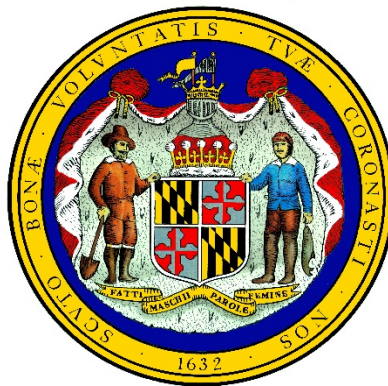


Audit Report

Department of Veterans and Military Families

January 2025



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DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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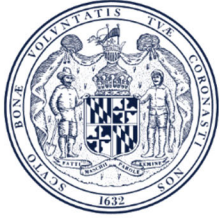
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Victoria L. Gruber
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Brian S. Tanen, CPA, CFE
Legislative Auditor

January 16, 2025

Senator Shelly L. Hettleman, Senate Chair, Joint Audit and Evaluation Committee
Delegate Jared Solomon, 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 and Military Families (DVMF) for the period beginning April 3, 2020 and ending November 30, 2023. DVMF 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. DVMF also manages five veterans' cemeteries, maintains four veterans' war memorials, and operates and manages the Charlotte Hall Veterans Home (CHVH).

Our audit disclosed that DVMF did not have procedures to ensure that all federal funds were received. According to DVMF records as of March 2024, DVMF had not received federal fund reimbursements totaling \$400,438 related to 484 interments, that occurred between 3 months to more than 4 years prior to our review.

In addition, DVMF did not verify the accuracy of invoice charges from the CHVH management services contractor. We noted that DVMF did not obtain supporting documentation to verify reimbursable expenses and management fees billed by the contractor. Between July and December 2023, DVMF paid the current CHVH contractor \$21.3 million in reimbursable expenses and management fees.

Finally, our audit included a review to determine the status of one of the two findings contained in our preceding audit report. We determined that DVMF satisfactorily addressed this finding. We did not follow up on the other finding due to pending litigation.

DVMF's response to this audit is included as an appendix to this report. We reviewed the response to our findings and related recommendations, and have concluded that the corrective actions identified are sufficient to address all audit issues.

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

Respectfully submitted,

Brian S. Tanen

Brian S. Tanen, CPA, CFE
Legislative Auditor

Background Information

Name Change and Agency Responsibilities

Chapter 11, Laws of Maryland 2024, effective July 1, 2024, renamed the Maryland Department of Veterans Affairs the Department of Veterans and Military Families (DVMF). DVMF 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.

DVMF 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). 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. DVMF also operates and maintains five veterans' cemeteries, four veterans' war memorials, and offices in Annapolis and Baltimore. According to the State's records, DVMF's expenditures for fiscal year 2023 totaled approximately \$41.4 million (see Figure 1 on the following page).

Figure 1
DVMF Positions, Expenditures, and Funding Sources

Full-Time Equivalent Positions as of June 30, 2023		
	Positions	Percent
Filled	106	92.2%
Vacant	9	7.8%
Total	115	
Fiscal Year 2023 Expenditures		
	Expenditures	Percent
Salaries, Wages, and Fringe Benefits	\$9,438,718	22.8%
Technical and Special Fees	421,057	1.0%
Operating Expenses	31,586,315	76.2%
Total	\$41,446,090	
Fiscal Year 2023 Funding Sources		
	Funding	Percent
General Fund	\$18,443,355	44.5%
Special Fund	4,621,994	11.2%
Federal Fund	18,380,741	44.3%
Total	\$41,446,090	

Source: State financial and personnel records

Charlotte Hall Veterans Home Management Services Contractor

In June 2023, DVMF terminated its contract with its Charlotte Hall Veterans Home (CHVH) management service contractor responsible for staffing and operating the veterans home. The contract was terminated following reports of abuse and neglect at the facility that seriously jeopardized the life, health, and safety of its residents. DVMF, with assistance from the Department of General Services - Office of State Procurement, conducted an emergency procurement for a new contractor and awarded a five-year \$198 million contract to a new contractor taking over operations of the CHVH in June 2023. According to DVMF, as of November 2024 the results of litigation between the State and the former CHVH contractor were still outstanding.

New Veterans Home and Cemetery Expansion/Renovation

The State is in the planning phase of a procurement to build a new veterans home with an estimated completion date of February 2027. The new home will be a 128-bed skilled nursing facility in Sykesville, Maryland and provide additional bed space for Maryland's aging veteran population at a more centrally located facility. As of July 2023, the project's estimated cost is \$198.8 million of which up to 65 percent is eligible for federal funding.

The State is also expanding burial plots at the Garrison Forest Cemetery and is estimated to complete this work in January 2027. The expansion project will add 6,500 burial crypts and 3,500 columbarium wall niches¹ adding a minimum of 10 years of capacity to the cemetery. The project also includes site improvements such as roadway and employee parking expansions, as well as enhancements to improve existing irrigation systems. As of July 2023, the project's estimated cost is \$12.7 million of which \$11.5 million is eligible for federal funding.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of one of the two findings in our preceding audit report dated January 5, 2021. As shown in Figure 2 below, we determined that DVMF addressed this finding. We did not follow up on the remaining finding due to the aforementioned pending litigation between the State and the former CHVH contractor.

Figure 2
Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 1	The Department of Veterans Affairs (DVA) did not adequately control and account for collections and certain accounts receivable.	Not repeated
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.	Not repeated (Not followed up on)

¹ A columbarium is a structure with niches designed to hold urns with the ashes of the deceased.

Findings and Recommendations

Federal Funds

Finding 1

The Department of Veterans and Military Families (DVMF) did not have procedures to ensure that all federal funds were received.

Analysis

DVMF did not have procedures to ensure that all federal funds were received. DVMF requests federal reimbursement from the United States Veterans Administration (USVA) on an as needed basis for burial costs. According to State financial records, during fiscal year 2023, DVMF was reimbursed \$1.8 million for veteran burial costs.

DVMF did not have documentation that reimbursements for certain burial plot costs were received and did not pursue recovery of other reimbursements. According to DVMF records as of March 2024, DVMF had not received federal fund reimbursements totaling \$400,438 related to 484 interments, that occurred between 3 months to more than 4 years prior to our review.

At our request, DVMF contacted the USVA to determine the status of the reimbursement requests. The USVA reported to DVMF that it had reimbursed 89 of these interments totaling \$75,167 but DVMF had no record that the reimbursements were received. In addition, DVMF had not investigated the payment records provided by the USVA or pursued recovery of the remaining unpaid reimbursements.

Recommendation 1

We recommend that DVMF establish and implement procedures for federal reimbursements. These procedures should include

- a. investigating the USVA payment records to identify any payments that were previously received for burial plot costs, and**
- b. following up when burial plot costs are not received and pursue recovery of any unpaid interments.**

Charlotte Hall Veterans Home

Finding 2

DVMF did not verify the accuracy of invoice charges from the current Charlotte Hall Veterans Home (CHVH) management services contractor.

Analysis

DVMF did not verify the accuracy of the invoices from the current CHVH management services contractor. The invoices contained charges for reimbursable expenses, such as, the contractor's payroll and supplies, and for management fees based on the number of occupied beds. Our review disclosed that, although allowed by the contract, DVMF did not obtain supporting documentation, such as timesheets and receipts to verify the reimbursable expenses. Furthermore, DVMF did not use available reports of occupied beds (census reports) to verify the management fees.

The current CHVH management services contractor began providing services in July 2023. Between July and December 2023, DVMF paid the CHVH contractor \$19.7 million in reimbursable expenses and \$1.6 million in management fees.

Recommendation 2

We recommend that DVMF verify the accuracy of the management services contractor's invoices by obtaining and reviewing the supporting documentation.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Department of Veterans and Military Families (DVMF) for the period beginning April 3, 2020 and ending November 30, 2023. 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 DVMF'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, the Maryland Veterans Trust Fund, 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 DVMF'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 the DVMF.

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 April 3, 2020 and ending November 30, 2023, 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 the DVMF's operations. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk, the timing or dollar amount of the transaction, or the significance of the transaction to the area of operation reviewed. As a matter of course, we do

not normally use sampling in our tests, so unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless sampling is specifically indicated in a finding, the results from any tests conducted or disclosed by us 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). The 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.

We also extracted data from DVMF's system used to record and inventory equipment. We performed various tests of the relevant data and determined that the data was sufficiently reliable for the purposes the data was used during the 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.

DVMF'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 the DVMF, 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 DVMF's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our audit did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to DVMF that did not warrant inclusion in this report.

DVMF'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 DVMF regarding the results of our review of its response.

APPENDIX



MARYLAND DEPARTMENT OF VETERANS & MILITARY FAMILIES

Office of the Secretary

WES MOORE
Governor
ARUNA MILLER
Lt. Governor
ANTHONY WOODS
Secretary

January 14, 2025

Mr. Brian S. Tanen, CPA, CFE, Legislative Auditor
Office of Legislative Audits
The Warehouse at Camden Yards
351 West Camden Street, Suite 400
Baltimore, Maryland 21201

Mr. Tanen:

Upon authorization by Secretary Anthony Woods, I am submitting herewith DVMF's responses to the recommendations made in your draft legislative audit report received from OLA on January 7, 2025.

Sincerely,

A handwritten signature in black ink that reads "Alayna Charland". The signature is fluid and cursive, with the first name "Alayna" and last name "Charland" clearly distinguishable.

Alayna Charland
Director of Finance and Administration

Department of Veterans and Military Families

Agency Response Form

Federal Funds

Finding 1

The Department of Veterans and Military Families (DVMF) did not have procedures to ensure that all federal funds were received.

We recommend that DVMF establish and implement procedures for federal reimbursements. These procedures should include

- a. investigating the USVA payment records to identify any payments that were previously received for burial plot costs, and
- b. following up when burial plot costs are not received and pursue recovery of any unpaid interments.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	<p>DVMF does not dispute the finding and will implement the audit recommendations. We do believe additional context is warranted. In or around 2019, the USVA implemented, with very few supporting procedures, a massive change in the plot allowance claims process. Rather than filing a single consolidated claim for all eligible interments each month, DVMF now was required to file a single separate claim for each interment individually. Rather than payments being generated from the Baltimore Regional Office as lump sum payments, the VA began remitting payments of whatever individual claims they had approved, sometimes paying for a single plot allowance, often consolidating a handful.</p> <p>The payments do not now indicate for which veteran the payment is made; that information is mailed separately, sometimes contemporaneously, occasionally as much as several months following the payment. Tracking and reconciling is an arduous, granular manual process requiring hours of effort on an ongoing basis.</p> <p>Nonetheless, we concur with the finding and will continue to refine our process.</p>		
Recommendation 1a	Agree	Estimated Completion Date:	3/31/2025
Please provide details of corrective action or explain disagreement.	DVMF will develop and implement procedures by 3/31/2025 to identify any payments that were previously received for burial plot costs. The output from the procedures will take additional time given the volume and difficulty of the task.		
Recommendation 1b	Agree	Estimated Completion Date:	3/31/2025

Department of Veterans and Military Families

Agency Response Form

Please provide details of corrective action or explain disagreement.	DVMF will develop and implement procedures by 3/31/2025 to follow up when burial plot costs are not received and pursue recovery of any unpaid interments.
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Department of Veterans and Military Families

Agency Response Form

Charlotte Hall Veterans Home

Finding 2

DVMF did not verify the accuracy of invoice charges from the current Charlotte Hall Veterans Home (CHVH) management services contractor.

We recommend that DVMF verify the accuracy of the management services contractor's invoices by obtaining and reviewing the supporting documentation.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	<p>In 2023, as the result of an emergency procurement action, DVMF entered into a cost reimbursement contract with its current management contractor at Charlotte Hall Veterans Home, a 5-year contract worth almost \$200 million. The Department, to our knowledge, has never been party to such a contract in the past.</p> <p>Cost reimbursement contracts pose a higher risk to the awarding agency and a lower risk to the contractor than other types of contracts, since compensation is not based primarily on completion of fixed-cost deliverables but consists instead of reimbursement of all eligible costs incurred by the contractor in the process of delivery. Cost reimbursement contracts require much greater detail oversight by the awarding agency than other types of contracts. DVMF had no prior experience with cost reimbursement contracts, and the process of fiscal oversight has been an evolution, as DVMF has had to develop, in real time, new review processes in the context of a very complex operation, where the primary focus had to be on the care and wellbeing of the veterans living at the Home. The Department has indeed implemented processes and continues to develop and expand them. In addition, the Department is procuring out-service training for managing cost reimbursement contracts to its staff.</p>		
Recommendation 2	Agree	Estimated Completion Date:	3/31/2025
Please provide details of corrective action or explain disagreement.	<p>Verification of direct-billed contractor payroll and benefits costs is the most significant action the Department can take to comply with the recommendation. DVMF is working with the contractor now on that effort and intends to have a process in place on or before 3/31/2025 for payroll verification. Internal monthly review of other costs is already underway and will continue to develop. The Department intends to provide out-service training in cost</p>		

Department of Veterans and Military Families

Agency Response Form

	reimbursement contract administration to staff in the first week of February 2025, which will result in the ability to further improve financial review processes.
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AUDIT TEAM

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