On February 7, 2002, we received information from the Attorney General's Office concerning allegations of questionable activities at the Virginia Veterans Care Center. These activities included unsupported expenses and the Executive Director holding two full-time jobs at the same time.

Background

The Virginia Veterans Care Center Board of Trustees, a supervisory board consisting of ten members, operates as a state agency under the supervision and direction of the Secretary of Administration. The Board is empowered to manage, control, maintain, and operate the Virginia Veterans Care Center, a 240 bed long-term care facility, and all its assets. The Board contracts with a private company to operate the facility.

The Board employs an Executive Director to provide oversight for all aspects of facility administration, patient care, and administrative and associate support services of the facility. The Executive Director monitors compliance with Medicare, Medicaid, and the Veteran's Administration Standards in areas of patient care, fiscal management, and support services. The Executive Director also monitors the contractor's performance to ensure compliance with contractual standards that govern the daily operation of the Center. In addition to the Executive Director, the Board also employs a Director of Admissions and a Veterans Service Organizations/Community Service Liaison.

The Board collects rent for use of the building from the contractor, which is used to pay the expenses and certain maintenance costs of the Center. The rent payments go into the State Treasury and the State Comptroller maintains a record of their deposit and use. The Board also receives an allocation of the federal veterans' subsidy payments received by the contractor, which also goes into the State Treasury for expenses.

The Center maintains a local checking account comprised of the Canteen, Resident's Welfare, and Operation Holiday Spirit funds. Canteen funding comes from canteen sales to residents and others and the funding for the Resident's Welfare and Operation Holiday Spirit come from donations. The Executive Director wrote all checks and authorized all disbursements from these accounts.

These local accounts clearly fall within the definition of "public funds," however; the funding is not part of the appropriation process or the executive branch budget process. Therefore, we do not believe the money is subject to all the rules and regulations of central administrative agencies. As "public funds," the Code of Virginia restrictions and any limitations set by the Board of Trustees govern the use of these monies.

Scope of Our Review

On February 8, 2002, we began our review of all disbursements from the Center's Local Fund accounts for the period January 1, 1998 through February 6, 2002. The Executive Director is no longer employed by the Veterans' Care Center and we are, therefore, unable to verify that he held two positions at the same time. This matter is under review by the Virginia State Police.

Board of Trustees Guidelines and Budgeting for Local Fund Account

The Board of Trustees established the local fund account to provide a mechanism to account for funds donated or generated for the residents of the Care Center. The Local Fund account included the Canteen, Resident's Welfare, and Operation Holiday Spirit accounts. Board of Trustees Policy Number 8 sets forth the policies on the Local Fund account. These guidelines state that Welfare funds are available for indigent residents for necessities such as dental work, eye exams, eyeglasses, hearing devices, clothing, and personal

hygiene items. Welfare funds also provide for the general welfare and recreation of the residents and to encourage the residents to become active in events and improve their quality of life.

The Board does not use a formal budget to monitor collections and payments from the Local Fund accounts. Prior to 1998, the Board of Trustee Local Fund Committee reviewed the activities of the local accounts in detail. However, the Board discontinued this practice in 1998.

The Executive Director approved all local fund disbursements and submitted periodic reports of collections and expenses from local fund accounts to the Board. However, these reports did not provide the detail needed for the Board to adequately monitor the activities of the local funds.

Criteria Used in Our Review

We reviewed the purchases from the Local Fund account against the following criteria:

1. Did the purchase have adequate supporting documentation?
2. Was there any evidence that the Executive Director personally benefited from the purchase?
3. Did the purchase comply with Board guidelines on the use of local funds?
4. Was the purchase reasonable and for the benefit the residents?

SUMMARY OF FINDINGS

We could not find supporting documentation for 24 disbursements totaling \$30,221. We turned all information concerning these 24 unsupported disbursements over to the State Police for further investigation. Their investigation is still in progress.

We also identified 139 local fund transactions totaling \$29,580 that do not appear to comply with Board of Trustee approved guidelines on the use of Welfare funds. We found numerous payments from the Welfare fund for flowers and fruit baskets for Board members, plaques for Board members, business cards, planners, shipping and courier charges, post office box rental, domain registration for the Care Center's internet page, printer cartridges, and CD ROMs. We also found that the Executive Director purchased \$900 in oranges from the former Board Chairman who was selling them for his Lion's club. Staff told us that the Executive Director gave the oranges to the contractor employees for Christmas.

Although not included in our original scope of this review, we found other matters of concern as follows:

1. The Executive Director deposited \$468,358, the Care Center's share of the veterans' subsidy payments, in a local savings account and made payments from this account circumventing the state's appropriation process. The Appropriation Act and the Code of Virginia require the Center to deposits these collected funds with the State Treasurer and State Comptroller subject to the state's appropriation process.
2. The Executive Director, as contacting officer for the Care Center, and the contractor entered into several agreements whereby the Executive Director agreed

to reduce the contractor's monthly lease payments for the Center. The reduction in the monthly lease payment would cover the cost of purchases made by the contractor at the direction of the Executive Director. We believe that these agreements may have circumvented state purchasing guidelines and laws allowing the Executive Director to make purchases without involving either the State Treasurer or State Comptroller totaling at least \$40,750.

3. The Care Center has not updated its fixed asset listing for acquisitions and disposals in several years.

We are working with the State Police on their on-going investigation of several of these matters.

RECOMMENDATIONS FOR ACTION BY THE BOARD OF TRUSTEES

Review and Update Board Policy Number 8 on the Local Fund Account

Board Policy Number 8 on the Local Fund account is outdated in several areas. The policy addresses a Local Fund Committee and a Resident Care Fund that no longer exist. The Board should carefully review and update this policy to ensure that the policy is current and establishes adequate controls over the Local Fund account. We also believe that the Board should strongly consider including in this policy a requirement for the development of an annual budget as a tool to properly plan for the best anticipated use of local fund collections.

The Board needs to consider that its policies and procedures should reflect its responsibilities and liabilities as a supervisory board. Supervisory boards have operating oversight and responsibilities for the actions of its employees. Should the Board not provide sufficient guidance or not properly exercise its oversight responsibilities, the Board may incur personal liability for the failures of its staff to act in accordance with its policies and procedures. While it is impracticable for the Board to provide daily oversight, having clear, well-defined, and current policies and procedures demonstrates the Board's expectations of staff performance and duties.

Segregate Local Fund Disbursement and Deposit Responsibilities

The Executive Director of the Care Center prepared and approved local fund disbursements. In 1998, the Board of Trustees discontinued its review of local fund disbursements. As a result, there is not an acceptable segregation of duties as there is no independent review of these disbursements.

The canteen manager closes the canteen cash register daily and prepares a cash reconciliation. He turns over the cash register tape and cash reconciliation to the Executive Director. The Executive Director kept sole custody of the canteen collections in his desk and prepared bank deposits twice monthly. There was no independent reconciliation of the amount deposited to the cash register tapes and cash reconciliations. Also, we were unable to locate the canteen cash register tapes and cash reconciliations.

The Board of Trustees should review the controls over local fund disbursements and deposits and segregate duties to ensure there is an independent review of these functions. We also believe that the Board should require weekly deposits of local fund collections to minimize the risk of theft or misuse.

Maintain Adequate Supporting Documentation for Local Fund Disbursements

We could not find supporting documentation for 24 disbursements totaling \$30,221. The Board of Trustees should require that adequate supporting documentation be present before processing payment and that the supporting documentation be maintained. We have turned information concerning these unsupported disbursements over to the State Police for further investigation.

Comply with Donor Restrictions on Welfare Funds

We identified 139 local fund transactions totaling \$29,580 that do not appear to comply with Board of Trustee approved guidelines on the use of Welfare funds. These guidelines state that Welfare funds are available for indigent residents for necessities such as dental work, eye exams, eyeglasses, hearing devices, clothing, and personal hygiene items. Welfare funds also provide for the general welfare and recreation of the residents and to encourage the residents to become active in events and improve their quality of life.

We found numerous payments from the Welfare fund for flowers and fruit baskets for Board members, plaques for Board members, business cards, planners, shipping and courier charges, post office box rental, domain registration for the Care Center's internet page, printer cartridges, and CD ROMs. We also found that the Executive Director purchased \$900 in oranges from the former Board Chairman who sold them for his Lion's club. Staff told us that the Executive Director gave the oranges to the contractor employees for Christmas.

The Board of Trustees should review the schedule of questionable items paid from Welfare funds and determine if state funds should reimburse the Welfare fund for inappropriate use of Welfare funds. The Board should further require that the approver of local fund disbursements certify that the usage of funds complies with Board approved restrictions on the Welfare funds.

Deposit Veterans' Subsidy Payments with the State Treasurer

The Executive Director deposited the Care Center's share of the veterans' subsidy payments in a local savings account and made payments from this account circumventing the state's appropriation process. The Appropriation Act and the Code of Virginia require the Center to deposit these collected funds with the State Treasurer and State Comptroller will make payment subject to the state's appropriation process. The Center purchased approximately \$40,000 in new electric beds and withdrew \$15,750 from this account for Christmas bonuses for contractor employees. We also identified that the contractor is five months in arrears in remitting the Care Center its share of the subsidy and owes \$298,440 to the Center for past due subsidy payments.

The Board of Trustees should adopt a policy that sets forth clearly that the Center should deposit all collected funds with the State Treasurer except for certain approved canteen, welfare, and donation funds that may be deposited in a local account. The Care Center should immediately transfer the balance of approximately \$400,000 in the savings account and remit all future subsidy payments received to the State Comptroller and should not expend these funds without available appropriation. The Care Center should also take steps to collect the past due subsidy payments from the contractor.

Develop Policy on Subsequent Agreements between the Center and the Contractor

The Care Center and the contractor entered into several subsequent agreements whereby the Care Center agreed for the contractor to reduce its monthly lease payments to the Center as reimbursement for items purchased or services provided by the contractor. The contractor purchased a used ambulance for the Care Center in this manner with the title to the ambulance in the Care Center's name. We believe the purchase of the ambulance circumvents state purchasing regulations. We also found several other agreements

in which the Care Center agreed for the contractor to reduce the monthly lease payments for services provided or items purchased by the contractor.

The Board of Trustees should develop a formal policy on subsequent agreements between the Care Center and the contractor. This policy should require that the Board formally approve all subsequent agreements between the Care Center and the contractor and that these agreements do not circumvent state regulations.

Monitor Purchases Using State Travel Card

The Executive Director frequently used his state corporate travel card to make personal and business purchases of equipment and supplies. The state corporate travel card regulations limit its use expressly to official state travel. Because the Executive Director commingled the use of this card for personal and business purchases, it was exceedingly difficult to attempt to verify that the Executive Director paid for all personal purchases. We could find no evidence of an independent review of the Executive Director's use of his travel card.

The Division of Select Agencies, which processes Commonwealth payments for the Secretary of Administration should carefully review all purchases of travel card users to ensure that all purchases are for official travel only.

Update Fixed Asset Listing

The Care Center has not updated its fixed asset listing for acquisitions and disposals in several years. The Center should perform a complete inventory of its assets and update the listing. An updated listing will significantly improve accountability of the Commonwealth's assets.

SUMMARY OF QUESTIONABLE ITEMS

24 unsupported payments	\$ 30,221
139 questionable payments	29,580
Equipment purchases outside state procurement	40,750
Christmas bonus and other payments	<u>15,750</u>
Total	<u>\$116,301</u>
Payments not deposited with the State Treasurer	<u>\$468,358*</u>

* On February 26, 2002, the Board deposited \$398,613
of this amount with the State Treasurer