

LEGISLATIVE AUDIT COMMISSION



Review of
Department of Veterans' Affairs
Two Years Ended June 30, 2012

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REVIEW: 4420
DEPARTMENT OF VETERANS' AFFAIRS
TWO YEARS ENDED JUNE 30, 2012

FINDINGS/RECOMMENDATIONS - 22

ACCEPTED - 8
IMPLEMENTED - 14

REPEATED RECOMMENDATIONS - 18

PRIOR FINDINGS/RECOMMENDATIONS - 25

This review summarizes an audit of the Department of Veterans' Affairs for the two years ended June 30, 2012 filed with the Legislative Audit Commission on November 14, 2013. The auditors performed a compliance examination in accordance with *Government Auditing Standards* and State law. This report combines the Department and the Illinois Veterans' Homes into one report. Prior to FY09, each Home was reported on separately.

The Department of Veterans' Affairs was created in 1976 and replaced the Illinois Veterans' Commission. The Department was established to aid and assist all veterans, their dependents, and survivors in applying for veterans' benefits due by reason of military service, and to provide health care services for certain veterans, their spouses, widows, and widowers. The Department's primary function is to provide professional counseling and assistance relative to all veterans' programs, both State and federal.

Mr. Daniel W. Grant was Director of the Department during the 13 months of the audit period. The Director during the last 11 months of the audit period and currently is Erica J. Borggren. Director Borggren was appointed August 8, 2011. She is an Army veteran of the Iraq war and served as a senior staff member for General Petraeus; she was not previously employed by the Department.

In addition to its offices in Springfield and Chicago, the Department maintains 50 full-service Veterans' Service Field Offices throughout the State to provide assistance and informational services to veterans, their dependents and survivors. In addition to the full-service offices, the Department also maintains 37 itinerant field offices. The Department operates Veterans' Homes at Anna, LaSalle, Manteno and Quincy. The facilities have a total rated capacity of 1,285 beds for intermediate and skilled care, including two 40-bed secure units for residents with Alzheimer's disease and dementia at LaSalle and Manteno, and 144 beds in independent apartment units (domiciliary care) at Anna and Quincy. Average population in FY12 was 960. On the following page is a summary of statistics for each Veterans' Home for FY12.

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FY12	Anna	LaSalle	Manteno	Quincy
Certified capacity	62	200	340	683
Average number of residents				
Skilled Care	48	180	290	384
Domiciliary	6	na	na	52
Average number of employees	67	195	319	526
Ratio of employees to residents				
Skilled Care	1.40 to 1	1.08 to 1	1.10 to 1	1.37 to 1
Domiciliary	11.17 to 1	na	na	10.12 to 1
Average annual cost per resident				
Skilled Care	\$ 110,569	\$ 89,027	\$89,100	\$ 99,072
Domiciliary	\$ 109,854	na	na	\$ 46,840
Number of resident injuries	11	20	51	34

The average number of employees by division was:

	FY12	FY11	FY10
Central Office	43	44	39
Veterans Service Offices	72	76	72
Veterans' Home at Anna	67	66	60
Veterans' Home at Quincy	526	512	495
Veterans' Home at LaSalle	195	186	178
Veterans' Home at Manteno	319	302	289
State Approving Agency	8	8	8
Troops to Teachers	2	1	1
TOTAL	1,142	1,078	1,142

During FY12, the Department processed 5,372 claims compared to 6,204 in FY11, and 8,495 in FY10.

Expenditures From Appropriations

The General Assembly appropriated a total of \$122,632,500 to the Department for FY12. Total expenditures for the Department were \$109,433,292 in FY12 compared to \$97,801,808 in FY11, an increase of \$11.6 million, or 11.9%. Lapse period spending was \$5.8 million, which is 5.3% of total expenditures. Appendix A summarizes appropriations and expenditures for FY12 and FY11. According to the FY14 and FY13 budget books, rising expenditures due to the increase in the number of residents and staff at the Veterans' Homes accounted for the entire increase in spending from FY11 to FY12 as follows:

- \$ 618,200 increase at Anna,
- \$ 4,639,300 increase at Quincy,
- \$ 2,170,100 increase at LaSalle, and
- \$ 4,191,900 increase at Manteno.

Cash Receipts

Appearing in Appendix B is a summary of cash receipts for FY12 and FY11. Total cash receipts increased from \$42.2 million in FY11 to \$50.1 million in FY12. The increase was due primarily to an increase in member census which caused a per diem increase in VA reimbursements.

Property and Equipment

Appendix C is a summary of property changes at the Department during the audit period. The balance increased from \$136 million to \$140 million as of June 30, 2012, a net increase of \$4 million, or 2.9%, for the two years under review. Certain errors noted in property records is the subject of Finding No. 9.

Accountants' Findings and Recommendations

Condensed below are the 22 findings and recommendations presented in the audit report, which included eight for the Central Office, five for the Veterans' Homes, and nine directed to both the Central Office and the Homes. There were 18 repeated recommendations. The following recommendations are classified on the basis of updated information provided by Jay Wagner, Chief Internal Auditor, via electronic mail received March 24, 2014.

Accepted or Implemented

1. Ensure proper documentation of the application process and outcomes are maintained to demonstrate compliance with operating policies. (Repeated-2010)

Finding: The Department of Veterans' Affairs (Department) did not maintain adequate documentation of the outcome of its application process to document compliance with the operating policies of the Prince Home at Manteno (Home) program.

The Home is a residential program for homeless and disabled veterans. Enrollment in the Home's program averaged 14 and 15 veterans during FY11 and FY12, respectively. Expenditures for the Home's program totaled \$162,617 and \$736,844 in FY11 and FY12, respectively.

During testing of 30 applicants, auditors noted the Home did not follow the policies and procedures outlined by management for the Prince Home Program. The following deficiencies were noted:

- Eighteen applications tested were not considered complete prior to the in-person interview. Missing information from the applications included staff or applicant signatures, dates, incomplete release of information form, and other required information.

Accepted or Implemented - continued

- Two applications tested were not properly reviewed in order to determine whether to deny or accept the applicant based on the Home's selection criteria.
- For two applications tested, the Home's clinical staff did not document results of the interview with a potential resident on the required form.
- For 28 (93%) applications tested, the applicant's Intake Status form was either missing from the applicant's file or was incomplete. Seventeen Intake Status forms were incomplete. Missing fields included dates and/or the Program Director's signature. Eleven Intake Status forms were missing from the applicant's file.
- For 27 (90%) application files tested, the auditors were unable to verify whether the prospective resident and/or the referral source were made aware of the final decision to accept or deny the applicant within five business days of receipt of all required materials.

During the examination period, the Home did not maintain a waiting list for applicants considered eligible for admittance to the Prince Homeless Program. The auditors were unable to verify the adequacy of progression of eligible residents and whether they were properly admitted as space or vacancies became available. Fourteen (47%) applicants selected for testing were admitted during the examination period, however their respective placement or progression could not be verified as no waiting list was provided by the Home.

Department and Home personnel indicated the errors and omissions described above were due to oversight.

Updated Response: Implemented. The Department has implemented several corrective actions. The management of the Prince Home now is under direct oversight by Department's Assistant Director, clerical staff has been hired to provide administrative support, and the Home's operating procedures have been completely overhauled.

2. Implement adequate controls over waiting lists and the Admissions Review Committee and document implementation efforts. (Repeated-2008)

Finding: The Department did not maintain proper documentation to substantiate compliance with requirements governing the admission of veterans into the Illinois Veterans' Homes operated by the Department.

To gain admission into one of the Homes, veterans and/or spouses desiring care must file an application for admission. In addition, applicants must provide the Home with a completed health questionnaire and pertinent medical records. Once all necessary documentation has been submitted, each Home's Admissions Review Committee (ARC) reviews the documentation to ensure the Home can meet the individual needs of the applicant. If approved for admission, the applicant is granted admission, or in a situation where no beds are immediately available, is placed on the appropriate waiting list for the type of care desired. Auditors noted the following with regard to operations of the ARCs:

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- The ARC did not meet for nine of 24 months during the examination period as required at Anna.
- At LaSalle, for 10 of 58 (17%) applications selected for testing, the ARC form documenting the ARC's admission decision and relevant notes was not completed.
- Auditors were unable to determine if applicants were properly placed on waiting lists due to a lack of documentation. Historical waiting lists were not maintained for the entire examination period, so they were unable to determine if 39 of 58 (67%) applicants selected for testing were properly placed on the waiting list.

Department personnel stated the issues noted were due to oversight and a lack of clerical support.

Updated Response: Implemented. The Department's policy on Application Review Committee meetings is being strictly enforced, and all Homes are maintaining all required waiting list documentation.

3. Strengthen controls over Members' Benefit Fund monies and process transactions in accordance with the Act.

Finding: The Prince Home at Manteno (Home) improperly utilized its Members' Benefit Fund to subsidize operations. During testing, auditors noted the following conditions:

- During FY11, the Home utilized monies in its Members' Benefit Fund for operational commodity purchases.
- The Program Director implemented the Homeless and Disabled Program to provide services for eligible veterans to prevent homelessness and to provide services to veterans who have departed the Prince Home at Manteno program in good standing. Three of 20 Benefit Fund disbursements tested, totaling \$2,455, were for emergency payments to help specific veterans under the Program. In addition, the Home accepted donations for the Program.

The Members' Benefit Fund may not be used to supplement a shortfall in the ordinary and contingent operating expenses of the Home and shall be expended only for the special comfort, pleasure, and amusement of the residents. A similar rule is in effect for the solicitation and use of donations.

Department personnel stated the conditions were due to a lack of awareness of applicable rules and statutes.

Accepted or Implemented - continued

Updated Response: Implemented. The Department had discontinued the use of the Prince Homeless Program's Member's Benefit Fund for commodities purchases in FY11. The last expenditure for homelessness prevention assistance occurred in FY12, and the use of the fund for homelessness prevention has since been formally prohibited. Further, the Department has overhauled the Home's operational policies and implemented more stringent oversight of expenditures.

4. Remind staff of the importance of maintaining accurate and up-to-date inventory records of resident personal property, including cash.

Finding: The Department did not maintain adequate documentation of resident personal property upon admission and/or discharge.

During testing at the Illinois Veterans' Homes at Anna, LaSalle, and Manteno, auditors noted the Homes did not maintain a detailed inventory sheet or properly document the final disposition of the residents' personal property or clothing at the time of separation for a total of 49 of 73 (67%) residents tested. As a result, auditors were unable to determine if the residents' personal property was disposed of according to the individual resident's wishes or if the resident's clothing was provided to the resident or legal guardian at the time of separation or discharge.

In addition, for all 20 residents tested who separated from the Illinois Veterans' Home at Manteno, records did not include the amount of physical cash held by the resident at the time of admission and discharge.

Department personnel stated the documentation was not maintained due to oversight and competing priorities for the responsible personnel.

Updated Response: Implemented. The Department is enforcing its policies to ensure the accuracy of residents' personal property records.

5. Revise denial letters to include all necessary notifications required by the Code.

Finding: The Department did not properly notify denied applicants of their potential eligibility for care in other facilities.

Department personnel indicated each Home sends a letter indicating the reasons for denying an applicant admission to the Home. Department personnel also stated each Home's adjutant speaks with the affected parties and verbally advises them to contact the USDVA or other Homes for possible placement. However, this communication is not documented and does not yield the evidence needed to substantiate compliance with this requirement.

Updated Response: Implemented. The Department has ensured all denial letters include referral information as required by Administrative Code.

- 6. Modify current Employee Handbook to clearly prohibit all situations where employees are involved in a resident's personal finances outside of the funds and controls established for such purposes. Implement training on this topic as a component of ongoing training for all employees of the Homes. (Repeated-2008)**

Finding: The Department did not take corrective action to prevent future inappropriate involvement by employees in residents' personal finances. Previously, auditors noted instances of staff assisting a resident with check writing and forwarding bank statements received by mail to a resident's power of attorney.

While auditors did not note evidence of any inappropriate involvement by employees in residents' personal finances during the current examination period, the Department failed to enact new policies in response to previous findings and recommendations.

Department personnel stated a draft has been written to expand the section of the Department's Employee Handbook regarding business transactions with residents. However, due to fiscal constraints, the Department has not had the resources available to print new Employee Handbooks for all personnel and has therefore delayed implementation of the updated policy.

Updated Response: Implemented. The Employee Handbook has been updated, and now includes a prohibition of employee involvement in the personal finances of residents.

- 7. Provide the services required by the Department of Veterans' Affairs Act in years when appropriations are received for this purpose. (Repeated-2010)**

Finding: The Department failed to implement a Post-Traumatic Stress Disorder Outpatient Counseling Program as required by the Department of Veterans' Affairs Act (Act).

During Fiscal Year 2011, the Department received an appropriation, totaling \$200,000, for a Post-Traumatic Stress Disorder Outpatient Counseling Program but failed to comply with the Act. The Department did not request an appropriation for this purpose for Fiscal Year 2012.

Department personnel stated the Fiscal Year 2011 appropriation received was not sufficient to adequately address all provisions of the Act, and the appropriation lapsed.

Updated Response: Implemented. Public Act 97-765 amended the Department of Veterans Affairs Act to subject implementation of the PTSD Outpatient Counseling Program to the extent appropriations allow. This amendment became effective July 6, 2012.

Accepted or Implemented - continued

8. Prepare accurate and complete reports on direct patient care statistics for submission and review by the members of the General Assembly.

Finding: The Department did not accurately report direct patient care statistics to the General Assembly as required by the Department of Veterans' Affairs Act.

Auditors tested all four reports required to be submitted to the General Assembly and noted the following:

- Three of 12 entries regarding hours per patient on the June 2012 report were calculated incorrectly.
- Two of 48 entries did not include the number of direct care staff employed in providing direct patient care at the homes.
- Two of 48 entries did not meet the minimum required standards and the number of staff required for compliance was not indicated in the report.

Department personnel stated the errors noted were due to oversight.

Updated Response: Implemented. The Department has enhanced its reporting process and will ensure direct patient care statistics are reported accurately.

9. Strengthen internal controls over the recording and reporting of State property by reviewing inventory and recordkeeping practices to ensure compliance with statutory and regulatory requirements. Also, establish a proper segregation of duties for the property control functions. (Repeated-2008)

Finding: The Department did not exercise adequate control over the purchase, recording and reporting of State property. Auditors noted the following during a review of the Department's equipment records and controls over property:

- Equipment items purchased were not added to the Department's equipment records timely. Four items were added from 20 to 103 days late.
- The same employee was responsible for the periodic receiving of items, input of equipment into the inventory records, entering equipment deletions and transfers, compiling inventory records, and equipment reconciliations at LaSalle.
- LaSalle did not report accurate and complete information to the Department of Central Management Services (DCMS) as required.
- LaSalle's property inventory listing documented 305 computer equipment items, totaling \$198,847, under a generic location code. After additional testing, auditors noted 25 computers, totaling \$19,046, were recorded on the master property inventory listing but were not recorded on the Home's internal computer inventory listing. Eight computers

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recorded on the internal computer inventory listing provided by the Home were not recorded on the master property inventory listing. The auditors were unable to verify the existence or value of the computers.

- Based on auditor observation and responses provided by the Property Control Clerk, it appears the Prince Home does not follow its policies and procedures regarding the purchases, maintenance, and donation of equipment items.

Auditors also noted numerous surplus and unused equipment items located within Department facilities throughout the State.

Department personnel stated the errors noted were due to employee oversight and insufficient staff.

Updated Response: Accepted. The Department has acquired a new inventory system, and is in the process of conducting a full inventory at all locations in conjunction with the implementation. Significant improvements have been achieved, such as the location of items through scan/verify functions and more accurate records. Additionally, the LaSalle veterans' home is hiring a property and supply clerk to properly segregate duties, and the Department has increased oversight to promote the proper processing and reporting of purchased property.

10. Strengthen review of travel vouchers to ensure reimbursements are in accordance with all applicable statutes, rules, and regulations. Also, seek reimbursement from the employees who were overpaid. (Repeated-2008)

Finding: The Department did not exercise adequate control over its travel expenditures. Auditors noted the following:

- Six of 40 travel vouchers tested, totaling \$11,496 were not submitted between 11 and 53 days late.
- One of 40 travel vouchers tested, totaling \$960 contained reimbursements for expenses between the employee's residence and headquarters, totaling \$37.
- Seven of 40 travel vouchers tested were not complete or were not completed properly. Errors and omissions noted included the absence of a residence city, lack of identification of which field the employee works for, and incorrect social security numbers, among others.
- Two of 40 travel vouchers tested, totaling \$1,898, included reimbursements for mileage, lodging, meals and incidentals that were not in accordance with travel allowances, resulting in overstatements of \$72.

In testing a sample of the agency's top travelers, auditors noted one top traveler received reimbursement from the State for travel expenses totaling \$538. However, the vendor directly billed the Department for the lodging and received payment. As of July 31, 2013, the Department has not recouped the amounts erroneously paid.

Accepted or Implemented - continued

Department personnel indicated the conditions noted were due to oversight.

Updated Response: Accepted. The Department has requested reimbursement for duplicate payments. However, in regards to minor discrepancies where the expense was actually incurred by the employee, such as hotel costs \$5 to \$7 above county rate, the Department has counseled staff and increased oversight to promote the accuracy of travel documentation and the proper control of expenditures.

11. Implement procedures to ensure contractual agreements include all required clauses. (Repeated-2010)

Finding: The Department did not ensure its contractual agreements included all clauses required by the Procurement Code. Auditors noted four of 40 contracts tested did not include the following clauses as required.

- All contracts made or entered into shall include a statement that they are subject to termination and cancellation in any year for which the General Assembly fails to make an appropriation to make payments under the terms of the contract.
- All contracts must include a statement that the contractor or subcontractor must maintain adequate books and records relating to the performance of the contract or subcontract and necessary to support amounts charged to the State under the contract or subcontract. In addition, the Code requires contracts to include a statement that the contractor or subcontractor shall make those records available for review and audit by the Auditor General, chief procurement officer, internal auditor, and the purchasing agency.

Department personnel stated the provisions were omitted due to oversight.

Updated Response: Implemented. Contractual agreements have been modified to include all required clauses.

12. Strengthen controls over locally held fund transactions and reporting. (Repeated-2010)

Finding: The Department did not exercise adequate control over its locally held funds and related reporting at its Veterans' Homes.

Anna Home

The Veterans' Home at Anna conducts activities in three locally held funds: the Members' Trust Fund, Members' Benefit Fund, and Anna Clearing Account. During testing of Anna

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locally held funds, auditors noted for two of 40 receipts tested, totaling \$348, the Home did not maintain adequate supporting documentation of when the receipts were received. As a result, auditors could not determine if the receipts were deposited timely.

LaSalle Home

The Veterans' Home at LaSalle conducts activities in three locally held funds: the Members' Trust Fund, Members' Benefit Fund, and LaSalle Clearing Account. During testing of LaSalle locally held funds, the Home did not properly complete one of eight Members' Trust Fund C-17s. In the quarter ended 12/30/10, the amount of Cash on Hand and in Banks was understated by \$46,689.

Manteno Home

The Illinois Veterans' Home at Manteno (Manteno) conducts activities in three locally held funds: the Members' Trust Fund, Members' Benefit Fund, and Manteno Clearing Account. The Prince Home at Manteno conducts its activities in two locally held funds: Prince Benefit Fund and Prince Trust Fund. During testing of Manteno locally held funds, auditors noted the following:

- The Home did not deposit locally held fund receipts in a timely manner.
- The Home had inadequate controls over locally held fund reporting, reconciliations, and related recordkeeping.
- The Home did not have proper controls over Members' Trust Fund disbursements for 14 of 40 Members' Trust Fund disbursements tested, totaling \$39,146. In these instances, the disbursements were made without the residents' signature of approval.

Prince Home

Auditors also noted the following during testing of the Prince Home at Manteno:

- The Home made improper expenditures from both the Benefit and Trust Funds. One of 20 Benefit Fund disbursements tested, totaling \$250, was for background checks on residents.
- The Home lacked proper segregation of duties over locally held fund processing. One of 20 Benefit Fund disbursements tested, totaling \$201, was made out to the Program Director for reimbursement of lunch expenses. In addition, the Program Director has signature authority and overall approval authority of the funds, which creates a lack of segregation of duties.
- The Home lacked proper internal controls over the Home's locally held funds.

Department personnel stated the conditions described were due to oversight and a lack of clerical support.

Accepted or Implemented - continued

Updated Response: Accepted. The Department has counseled staff on reporting guidance promulgated by the Illinois Comptroller, and has increased oversight to improve the management of locally held funds and related reporting.

13. Adequately monitor grants to ensure all required reports are received from grantees. Further, improve procedures to document monitoring efforts. (Repeated-2008)

Finding: The Department did not enforce compliance with its grant agreements' requirements regarding timely submission of required reports. As a result, the Department's ability to monitor State grants was negatively impacted. The Department awarded Veterans' Assistance grants totaling \$2,613,315 and \$2,271,064 in FY11 and FY12, respectively.

Auditors noted six of 40 grants tested totaling \$387,687, where the grantees did not submit or timely submit semi-annual progress reports as required by the grant agreement.

- Three of these 6 grantees did not submit their required 6-month progress report at all.
- Three of these 6 grantees submitted the required 6-month progress reports between four and 15 days late.

Also, for two of 40 vouchers tested for Veterans' Assistance grant payments, the auditors could not determine from information provided the received dates or approval dates of the related grant agreements, and therefore could not determine when any semi-annual progress reports would have been due for these grants.

Department personnel stated the Department has made increasing efforts to get grantees to report, and these exceptions are due to recipient noncompliance.

Updated Response: Accepted. The Department has substantially increased efforts to bring grant recipients into compliance with their reporting requirements, and several important improvements have been fully implemented.

The Department identified a need for additional oversight of the grants program. Therefore, a new grants administrator position was created and 70% of the working hours are allocated to the administration of the grant program, whereas 35% of working hours were allocated when the program was administered by the special projects manager. Additionally, this new position now reports to the Manager of State Grants in order to provide additional oversight of, and support for, the grants program.

The Department has also increased outreach and support to grant recipients in regard to their compliance with reporting requirements, is regularly conducting onsite inspections of grant recipients, and has implemented stricter enforcement of grant terms and requirements. Further, the recipients sign a grant agreement which includes an acknowledgement that noncompliance with grant terms will result in the denial of future grant applications.

14. Strengthen controls over receipts and refunds by ensuring receipt dates are recorded and all supporting documentation is maintained. In addition, carefully review Agency Fee Imposition Reports to ensure all fees collected are accurately reported. (Repeated-2010)

Finding: The Department did not exercise adequate controls over receipts and refunds and related reporting. During testing, auditors noted the following:

- Four of 14 refunds tested, totaling \$3,160, did not include the receipt date of the refund; therefore, timeliness of the deposit could not be determined. In addition, one of 40 receipts tested, totaling \$35,610, did not include the receipt date; therefore, timeliness of the deposit could not be determined.
- For one of 14 refunds tested, totaling \$1,056, the Department could not locate a copy of the bank deposit slip; therefore, timeliness of the deposit could not be determined.
- The Department overstated the amount of fees collected during Fiscal Year 2011 by \$3,561 in its FY11 Agency Fee Imposition Report.

Department personnel stated the problems noted were due to oversight.

Updated Response: Accepted. The Department is carefully reviewing documentation to ensure accuracy, proper recording of dates, and adequate supporting documentation for receipts and refunds. Further, annual Fee Imposition Reports are being completed accurately and timely as required by the State Comptroller Act.

15. Thoroughly review all reports prepared from internal records for accuracy before submission to the Office of the Comptroller. Also, ensure amounts calculated and claimed from the federal government are accurate. Lastly, ensure adjustments to receivable amounts are reported timely. (Repeated-2010)

Finding: The Department did not accurately record and report accounts receivable on its Quarterly Summary of Accounts Receivable Reports as required. The Department records and collects accounts receivable in nine different funds.

During testing of those funds, auditors noted the following:

- Amounts reported by the Department as collected on one of 72 reports tested did not agree to underlying records. Collections were understated by \$717,000.
- Amounts claimed on the U.S. Department of Veterans' Affairs Form 10-5588, State Home Report and Statement of Federal Aid Claimed, were not calculated correctly. The amount claimed was understated by \$775, which resulted in an understatement of the Department's accounts receivable.
- Adjustments were not made in the proper quarters. A \$23,000 adjustment should have been included in the FY10 3rd quarter report was reported on the FY11 3rd quarter report.

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In addition, \$30,000 adjustment should have been included in the FY11 4th quarter report.

Department personnel stated errors were due to oversight.

Updated Response: Accepted. The Department has increased oversight of accounts receivable, increased efforts to ensure calculations are executed properly, thoroughly reviews supporting documentation, and reports adjustments timely.

16. Strengthen controls over expenditures by carefully reviewing each invoice before it is paid. Additionally, carefully review payroll transactions prior to processing for payment. (Repeated-2010)

Finding: The Department received and processed an excessive quantity of refunds.

During Fiscal Years 2011 and 2012, the Department received and processed 140 refunds, totaling \$159,298. Auditors tested 14 of the 140 refunds processed, totaling \$35,049, and noted the following:

- Six refunds tested, totaling \$20,766, were due to overpayments made on vendor invoices.
- Four refunds tested, totaling \$1,616, were due to refunds of salary garnishments.
- Four refunds tested, totaling \$12,667 were due to the overpayment of wages to employees.

Department personnel stated that the number of refunds processed is largely due to external events beyond the Department's control, such as the timely notification of involuntary withholding requirements.

Updated Response: Implemented. There are generally two types of refunds: invoice-related refunds and payroll-related refunds. In regards to invoice-related refunds, the Department is reducing refunds through additional oversight to detect common causes, such as overpayments due to clerical errors.

In regards to payroll-related refunds, which are the more common type of refund, a study of the process indicated the causes of the refunds are commonly beyond the Department's control. However, we have implemented reasonable corrective actions to reduce the refunds to the extent possible. Additionally, the Department now requires all employees to review and confirm with their signature that their deductions are accurate, in order to detect improper deductions timely.

17. Strengthen controls and enforce procedures to ensure Veterans' Services Officers (VSOs) and their supervisors maintain accurate and complete records. In addition, provide accurate hours of operations for locations to the public. (Repeated-2006)

Finding: The Department inaccurately compiled and reported the activities and information of its field service offices staffed by Veterans' Services Officers (VSOs). In addition, Auditors noted field offices did not appear to be operating as intended by the Department.

At each of the 10 field offices, auditors tested six months' worth of monthly statistical reports for all Veterans' Service Officers at each field office for a total of 72 monthly statistical reports tested. In addition, auditors judgmentally selected one week from each of the monthly statistical reports for detail testing and compared it to corresponding daily interview records for a total of 72 weeks tested. Some of the deficiencies noted follow:

- For three of 72 months selected for testing, the monthly statistical reports and the underlying documentation could not be provided by the Department. For five of 72 months selected for testing, the weekly statistical reports could not be provided by the Department.
- For three of 72 months selected for testing, the monthly statistical reports and weekly statistical reports were not signed by the VSO. In addition, for ten of 72 months selected for testing, the weekly statistical reports were not signed by the VSO.
- For two of the ten field offices tested, veterans' signatures could not be provided to verify the authenticity of sign-in records.
- For one of the 10 field offices tested, there was a lack of adequate physical guards to protect the Department's confidential information.
- For the 10 field offices tested and 15 of 50 itinerant offices with telephones, auditors inquired anonymously about hours of operation with the Veterans' Service Officers (VSO). Auditors then compared the hours stated by the VSO with the hours listed on the Department's website. Three of 10 field offices tested stated hours of operation which varied from the hours listed on the Department's website. For two of 15 itinerant offices tested, the telephone was not answered on days called. Three of 15 itinerant offices tested stated hours of operation which varied from the hours listed on the Department's website.
- For six of the 10 field offices tested, documentation on the total number of hunting and fishing licenses issued could not be provided.

The Department stated discrepancies related to statistical reporting of field offices are due to oversight that should have been caught by subsequent supervisory reviews. In addition, missing documentation could not be provided due to information either being misfiled or purged by the Department. Further, missing documentation for licenses issued was due to information being purged by the Department. The Department also stated that discrepancies regarding the hours of operation are due to temporary staffing needs and the subsequent failure to update the online directory. Finally, the Department stated that supervisors often visit field offices in

Accepted or Implemented - continued

addition to their scheduled itinerary and may not sign in for the short period of time they are on-site.

Updated Response: Implemented. In February 2013, the Department implemented a new veterans' database application, developed in-house, which has resulted in substantial improvements to the completeness and accuracy of veterans' service officer documentation.

18. Implement controls to ensure employees accurately complete time sheets and agree those records to the absence history report to ensure accrued absence balances are accurate. Further, strengthen controls to ensure employee personnel files are complete and the voluntary deductions are properly authorized. (Repeated-2008)

Finding: The Department did not exercise adequate control over employee attendance records and other personnel functions. Auditors tested 60 employees' attendance records for four months during the examination period and noted the following:

- Timesheets for five of 60 (8%) employees tested contained discrepancies. Problems noted included the following:
 - Six instances where three employees reported the use of sick time on their time sheets, but the amounts reported on the absence history report differ.
 - Six instances where three employees reported the use of vacation time on their time sheets, but the amounts reported on the absence history report differ.

With regard to the Department's personnel functions:

- Three of 60 employees selected for testing had CMS-2 forms that were outdated and reflected incorrect salary information.
- Three of 60 employees selected for testing lacked proper authorizations for miscellaneous payroll deductions such as union dues and miscellaneous insurance.

Department personnel stated the conditions described above were due to oversight and competing priorities for the responsible personnel.

Updated Response: Implemented. The Department has updated its personnel record-keeping system, and has increased efforts to ensure completeness and accuracy over attendance and personnel documentation. Additionally, the Department now requires all employees to review and confirm with their signature that their payroll deductions are accurate.

19. Take appropriate measures to ensure performance evaluations are conducted annually as required by policy. (Repeated-2008)

Finding: The Department did not complete annual employee performance evaluations timely. For 13 of 60 employees tested, evaluations were completed from 10 to 467 days late. In addition, one employee tested did not have a performance evaluation completed for FY11 or FY12, and five employees tested did not receive a FY12 evaluation.

Department personnel stated evaluations were not performed or were not performed timely due to competing priorities for managerial staff and due to turnover in some management positions.

Updated Response: Implemented. The Department has brought delinquent evaluations into compliance, and will continue increased oversight to ensure future evaluations are performed timely.

20. Prepare accurate and complete reports and file them with the Office of the Secretary of State and the Office of the Governor. Further, file corrected reports within 30 days of audit release as required by the Illinois State Auditing Act. (Repeated-2010)

Finding: The Department did not file accurate Agency Workforce Reports with the Office of the Governor and the Office of the Secretary of State. For both of the reports required to be filed during the examination period, auditors noted the following:

- Supporting documentation provided for the FY10 report did not support the amounts reported.
- The report for FY10 was filed 74 days late.
- Supporting documentation could not be provided to support the number of employees reported in 13 different categories across six different salary ranges for the FY11 report; and
- The FY11 report contained clerical errors.

In addition, the Department did not file corrected reports for FY08 and FY09 with the Office of the Governor and the Office of the Secretary of State as required.

Department personnel stated the errors noted were due to oversight.

Updated Response: Implemented. The Department submitted corrected agency workforce reports, and will ensure future reports are completed timely and accurately.

Accepted or Implemented - continued

- 21. Devote adequate resources to ensure commodity records are accurate at the Homes. In addition, review the internal controls over inventory and perform evaluations of all inventory items held to ensure inventory records are complete and to eliminate any items that are overstocked at the Homes. (Repeated-2010)**

Finding: The Department did not exercise adequate control over commodities inventories at the Illinois Veterans' Homes. Auditors noted the following:

- The LaSalle Home did not maintain an adequate segregation of duties. Store clerks responsible for receiving goods and entering the items into the inventory system also had the ability to modify purchase orders within the inventory system. In addition, there were no controls in place to segregate duties in the event that both store clerks are unavailable to receive goods. In the absence of both store clerks, the storekeeper performed all of the functions of the receiver.
- At the Quincy Home, the results of eight of 40 test counts performed did not agree with the Home's inventory records.
- At the Anna Home, counts were not maintained for 127 of 577 items on the Home's medical supplies inventory. As a result, auditors could not perform test counts of any of those items to determine the existence of any overages or shortages of goods.

LaSalle Home personnel stated that the store clerks were unaware of their access to the purchase order function and the storekeeper only performs all functions of the receiver in the long-term absence of both store clerks.

Quincy Home personnel stated that differences noted on the pharmacy's inventory is due to estimating quantities on-hand while conducting the annual physical inventory counts. The differences in the mechanical stores and general store inventories were the result of human error. Quincy personnel also stated that the overstocking of toothbrushes was due to the vendor changing the quantity per case.

Anna Home personnel stated the records were incomplete due to oversight and human error.

Updated Response: Accepted. The Department has increased efforts to promote the proper handling of commodities and related records. Further, the Illinois Procurement Code (30 ILCS 500/50-55) states the overstock should be resolved through "transfers of the oversupplied items or other action necessary to maintain compliance." The Department deemed a transfer inappropriate, as each veterans' home fund includes charges collected from its residents. Therefore, the Department determined the most fiscally responsible and ethical course of action is to reduce the errantly overstocked commodities through attrition.

22. Implement controls to ensure vouchers are approved within the required time frame. In addition, enhance, improve and document internal controls over voucher processing to make sure vouchers are receiving proper approvals and dates. (Repeated-2004)

Finding: The Department did not exercise adequate control over voucher processing. During testing, auditors noted the following:

- One hundred and twenty of 347 vouchers tested, totaling \$362,772, were not signed and/or dated by the receiving officer. In addition, 35 of 62 federal and grants-in-aid expenditures tested, totaling \$29,344, were not signed and/or dated by the receiving officer.
- Fifty-four of 347 vouchers tested, totaling \$82,874, did not contain the proper approvals on the order documents.
- Twenty-two of 347 vouchers tested were approved for payment from 1 to 46 days late. In addition, 2 of 22 federal expenditures tested were approved for payment from 3 to 11 days late. Furthermore, 22 of 347 vouchers tested, totaling \$62,217, and 2 of 40 Illinois Veterans' Assistance expenditures tested, totaling \$100,000, did not include documentation of proper approval and/or date the invoice was received. As a result, auditors were unable to determine if the vouchers were approved timely in these instances.

Department personnel stated the errors noted were due to oversight and human error.

Updated Response: Accepted. The Department has increased oversight of voucher processing, and continues investigating further improvements to the current vouchering process.

Emergency Purchases

The Illinois Procurement Code (30 ILCS 500/) states, "It is declared to be the policy of the State that the principles of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts..." The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption when there exists a threat to public health or public safety, or when immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage to State Property, to prevent or minimize serious disruption in critical State services that affect health, safety, or collection of substantial State revenues, or to ensure the integrity of State records; provided, however that the term of the emergency purchase shall not exceed 90 days. A contract may be extended beyond 90 days if the chief procurement officer determines additional time is necessary and that the contract scope and duration are limited to the emergency. Prior to the execution of the extension, the chief

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procurement officer must hold a public hearing and provide written justification for all emergency contracts. Members of the public may present testimony.

Notice of all emergency procurement shall be provided to the Procurement Policy Board and published in the online electronic Bulletin no later than 3 business days after the contract is awarded. Notice of intent to extend an emergency contract shall be provided to the Procurement Policy Board and published in the online electronic Bulletin at least 14 days before the public hearing.

A chief procurement officer making such emergency purchases is required to file an affidavit with the Procurement Policy Board and the Auditor General. The affidavit is to set forth the circumstance requiring the emergency purchase. The Legislative Audit Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

During FY11-FY12 the Department filed three affidavits for emergency purchases totaling \$402,669.64 to extend a pharmacy contract at the LaSalle Veterans' Homes until a contract could be bid.

Headquarters Designations

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State agency is required to file reports of all of its officers and employees for whom official headquarters have been designated at any location other than that at which their official duties require them to spend the largest part of their working time.

The Department of Veterans' Affairs indicated as of July 2012 the Department had no employees assigned to locations other than official headquarters.