

**DEPARTMENT OF VETERANS SERVICES
AND
THE VETERANS SERVICES FOUNDATION**

**REPORT ON AUDIT
FOR THE PERIOD
JULY 1, 2007 THROUGH JUNE 30, 2008**



AUDIT SUMMARY

Our audit of the Department of Veterans Services and the Veterans Services Foundation for the period July 1, 2007 through June 30, 2008, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- internal control matters that require management's attention and corrective action; these are located in the "Internal Control and Compliance Findings and Recommendations" section of this report; and
- instances of noncompliance with applicable laws and regulations that are required to be reported; these are located in the "Internal Control and Compliance Findings and Recommendations" section of this report.

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INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Develop an Information System Security Program and Comply with HIPAA Regulations-Repeat Finding

The Department of Veterans Services (Veterans Services) does not have an Information Systems Security Program in place to protect its sensitive systems and data. We found that Veterans Services has drafted some Information Technology (IT) policies but has not developed the following key components of a security program: a Business Impact Analysis, an IT Risk Assessment, an IT Continuity of Operations Plan, and a Disaster Recovery Plan. Not having a security program places its systems and data at risk for loss of confidentiality, integrity, and availability. In addition, by not having a security program, Veterans Services is noncompliant with federal HIPAA regulations.

According to the Commonwealth's Security Policy, Veterans Services' Information Security Officer (ISO) is responsible for developing and managing the agency's IT Security Program and ensuring that the agency complies with its components. While there must be a collaborative effort between management, data owners, and the ISO to develop an agency's IT risk management and contingency plans, the ISO must ensure that the security program meets current Commonwealth IT standards and federal HIPAA regulations.

We determined that Veterans Services' IT Department, which consists of one full-time and one part-time employee, is insufficient for an agency of its size. Without sufficient resources, the ISO cannot fulfill the responsibilities required by the Commonwealth security policy. Considering the current economic environment, Veterans Services may need to seek assistance from other agencies and departments to achieve an adequate program. Because of the nature of Veterans Services operations, internal Commonwealth operations with similar services exist within either the Secretary of Health and Human Resources or Education, therefore, the Secretary of Public Safety may wish to work with these other Secretaries to assist Veterans Services.

In addition, until management approves Veterans Services' draft policies, there are no requirements for the ISO to enforce. We recommend that management finalize its IT security policies and provide the necessary resources to develop a security program that complies with the Commonwealth's security standards and federal HIPAA regulations.

Continue to Improve Internal Controls over Fixed Assets

Veterans Services has improved its management of fixed assets by documenting policies and procedures and maintaining independent listings of fixed assets for both of the care centers. However, Veterans Services does not have adequate documentation to support that it conducted a department-wide inventory during the past two years, as required by Commonwealth regulations. Additionally, Veterans Services could not provide a listing of assets for its cemeteries independent of the assets reported in the State's fixed asset inventory database.

By not conducting an agency-wide inventory, Veterans Services increases the risk that it has not properly recorded inventory and the risk of misuse and abuse for these assets. Veterans Services should perform and adequately document a fixed asset inventory at least every two years, including a review of both care centers and all cemeteries.

Establish an Agreement with the Virginia War Memorial Foundation

The Virginia War Memorial Foundation (Foundation) oversees the operation of the Virginia War Memorial in Richmond. Veterans Services replaced the Department of General Services (General Services) as the Foundation's administrative services provider on July 1, 2008; however, General Services will continue to provide management and fiscal services for capital improvement to the Memorial. Veterans Services should formalize their relationship with the Foundation by working with the Foundation's Board of Trustees to develop a Memorandum of Understanding (MOU). The MOU should detail the services that Veterans Services will provide to the Foundation, along with the Board's expectations of Veterans Services.

Formalizing and documenting the relationship between Veterans Services and the Foundation and its Board of Trustees will improve Veterans Services' oversight of the Foundation and the transparency of the Foundation's operations. Veteran Services should also address with the Foundation whether their MOU will include General Services' projects or if the Board will have a separate agreement with General Services.

AGENCY OPERATIONS

The Virginia Department of Veterans Services (Veterans Services) consists of an administrative division and four service delivery branches: benefits, cemeteries, care centers, and veterans' education. These branches work with three board-type entities – the Boards 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 United States Department of Veterans Affairs provides benefits and services to veterans of the armed forces. These benefits include compensation for service-connected disability or death, income-based pensions, medical care, educational benefits, and home purchase assistance.

The Benefits Service Division assists Virginia's veterans in gaining information and access to the federal benefits and services for which they are eligible. The Benefits Service Division operates 15 field offices across Virginia to assist eligible veterans. In addition to the field offices, the division also operates 25 itinerant service points to serve veterans. Various government agencies and private entities provide the space for these additional service points.

Cemeteries

The Cemeteries Services Division operates two state-owned and operated cemeteries, the Virginia Veterans Cemetery in Amelia and the Albert G. Horton, Jr. Memorial Veterans Cemetery in Suffolk. These cemeteries provide a final resting place for veterans and their eligible dependents. Currently, the Department plans to open a third cemetery in Southwest Virginia by late 2010.

Care Centers

The Department operates two care centers: the Virginia Veterans Care Center in Roanoke and the Sitter & Barfoot Veterans 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 (including 60 set aside for Alzheimer's patients) and the remaining 60 beds are for assisted-living patients.

The Department completed construction of the Sitter & Barfoot Veterans Care Center in January 2008 at a total cost of \$25.9 million. The Commonwealth funded about \$11.1 million of the construction costs, including about \$3.56 million in fiscal 2008, with the remainder provided by the U.S. Department of Veterans Affairs. The facility 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 beds are in a secure unit for Alzheimer's patients with an enclosed courtyard. The Sitter & Barfoot Veterans Care Center admitted its first residents in January 2008 and by December 31, 2008 had 130 residents.

The Virginia Veterans Care Center receives no operating monies from the General Fund, operating entirely on revenues produced through 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 Sitter & Barfoot facility received a general fund appropriation in fiscal 2008, however expects monthly revenue to cover its operating costs when it reaches near capacity in early calendar year 2009.

The following table summarizes each care center's revenues, expenses, and populations for fiscal year 2008.

COMPARISON OF FACILITY OPERATIONS

Fiscal Year 2008

Long-term Care Facilities

	Sitter & Barfoot Veterans Care Center	Virginia Veterans Care Center
Average resident census	32	167
Total resident days	5,739	61,132
Revenue:		
Collections (Institutional Revenue)	\$991,923	\$13,108,174
Federal revenue	-	5,119,103
Adjusted general fund appropriations	1,412,900	-
Other revenues	<u>-</u>	<u>23,424</u>
Total revenue	<u>2,404,823</u>	<u>18,250,701</u>
Expenses:		
Personal services	3,508,976	10,525,937
Contractual services	517,449	2,498,040
Supplies and materials	618,747	2,418,791
Continuous charges	123,836	912,200
Equipment	215,217	339,269
Plant and improvements	-	42,624
Property and improvements	13,807	-
Transfer payments	<u>81,998</u>	<u>21,111</u>
Total expenses	<u>5,080,030</u>	<u>16,757,972</u>
Excess (deficiency) of revenues over expenses	<u>\$ (2,675,207)</u>	<u>\$ 1,492,729</u>
Expenses per resident	<u>\$ 158,751</u>	<u>\$ 100,347</u>
Expenses per resident per day	<u>\$ 885</u>	<u>\$ 274</u>
Revenues per resident	<u>\$ 75,151</u>	<u>\$ 109,286</u>
Revenues per resident per day	<u>\$ 419</u>	<u>\$ 299</u>

Source(s): Commonwealth Accounting and Reporting System, 2008 Commissioner's Report

Veterans Education

Veterans Services is the United States Department of Veterans Affairs' State Approving Agency for Veterans Education (SAA). As the SAA, 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 education and training programs to ensure compliance with applicable federal and state regulations.

Administrative Services

During fiscal 2008, Veterans Services began moving many of its administrative positions from Roanoke to a central office in Richmond and to the Sitter & Barfoot facility. Currently, each care center has its own administrative staff. The Sitter & Barfoot administrative staff began providing administrative services for the Virginia War Memorial Foundation beginning in fiscal 2009. The Administrative Services Division in Roanoke now consists of three employees who provide the other four service divisions ad hoc support in the following areas: accounting, budget, human resources, information technology, payroll, and procurement.

Veterans Services Foundation

The Veterans Services Foundation (Foundation) serves as an advisory foundation within the executive branch of state government. The Foundation raises funds, identifies existing revenue sources for veterans programs, and administers the Veterans Services Fund. Veterans Services' administrative division processes the Foundation's transactions. The Foundation spends funds on holiday gifts for the Care Center residents, activities, and other items for the veterans.

FINANCIAL INFORMATION

The following table summarizes Veterans Services' original and final budget and their actual expenses. Of the \$8.8 million variance between the final budget and actual expenses, about \$7.8 million (89 percent) is the difference between the final budget and actual expenses for the Care Center Operations. This resulted from uncertainty over the opening of the Sitter & Barfoot facility. Veterans Services wanted sufficient funds appropriated if the facility opened earlier than expected, or it enrolled residents at a faster rate than projected. The care centers account for over 75 percent of Veterans Services' operating expenses.

Analysis of Budgeted to Actual Operating Expenses by Program for Fiscal Year 2008

<u>Program</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenses</u>
Care center operations	\$26,470,237	\$29,638,137	\$21,838,002
Veterans benefit services	3,415,343	3,845,087	3,804,381
Administration and support	2,274,063	2,842,527	2,056,070
Cemetery management	797,060	853,633	767,911
Veterans education	<u>622,859</u>	<u>622,859</u>	<u>577,435</u>
Total	<u>\$33,579,562</u>	<u>\$37,802,243</u>	<u>\$29,043,799</u>

Source(s): Chapter 847 and the Commonwealth Accounting & Reporting System

The following table summarizes Veterans Services' fiscal 2008 operating expenses by type. Overall, personal services accounted for 67 percent of Veterans Services operating expenses in fiscal 2008.

Fiscal 2008 Operating Expenses by Type

Personal services	\$19,520,461	67%
Contractual services	4,121,783	14%
Supplies and materials	3,175,343	11%
Continuous charges	1,418,434	5%
All other types	<u>807,778</u>	<u>3%</u>
Total	<u>\$29,043,799</u>	<u>100%</u>

Source: Commonwealth Accounting and Reporting System

In addition to its operating expenses, Veterans Services had about \$3.8 million in capital project expenses. The following table provides detailed expenses for Veterans Services' four capital projects in fiscal 2008. Nearly 92 percent of total capital project expenses were to complete the Sitter & Barfoot Veterans Care Center in fiscal 2008.

Capital Project Expenses for Fiscal 2008

Sitter & Barfoot Veterans Care Center	\$3,555,654
Southwest Virginia Veterans Cemetery	242,669
Veterans Care Center Improvements	70,234
Acquisition of land for Hampton Roads Cemetery	<u>10,886</u>
Total capital project expenses	<u>\$3,879,443</u>

Source: Commonwealth Accounting and Reporting System



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

March 24, 2009

The Honorable Timothy M. Kaine
Governor of Virginia
State Capital
Richmond, Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited the financial records and operations of the **Department of Veterans Services** for the period July 1, 2007 through June 30, 2008. 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, review the adequacy of 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 materiality and control 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:

Expenses
Payroll
Appropriations
Collection of Receivables
Small Purchase Charge Card
Information Systems Security
Fixed Assets

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 agreements, and observation of Veterans Services' operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that Veterans Services properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting 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 certain matters involving internal control and its operation and compliance with applicable laws and regulations that require management's attention and corrective action. These matters are described in the section entitled "Internal Control and Compliance Findings and Recommendations."

Veterans Services has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this letter.

Exit Conference and Report Distribution

We discussed this report with management on April 6, 2009. Management's response has been included at the end of this report.

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



COMMONWEALTH of VIRGINIA

Department of Veterans Services

Vincent M. Burgess
Commissioner

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April 8, 2009

Mr. Walter J. Kucharski, Auditor of Public Accounts
James Monroe Building
Post Office Box 1295
Richmond, Virginia 23218-1295

Dear Mr. Kucharski:

We have reviewed your audit report for the audit of the Department of Veterans Services, for the year ended June 30, 2008. We agree with the comments contained in your report, and know that we still need to complete the policies noted; ensure a more timely physical inventory of all DVS assets; and execute an MOU with the Virginia War Memorial Foundation. But we are also proud of the progress we have made this year to eliminate comments that have existed for too long.

We will file the required corrective action plan with the State Comptroller, and it will note our intention to clear these items by this June 30.

We thank you and your staff for your review and the assistance you have provided to us.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Vincent M. Burgess", with a long horizontal flourish extending to the right.

Vincent M. Burgess

cc: Mike Rogers

OFFICIALS

DEPARTMENT OF VETERANS SERVICES

Vincent M. Burgess
Commissioner

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