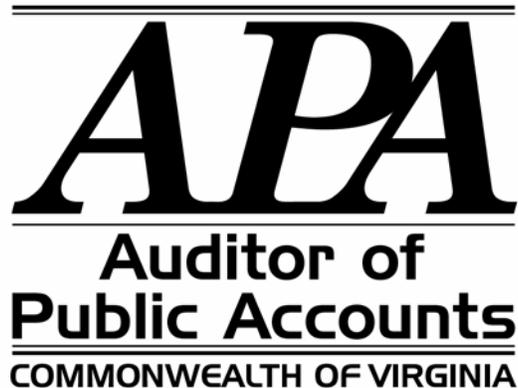


**DEPARTMENT OF VETERANS SERVICES
AND THE VETERANS SERVICES FOUNDATION**

**REPORT ON AUDIT
FOR THE PERIOD
JULY 1, 2003 THROUGH DECEMBER 31, 2004**



AUDIT SUMMARY

Our audit of the Department of Veterans Services and the Veterans Services Foundation for the period July 1, 2003 through December 31, 2004 found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- a material weakness in internal controls; and
- no instances of noncompliance or other matters required to be reported.

Generally, we found that Veterans Services' system of internal controls did not achieve the objectives for such a system. Although some of the problems arose from not understanding the Commonwealth's process, we are of the opinion that many of the managers and supervisors do not fully understand their responsibilities and what they contribute to the organization. Finally, the managers and supervisors do not appear to understand how to use these tools to improve internal controls and the knowledge of the staff.

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INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Develop and Enforce Internal Controls over Financial Transactions

Background

The Department of Veterans Services is the result of the merger of several functions of government previously performed by the Department of Veterans' Affairs and the Veterans Care Center. The former Department of Veterans' Affairs had the most expertise in dealing with the Commonwealth's accounting, payroll, personnel, procurement, and other administrative system, policies and procedures. However, Veterans' Affairs was a small agency with limited support staff. The creation of Veterans Services and the assumption of all the employees and responsibilities of operating the new agency, especially the Veterans Care Center, has fully taxed the knowledge, experience, and abilities of the original support staff.

As part of the merger, Veterans Services assumed the operation of the Commonwealth's Veterans Care Center, which is a nursing home facility, and as such bills insurance companies, Medicare, and Medicaid for services. Prior to the merger, a contractor operated the Veterans Care Center; therefore, there was little or no need to deal with the Commonwealth's processes. There was limited time to plan for the merger and the staff, although knowledgeable, was not able to properly support the core administrative staff from Veterans' Affairs.

Fundamental Internal Controls

Inherent in any system of internal controls is a dependence on supervisory review and timely and accurate reconciliations. Supervisors, who question and understand the process they oversee, are any organization's first line of defense in maintaining accountability regardless of system or process.

Reconciliations and supervisory reviews provide both a check on how well staff are doing their jobs, but they also provide assurance that management is getting timely and reliable information to make decisions. Without timely and accurate reconciliations coupled with their use to correct information, management faces the prospect of having inaccurate and unreliable information.

Reconciliations and supervisory reviews provide two additional controls fundamental to any well-running system of internal controls and accountability. Both of these functions provide checks against outside sources as to the processing of financial transactions by providing information on the timely receipt, payment, and accuracy of transactions processed by vendors, customers and others, such as the bank. Finally, these two processes also provide information on the performance of the staff processing the transactions. Errors, miscoding, duplicate transactions, and untimely processing can all indicate whether whole sections or individuals either do not understand their duties and require additional training or are just failing to perform their job.

Reconciliations and supervisory reviews are also an organization's first line of defense against fraud and other errors. All of these factors contribute to the need to do timely, accurate, and thorough supervisory reviews and reconciliations.

Generally, we found that the supervisory reviews and reconciliations at Veterans Services did not achieve the objectives above and the lack of them contributed to many of the following problems. Although some of the problems arose from not understanding the Commonwealth's process, we are of the opinion that many of the managers and supervisors do not fully understand their responsibilities and what they contribute to the organization. Finally, the managers and supervisors do not appear to understand how to use these tools to improve internal controls and the knowledge of the staff.

Develop Adequate Administrative Resources to Operate the Agency

Veterans Services was formed by merging several entities with small administrative staffs. In the case of the Veterans Care Center, except for nursing home billings, the administrative staff primarily processed transactions and relied on the contractor's corporate staff to provide administrative guidance. Generally, the Veterans Services' staff has the experience and with some training, the knowledge to effectively process financial transactions. However, there is clearly an absence of experienced, knowledgeable individuals to provide the on-going and daily oversight of the accounting and administrative function.

The size and scope of current operations and the expected expansion of the agency with additional veterans care centers makes it important that the agency establish proficient administrative resources. Part of this development should include having personnel that can not only supervise and manage their sections, but also have the resources to oversee the entire operations. Whether this resource exists centrally, at each facility, or comes from a contractor, Veterans Services' management must address this need.

Improve Payment Documentation and Ensure Compliance with Policies

Veterans Services is not consistently maintaining adequate supporting documentation for vendor and expense payments. Several payments tested had insufficient or missing supporting documentation, including the absence of signed contracts, incorrect calculations, and missing purchase orders. Veterans Services also reimbursed an employee for unallowable relocation expenses and incorrectly recorded this expense as a vendor payment rather than a payroll transaction.

In addition, we found purchases of goods and services that did not follow the Commonwealth's procurement and contract guidelines for soliciting and analyzing competitive bids before vendor selection. We could not determine the basis for the selection of the vendor or comparisons with existing statewide contracts.

Improve Small Purchase Charge Card Documentation and Ensure Compliance with Policies

The Commonwealth has specific policies and procedures for the use of small purchase charge cards. These policies identify excluded services and detail documentation and reconciliation requirements. Veterans Services staff does not consistently follow the policies and procedures or the documentation requirements.

Our review found travel expenses inappropriately charged to the agency's small purchase credit card, missing documentation for purchases, and no reconciliation between card statements and the purchasing logs. We could not determine if the payment to the charge card company only included authorized charge card purchases.

Improve Internal Controls over the Fund Receipting and Posting Process

The Commonwealth's accounting manual specifies that each agency should establish adequate controls to ensure the safeguarding of funds. These controls should include having an adequate separation of duties and reconciling agency accounting systems to the Commonwealth Accounting and Reporting System (CARS). Veterans Services maintains an agency system to bill and record revenue for nursing home charges paid by outside parties.

Veterans Services does not maintain an adequate separation of duties over its revenue receipting and posting process. Currently, one individual receipts and posts revenues to the agency's system and prepares the documentation for entering the revenues into CARS.

Furthermore, Veterans Services does not reconcile the agency's internal billing system to CARS. On a daily basis, the accounting section enters revenue into both systems, but does not ensure that all revenues posted in the billing system equal all patient revenues posted in CARS.

In addition, Veterans Services does not have adequate separation of duties over its receipting and disbursing of resident trust funds. One individual receipts and deposits funds, posts the amounts to the agency's system, and disburses amounts to residents as requested.

Establish Policies for Allowance for Doubtful Accounts and Write-offs

The State Comptroller's accounting manual identifies the need and procedures to establish an allowance for doubtful accounts. The manual also specifies general collection procedures that agencies should follow before writing-off an account.

Veterans Services does not have adequate policies concerning allowances for doubtful accounts and write-offs for their accounts receivables. Currently, Veterans Services does not establish an allowance for doubtful accounts to reflect the amount that management estimates is uncollectible. In addition, Veterans Services does not have established policies concerning when write-offs should occur.

Without an appropriate allowance for doubtful accounts, Veterans Services may potentially overstate the receivables for financial reporting purposes. By not writing-off uncollectible accounts, Veterans Services does not have an accurate record of the accounts that management truly believes are collectible. Veterans Services should establish detailed policies and procedures concerning allowances for doubtful accounts and write-offs and then adhere to these policies.

Conclusion

All of these deficiencies collectively represent a material weakness in the agency's internal control structure. A material internal control weakness means that the possibility exists that a fraud or other error could occur and go undetected. Although, we have not found a fraud or other material error, the lack of internal control hampers the discovery during an audit.

Effective internal control over financial transactions is vital to the proper recording and preparation of reliable financial information. An effective internal control process is comprehensive and involves people at all levels throughout an agency, including those who keep accounting records, prepare and disseminate policies, and monitor systems, as well as people in a variety of operating roles.

The responsibility for the establishment and maintenance of internal control in an agency resides with management. Such controls must take into consideration the requirements promulgated by central agencies in the form of policies and procedures, as well as adherence to the controls built into central, statewide systems. Agencies must develop a formal program to evaluate the operating environment and ensure they maintain adequate internal controls over financial assets.

Although the individuals at Veterans Services have received some training in how to use the Commonwealth's central administrative systems, policies, and procedures, these employees have limited knowledge of state rules and regulations. Further, consider that the Commonwealth is planning the opening of additional veterans care centers.

We recommend that the Secretary of Administration work with the Commissioner of Veterans Services to consider alternatives to current and future operations, which will provide the necessary controls to operate these facilities. Alternatives include setting minimum administrative staff levels for each facility and the agency; consolidating some functions, either in one central location or have some of the functions such as payroll and procurement functions performed by a larger agency; or employing an outside contractor to do

some or all of these functions. Considering the expected growth of the agency, the decisions need to occur quickly.

AGENCY HIGHLIGHTS

Veterans Services serves Virginia's veterans and their dependents by ensuring that they receive the benefits, support, quality care, and recognition they have earned. Veterans Services is comprised of an administrative division and four main service divisions: benefits, cemeteries, a care center, and veterans' education.

Creation of the Department

In 2003, the General Assembly consolidated the functions of veterans benefit claims support, the Veterans Care Center, and cemetery services into the newly established Department of Veterans Services. In addition, the consolidation created the Veterans Services Foundation to administer the Veterans Service Fund and abolished the Department of Veterans' Affairs, the Virginia Veterans Care Center Board of Trustees, the Board on Veterans' Affairs, and the Virginia Veterans Cemetery Board.

Albert G. Horton, Jr. Memorial Veterans Cemetery

On November 1, 2004, Veterans Services dedicated the second state-owned and operated veterans' cemetery, Albert G. Horton, Jr. Memorial Veterans Cemetery. Located in Suffolk, Virginia, the new cemetery began accepting burials in December 2004.

Veterans Services Foundation

The Veterans Services Foundation serves as an advisory foundation within the executive branch of state government. The Veterans Services Foundation raises funds, identifies existing revenue sources for veterans programs, and administers the Veterans Services Fund. The Department of Veterans Services processes the Foundation's transactions.

AGENCY OPERATIONS

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 a total of 15 field offices across Virginia to provide assistance to 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. In fiscal year 2004, the United States Department of Veterans Affairs approved 72 percent of the 18,408 claims submitted with help from these offices.

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.

Care Center

At the beginning of fiscal year 2004, Veterans Services became responsible for operating the Virginia Veterans Care Center in Roanoke, Virginia. The 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. In fiscal year 2004, the facility had a total average occupancy rate of 95 percent (96 percent in skilled nursing care section and 88 percent in assisted-living section). Table 1 shows the Care Center's patient days and average occupancy level by month for fiscal year 2004.

Table 1

Care Center Patient Days and Occupancy Rates - FY 2004

<u>Month</u>	<u>Nursing Care</u>			<u>Assisted-Living</u>		
	<u>Patient Days</u>	<u>Average Number of Beds Occupied</u>	<u>Occupancy Level</u>	<u>Patient Days</u>	<u>Average Number of Beds Occupied</u>	<u>Occupancy Level</u>
July	5,498	177	98.53%	1,655	53	88.98%
August	5,492	177	98.42%	1,590	51	85.48%
September	5,241	175	97.06%	1,490	50	82.78%
October	5,397	174	96.72%	1,506	49	80.97%
November	5,244	175	97.11%	1,511	50	83.94%
December	5,363	173	96.11%	1,578	51	84.84%
January	5,365	173	96.15%	1,577	51	84.78%
February	5,065	175	97.03%	1,523	53	87.53%
March	5,281	170	94.64%	1,728	56	92.90%
April	5,097	170	94.39%	1,741	58	96.72%
May	5,317	172	95.29%	1,804	58	96.99%
June	5,127	171	94.94%	1,701	57	94.50%
Yearly Average	5,291	173	96.37%	1,617	53	88.37%

Source: Department of Veterans Services' 2004 Annual Report

Veterans Education

The State Approving Agency for Veterans Education reviews, evaluates, and approves post-secondary education and training programs offered by educational institutions and various other entities within Virginia. Once the program receives approval, veterans and other eligible individuals may enroll and receive federal financial education assistance. Veterans Services continues to monitor the approved education and training programs to ensure compliance with applicable federal and state regulations. This responsibility previously fell under the purview of the Department of Education, but was transferred to the Department in January 2004.

Administrative Services

The Administrative Services Division provides the other four service divisions with support in the following areas: accounting, budget, human resources, information technology, payroll, and procurement.

FINANCIAL INFORMATION

Table 2 summarizes Veterans Services' adjusted budgeted revenues compared with actual results for fiscal year 2004.

Table 2

Analysis of Budgeted and Actual Revenue by Funding Source

<u>Funding Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
General fund appropriations	\$ 2,191,907	\$ 2,595,591	\$ 2,595,591
Special revenue funds	11,842,248	13,554,964	12,099,486
Dedicated special revenue funds	-	28,650	279,662
Federal grants	-	229,090	99,938
Total resources	<u>\$14,034,155</u>	<u>\$16,408,295</u>	<u>\$15,074,677</u>

The special revenue funds show the Care Center's patient billings revenues of which the largest sources of collections comes from Medicaid, Medicare, and private party insurance payments. The dedicated special revenue funds account for the Veterans Service Foundation Fund. Federal funds include reimbursements from the federal government for administering the State Approving Agency.

Veterans Services' original budget includes the original amounts appropriated to the Department of Veterans' Affairs and the Veterans Services Board. With the abolishment of these entities, Veterans Services had its appropriations established separately.

Table 3 summarizes Veterans Services' total expenses incurred by program area and major expense category for fiscal year 2004. Of the Veterans Services' \$18.4 million in expenses for fiscal year 2004, 55 percent is personal services. In addition to the operating expenses shown below, Veterans Services also spent over \$3 million on capital projects. These expenses include payments made for developing the Albert G. Horton, Jr. Memorial Veterans Cemetery in Suffolk.

Table 3

Operating Expenses by Program - FY 2004

<u>Program</u>	<u>Expenses</u>
Care Center	\$11,984,187
Benefits	2,536,340
Veterans education	191,262
Administrative services	<u>500,174</u>
Total	<u>\$15,211,963</u>

Operating Expenses by Major Category - FY 2004

<u>Category</u>	<u>Expenses</u>
Personal services	\$10,089,684
Contractual services	2,165,006
Supplies and materials	1,786,478
Transfer payments	339,109
Continuous charges	680,805
Equipment	146,629
Plant and improvements	<u>4,252</u>
Total	<u>\$15,211,963</u>

Table 4 shows the current number of employees within each division of Veterans Services. Of the Department's 319 employees, the Care Center employs 76 percent.

Table 4

Employees by Division

	<u>Full-Time</u>	<u>Part-Time</u>
Benefits	46	-
Cemeteries	6	2
Care Center	213	30
Veterans education	5	-
Administrative services	<u>9</u>	<u>3</u>
Total	<u>284</u>	<u>35</u>



Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

May 27, 2005

The Honorable Mark R. Warner
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited selected financial records and operations of the **Department of Veterans Services** and the **Veterans Services Foundation** for the period July 1, 2003 through December 31, 2004. We conducted our audit in accordance with the standards for performance audits set forth in Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives, Scope, and Methodology

Our audit's primary objective was to review the significant cycles for the Veterans Services' activities as reported in the Commonwealth Accounting and Reporting System (CARS). In support of this objective, we evaluated the accuracy of recording financial transactions in CARS, reviewed the adequacy of Veterans Services' internal control, and tested for compliance with applicable laws, regulations, contracts, and grant agreements.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of Veterans Services' operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls including controls for administering compliance with applicable laws, regulations, contracts, and grant agreements. Our review encompassed controls over the following significant cycles:

Revenues
Expenditures (including payroll)

We gained an understanding of the overall internal controls surrounding these cycles, 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. We performed audit tests to determine whether Veterans Services' controls were adequate, had been placed in operation, and were being followed.

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.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws, regulations, contracts, and grant agreements. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that Veterans Services properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System for the cycles listed in the scope section of this report.

We noted certain matters involving internal control and its operation that collectively represent a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial processes being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. This material weakness entitled “Develop and Enforce Internal Controls over Financial Transactions” is described in the section titled “Internal Control Findings and Recommendations.”

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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.

EXIT CONFERENCE

We discussed this letter with management at an exit conference held on June 6, 2005.

AUDITOR OF PUBLIC ACCOUNTS

NJG/kva



COMMONWEALTH of VIRGINIA

Office of the Governor

Sandra D. Bowen
Secretary of Administration

(804) 786-1201
Fax: (804) 371-0038
TTY: (804) 786-7765

June 15, 2005

Mr. Walter Kucharski
Auditor of Public Accounts
James Monroe Building, 8th Floor
101 North 14th Street
Richmond, Virginia 23219

Dear Mr. Kucharski:

RE: APA Audit of the Department of Veterans Services

I have reviewed the audit report for the Department of Veterans Services and take its findings very seriously.

I am grateful for your staff's recognition of the difficulties in merging the Virginia Veterans Care Center with the other operations of this newly created agency and how those challenges impacted the accounting functions. Be assured that this office is taking an active role in the prompt remediation of these findings, as recommended in the audit report, particularly regarding any internal control deficiencies that resulted in your finding of "material weakness."

I have counseled with the Commissioner of Veterans Services and recommended two immediate actions to which he has agreed, as reflected in his letter of response: (1) A CPA will be dispatched to the agency as quickly as possible to conduct a review of all financial operations and procedures and to develop a comprehensive manual of internal controls; and (2) the position of comptroller will be created in the commissioner's office, effective July 1, 2005, with active recruitment beginning as soon as possible in accordance with standard procedures.

Thank you for bringing these matters to our attention and for the professionalism of your staff in working with this agency.

Sincerely,

A handwritten signature in cursive script that reads "Sandra D. Bowen".

Sandra D. Bowen

c: The Honorable Mark R. Warner
The Honorable William Leighty



COMMONWEALTH of VIRGINIA
Department of Veterans Services
Office of the Commissioner

Jon A. Mangis
Commissioner

Telephone: (804) 786-0286
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June 14, 2005

Mr. Walter Kucharski
Auditor of Public Accounts
James Monroe Building, 8th Floor
101 North 14th Street
Richmond, Virginia 23219

Dear Mr. Kucharski:

This letter is in response to your "draft" audit findings for the Department of Veterans Services (DVS). The DVS response to the Management Letter Comments is as follows.

Finding: Improve Internal Controls over the Fund Receipting and Posting Process

Revenues for DVS primarily are derived from Medicare, Medicaid, United States Department of Veterans Affairs (USDVA) subsidy; private insurances and private pay for the Virginia Veterans Care Center (VVCC). A small portion of revenue comes from a USDVA veteran burial plot allowance of \$300, and a similar fee (private pay) for dependent burials at the Virginia Veterans Cemetery in Amelia, and the Albert G. Horton, Jr. Memorial Veterans Cemetery in Suffolk. Revenue from burials accounts for approximately 0.13% of the overall revenue for DVS. The State Approving Agency operates under contract with the USDVA for its funding; approximately 0.40 % of Non-general Fund revenue is associated with this service area.

Upon consolidation of veterans service programs on July 1, 2003, all financial management operations associated with VVCC with the exception of payroll, procurement, accounts payable and bank deposits, remained with the VVCC Business Office and did not transfer to Administrative Services. Existing VVCC staff possessed the knowledge, experience and expertise to continue to perform these functions. The small administrative staff assigned to the former Department of Veterans Affairs did not have the experience or expertise to assume these functions, and served primarily to record revenues and receipts, process payments and payrolls and provide human resource and procurement support for VVCC. USDVA and Medicaid/Medicare audits served to address any discrepancies associated with revenue receipts and proper use of these revenue sources. Thus far, all audits have been without exception. It also should be noted that the VVCC Health Care Accountant does reconcile to the state CARS system when producing VVCC's internal financial statements.

also should be noted that the VVCC Health Care Accountant does reconcile to the state CARS system when producing VVCC's internal financial statements.

Integration of VVCC business office and resident trust fund activities into Administrative Services is a more viable option at this time, as Administrative Services has been fortunate to increase its FTE appropriation from 4 to 9 over the past 12 months. With increased staffing, Administrative Services is more readily available to receive training related to VVCC Business Office functions, and begin to implement segregation of duties to ensure adequate internal controls. Steps have been taken toward improved internal controls through the establishment of a reconciliation process between CARS and the Business Office Achieve system, and new procedures have been developed to segregate duties with regard to the Resident Trust Fund.

Finding: Improve Payment Documentation and Ensure Compliance with Policies

- 1) The timeframe associated with these documents is instrumental in determining the improvement in processing of vouchers and policy compliance associated with increased staffing levels for Administrative Services. Early in the consolidation of veteran service programs, the transitioning of VVCC from a private management company operation, to a state operation, resulted in payments and procurements not fully in compliance with Commonwealth guidelines. Changing the procedures from a privately operated facility to a state run facility for VVCC proved to be a challenge. Thus, in spite of the initial training regarding proper documentation of payments and procurement of goods and services, many purchases were made outside of the process without Administrative Services' prior review and approval. Consequently, appropriate documentation for payment was lacking. However, this did not preclude Accounts Payable from determining that the payment was a true representation for goods or services for which payment was due. Review of procurements and payment processing in FY 2005 will reveal that procurement and payment documentation has improved significantly as it relates to compliance with state regulations.
- 2) Staff involved in processing of relocation expenses has been provided with CAPP manual procedures to ensure proper documentation and processing of these expenses. Lack of experience in this area resulted in the vendor payment not being updated in payroll for tax purposes. The Payroll Department has been provided with complete CAPP manual procedures for future reference, and has been instructed to consult with the Financial Services Manager throughout the process of reimbursements for moving and relocation expenses. DVS does not routinely process moving and relocation expenses.

Finding: Improve Small Purchase Charge Card (SPCC) Documentation and Ensure Compliance with Policies

This is a new program for VVCC. Prior to consolidation, the former Department of Veterans Affairs used the SPCC, without problems, as the volume of usage was limited, due to the small size of the agency. Adding the VVCC to the program increased not only the volume of purchasing, but the number of users as well. In spite of a SPCC policy and procedure that was disseminated to all VVCC cardholders early in the process, lack of experience with logs and reconciliation resulted in inadequate preparation of these documents. However, The Department of Accounts (DOA) has established a very specific deadline for payment of the AMEX bill. Often the bill had to be paid and follow-up done for documentation and allocation of expenditures. Late payment of a bill would have become an audit

issue, as opposed to documentation, if DVS chose to withhold payment pending complete documentation and reconciliation.

Any employee who had difficulty using the SPCC system for travel has been counseled and provided with a travel charge card application. Training in the proper use of the program and reconciliation has occurred in this Fiscal Year. In addition, updates to the policy and procedure have been provided to all cardholders.

Again, a review of more recent AMEX bills should reflect an improvement in this function.

Finding: Establish Policies and Allowance for Doubtful Accounts and Write-Offs.

It should be noted that VVCC staff had been working with the Attorney General's Office to resolve non-collectible accounts receivable for almost two years. When VVCC inquired about these procedures, VVCC was misinformed that it could not write off any accounts without the approval of the Attorney General's Office. VVCC appropriately completed and submitted the required Commonwealth of Virginia Receivables Summary Report on a quarterly basis, which details the accounts receivable collections, aging of past due accounts, and accounts that VVCC deems non-collectible. From these reports, an Allowance for Doubtful Accounts was established in the amount of \$347,682 for the FYE June 30, 2004, and was reported in VVCC's internal financial statements for the FYE June 30, 2004. These statements were submitted as part of the Medicare and Medicaid Cost reports and were available to the APA for review.

In accordance with the audit exit conference, the misinformation with respect to write-offs was clarified. VVCC had been operating under the supposition that it could not write-off any accounts without the approval of the Attorney General's Office. The APA staff corrected this misinformation by stating that VVCC was allowed to write-off accounts, but could not discharge the debt without the approval of the Attorney General's Office. With this clarification, DVS and VVCC staff agreed that write-off procedures would be developed, and allowances for doubtful accounts would be reflected on DVS reports as a whole, not just on VVCC's internal financial statements.

Conclusion

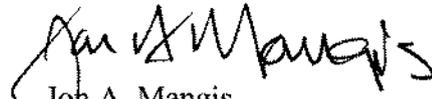
Notwithstanding the specific management steps regarding its accounting functions undertaken since consolidation of this agency, here is an outline of the plan we are implementing at the same time as this letter is going to you:

- A CPA with State government experience is being contracted to write a comprehensive set of internal controls. We expect this program to be in place within sixty days.
- As a direct result of recommendations made by the Best Practices Team, we have been authorized to hire two additional professional accounting staff. One of those two positions will be a supervisory accountant – possibly designated as a Comptroller – based in the Richmond office.
- With implementation of the new comprehensive agency wide internal controls and the staffing of the Richmond accounting position, the accounts payable and receivable functions as well as those involved in procurement will report to the Richmond accounting supervisor.

Mr. Walter Kucharski
June 14, 2005
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All Department of Veterans Services management staff are aware of the agency's financial responsibilities, and have worked against tremendous odds to manage all programs in a prudent and fiscally responsible manner.

Sincerely,



Jon A. Mangis

JAM/rse