



DEPARTMENT OF VETERANS SERVICES

AUDIT OF CAPITAL ASSETS

AS OF
JUNE 30, 2017

Auditor of Public Accounts
Martha S. Mavredes, CPA
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AUDIT SUMMARY

Our audit of capital assets at the Department of Veterans Services, including the Sitter & Barfoot Veterans Care Center and the Virginia Veterans Care Center, for the fiscal year ended June 30, 2017, found:

- proper recording and reporting of capital assets, in all material respects, in the Commonwealth's accounting and reporting system and the Commonwealth's fixed asset system;
- four matters involving internal control and its operation necessary to bring to management's attention; and
- adequate corrective action with respect to prior year findings listed below.
 - Restrict Access to Information Systems
 - Improve Employee Separation Process

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AUDIT FINDINGS AND RECOMMENDATIONS

Improve Capital Asset Accounting Policies and Procedures

Type: Internal Control

Repeat: No

The Department of Veteran Services (Veterans Services), including the Virginia Veterans Care Center (VVCC) and Sitter & Barfoot Veterans Care Center (SBVCC), lack properly documented capital asset accounting policies and procedures. The following policies and procedures were not documented:

- Asset Acquisition/Disposal Recording
- Capitalization
- Useful life
- Estimated Salvage Value
- Physical Inventory
- Tracking and Reporting CIP

Commonwealth Accounting Policies and Procedures (CAPP) Manual Topic 20905 states that CAPP Manual procedures alone do not eliminate the requirement for each agency to publish its own internal policies and procedures, which should be approved in writing by agency management. The lack of complete and up-to-date internal policies and procedures, customized to reflect the agency's staffing, organization, and operating procedures, reflects inadequate internal control.

Policies and procedures are important to ensure the proper recording, tracking, and management of capital assets, as well as to ensure that such assets are not subject to misappropriation. Veterans Services and the related care centers should develop written policies and procedures in order to strengthen the controls surrounding capital assets and ensure the agency is properly reporting capital asset information consistently.

Improve Controls over Capital Assets

Type: Internal Control

Repeat: No

VVCC staff did not properly tag capital assets with the corresponding asset tag number in the Commonwealth's fixed asset system. None of the 18 assets reviewed had a proper asset tag affixed.

CAPP Manual Topic 30505 states that tagging provides a method of assigning a unique identification number to each capital asset equipment item so that the item can be accounted for and

identified in the Commonwealth's fixed asset system. Ideally, assets should be tagged at the time of physical receipt, or as soon thereafter as possible.

The lack of asset tags prevents the identification between capital assets in the agency's physical possession and the Commonwealth's fixed asset system. The primary cause for the assets not being tagged is due to a lack of policies and procedures regarding capital assets acquisitions. Inadequate tagging of capital assets increases the risk of the misappropriation of Commonwealth property and may contribute to the recording of inaccurate information in the Commonwealth's fixed asset system. Management should ensure that all capital assets are properly tagged upon receipt.

Properly Record Capital Asset Additions

Type: Internal Control

Repeat: No

Veteran Services, including VVCC and SBVCC, are not properly recording asset acquisitions in the Commonwealth's fixed asset system. We found the following errors in information recorded in the Commonwealth's fixed asset system:

- One out of five assets (20%) did not have a proper acquisition amount.
- Four out of five assets (80%) did not have an accurate acquisition date.
- Five out of five assets (100%) were not entered into the system within 30 days of receiving the asset. These assets were entered into the system between two months and nine months after the asset was received.
- One out of five assets (20%) did not have the appropriate useful life.
- One asset at VVCC was not recorded accurately, entered timely, or given the appropriate salvage value.

CAPP Manual Topic 30205 states that all recordable assets, except constructed assets, should be recorded in the Commonwealth's fixed asset system as soon as possible after title passes or within 30 days after receipt and acceptance in the fiscal year the asset was acquired. Capital assets should be valued at actual cost or, if the cost is not readily determined, at estimated cost. Acquisition cost includes the purchase price as well as the cost incurred to place an asset in its intended location and in an operable condition.

These issues result from a lack of policies and procedures regarding the recording of capital asset additions. Improper recording of fixed assets increases the risk that information in the Commonwealth's fixed asset system is not accurate and cannot be relied on.

Veterans Services should create, communicate, and implement policies and procedures over capital asset additions at all care centers. Veterans Services staff should handle inspection and

processing of paperwork promptly enough to ensure recording of assets within 30 days of receipt. Veterans Services staff should ensure the acquisition amount and acquisition date entered into the Commonwealth's fixed asset system is accurate and the useful life recorded best represents the longevity of the asset.

Perform Physical Inventory

Type: Internal Control

Repeat: No

VVCC does not have adequate procedures in place to ensure a physical inventory is performed, documented, and recorded in the Commonwealth's fixed asset system. Specifically, VVCC did not perform a physical inventory within the last two years.

CAPP Manual Topic 30505 requires a physical inventory of capital assets at least once every two years to properly safeguard assets and maintain fiscal accountability. A physical inventory must verify the asset's existence, and should provide a reference to lists and/or other documents evidencing the existence and cost of the asset examined.

The physical inventory was not performed due to a lack of policies and procedures. The absence of performing, documenting, or recording physical inventory increases the risk of loss, theft, and inaccurate reporting of capital assets.

Veterans Services should create, communicate, and implement policies and procedures over fixed asset inventories at all care centers. VVCC should perform a physical inventory at least once every two years and record any changes in the Commonwealth's fixed asset system in a timely manner.

AUDIT SCOPE OVERVIEW

Veterans Services serves Virginia's veterans and their families by providing or facilitating the delivery of benefits, services, education, and care. Veterans Services is comprised of a central agency and two care centers, the VVCC in Roanoke and the SBVCC in Richmond. The VVCC and SBVCC provide long-term nursing and memory care, as well as short-term rehabilitation, for veterans with 240 and 200 beds, respectively. Veterans Services provides administrative oversight and support for the care centers and oversees all other services.

Given the various facilities used to carry out its mission, Veterans Services manages significant capital assets including land, buildings and equipment. Capital assets under Veterans Services' control have a historical cost of over \$85 million as of the end of fiscal year 2017 as shown in the table below. Given the significance of these assets, as well as future plans to expand operations, we selected capital assets as the primary focus for this audit.

Capital Asset Balances by Type as of June 30, 2017, and June 30, 2016
(at historical cost)

| Capital Asset Type | Sitter & Barfoot Veterans Care Center | Virginia Veterans Care Center | Department of Veterans Services | Total as of June 30, 2017 | Total as of June 30, 2016 |
|--------------------------|---------------------------------------|-------------------------------|---------------------------------|---------------------------|---------------------------|
| Buildings | \$21,375,613 | \$16,501,509 | \$16,177,254 | \$54,054,376 | \$54,054,376 |
| Construction in Progress | - | 2,144,628 | 14,854,310 | 16,998,938 | 11,666,690 |
| Equipment | 764,898 | 2,422,444 | 1,410,448 | 4,597,790 | 2,895,634 |
| Infrastructure | 1,498,007 | 868,085 | 4,756,049 | 7,122,141 | 7,051,718 |
| Land | 1,651,255 | 105,000 | 1,050,526 | 2,806,781 | 2,806,781 |
| Totals | \$25,289,773 | \$22,041,666 | \$38,248,587 | \$85,580,026 | \$78,475,199 |

Source: Commonwealth's accounting and financial reporting system

Construction in progress is related to plans to expand operations and build two new care centers to serve veterans in need of high-quality skilled nursing care or short-term rehabilitative services. The Puller Veterans Care Center will be a 128-bed facility in Fauquier County that is scheduled to open in early 2020. The Jones & Cabacoy Veterans Care Center will be a 120-bed facility in Virginia Beach that is also scheduled to open in 2020.

The Department of General Services (General Services) is overseeing both of these projects on behalf of Veterans Services. General Services provides project management, contract administration, and procurement functions for the two new centers. Each center is estimated to cost around \$48 million with funding coming through bonds issued by the Virginia Public Building Authority.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

June 22, 2018

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission

We have audited the capital assets of the **Department of Veterans Services** for the year ended June 30, 2017. 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 Scope and Objectives

Our audit's primary objectives with regard to capital assets were to evaluate the accuracy of transactions recorded in the Commonwealth's accounting and reporting system and the Commonwealth's fixed asset system, review the adequacy of the Veterans Services' internal controls, and test compliance with applicable laws, regulations, contracts, and grant agreements. We also reviewed corrective actions for audit findings from the prior year report as follows: Restrict Access to Information Systems and Improve Employee Separation Process. We will follow up on remaining audit findings from prior year reports in subsequent audits.

Audit Methodology

Veterans Services' management has responsibility for establishing and maintaining internal control and complying with applicable laws, regulations, contracts, and grant agreements. 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, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, as they relate to the audit objectives, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether Veterans Services' controls over capital assets were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, and contracts as they pertain to our audit objectives.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of Veterans Services' operations. We performed analytical procedures and tested details of transactions to achieve our objectives.

A non-statistical sampling approach was used. Our samples were designed to support conclusions about our audit objectives. An appropriate sampling methodology was used to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. We identified specific attributes for testing each of the samples and, when appropriate, we projected our results to the population.

Conclusions

We found that Veterans Services properly stated, in all material respects, the capital asset transactions recorded and reported in the Commonwealth's accounting and reporting system and the Commonwealth's fixed asset system.

We noted certain matters pertaining to capital assets, involving internal control and its operation, that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations." The results of our tests of compliance as they pertain to capital assets, with applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The agency has taken adequate corrective action with respect to audit findings reported in the prior year that are listed under the Audit Scope and Objectives section of this letter.

Exit Conference and Report Distribution

We discussed this report with management on July 24, 2018. Management's response to the findings identified in our audit is included in the section titled "Agency Response." We did not audit management's response and, accordingly, we express no opinion on it.

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

LCW/clj



COMMONWEALTH of VIRGINIA

Department of Veterans Services

John L. Newby II
Commissioner

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July 24, 2018

Martha S. Mavredes, CPA
Auditor of Public Accounts
Post Office Box 1295
Richmond, Virginia 23218

Dear Ms. Mavredes:

We have reviewed your audit report for the Department of Veterans Services for Fiscal Year 2017. We appreciate the acknowledgment of properly stating, in all Material respects, the capital asset transactions recorded and reported in the Commonwealth's accounting and reporting system and the Commonwealth's fixed asset system.

We concur with your findings and recommendations with regard to internal control matters and operations regarding fixed assets.

Action has already been taken to correct two of the findings and we will give the remaining issues our prompt attention.

We will file the required corrective action plan with the State Comptroller within 30 days of receipt of our official APA audit report. We thank you and your staff for your review and the assistance you have provided us.

Sincerely,

A handwritten signature in blue ink that reads "T L Davidson".

Tammy L. Davidson
Fiscal Officer
DVS Director of Finance

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DEPARTMENT OF VETERANS SERVICES

As of June 30, 2017

John L. Newby, II
Commissioner

Tammy Davidson
Director of Finance