

Audit Report

Department of Veterans Affairs

January 2021



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

Joint Audit and Evaluation Committee

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Victoria L. Gruber
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Gregory A. Hook, CPA
Legislative Auditor

January 5, 2021

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Carol L. Krimm, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Department of Veterans Affairs (DVA) for the period beginning March 7, 2016 and ending April 2, 2020. DVA assists veterans and their families and survivors in obtaining federal, State, and local benefits provided by law in recognition of their service to the State and country. DVA also manages five veterans' cemeteries, maintains four veterans' war memorials, and operates and manages the Charlotte Hall Veterans Home.

Our audit disclosed that DVA did not adequately control and account for collections as initial records of collection were not agreed to validated deposit documentation, certain cash handling and recordkeeping responsibilities were not adequately segregated, and required monthly reconciliations between the State's records and the corresponding bank records were not performed. We also noted that DVA did not invoke a contract provision that would have enabled it to reduce payments to the vendor operating the Charlotte Hall Veterans Home when required staffing was not provided, and did not document its rationale for not taking that action. We estimated that DVA could have collectively reduced vendor payments by \$277,000 due to certain staffing positions remaining vacant for periods of 2 to 28 months.

Finally, our audit included a review to determine the status of the six findings contained in our preceding audit report. We determined that DVA satisfactorily addressed four of these findings. The remaining two findings are repeated in this report.

DVA's response to this audit is included as an appendix to this report. We reviewed the response and noted general agreement to our findings and related recommendations, and while there are other aspects of DVA's response which will require further clarification, we do not anticipate that these will require the Joint Audit and Evaluation Committee's attention to resolve.

We wish to acknowledge the cooperation extended to us during the audit by DVA and its willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,

A handwritten signature in black ink, reading "Gregory A. Hook". The signature is written in a cursive style with a large, stylized 'G' and 'H'.

Gregory A. Hook, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The Department of Veterans Affairs (DVA) delivers services and administers programs to assist veterans, their families, and survivors in obtaining federal, State, and local benefits provided by law in recognition of their service to the State and country. DVA provides administrative services through numerous veterans' service centers throughout the State, the United States Department of Veterans Affairs Medical Center, and the Charlotte Hall Veterans Home (CHVH), and operates and maintains five veterans' cemeteries, four veterans' war memorials, and offices in Annapolis and Baltimore. CHVH provides care for Maryland veterans who are unable to care for themselves due to disability or advancing age, or who have the need for skilled nursing care. According to the State's records, DVA's expenditures for fiscal year 2020 totaled approximately \$47 million.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the six findings contained in our preceding audit report dated December 1, 2016. As disclosed in the following table, we determined that DVA satisfactorily addressed four of these findings. The remaining two findings are repeated in this report.

Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 1	The Department of Veterans Affairs (DVA) did not use certain funds as intended and improperly retained funds totaling \$126,000 at the end of fiscal year 2015 that should have been reverted to the State's General Fund.	Not repeated
Finding 2	Unsupported federal fund revenue transactions totaling \$1 million were recorded to offset deficit balances as of June 30, 2015.	Not repeated
Finding 3	DVA did not request federal fund allowances for veterans' burials from the U.S. Department of Veterans Affairs (USDVA) in a timely manner. In addition, DVA has experienced significant delays in recovering \$2.7 million in burial funds from the USDVA.	Not repeated
Finding 4	DVA did not always use the appropriate payment method for disbursement transactions and did not always document that the goods or services were received prior to payment.	Not repeated
Finding 5	DVA did not reduce payments to the vendor operating the Charlotte Hall Veterans Home, as permitted by the contract, when required staffing was not provided.	Repeated (Current Finding 2)
Finding 6	DVA did not always record collections upon receipt, and deposit verifications either were not performed or were performed by individuals who processed or had access to the related collections.	Repeated (Current Finding 1)

Findings and Recommendations

Cash Receipts and Accounts Receivable

Finding 1

The Department of Veteran's Affairs (DVA) did not adequately control and account for collections and certain accounts receivable.

Analysis

DVA did not adequately control and account for collections and certain accounts receivable. Specifically, DVA did not perform an adequate verification of collections to deposit since the initial record of collections received was not agreed to validated deposit documentation from the bank. In addition, the employee who received certain collections was responsible for recording those collections in the related accounts receivable records. Furthermore, collections recorded by DVA in the State's accounting records were not reconciled to the corresponding bank records. Consequently, there was a lack of assurance that all collections had been deposited and properly recorded.

The majority of DVA's collections, which totaled approximately \$6.4 million during fiscal year 2020, were received, recorded on check logs, and deposited (remotely as of December 30, 2019) at the Charlotte Hall Veterans Home (CHVH), and at DVA's five veterans' cemeteries located throughout the State. These locations subsequently submitted the related documentation, such as collection records and deposit summaries to DVA's Annapolis fiscal office for further processing, including recordation in the State's accounting records.

We examined procedures over collections received at CHVH and one of the five cemeteries. We found that a verification of the initial record of collections (check logs) to validated deposit documentation received from the bank was not performed. In addition, the cemetery employee who received payments for reimbursement of interment costs, also recorded those payments in the related accounts receivable records. Furthermore, there was no reconciliation of collections recorded in the State's records for these locations to the corresponding bank records. In fiscal year 2020, CHVH received approximately \$3.1 million which primarily represented certain lease payments from the vendor responsible for managing CHVH. The cemetery we examined received \$2.6 million for interment costs, primarily from the federal government.

Similar conditions regarding the failure to perform adequate deposit verifications were noted in our three preceding audit reports dating back to 2010. The Comptroller of Maryland's *Accounting Procedures Manual* requires an

independent verification of collections from the initial point of recordation to deposit. The *Manual* also requires the separation of cash receipts and accounts receivable duties. Furthermore, the State Treasurer's *Policy on the Use of Remote Deposit Services by Maryland State Agencies* requires that State agencies perform monthly reconciliations that ensure that the deposits recorded in the State's accounting records agree with the corresponding bank records.

Recommendation 1

We recommend that DVA

- a. ensure that the initial record of collections received is independently agreed to validated bank deposit documentation (repeat),**
- b. adequately separate collection and accounts receivable record keeping duties, and**
- c. perform monthly reconciliations of deposits recorded in the State's accounting records to the corresponding bank records.**

We advised DVA on accomplishing the necessary separation of duties using existing personnel.

Charlotte Hall Veterans Home Contract

Finding 2

DVA did not invoke a contract provision that would have enabled it to reduce payments to the vendor operating CHVH when required staffing was not provided, and did not document its rationale for not taking that action.

Analysis

DVA did not invoke a contract provision that would have enabled it to reduce payments to the vendor operating CHVH when required staffing was not provided, and did not document its rationale for not taking that action. According to the February 2020 staffing report provided by the vendor, as of February 29, 2020, seven nursing positions had been vacant for periods ranging between 2 and 12 months, and another four positions (for example, maintenance staff) had been vacant for periods ranging between 7 and 28 months. Based on the hourly rate for the vacant positions noted above and a 40-hour week, we estimated that DVA could have collectively reduced payments to the vendor by approximately \$277,000 because of these vacancies.

The current four-year contract with the vendor, which was effective October 2017, includes certain minimum staffing requirements and provides that DVA would pay the vendor a per diem for each eligible individual served. Because the

level of service is largely dependent upon qualified and capable staff at the levels proposed by the vendor, the contract also provides for DVA to reduce the vendor's payments for the prorated salaries of positions that are vacant for more than 45 days. DVA management advised us that vendor staffing reports were reviewed to identify vacant positions, but payments had never been reduced. DVA's position is that the inability to fill vacant positions does not represent a failure on the part of the contractor to timely perform resident care and services, a failure to operate reliably, or a delay or failure in the provision of services to CHVH or its residents. Further DVA believes the contractor is doing all in its power to fill vacancies, citing a nationwide shortage of nursing staff. The contract allows for exceptions to be approved by DVA based on circumstances in which a position could not be filled within the 45-day allowable period; however, DVA could not provide documentation of any approved exceptions.

DVA paid the vendor approximately \$26 million during fiscal year 2020, which included \$20.3 million in per diem payments. The remaining vendor payments included an unrestricted State grant and reimbursement for other costs associated with the operation of CHVH and other resident activities and services.

Similar conditions were commented upon in our preceding audit report. In its response to that report, DVA concurred with our recommendations and indicated that it would conduct a review of required staffing at the facility and, to the extent possible, identify inappropriate vacancies and seek to recover any payments made to the contractor relating to such vacancies. Subsequent to the issuance of our report, the 2017 *Joint Chairmen's Report* (JCR) requested that DVA submit a report of certain data relating to vacancy rates at the facility, as well as salary information and payments made to the vendor attributable to identified vacancies. DVA submitted the required report in September 2017. However, according to the Department of Legislative Services' *Analysis of the FY 2019 Maryland Executive Budget*, the resultant report was unresponsive, and none of the requests listed in the JCR were met. For example, historical vacancy rates and vacancy dates that had been requested were not provided. The *Analysis* further stated that DVA had concluded that the contractor met its contractual obligations in good faith during the duration of the contract.

Recommendation 2

We recommend that DVA

- a. in the future, reduce vendor payments, as permitted by its contract, for staff vacancies unless DVA adequately documents an exception to this provision as allowed; and**
- b. recover any amounts due for staff vacancies that have occurred since inception of the current contract, including those noted above (repeat).**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Department of Veterans Affairs (DVA) for the period beginning March 7, 2016 and ending April 2, 2020. The audit was conducted 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.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine DVA's financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included purchases and disbursements, cash receipts, federal fund reimbursements, payroll, and equipment. We also determined the status of the findings contained in our preceding audit report.

Our audit did not include an evaluation of internal controls over compliance with federal laws and regulations for federal financial assistance programs and an assessment of DVA's compliance with those laws and regulations because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including DVA.

Our assessment of internal controls was based on agency procedures and controls in place at the time of our fieldwork. Our test of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period of March 7, 2016 to April 2, 2020, but may include transactions before or after this period as we considered necessary to achieve our audit objectives.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, tests of transactions, and to the extent practicable, observations of DVA's operations. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data) and the State's Central Payroll Bureau (payroll data), as well as from the contractor administering the State's Corporate Purchasing Card Program (credit card activity). These extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from these sources were sufficiently reliable for the purposes the data were used during this audit. Finally, we performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

DVA's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records; effectiveness and efficiency of operations, including safeguarding of assets; and compliance with applicable laws, rules, and regulations are achieved. As provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to DVA, were considered by us during the course of this audit.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect DVA's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes findings regarding significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to DVA that did not warrant inclusion in this report.

DVA's response to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise DVA regarding the results of our review of its response.

APPENDIX



Maryland Department of Veterans Affairs

Office of the Secretary

LARRY HOGAN
GOVERNOR

BOYD K. RUTHERFORD
LT. GOVERNOR

GEORGE W. OWINGS III
SECRETARY

December 30, 2020

Office of Legislative Audits
301 W. Preston St., Room 1202
Baltimore, MD 21201

To Whom It May Concern:

Upon authorization by Secretary George Owings, I am submitting herewith MDVA's responses to the recommendations made in your draft legislative audit report received from OLA on December 17, 2020.

Sincerely,

A handwritten signature in black ink that reads "Peter Pantzer". The signature is fluid and cursive.

Peter Pantzer
Director of Finance and Administration

Department of Veterans Affairs

Agency Response Form

Cash Receipts and Accounts Receivable

Finding 1

The Department of Veteran's Affairs (DVA) did not adequately control and account for collections and certain accounts receivable.

We recommend that DVA

- a. ensure that the initial record of collections received is independently agreed to validated bank deposit documentation (repeat),
- b. adequately separate collection and accounts receivable record keeping duties, and
- c. perform monthly reconciliations of deposits recorded in the State's accounting records to the corresponding bank records.

We advised DVA on accomplishing the necessary separation of duties using existing personnel.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	Two unusual factors played a significant role in the causes of this finding. MDVA adopted new remote deposit procedures in December 2019, and MDVA adopted drastically revised plot allowance claim procedures mandated by the US Department of Veterans Affairs (USDVA) during the audit period.		
Recommendation 1a	Agree	Estimated Completion Date:	9/1/2020
Please provide details of corrective action or explain disagreement.	Having adopted remote deposit scanning in early 2020, we are now receiving deposit scanner confirmations and using them in the deposit verification process.		
Recommendation 1b	Agree	Estimated Completion Date:	3/31/2021
Please provide details of corrective action or explain disagreement.	The employee noted in the audit report has been pivotal in maintaining new accounts receivable records during the transition to new USDVA procedures. When that transition is complete, we can impose the recommended separation of duties. Until that happens, the Fiscal Unit will use static downloads of the internal accounts receivable records as a 4 th data point in our independent deposit review process.		
Recommendation 1c	Agree	Estimated Completion Date:	11/1/2020
Please provide details of corrective action or explain disagreement.	We have already implemented this recommendation.		

Department of Veterans Affairs

Agency Response Form

Charlotte Hall Veterans Home Contract

Finding 2

DVA did not invoke a contract provision that would have enabled it to reduce payments to the vendor operating CHVH when required staffing was not provided, and did not document its rationale for not taking that action.

We recommend that DVA

- a. in the future, reduce vendor payments, as permitted by its contract, for staff vacancies unless DVA adequately documents an exception to this provision as allowed; and**
- b. recover any amounts due for staff vacancies that have occurred since inception of the current contract, including those noted above (repeat).**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	<p>The 2016 audit finding of which current finding 2b is a repeat was based largely on erroneous information from the contractor which overstated the vacancy situation, a fact reported in our JCR response in 2017.</p> <p>The management contractor incurred overtime expense to provide services that should have been filled by staff in positions that were vacant. MDVA's position is that the inability to fill vacant positions did not represent a failure on the part of the contractor to timely perform resident care and services, a failure to operate reliably, or a delay or failure in the provision of services to the Home or its residents.</p> <p>Nonetheless, MDVA acknowledges its responsibility under the contract to document exceptions made to the liquidated damages provision.</p>		
Recommendation 2a	Agree	Estimated Completion Date:	3/31/2021
Please provide details of corrective action or explain disagreement.	DVA will reduce vendor payments, as permitted by its contract, for staff vacancies unless DVA adequately documents an exception to this provision as allowed. Factors related to the COVID pandemic, may well have the effect of slowing implementation, resulting in the estimated completion date of 3/31/2021.		
Recommendation 2b	Agree	Estimated Completion Date:	3/31/2021

Department of Veterans Affairs

Agency Response Form

Please provide details of corrective action or explain disagreement.	DVA will reduce vendor payments, as permitted by its contract, for staff vacancies since inception of the current contract unless DVA adequately documents an exception to this provision as allowed. Factors related to the COVID pandemic may well have the effect of slowing the review, resulting in the estimated completion date of 3/31/2021.
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