LEGISLATIVE AUDIT COMMISSION

Review of
Department of Veterans' Affairs
Two Years Ended June 30, 2018

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REVIEW: 4501
DEPARTMENT OF VETERANS' AFFAIRS
TWO YEARS ENDED JUNE 30, 2018

FINDINGS/RECOMMENDATIONS - 15

ACCEPTED - 11
IMPLEMENTED - 4

REPEATED RECOMMENDATIONS - 7

PRIOR FINDINGS/RECOMMENDATIONS - 12

This review summarizes an audit of the Department of Veterans' Affairs for the two years ended June 30, 2018 filed with the Legislative Audit Commission on June 20, 2019. The auditors performed a compliance examination in accordance with *Government Auditing Standards* and State law. Since FY09, the Department and the Illinois Veterans' Homes were combined into one report.

The Department of Veterans' Affairs was established in 1976 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 dependents, and survivors. The Department provides professional counseling and assistance relative to all veterans' programs, both State and federal. The mission of the Veterans' Homes is to provide to eligible veterans skilled nursing services that meet or exceed the standards and requirements applicable to facilities within the State.

Erica Jeffries was Director for most of the audit period, serving from February 17, 2015 until May 18, 2018. Thereafter, Elisabeth Pennix was Interim Director for one month, then Stephen Curda became Acting Director on June 6, 2018 and served until Linda Chapa LaVia was named Acting Director on February 16, 2019. Director Chapa LaVia is an Aurora, IL native. She is a veteran of the U.S. Army and the Illinois National Guard and served as an Illinois State Representative for 15 years.

In addition to its offices in Springfield and Chicago, the Department currently maintains 43 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 35 itinerant field offices. The Department operates Veterans' Homes at Anna, LaSalle, Manteno and Quincy. According to the audit report, the Department is currently licensed for 1,285 skilled care beds and 144 domiciliary beds at the Homes, but is only funded for 1,053 skilled care beds. There are two 40-bed secure units for residents with special needs and Alzheimer's care at LaSalle and Manteno, and 144 beds in independent apartment units (domiciliary care) at Anna and Quincy. Located on the grounds of the Manteno Veterans' Home, the Prince Home for homeless and disabled veterans is a separate program with a dedicated staff and program director. The Prince Home is a 15-bed facility, and provides each resident with the skills needed for successful independent living.

Another Veterans' Home is under construction in Chicago. The Chicago Home will be a 200-bed facility, and its construction is being coordinated by the Capital Development Board. Construction was delayed due to the Budget Impasse and a faulty foundation on the original building. It is estimated that the new Home will be operational in the summer of 2020.

Average population in FY18 was 869. Appearing below is a summary of statistics for each Veterans' Home for FY18.

FY18	Anna	LaSalle	Manteno	Quincy
Licensed Capacity of Home	62	200	340	683
Funded Capacity of Home	61	184	294	514
Average number of residents				
Skilled Care	47	175	284	315
Domiciliary	10	N/A	N/A	38
Average number of employees	78	208	316	508
Ratio of employees to residents				
Skilled Care	1.66 to 1	1.19 to 1	1.11 to 1	1.61 to 1
Average cost per resident				
Skilled Care	$ 125,555	$ 121,072	$ 118,006	$ 150,972
Number of resident injuries	2	22	31	47

The average number of employees by division per fiscal year was:

	FY18	FY17	FY16
Central Office	38	38	48
Veterans Service Officers	68	70	68
Veterans' Home at Anna	71	71	72
Veterans' Home at Quincy	488	482	514
Veterans' Home at LaSalle	206	211	223
Veterans' Home at Manteno	311	308	322
Homeless Program at Manteno	8	8	8
State Approving Agency	6	7	6
Troops to Teachers	2	2	1
TOTAL	**1,198**	**1,197**	**1,262**

During FY18, the Department processed 4,865 claims compared to 4,749 in FY17, and 4,402 in FY16.

Expenditures from Appropriations

The General Assembly appropriated a total of $147 million to the Department in FY18, an increase of $12.5 million, or 9.3%, from $134.5 million appropriated in FY17. Total expenditures for the Department were $119.8 million in FY18 compared to $113.5 million in FY17, an increase of $6.3 million, or 5.5%. Variations in expenditures were mostly due to complications resulting from the Budget Impasse. Appendix A summarizes appropriations and expenditures by fund for FY18 and FY17.

Due to the Budget Impasse, Public Act 100-021 authorized the Department to pay for all costs incurred prior to July 1, 2018 using either the Department's FY17 or FY18 appropriations for non-payroll expenditures, and Public Act 99-0524 authorized the Department to pay FY16 costs using its FY17 appropriations for non-payroll expenditures.

The following describes how the Department paid prior year costs using future appropriations:

- The Department paid 963 invoices totaling $2.1 million for FY17 expenditures using FY18 appropriations.
- The Department paid 203 invoices totaling $476,182 for FY16 expenditures using FY18 appropriations.
- The Department did not pay any prior year costs using its FY17 appropriation.

Other key highlights include:

- During FY18, the Department incurred $81,030 in Prompt Payment Interest for 1,463 invoices from 332 vendors.
- The Department incurred no Prompt Payment Interest in FY17.
- In FY18, one vendor participated in the Vendor Payment Program (VPP) for three invoices totaling $532; whereas, no vendors participated in the VPP in FY17.
- No vendors participated in the Vendor Support Initiative Program (VSI) in FY18 or FY17.
- The Department and its vendors did not participate in alternative financing in lieu of enacted appropriations involving the Illinois Finance Authority during FY18 or FY17.

Lapse period spending was $10.2 million in FY18, or 8.5% of total expenditures, which was mostly the result of operational expenses at the Manteno Veterans Home related to FY18 being processed during the lapse period. In FY17, lapse period spending was approximately $10 million, or 8.8% of total expenditures, due largely to various veterans' homes being behind on payment processing as the result of the new implementation of the ERP system.

Cash Receipts

Appearing in Appendix B is a summary of cash receipts for FY18, FY17 and FY16. Total cash receipts increased from $55.6 million in FY17 to $56.8 million in FY18. In FY18, the majority of this increase was the result of a $2 million increase in the Manteno Veterans'

Home Fund, which was mostly the result of increased VA reimbursements due to changes in per diem calculations at the federal level.

Property and Equipment

Appendix C is a summary of property changes at the Department during the audit period. The balance decreased from $144.3 million as of June 30, 2016 to $141.2 million at June 30, 2018, a decrease of $3.1 million, or 2.1%. The Department reported $165,025 and $534,672 in lost or stolen equipment in FY17 and FY18, respectively. These numbers were not reflected in the aforementioned balances for FY18 and FY17. See finding No. 1 for more details on this issue.

Locally Held Funds

The Department had 15 Locally Held Funds (Funds) used by the four Veterans' Homes. In FY17, the beginning balance of the Funds were approximately $5.1 million. During FY17, the Funds received approximately $37.5 million in receipts and disbursed $37 million, leaving the final balance of the Funds at $5.6 million as of June 30, 2017. Receipts decreased in FY18 from FY17 to approximately $36.1 million, a difference of $1.4 million, or 3.7%. The Department disbursed $36.4 million in FY18, leaving the final balance of the locally held funds at $5.3 million at June 30, 2018.

Accountants' Findings and Recommendations

Condensed below are the 15 findings and recommendations, seven repeated, presented in the audit report. The following recommendations are classified on the basis of updated information provided by Department Director Linda Chapa LaVia and Chief Internal Auditor Joel Meints, via electronic mail received February 13, 2020.

Accepted or Implemented

1. 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. (Repeated-2008)

<u>Finding:</u> The Illinois Department of Veterans' Affairs (Department) did not exercise adequate control over the purchase, recording and reporting of State property. Auditors noted the following during the examination of the Department's equipment records and controls over property:

- During testing of the Department's preparation of the Agency Report of State

Property (C-15), some of the errors noted in the eight quarters tested were as follows:

- The C-15 was submitted one to 29 days late in four of eight quarters.
- C-15s were prepared on based expenditure records, rather than property records.
- Capital Development Board (CDB) transfers were not included on property records for three quarters. The remaining five quarters did not have CDB transfers.
- Additions, deletions and transfers out were inaccurately reported on the C-15 based upon Department records.

As a result of the errors, auditors noted the likely differences between the amounts reported on the C-15s and those which should have been reported based on Department records were $641,839 for the audit period.

- In the Department's FY17 Physical Inventory Report submitted to CMS, the Department reported it was unable to locate 267 items, totaling $165,025. This represented 2% of the Department's total property. Two of these items were IT equipment items that the Department noted upon their assessment could potentially contain confidential information. In the FY18 Physical Inventory Report submitted to CMS, the Department reported it was unable to locate 958 items, totaling $534,672. This represented 10% of the Department's total property. Twenty-five of these items were IT equipment items that could potentially contain confidential information. The Department noted it is in their policy to not store confidential information on devices that are not encrypted, but they cannot guarantee this practice was followed.

- Exceptions noted during testing of the Department's property records for the Central Office, Homes, and Field Service Offices included items located but not included in property records, items not tagged, and an item not removed from property records despite support showing item sent to surplus.

- During equipment voucher testing, auditors noted the following:

  - Six of 40 (15%) equipment vouchers tested, totaling $57,504, included equipment items that were not entered into the property records.

  - Two of 40 (5%) equipment vouchers tested, totaling $12,623, included equipment items greater than $500, but were not reported on the "Items Over $500 Annual Report" submitted to CMS for FY17.

  - One of 40 equipment vouchers tested, totaling $707, was incorrectly valued on the property records at $2,306, resulting in the property records being overvalued by $1,599.

Accepted or Implemented - continued

- Two of 40 (5%) deletions tested, totaling $2,546, were not removed timely from the property records. The assets were transferred or disposed of in August 2016, but were not removed from the property records until February 7, 2018.

- Four of 40 (10%) additions tested did not properly include freight charges in the asset values listed in the property records, resulting in the assets being under valued by $367. Additionally, one of 40 (3%) items had an asset value in the property records that did not agree to the supporting documentation provided, resulting in the asset being over valued by $35.

Department management stated the exceptions were due to Department turnover as well as human error.

Response: Accepted. Staff have become more familiar with how to process Illinois Accountability, Credibility, Transparency, and Standardization (ACTS) equipment transactions to reduce similar errors in the future. In addition, ACTS has enhanced the deletion process to help ensure deletions are recorded timely. Department personnel continue to reassess the physical inventory process to identify ways to reduce inventory discrepancies. As vouchers and deletions are recorded more accurately, addition and deletions reports will be easier to produce from the system with fewer adjustments. As such, preparation of the quarterly C-15 will be easier and more accurately completed for timely submission.

Updated Response: Accepted. The Department is currently working diligently to learn the inventory module in the Enterprise Resource Planning (ERP) system. In addition, the Department has worked to ensure inventory records are maintained accurately and transactions are reported timely.

2. Take appropriate measures to ensure performance evaluations are conducted timely. (Repeated-2008)

Finding: The Department did not complete annual employee performance evaluations timely.

During the examination period, the Department did not timely complete annual evaluations for 17 of 40 (43%) employees tested. Employee evaluations were completed from one to 80 days late.

Department management stated the deficiency was due to the failure of managers to submit their assigned evaluations in a timely manner caused by competing priorities. Additionally, Department management stated that 12 of the 17 late evaluations were due during a computer outage in July 2017, which lasted for approximately eight weeks. The Department had little to no capability to fill out electronic records or submit them during this time.

Updated Response: Accepted. The Department uses a tracking spreadsheet to notify managers/supervisors of upcoming performance evaluations. In addition, performance evaluations are frequently discussed at senior staff meetings to remind managers/supervisors timely evaluations are important. One issue is the Human Resources (HR) manager has been vacant twice within the last year.

3. 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 and maintain evidence of submission. (Repeated-2010)

Finding: The Department did not file accurate Agency Workforce Reports (reports) with the Office of the Governor and the Office of the Secretary of State.

Auditors tested both of the reports required to be filed during the examination period and noted the FY16 report contained mathematical inaccuracies regarding percentages across multiple categories. After performing recalculations of the percentages provided by the Department, the amounts calculated did not match the amounts submitted on the report.

In addition, the FY15-16 audit report noted a clerical error in the 2015 Agency Workforce Report. Documentation of the submission of the corrected 2015 report to the Governor's Office was not able to be provided by the Department as required by law.

In response to this previous finding, the Department stated it would submit revised reports to correct errors identified in it. The Department stated, before the next report was due, the Department would modify the computer reports to reduce the risk of errors and the Human Resource Manager had been assigned to independently review the report for completeness and accuracy. Related to the exceptions noted in the current examination, the Department stated the mathematical inaccuracies and failure to maintain evidence of submission were caused by continued human error.

Updated Response: Implemented. The Department has submitted corrected copies and confirmed formulas in the spreadsheet are correct to ensure accurate reporting.

4. Timely publish extensions, estimated costs, and actual costs of emergency purchases as well as accurate information in the Illinois Procurement Bulletin as required by the Code and FCIAA. (Repeated-2014)

Finding: The Department did not exercise adequate control over their reporting of emergency purchases.

The Department made emergency purchases, totaling $1,208,869, during the examination period. During testing of the Department's emergency purchases, auditors noted the following issues:

Accepted or Implemented - continued

- For two of seven (29%) emergency purchases tested, totaling $519,291, the Department did not publish timely information about the actual cost of the emergency purchase in the Illinois Procurement Bulletin as required. The actual cost of the purchases was published 69 to 269 calendar days after the contracts were established. Additionally, the Office of the Auditor General was not notified timely of the actual cost.

- For two of seven (29%) emergency purchases tested, with an estimated cost totaling $210,145, the Illinois Procurement Bulletin (IPB) reference numbers listed on the online electronic bulletins did not correspond to the Emergency Purchase Affidavits submitted by the Department.

The Department stated the issues in the current year were caused by human error and being without an Agency Purchasing Officer for 15 months.

<u>Updated Response:</u> Implemented. A new Agency Procurement Officer (APO) has been hired and has developed a process to track emergency purchases in a spreadsheet. Once the emergency purchase is complete, a report on actual costs is provided to the State Purchasing Officer (SPO). The SPO then publishes the information on BidBuy and provides required information to the Auditor General.

5. Strengthen internal controls over expenditures, receipts, and cash reconciliations to ensure they are performed timely and accurately. Furthermore, document the dates all monthly report reconciliations are completed and timely notify the Comptroller of any differences noted. Lastly, perform reconciliations when system conversions occur. (Repeated-2016)

<u>Finding:</u> The Department had weaknesses in performing reconciliations of expenditures, receipts, and cash to the Illinois Office of the Comptroller records.

The Department went live with its new accounting system on October 1, 2016. Because of difficulties experienced during implementation, no reconciliations were performed between the Department's records and those of the Comptroller between October 1, 2016 and March 31, 2017. In addition, during the implementation process, the Department did not perform a reconciliation between their legacy accounting system and the new accounting system to ensure the complete and accurate transfer of balances for commodity inventory, equipment inventory, receipts, expenditures, appropriations general ledger accounting and GAAP balances.

In addition, auditors noted the following exceptions as a result of testing of the reconciliations performed by the Department during the examination period:

- During testing of the Department's monthly receipt reconciliations to the Comptroller's Monthly Receipt Report (SB04), auditors noted all four reconciliations tested were not dated. Because of the lack of a documented date, auditors could not determine if the reconciliations were completed in a timely manner.

- During testing of the Department's monthly expenditure reconciliations to the Comptroller's Monthly Appropriation Status Report (SB01), auditors noted:

  - Eleven of 20 (55%) reconciliations tested were either not dated or not completed. For those reconciliations lacking a documented date, auditors could not determine if the reconciliations were completed in a timely manner.

  - In-transit vouchers on 15 of 242 (6%) appropriation codes tested on the reconciliations were not able to be traced to the three-subsequent month's SB01s. The Department was unable to provide an explanation for the vouchers being in transit for multiple months. The Comptroller was not timely notified of differences between the Department and Comptroller records.

- During testing of monthly cash reconciliations of Department records to the Comptroller's Monthly Cash Report (SB05), auditors noted the June 2017 reconciliation for Fund 0775 did not have a date of when the reconciliation was performed; therefore, auditors could not determine if the reconciliation was completed in a timely manner.

The Department stated the exceptions were due to the implementation of the new accounting system as well as computer problems taking place during the engagement. Additionally, the reconciliations were not dated due to employee error. Finally, Department management stated during the time of the implementation of the new accounting system, there were many competing priorities in place; therefore, some functions of the Department did not get done.

Response: Accepted. The Department will establish procedures for electronically dating reconciliations. In addition, Fiscal personnel have become more familiar with the new Illinois Accountability, Credibility, Transparency, and Standardization (ACTS) system which has resulted in fewer input errors.

Updated Response: Accepted. The Department has worked to complete reconciliations accurately and timely. In addition, the Department dates the reconciliation and a supervisory review is completed.

6. Ensure the accuracy of the Agency Fee Imposition Report prior to its timely submission to the Illinois Office of the Comptroller. (Repeated-2016)

Finding: The Department did not properly report fees collected on the Agency Fee Imposition

Accepted or Implemented - continued

Report (Report) for FY16 and FY17. In addition, the Department submitted the 2017 Report 15 days late.

The Department overreported the receipts pertaining to fees for both the Quincy Veterans' Home Fund and the Manteno Veterans' Home Fund on its FY17 Report because it improperly included hospice fees. The error resulted in the Department overstating the fees collected on the FY17 Report by $107,227. In addition, the annual Report is due on August 1st. The 2017 Report was filed on August 16, 2017, 15 days late.

The 2016 Fee Imposition Report had instances where fees were recorded to the incorrect Revenue Source Code on the Report, but were reported correctly per the Department's cash receipts journals. This occurred in all funds with reported fees during FY16. In addition, the 2016 Report improperly excluded $41,680 of the Homeless Program Maintenance Fees for the Manteno Veterans' Home Fund.

Department management attributed the cause of the exceptions to human error and the computer outage that occurred during fiscal year 2018.

Response: Accepted. Department personnel have modified the receipts ledgers to provide better instruction for the fee imposition reporting.

Updated Response: Implemented. Department personnel responsible for preparing the agency fee imposition report were made aware of the clerical input errors. The current report appears to be correct and filed timely.

7. Seek an update to the Illinois Administrative Code to reflect the methodology used to calculate maintenance fees. (Repeated-2016)

Finding: The Department did not calculate resident maintenance fees in accordance with the Illinois Administrative Code.

The Illinois Administrative Code (95 Ill. Adm. Code 108.130) states residents at the veterans' homes are entitled to an allowance of $100/month for every $1,000 paid in monthly maintenance fees. However, the Department gives each resident a $200 allowance without considering the monthly maintenance fee charged. A Department memo, dated March 1, 2012, to the veterans' homes stated residents are currently allowed to keep the first $100 of their monthly income before the maintenance fee is assessed. The memo further stated this will double to $200, allowing them to keep more of their monthly income. The maintenance fee will continue to be calculated at 90% of a resident's remaining income, up to a new monthly maximum. This condition existed at all the Department's veterans' homes during the examination period.

In the previous examination, the Department did not correctly calculate the maintenance fee to residents at the Anna Veterans' Home in accordance with the practice outlined in its memo. During the current examination, the Department recalculated the FY16 maintenance fees and issued refunds or collected amounts due as needed. Auditors' testing did not reveal similar exceptions during the current examination period.

The Department stated, due to competing priorities, the Administrative Code had not yet been updated to reflect the procedures set forth in the Director's letter.

Response: Accepted. The Administrative Code (95 Ill. Admin. Code 108.130) cannot be

followed as it contains a circular reference for the allowance determination formula. The Agency will submit corrected wording applicable to this Code reference.

Updated Response: Accepted. The Department is working to update the administrative rules to reflect the new maintenance fee calculation method established by the previous Director's memo.

8. Strengthen controls over locally held fund reporting.

Finding: The Department did not exercise adequate control over its locally held funds at its Illinois Veterans' Home at Anna and Manteno.

During testing of the Report of Receipts and Disbursements for Locally Held Funds (C-17) reconciliations, auditors noted the following issues:

- During the recalculation of the quarterly C-17s for the Anna Veterans' Home, auditors noted the Anna Members' Trust Fund had a discrepancy of $2,078 beginning in the fourth quarter of FY17. The Anna Business Administrator corrected a typo on the FY17 fourth quarter C-17 and then submitted the revised C-17 to the Central Office. However, due to a lack of communication between the Central Office and the Anna Home, the difference existed throughout fiscal year 2018.

- During the recalculation of the C-17s for the Manteno Veterans' Home, auditors noted that the Manteno Benefit Fund had a discrepancy of $1,000 beginning in the 1st quarter of fiscal year 2018. Due to the lack of communication between the Central Office and the Manteno Home, the difference of $1,000 existed throughout fiscal year 2018.

- During testing of authorized signors for locally held funds at the Manteno Veterans' Home, auditors noted the signature authority of two separate employees for the Manteno Clearing Account was revoked on March 9, 2017. The separation dates of these employees were September 30, 2016, and October 31, 2016. The signatures were revoked 160 and 129 days after their separation respectively. The employee who retired on October 31, 2016, had been the Chief Fiscal Officer for a portion of the examination period.

Accepted or Implemented – continued

Department management stated the failure to timely revoke signature authority occurred due to oversight with Home personnel. Additionally, the discrepancies noted within the C-17 reconciliations were due to a lack of communication between Home and Central Office personnel.

Response: Accepted. Central Office and Home personnel will work more closely to ensure C-17 reports submitted to the Illinois Office of the Comptroller agree with agency records. Department has revoked signature authority for subsequent separated employees in a timely manner.

Updated Response: Accepted. The Department continues to work to strengthen controls to ensure accurate and timely reports are submitted to the Illinois Office of the Comptroller.

9. Strengthen controls to ensure the timely approval of vouchers.

Finding: The Department did not approve vouchers in a timely manner.

During testing, auditors noted 26 of 60 (43%) vouchers, totaling $28,057, were not approved within 30 days after the physical receipt of the bill. The bills were approved one to 262 days late.

Department management stated the exceptions noted were due largely in part to the computer problems that were encountered during and after the virus that took place in July 2017, which effectively paralyzed the network and computers due to continuous replication. Department management stated the Department employees were unable to access the accounting system from their desktops for several months, which resulted in late approvals. Competing priorities during the ERP conversion also contributed to the untimely approvals.

Updated Response: Accepted. The Department continues to strive for timely approval of vouchers in the Enterprise Resource Planning (ERP) system.

10. Strengthen controls over and enforce procedures to ensure VSOs and their supervisors maintain accurate and complete records. Furthermore, ensure supervisors adequately supervise the field offices for which they are responsible.

Finding: The Department inaccurately compiled and reported activities and information of its field service offices staffed by Veteran Service Officers (VSOs).

Auditors noted the following during the examination:

- Supervisor sign-in records did not match itineraries in four of 16 (25%) instances for four consecutive weekly itineraries for the four field office supervisors.

- Four of six (67%) reports were not signed and submitted on time for two monthly statistical reports at three field offices.

- Unable to determine whether the field offices were open during their stated hours as posted online at three of five itinerant field offices tested.

Department management stated the exceptions noted were due to field service officer and field service officer supervisor oversight. Additionally, the field offices lack of response to auditor phone calls was due to competing priorities.

Response: Accepted. Procedures will be developed and random checks will be completed to ensure compliance by the Field Supervisors to ensure accuracy in reporting itineraries and office visits. Statistical reports will be validated and signed by Supervisors and submitted. Telephone number listing will be checked on a quarterly basis. As VOIP lines are installed, the Agency will further look towards a central hub for responding to telephone calls.

Updated Response: Accepted. The Department is currently working on controls to enhance the accountability and reporting of the Veteran Service Officers (VSO) and their supervisors. Currently, there is a pilot program being implemented to centralize this function.

11. Ensure audits of all major systems of internal accounting and administrative control are conducted at least once every two years as required by FCIAA. In addition, ensure internal audit activities comply with *International Standards for the Professional Practice of Internal Auditing* (*IIA Standards)*.

Finding: The Department did not comply with the Fiscal Control and Internal Auditing Act.

Auditors noted the following during the examination:

- The Department's Office of Internal Audit (OIA) conducted a total of four internal audits during FY17 and FY18, three in FY17 and one in FY18. Within these audits, only nine of the eleven FCIAA major event/transaction cycles were addressed to ensure major systems are reviewed at least once every two years. OIA failed to audit grant administration and purchasing.

- The one internal audit report tested did not contain a stated opinion and did not contain the signature of the internal auditor who conducted the audit. Additionally, the workpapers provided for the audit tested did not include evidence of audit planning or source documentation; therefore, the audit did not appear to be conducted in accordance with *International Standards for the Professional Practice of Internal Auditing (IIA Standards*).

Accepted or Implemented - continued

The FCIAA (30 ILCS 10/2003) requires the chief executive officer of each designated State agency ensure the internal auditing program includes audits of major systems of internal and administrative control conducted on a periodic basis so that all major systems are reviewed at least once every two years. The Statewide Accounting Management System (SAMS) identifies the eleven FCIAA major event/transaction cycles as agency organization and management, administrative support services, budgeting, accounting and reporting, purchasing, expenditure control, personnel and payroll, property, equipment, and inventories, revenues, receivables and cash, petty cash and local funds, grant administration and electronic data processing. The *Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing (IIA Standards)* require OIA to develop risk-based plans to determine the priorities of the internal audit activities. IIA Standards require OIA to document information to support the engagement results and conclusions. IIA Standards also require OIA to communicate the results of the engagements, including, where appropriate, an internal auditors' opinion.

Department management stated that the exceptions noted were due to competing priorities, as well as a computer virus that occurred in July 2017.

Response: Accepted. The Department of Veterans' Affairs continues to establish processes that will help ensure adherence to all of the requirements of the Fiscal Control and Internal Auditing Act and the International Standards for the Professional Practice of Internal auditing.

Updated Response: Accepted. The Department was without a Chief Internal Auditor (CIA) until September 2019. Current CIA is working on getting the Department in compliance.

12. Develop and implement policies and procedures regarding the proper disposal of confidential information and access provisioning. Additionally, ensure only authorized users have access to the applications and that reviews of access rights to all systems are conducted at least annually.

Finding: The Department had not established adequate security controls over its computing environment including policies and procedures over access provisioning and disposal of confidential information.

The Department maintains a myriad of systems and applications which contain personal and medical information. As such, security over these systems and applications is crucial.

To obtain access to the Department's applications, a System Maintenance User Request Form is to be completed and approved by the user's supervisor. Auditors selected a sample of 16 users and requested the System Maintenance User Request Form to determine if the user's access was approved by their supervisor. The Department was unable to provide the System Maintenance User Request Form for four (25%) users. Additionally, of the 12

System Maintenance User Request Forms provided, six (50%) did not have documentation of supervisory approval for access.

Auditors also selected a sample of 15 users who had terminated employment to determine if they continued to have access to the Department's applications, noting:

- One (7%) user's access was not deactivated in a timely manner,
- For five (33%) users, the Department provided the request for access to be removed; however, the removal was not completed, and
- The Department did not provide any information for three (20%) users.

Auditors selected a sample of 40 users with access to the Department's applications to determine if their access was appropriate, and testing noted three (8%) users no longer required access. Also, the Department had not conducted a review of their mainframe security software ID during the examination period. Finally, the Department did not have guidelines for the disposal of confidential information.
Department management indicated oversight and competing priorities were responsible for the exceptions.

Response: Accepted. The Department will develop formal policies around access provisioning and disposal of confidential information.

Updated Response: Accepted. The Department is working on strengthening the process to safeguard access is only granted to appropriate personnel and separated users are terminated timely. This is a function of DoIT, and the Department has been without a Chief Information Officer (CIO) since 2018.

13. Work with DoIT and update the Resiliency Plan to address all requirements for recovery efforts for all applications and data. Additionally, conduct recovery testing, at least annually, to ensure the recoverability of applications and data.

Finding: The Department had not provided adequate planning for the recovery of its applications and data.

In May 2018, the Department and the Department of Innovation & Technology (DoIT) collaborated to establish the Department's Information Systems Resiliency Plan. Auditors found the Plan did not fully encompass disaster recovery requirements and did not:

- Include steps to recover applications and systems;
- Clearly identify key recovery personnel and responsibilities;
- Discuss an alternate recovery location; and
- Include a listing of infrastructure hardware and software necessary for recovery.

Additionally, the Resiliency Plan documented 24 critical systems; however, it stated 20 of the critical systems did not have recovery plans. Auditors also noted, the Department had

Accepted or Implemented - continued

not conducted comprehensive disaster recovery testing during the examination period.

Department management stated there were several contributing causes to the continuing condition, which include personnel turnover in the Chief Information Officer position and other key positions that manage Department policy.

Updated Response: Implemented. A disaster contingency plan has been created and tested.

14. Establish adequate controls over reconciliation and conversion of data converted during system development projects, such as the ERP.

Finding: The Department lacked due diligence over the transition to the Enterprise Resource Planning program (ERP).

In October 2016, the Department implemented the State's ERP as its business process management system for the tracking of assets, contracts, obligations, vouchers, and commodities inventory.

Auditors requested the Department's documentation related to their planning efforts with the Department of Innovation & Technology; however, the Department was unable to provide such documentation.

As part of the Department's transition to the ERP, they converted data from the legacy systems. To determine if the data had converted correctly, auditors requested the Department's documentation and reconciliations; however, the Department was unable to provide the requested documentation. In fact, according to the Chief Fiscal Officer, the Department had determined at fiscal year-end 1,304 assets had not converted from their legacy system to the ERP.

Department management indicated that during the time of the implementation of the new accounting system, there were many competing priorities in place; therefore, some functions of the Department did not get done.

Response: Accepted. Documentation was reviewed, and discrepancies were noted. Noted discrepancies have been addressed.

Updated Response: Accepted. The Department continues to learn and improve in the use of the Enterprise Resource Planning (ERP) system. The attained knowledge has aided in strengthen controls and confirming data is accurate.

15. Identify all third party service providers and determine and document if a review

of controls is required. If required, the Department should:

- **Obtain System Organization Control (SOC) reports or (perform independent reviews) of internal controls associated with outsourced systems at least annually.**
- **Monitor and document the operation of the Complementary User Entity Controls (CUECs) relevant to the Department's operations.**
- **Either obtain and review SOC reports for subservice organizations or perform alternative procedures to satisfy itself that the existence of the subservice organization would not impact its internal control environment.**
- **Document its review of the SOC reports and review all significant issues with subservice organizations to ascertain if a corrective action plan exists and when it will be implemented, any impacts to the Office, and any compensating controls.**
- **Review contracts with service providers to ensure applicable requirements over the independent review of internal controls are included.**

Finding: The Department did not obtain or conduct timely independent internal control reviews over all its external service providers.

The Department utilizes three services providers for medical billing, hosting of medical records, and application hosting. Some of the information controlled by the service providers would be classified as personally identifiable information and protected health information.

During testing, auditors noted the Department had not:

- Obtained System Organization Control (SOC) Reports for two of the providers for the complete examination period.
- Completed a review of the one SOC Report received.
- Monitored and documented the operation of the Complementary User Entity Controls (CUECs) relevant to the Department's operations.

Additionally, the contracts between the Department and the service providers did not contain a requirement for an independent review to be completed.

The Department is responsible for the design, implementation, and maintenance of internal controls related to information systems and operations to ensure resources and data are adequately protected from unauthorized or accidental disclosure, modifications, or destruction. This responsibility is not limited due to the process being outsourced. Strong management controls, due diligence, and fiduciary responsibility require adequate supervision of external service providers to provide assurance that Illinois Veteran Home residents' medical and personal information is properly recorded and accounted for.

The Department indicated the vacancy of the Chief Information Officer position and other key positions that manage Department policy have impeded progress to complete this task.

Accepted or Implemented - concluded

Updated Response: Accepted. The Department continues to work with DoIT to receive and review System Organization Control (SOC) reports from external service providers.

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 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 5 calendar 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 calendar days before the public hearing.

A chief procurement officer making such emergency purchases is required to file affidavits or statements with the Procurement Policy Board and the Auditor General setting forth the amount expended (or an estimate of the total cost), the name of the contractor involved, and the conditions and circumstances requiring the emergency purchase. The Code also allows for quick purchases. 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 FY17 the Department filed no affidavits or statements with the Office of the Auditor General for emergency purchases.

During FY18 the Department filed four affidavits for emergency purchases which totaled $1,177,447.30 as follows:

- $409,145.61 for assistance with providing prescription medication and labeling at two
- IDVA Homes caused by a total disruption of the Department's computer system;
- $351,000.00 for sink filters at the Quincy Veterans' Home to eradicate Legionella;

- $220,276.69 for faucet replacement at the Quincy Veterans' Home to eradicate Legionella; and
- $197,025.00 for filters for all points of water contact at the Quincy Veterans' Home in order to eradicate Legionella.

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 2018 that no employees were assigned to locations other than official headquarters.

APPENDIX A

Summary of Appropriations and Expenditures

	FY18	FY17	FY16
APPROPRIATIONS	**$ 147,014,400**	**$ 134,558,162**	**$ 147,054,959**
Expenditures			
General Revenue Fund	$ 62,507,005	$ 64,890,190	$ 58,166,791
Illinois Veterans' Assistance Fund	669,894	984,495	982,096
LaSalle Veterans' Home Fund	13,621,818	9,265,871	11,506,395
Anna Veterans' Home Fund	5,639,074	2,051,480	3,425,303
Illinois Affordable Housing Trust Fund	213,000	203,289	210,167
G.I. Education Fund	994,868	1,020,528	987,367
Quincy Veterans' Home Fund	23,452,034	16,492,679	23,766,103
Budget Stabilization Fund	-	910,482	-
Roadside Memorial Fund	238,615	298,155	421,073
Illinois Military Family Relief Fund	6,000	3,000	-
Veterans' Affairs Federal Projects Fund	-	61,033	197,087
Manteno Veterans' Home Fund	12,530,731	17,403,399	18,849,982
Total expenditures	**$ 119,873,039**	**$ 113,584,601**	**$ 118,512,364**

APPENDIX B

Cash Receipts

	FY18	FY17	FY16
General Revenue Fund			
Total General Revenue Fund	**$ 479**	**$ 881**	**$ 1,206**
Veterans' Assistance Fund			
Total Veterans' Assistance Fund	**$ 3,880**	**$ 430**	**$ 251**
LaSalle Veterans' Home Fund			
Health and Human Services (Medicare)	25,536	32,443	36,611
VA Reimbursements	7,579,390	7,720,856	7,543,718
Patient Fees (members maintenance)	3,438,846	3,466,250	3,356,622
Rental Income - miscellaneous	18,000	18,000	18,000
Other	6,867	5,066	10,994
Total LaSalle Veterans' Home Fund	**$ 11,068,639**	**$ 11,242,615**	**$ 10,965,945**
Anna Veterans' Home Fund			
VA Reimbursements	2,479,968	3,002,165	3,072,520
Patient Fees (members maintenance)	804,469	745,832	687,995
Other	6,059	13,966	58,741
Total Anna Veterans' Home Fund	**$ 3,290,496**	**$ 3,761,963**	**$ 3,819,256**
G.I. Education Fund			
Total G.I. Education Fund	**$ 1,260,275**	**$ 1,126,773**	**$ 1,128,557**
Veterans' Affairs State Projects			
Total State Projects (private donations)	**$ 50,000**	$ -	**$ 8,920**
Quincy Veterans' Home Fund			
Health and Human Services (Medicare)	386,739	314,391	388,634
VA Reimbursements	14,515,335	14,447,585	14,015,126
Rental Income - property	30,293	24,775	29,993
Patient Fees (members maintenance)	6,236,747	6,754,410	6,677,822
Other	110,486	104,851	118,673
Total Quincy Veterans' Home Fund	**$ 21,279,600**	**$ 21,646,012**	**$ 21,230,248**
Library Grant Fund			
Total Library Grant Fund	**$ 50,000**	**$ 50,000**	**$ 45,269**
Federal Project Fund			
Total Federal Project Fund	$ -	**$ 23,835**	**$ 220,000**
Manteno Veterans' Home Fund			
Health and Human Services (Medicare)	115,303	174,942	281,311
VA Reimbursements	13,639,890	11,327,770	11,971,717
Patient Fees (members maintenance)	5,961,541	6,126,085	5,841,449
Other	94,391	111,826	189,769
Total Manteno Veterans' Fund	**$ 19,811,125**	**$ 17,740,623**	**$ 18,284,246**
TOTAL RECEIPTS	**$ 56,814,494**	**$ 55,593,132**	**$ 55,703,898**

REVIEW: 4501
DEPARTMENT OF VETERANS' AFFAIRS
TWO YEARS ENDED JUNE 30, 2018

APPENDIX C

Summary of Property and Equipment

	FY18		FY17	
Beginning Balance, July 1	**$ 142,042,366**		**$ 144,307,792**	
Additions	757,413		427,960	
Deletions	(662,632)		(2,623,647)	
Net transfers in (out)	(888,529)		(69,739)	
Ending Balance, June 30	**$ 141,248,618**	*	**$ 142,042,366**	*

***Comprised of**	**FY18**	**FY17**
Land	$ 911,541	$ 911,541
Site Improvements	7,922,642	7,922,642
Building	119,298,078	119,117,103
Equipment	13,116,357	14,091,080
Total	**$ 141,248,618**	**$ 142,042,366**

The Department reported $165,025 and $534,672 in lost or stolen equipment in FY17 and FY18, respectively. This schedule has not been updated for these items. See Finding No. 1.