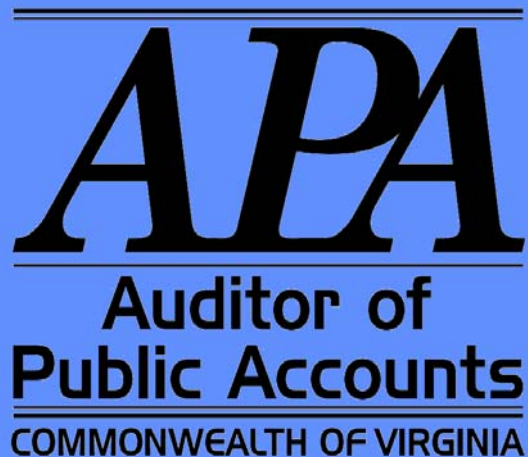


**DEPARTMENT OF VETERANS SERVICES
VETERANS SERVICES FOUNDATION
AND THE VIRGINIA WAR MEMORIAL**

**REPORT ON AUDIT
FOR THE TWO YEAR PERIOD ENDED
JUNE 30, 2012**



AUDIT SUMMARY

Our audit of the Department of Veterans Services, Veterans Services Foundation, and Virginia War Memorial for the 24-month period July 1, 2010, through June 30, 2012, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System and the department's Financial Management System;
- no matters involving internal control and its operation necessary to bring to management's attention; and
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

–TABLE OF CONTENTS–

	<u>Pages</u>
AUDIT SUMMARY	
AGENCY HIGHLIGHTS	1-8
INDEPENDENT AUDITOR’S REPORT	9-10
AGENCY OFFICIALS	11-12

VETERANS SERVICES

SERVICES AND SELECTED FINANCIAL INFORMATION BY DIVISION

Veterans Services consists of an administrative division and six service delivery branches: Benefits, Care Centers, Cemeteries, Veterans Education, Virginia War Memorial Foundation, and the Virginia Wounded Warrior Program. These branches work with three board-related entities – the Board of Veterans Services, the Joint Leadership Council of Veterans Service Organizations, and the Veterans Services Foundation, to support the delivery of services to Virginia’s veterans.

Benefits

The Benefits division assists Virginia’s veterans in gaining information and access to the federal benefits and services for which they are eligible. Veterans can access the Benefits division through its 21 field offices across Virginia or one of their traveling service points. Veterans may be eligible for compensation for service-connected disability or death, income-based pensions, medical care, educational benefits, and home purchase assistance from the United States Department of Veterans Affairs.

Care Centers

Veterans Services operates two care centers: the Virginia Veterans Care Center in Roanoke and the Sitter and Barfoot Care Center in Richmond. The Virginia Veterans Care Center provides long-term health care for up to 240 veterans in 120 semi-private rooms. Of the facility’s 240 beds, 180 are skilled nursing care beds, which include 60 set aside for Alzheimer’s patients. The remaining 60 beds are for assisted-living patients. The Sitter and Barfoot Care Center provides long-term care for up to 160 veterans. All of the facility’s 160 beds are single occupancy, skilled nursing care beds. Of the 160 beds, 40 are in a secure unit for Alzheimer’s patients with an enclosed courtyard.

The care centers, which receive no operating monies from the General Fund, are supported entirely on revenues received from caring for veterans. Revenue sources for both facilities include Medicaid, Medicare, per diem payments from the U.S. Department of Veterans Affairs, and private funding sources.

The following tables summarize each care center’s revenues, expenses, and populations for fiscal 2011 and 2012. The revenues and expenses per resident are higher for the Sitter and Barfoot Care Center, because this facility has all skilled nursing beds whereas the Virginia Veterans Care Center has 60 assisted living beds, which are much less expensive to staff than nursing beds.

COMPARISON OF FACILITY OPERATIONS
Fiscal 2011

Long-term Care Facilities

	<u>Sitter and Barfoot Care Center</u>	<u>Virginia Veterans Care Center</u>
Average resident census	158	211
Total resident days	57,512	76,804
Revenue:		
Collections (institutional revenue)	\$ 13,926,211	\$ 12,446,559
Federal revenue	5,430,983	5,947,944
Other revenues	<u>26,871</u>	<u>48,508</u>
Total revenues	<u>\$ 19,384,065</u>	<u>\$ 18,443,011</u>
Expenses:		
Personal services	\$ 12,781,955	\$ 11,602,561
Contractual services	1,648,985	2,673,418
Supplies and materials	1,808,592	2,709,278
Continuous charges	702,862	805,125
Equipment	55,076	70,154
Plant and improvements	9,220	-
Property and improvements	1,256	17,554
Transfer payments	<u>193,632</u>	<u>40,448</u>
Total expenses	<u>\$ 17,201,578</u>	<u>\$ 17,918,538</u>
Excess (deficiency) of revenues over expenses	<u>\$ 2,182,487</u>	<u>\$ 524,473</u>
Expenses per resident	\$ 108,871	\$ 84,922
Expenses per resident per day	\$ 299	\$ 233
Revenues per resident	\$ 122,684	\$ 87,408
Revenues per resident per day	\$ 337	\$ 240

Sources: Commonwealth Accounting and Reporting System and 2012 Care Center Census Reports

COMPARISON OF FACILITY OPERATIONS
Fiscal 2012

Long-term Care Facilities

	<u>Sitter and Barfoot Care Center</u>	<u>Virginia Veterans Care Center</u>
Average resident census	146	219
Total resident days	53,144	79,716
Revenue:		
Collections (institutional revenue)	\$ 13,330,160	\$ 12,430,805
Federal revenue	5,375,034	8,106,650
Other revenues	<u>16,776</u>	<u>84,707</u>
Total revenues	<u>\$ 18,721,970</u>	<u>\$ 20,622,162</u>
Expenses:		
Personal services	\$ 12,995,291	\$ 11,675,872
Contractual services	1,362,953	2,813,764
Supplies and materials	1,766,125	2,583,718
Continuous charges	445,033	597,578
Equipment	39,342	114,529
Plant and improvements	-	-
Property and improvements	752	19,024
Transfer payments	<u>161,641</u>	<u>24,075</u>
Total expenses	<u>\$ 16,771,137</u>	<u>\$ 17,828,560</u>
Excess (deficiency) of revenues over expenses	<u>\$ 1,950,833</u>	<u>\$ 2,793,602</u>
Expenses per resident	\$ 114,871	\$ 81,409
Expenses per resident per day	\$ 316	\$ 224
Revenues per resident	\$ 128,233	\$ 94,165
Revenues per resident per day	\$ 352	\$ 259

Sources: Commonwealth Accounting and Reporting System and 2012 Care Center Census Reports

Cemeteries

The Cemeteries Services Division operates three state-owned and operated cemeteries, the Virginia Veterans Cemetery in Amelia, the Albert G. Horton, Jr. Memorial Veterans Cemetery in Suffolk, and Southwest Virginia Veterans Cemetery in Dublin. These cemeteries provide burial and perpetual care services for veterans and their eligible dependents.

Veterans Education

Veterans Services is the U.S. Department of Veterans Affairs' State Approving Agency for Veterans Education. As the State Approving Agency, Veterans Services reviews, evaluates, and approves post-secondary education and training programs offered by educational institutions and various other entities within Virginia. Once a program receives approval, eligible veterans, war orphans, and widows may enroll in and receive financial assistance from the U.S. Department of Veterans Affairs while pursuing an approved course or program. Veterans Services monitors the approved educational and training programs to ensure compliance with applicable federal and state regulations.

Virginia Wounded Warrior Program

The Virginia Wounded Warrior Program provides a network of community-based services designed to help veterans and their families overcome the challenges of stress-related and traumatic brain injuries. These services are coordinated through local regional Virginia Wounded Warrior Program consortia consisting of community providers, including community services boards, brain injury services providers, Virginia Medical facilities, and other public and private providers.

Veterans Services Foundation

The Veterans Services Foundation (Foundation) raises funds for veterans programs. The Foundation's revenues are deposited into the Veterans Services Fund. Veterans Services' administrative division processes transactions for the Foundation. The Foundation's funds are spent on various programs (i.e. Wounded Warrior, Care Centers, etc.), which donors can designate. Below are two charts that summarize the Foundation's cash balances, revenue, and expenses for Veterans Services' Central Office and the two care centers for fiscal 2011 and 2012.

Foundation Funding and Expenses for Fiscal 2011

	<u>Central Office</u>	<u>Sitter and Barfoot Care Center</u>	<u>Virginia Veterans Care Center</u>	<u>Total</u>
Beginning cash	\$ 474,615	\$ 16,839	\$ 145,440	\$ 636,894
Revenues	118,802	26,870	48,507	194,179
Expenses	<u>(109,430)</u>	<u>(16,318)</u>	<u>(23,966)</u>	<u>(149,714)</u>
Ending cash	<u>\$ 483,987</u>	<u>\$ 27,391</u>	<u>\$ 169,981</u>	<u>\$ 681,359</u>

Source: Commonwealth Accounting and Reporting System

Foundation Funding and Expenses for Fiscal 2012

	<u>Central Office</u>	<u>Sitter and Barfoot Care Center</u>	<u>Virginia Veterans Care Center</u>	<u>Total</u>
Beginning cash	\$ 483,987	\$ 27,391	\$ 169,981	\$ 681,359
Revenues	200,337	16,775	84,706	301,818
Expenses	<u>(100,643)</u>	<u>(17,739)</u>	<u>(32,143)</u>	<u>(150,525)</u>
Ending cash	<u>\$ 583,681</u>	<u>\$ 26,427</u>	<u>\$ 222,544</u>	<u>\$ 832,652</u>

Source: Commonwealth Accounting and Reporting System

Virginia War Memorial Foundation

The Virginia War Memorial Foundation's (Memorial Foundation) Board of Trustees (the Trustees) determines how to honor Virginians for faithful service in time of war. The Trustees verify that the War Memorial (Memorial) includes the names of all Virginians killed-in-action from World War II, the Korean War, the Vietnam War, and the Persian Gulf War, and Virginians missing-in-action from the Vietnam War.

To support its mission and provide a greater incentive for donations, the Trustees established the Virginia War Memorial Educational Foundation, Incorporated (Corporation). The Corporation acts as the fund-raising arm of the Memorial Foundation and is a tax-exempt organization under Section 501 (c)(3) of the Internal Revenue Code. The Corporation is a publicly supported organization, and grantors and contributors may rely on its publicly supported status to make tax-exempt donations.

In 2011 the Trustees delegated their responsibility to manage and operate the War Memorial facility to the Corporation. Under their agreement the Corporation will operate the gift store and be the Memorial Foundation agent to lease the facility to other groups. Additionally, the Corporation is to use the net proceeds from these activities to conduct patriotic and educational programs and services. Finally, the agreement states that neither party will undertake any action that will jeopardize the Corporation's tax-exempt status.

Effective July 1, 2013, the Memorial Foundation became the Virginia War Memorial Board (Memorial Board) under Veterans Services. As a result, the Memorial Board was established a division with Veterans Services as an advisory board.

FINANCIAL INFORMATION

The following tables summarize Veterans Services' original and final budgets and their actual expenses by each program for fiscal 2011 and 2012. During fiscal 2011 Veterans Services' appropriation increased by \$4.8 million to support a full year of operations at Sitter and Barfoot. Of the \$5.1 million variance between the final budget and actual expenses for fiscal 2012, about \$3.3 million or 65 percent of the difference is from care center operations. The final budget for the care centers operations exceeds their actual expenses to ensure Veterans Services can pay the non-general

funds as necessary to provide services. The care centers accounts for 81 percent of Veterans Services' operating expenses.

Analysis of Budgeted to Actual Operating Expenses by Program for Fiscal 2011

<u>Program</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenses</u>
Care center operations	\$ 33,652,205	\$ 38,456,747	\$ 35,120,115
Veterans benefits services, including Wounded Warrior	5,370,726	5,814,377	5,293,774
Administration and support	1,951,291	2,139,898	1,063,739
Cemetery management, including war memorial	1,421,757	1,535,389	1,401,419
Veterans education	<u>704,223</u>	<u>704,223</u>	<u>651,090</u>
Total	<u>\$ 43,100,202</u>	<u>\$ 48,650,634</u>	<u>\$ 43,530,137</u>

Source: Commonwealth Accounting and Reporting System

Analysis of Budgeted to Actual Operating Expenses by Program for Fiscal 2012

<u>Program</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenses</u>
Care center operations	\$ 38,652,205	\$ 38,481,906	\$ 34,603,630
Veterans benefits services, including Wounded Warrior	6,155,435	6,155,435	5,958,272
Administration and support	1,951,292	2,123,305	1,168,634
Cemetery management, including war memorial	2,452,921	2,452,921	2,315,342
Veterans education	<u>704,223</u>	<u>704,223</u>	<u>672,298</u>
Total	<u>\$ 49,916,076</u>	<u>\$ 49,917,790</u>	<u>\$ 44,718,176</u>

Source: Commonwealth Accounting and Reporting System

The following tables summarize Veterans Services' actual operating expenses by funding source for fiscal 2011 and 2012. Together the veterans benefits services, wounded warrior, and administrative and support programs spend 85 percent of Veterans Services' General Funds, whereas the care centers spend 99 percent and 91 percent of its non-general and Federal revenues, respectively in fiscal 2011. In 2012, the veterans benefits services, wounded warrior, and administrative and support programs spent 78 percent of Veterans Services' General Funds, whereas the care centers spent 98 percent and 90 percent of its non-general and Federal revenues, respectively.

Analysis of Actual Operating Expenses by Funding Source
Fiscal 2011

<u>Program</u>	<u>General</u>	<u>Non-General</u>	<u>Federal</u>	<u>Expenses</u>
Care center operations	\$ -	\$26,143,600	\$8,976,515	\$35,120,115
Veterans benefits services, including Wounded Warrior	5,174,376	101,197	18,201	5,293,774
Administration and support	1,059,707	4,032	-	1,063,739
Cemetery management, including War Memorial	1,126,923	116,784	157,712	1,401,419
Veterans education	-	-	651,090	651,090
Total	<u>\$ 7,361,006</u>	<u>\$26,365,613</u>	<u>\$9,803,518</u>	<u>\$43,530,137</u>

Source: Commonwealth Accounting and Reporting System

Analysis of Actual Operating Expenses by Funding Source
Fiscal 2012

<u>Program</u>	<u>General</u>	<u>Non-General</u>	<u>Federal</u>	<u>Expenses</u>
Care center operations	\$ 3,931	\$24,488,523	\$10,111,176	\$34,603,630
Veterans benefits services, including Wounded Warrior	5,501,434	90,968	365,870	5,958,272
Administration and support	1,162,568	6,066	-	1,168,634
Cemetery management, including War Memorial	1,856,532	329,082	129,728	2,315,342
Veterans education	-	-	672,298	672,298
Total	<u>\$8,524,465</u>	<u>\$24,914,639</u>	<u>\$11,279,072</u>	<u>\$44,718,176</u>

Source: Commonwealth Accounting and Reporting System

The following table summarizes Veterans Services' fiscal 2011 and 2012 operating expenses by type. Overall, personal services accounted for 67 percent of Veterans Services operating expenses in both fiscal years.

<u>Operating Expenses by Type</u>				
	<u>Fiscal 2011</u>		<u>Fiscal 2012</u>	
Personal services	\$29,150,515	67%	\$30,145,405	67%
Contractual services	5,525,552	13%	5,609,071	13%
Supplies and materials	4,738,414	11%	4,704,447	11%
Continuous charges	2,330,769	5%	2,244,810	5%
Transfer payments	1,533,465	3%	1,442,738	3%
All other types	<u>251,422</u>	1%	<u>571,705</u>	1%
Total	<u>\$43,530,137</u>	100%	<u>\$44,718,176</u>	100%

Source: Commonwealth Accounting and Reporting System

In addition to its operating expenses, Veterans Services spent about \$5.9 and \$1.3 million on capital projects in fiscal 2011 and 2012, respectively. The following tables provide detailed expenses for Veterans Services' three capital projects in fiscal 2011 and 2012. Nearly 100 percent of all capital outlay related to the renovations of Virginia Veteran's Care Center and the construction of Dublin Cemetery in fiscal 2011.

Capital Project Expenses for Fiscal 2011

Dublin Cemetery	\$4,749,662
Maintenance Reserve	<u>1,128,677</u>
Total capital project expenses	<u>\$5,878,339</u>

Source: Commonwealth Accounting and Reporting System

Capital Project Expenses for Fiscal 2012

Maintenance Reserve	\$ 453,658
Sitter and Barfoot Expansion	390,884
Suffolk Cemetery Pre-Installed Vaults	209,201
Other Projects	<u>281,282</u>
Total capital project expenses	<u>\$1,335,025</u>

Source: Commonwealth Accounting and Reporting System



Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

February 22, 2013

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Department of Veterans Services, Veterans Services Foundation, and the Virginia War Memorial** (Veterans Services) for the period July 1, 2010, through June 30, 2012. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in the Commonwealth Accounting and Reporting System and Veterans Services' Financial Management System, review the adequacy of the Veterans Services' internal controls, test compliance with applicable laws and regulations, and review corrective actions of audit findings from prior year reports.

Audit Scope and Methodology

Veterans Services' management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Capital Outlay
Historical Artifacts
Patient Revenues
Payroll

Small Purchase Charge Card
Veterans Services' Foundations
War Memorial Management

We performed audit tests to determine whether Veterans Services' controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and MOU's, access controls to critical systems, reconciliations of critical systems, and observation of Veterans Services' operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses

Conclusions

We found that the Veterans Services properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and Veterans Services' Financial Management System. Veterans Services records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted no new matters involving internal control and its operation and compliance with applicable laws and regulations that require management's attention and corrective action.

Veterans Services has taken adequate corrective action with respect to audit findings reported in the prior year.

Exit Conference and Report Distribution

We discussed this report with management on March 18, 2013.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

GDS/alh

DEPARTMENT OF VETERANS SERVICES

Paul E. Galanti
Commissioner

BOARD OF VETERAN SERVICES
As of June 30, 2012

Thad A. Jones
Chairman

John A. Anderson
Delegate Richard L. Anderson
Delegate Mayme E. BaCote
William G. Haneke
Dave Holt
Donald B. Kaiserman
Kate Kohler

Don Lecky
Sandra Love
George Melnyk, Sr.
William Nicholas
Senator Toddy Puller
Senator Bryce E. Reeves
Alfredo Sample

Delegate Christopher P. Stolle

VIRGINIA WAR MEMORIAL FOUNDATION

Jon Hatfield
Executive Director

BOARD OF TRUSTEES
As of June 30, 2012

The Honorable John M. O'Bannon, III
Chairman

The Honorable John S. Edwards
Vice Chairman

The Honorable William K. Barlow
Mr. Dale D. Chapman
The Honorable Thomas A. "Tag" Greason
The Honorable Frank D. Hargrove, Sr.
Mr. John Harper, Jr.
The Honorable Mark R. Herring
BG Bert Wellington Holmes, Jr., M.D.
The Honorable William R. Janis
LCDR F. Caroline Lane, USN (Ret.)

The Honorable Scott Lingamfelter
The Honorable Paula J. Miller
The Honorable Ralph S. Northam
Mr. Joe Punaro
The Honorable Ralph K. Smith
Mr. Scott Taylor
COL Sam D. Wilder, Jr., USA (Ret.)
BG Wilma L. Vaught, USAF (Ret.)
Mr. Wade Zirkle