

STATE OF CONNECTICUT

**AUDITORS' REPORT
DEPARTMENT OF VETERANS' AFFAIRS
FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2004**

**AUDITORS OF PUBLIC ACCOUNTS
KEVIN P. JOHNSTON ♦ ROBERT G. JAEKLE**

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March 29, 2006

**AUDITORS' REPORT
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FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND 2004**

We have examined the financial records of the Department of Veterans' Affairs for the fiscal years ended June 30, 2003 and 2004. This report on that examination consists of the Comments, Recommendations and Certification which follow.

Financial statement presentation and auditing have been done on a Statewide Single Audit basis to include all State agencies. This audit examination has been limited to assessing compliance with certain provisions of financial related laws, regulations, contracts and grants and evaluating internal control structure policies and procedures established to ensure such compliance.

COMMENTS

FOREWORD:

The Department of Veterans' Affairs (DVA, or the Department) operates under the provisions of Title 27, Chapter 506, Parts I and Ia, Sections 27-1021 through 27-137 of the General Statutes and provides comprehensive health, social and rehabilitative services to veterans in the State of Connecticut. The Department of Veterans' Affairs operates the Veterans' Home in Rocky Hill that includes a 350-bed hospital and a 519-bed domicile for eligible veterans. Previously known as the "Veterans' Home and Hospital", it was changed to the "Veterans' Home" by Public Act 04-169 of the General Assembly, effective June 1, 2004. The Veterans' Home receives annual inspections by the United States Department of Veterans' Affairs and inspections by the State Department of Public Health every two years. The Department also operates the Office of Advocacy and Assistance that maintains offices throughout the State and provides advice, assistance, and formal representation to veterans and their dependents.

Eugene A. Migliaro, Jr., served as Commissioner until his retirement on March 31, 2003. He

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was replaced by the current Commissioner, Linda S. Schwartz, who was appointed on May 27, 2003.

Under the provisions of Section 27-102n of the General Statutes, there is a Board of Trustees established to advise and assist the Commissioner in operating the Department. The Board consists of the Commissioner and nine members appointed by the governor. The Board members are not compensated for their services but may receive reimbursement for reasonable expenses in the performance of their duties. As of June 30, 2004, the following persons served on the Board:

John G. Chiarella, Sr.
Angelo Fusco
Lennell Kittlitz
Elwood A.D. Lechause
Robert Newman
Judith A. Torpey
Clifford R. Wiltshire
Robert Wamester
Stanley F. Zebzda

Santi N. Ranno, William J. Pomfret, and Linda S. Schwartz, prior to her appointment as Commissioner, also served during the audited period.

Persian Gulf War Information and Relief Commission:

The Persian Gulf War Information and Relief Commission served to advise the Department on (1) medical and social assistance for Gulf War veterans exposed to toxic substances, (2) recommendations for legislation and (3) information that should be provided to Gulf War veterans. Public Act 04-169, Section 21, eliminated the Commission, effective June 1, 2004.

RÉSUMÉ OF OPERATIONS:

The Department's operations are accounted for within the General Fund and a Special Revenue Fund. Under Section 27-108 of the General Statutes, recoveries for the care and treatment of patients are deposited in the Institutional General Welfare Fund. The Department then transfers the moneys to a restricted contribution account (Institutional General Welfare Fund) within the General Fund. These moneys, categorized as "refunds of expenditures" are used to finance part of the Department's operating costs. Similar transfers were made from the Activity Fund to the Activity Fund restricted account within the General Fund.

During the 2003-2004 fiscal year, the Welfare and Activity restricted accounts were no longer recorded in the General Fund. As a result of the implementation of a new State accounting system, these two restricted accounts' activity was recorded in a newly established Special Revenue Fund entitled "Federal and other Restricted Accounts". Further comments on this Fund are presented after the following sections on General Fund activities.

General Fund Revenues and Receipts:

A comparative summary of General Fund revenues and receipts during the audited period with the prior year presented for comparative purposes is presented below:

	<u>2001-2002</u>	<u>2002-2003</u>	<u>2003-2004</u>
Medicare reimbursements	\$23,970	\$311,620	\$430,566
Federal aid for veterans	6,453,653	5,863,435	6,392,392
Federal aid-miscellaneous	54,476	74,580	79,170
Rents for cottages or residences	44,673	52,682	45,139
Refunds of expenditures-other than budgeted appropriations (applied to expenditures)	2,956,708	3,580,618	
All other revenues and receipts	<u>28,774</u>	<u>23,356</u>	<u>13,434</u>
Total Revenues and Receipts	<u>\$9,562,254</u>	<u>\$9,906,291</u>	<u>\$6,960,701</u>

The category "Federal aid for disabled veterans" represents reimbursements from the Federal Government for both domiciled veterans and for veterans residing in the hospital. As of January 2005, such reimbursement was \$27 per day for the domicile and \$59 per day for the hospital.

The "Refunds of expenditures-other than budgeted appropriations" category consists in large part of transfers from the Institutional General Welfare Fund. These transfers are discussed in the next section. The lack of transfers for the 2003-2004 fiscal year was due to the recording of these transfers in the newly established Special Revenue Fund.

General Fund Expenditures:

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A summary of expenditures for the fiscal years ended June 30, 2003 and 2004, as compared to the preceding fiscal year, is presented below:

	<u>2001-2002</u>	<u>2002-2003</u>	<u>2003-2004</u>
Personal services	\$21,750,242	\$21,398,781	\$19,550,805
Contractual services	5,456,034	5,057,749	5,278,237
Commodities	3,841,724	4,127,362	2,132,803
All other	<u>88,717</u>	<u>14,524</u>	<u>9,663</u>
Total Expenditures	31,136,717	30,598,416	26,971,508
Less: Transfers from other accounts	<u>2,951,400</u>	<u>3,571,700</u>	<u>0</u>
Net Expenditures per Comptroller	<u>\$28,185,317</u>	<u>\$27,026,716</u>	<u>\$26,971,508</u>

For comparative purposes during the audited period, expenditures from the Special Revenue Fund, totaling \$3,632,001, previously included as part of "Total Expenditures", should be added into the total for the 2003-2004 fiscal year. Thus, comparative "Total Expenditures" for the 2003-2004 fiscal year were \$30,603,509. This results in a decline in total Department expenditures of nearly two percent for the 2002-2003 fiscal year and relatively unchanged for 2003-2004 fiscal years. The slight decline is mainly due to a decrease in personal services. This can be attributed to any collective bargaining increases offset by 55 employees taking early retirement from March to June 2003 and the layoff of 30 permanent employees in January 2003. Eventually, 36 positions were filled during the 2003-2004 fiscal year replacing some of those who took early retirement. As of June 30, 2004, the number of full-time and part-time filled positions was 265 and 100, respectively.

During the 2002-2003 fiscal year, transfers totaling \$3,550,000 and \$21,700 were made to the Welfare and Activity Funds, respectively.

Special Revenue Fund- Federal and Other Restricted Accounts:

As previously explained, beginning with the 2003-2004 fiscal year, Activity and Welfare Fund account activity was recorded by the Comptroller in a newly established Special Revenue Fund. Welfare and Activity Fund receipts, as recorded by the State Comptroller for the fiscal year ended June 30, 2004 totaled \$2,781,495 and \$18,000, respectively.

Expenditures from the Fund, as recorded by the State Comptroller for the fiscal year June 30, 2004, totaled \$3,632,000. A summary of Fund expenditures is presented below:

	<u>Welfare Fund</u>	<u>Activity Fund</u>
Contractual services	\$882,924	\$15,481

Commodities	2,715,700	3,398
All other	<u>13,254</u>	<u>1,243</u>
Total Expenditures	<u>\$3,611,878</u>	<u>\$20,122</u>

Per Capita Costs:

Annually, the State Comptroller computes the daily per capita cost of maintaining the residents and patients at the Veterans' Home. Included in these computations are expenditures of the Institutional General Welfare Fund, which are considered proper costs of maintaining the institution. Per capita daily costs (not including Federal reimbursement) for the domicile and hospital are shown below:

	<u>2002-2003</u>	<u>2003-2004</u>
Domicile (barracks)	\$88	\$74
Hospital (inpatient)	501	478

Daily Census:

A daily census is produced of the veterans residing at the Veterans Home. As of June 30, 2005, there were 516 veterans at the Veterans Home, 369 in the domicile and 147 in the hospital. Of the 516 veterans, 63 (58 in the hospital, 5 in the domicile) are veterans of World War II, 57 (35, 22) of the Korean Conflict, 319 (48, 271) of the Vietnam Conflict, 27(2, 25) of the Lebanon Conflict, 26 (2, 24) of Operation Desert Storm, ten (9,1) of the Invasion of Grenada, nine (1,8) of the Lebanon Peace Keeping Mission, two (0,2) of Operation Enduring Freedom, two (0,2) of Operation Earnest Will, and one (0,1) of the Berlin Airlift.

Soldiers', Sailors' and Marines' Fund:

Section 27-118 of the General Statutes authorizes the Department to pay \$150 toward burial expenses when any veteran dies not having sufficient estate to pay the necessary expenses of his or her last sickness or burial. In addition, Section 27-119 of the General Statutes provides for payment of expenses related to the transportation and erection of headstones provided by the Federal Government. Funds for headstones and burial expenses of eligible veterans were budgeted through the Soldiers', Sailors' and Marines' Fund. We address the operations of the Soldiers', Sailors' and Marines' Fund in a separate report.

Only expenditures from appropriations budgeted to the Department of Veterans' Affairs were examined in the course of this audit. A summary of such expenditures follows:

	<u>2002-2003</u>	<u>2003-2004</u>
Burial expenses	\$ 750	\$ 0
Headstones	<u>181,618</u>	<u>223,452</u>

Total DVA Expenditures **\$182,368** **\$223,452**

Institutional General Welfare Fund:

The Institutional General Welfare Fund (IGWF) operates under the provisions of subsections (b) and (c) of Section 27-106 and subsection (e) of Section 27-108 of the General Statutes and is available to finance operations of the Veterans' Home. The Department has been using this Fund to supplement its General Fund appropriations.

As shown below, most of the revenue for the IGWF comes from patient billings. Under the provisions of Section 27-108, subsection (c), of the General Statutes, veterans who are able to pay, in whole or in part, for the Department of Veterans' Affairs' services shall receive a monthly bill for such services. The Department has a patient billing system to collect such moneys.

The IGWF also receives funds from estate collections. This is permitted under subsection (f) of Section 27-108 of the General Statutes, which states that in the event a veteran dies still owing money for services rendered by the Department of Veterans' Affairs, the Department may submit a claim against such veteran's estate.

A summary of the Institutional General Welfare Fund's revenue and receipts transactions follows:

	<u>2002-2003</u>	<u>2003-2004</u>
Revenues and Interfund Transfers		
Patient billings	\$2,803,834	\$2,498,662
Estate collections	180,453	141,827
All other	<u>46,802</u>	<u>85,942</u>
Total Revenues and Transfers	<u>\$3,031,089</u>	<u>\$2,726,431</u>

For comparative purposes, revenues and transfers during the 2001-2002 fiscal year amounted to \$3,127,803.

Expenditures amounted to \$3,321,140 and \$3,614,196 for the 2002-2003 and 2003-2004 fiscal years, respectively. For comparative purposes, expenditures during the 2001-2002 fiscal year amounted to \$3,257,220. These expenditures were made for the general operations of the Veterans' Home, primarily out of this Fund's restricted appropriation in the General Fund for 2002-2003 and the previously mentioned Special Revenue Fund for 2003-2004. The "detail payroll" is paid through this Fund; residents are paid \$3.00 an hour, up to 10 hours a week in return for performing various duties. This money is generally used for personal needs.

Activity Fund:

The Activity Fund operates under the provisions of Sections 4-52 through 4-55 of the General

Statutes for the benefit of residents and patients of the Department of Veterans' Affairs. The major sources of fund receipts were sales of sodas and ice cream at the Winners Circle canteen. Revenues for the Activity Fund totaled \$21,251 and \$22,407 for the fiscal years ended June 30, 2003 and June 30, 2004, respectively.

As previously noted, moneys from the Activity Fund were transferred and disbursed to a General Fund restricted account for the 2002-2003 fiscal year and to a Special Revenue Fund for the 2003-2004 fiscal year. Section 4-53 of the General Statutes permits transfers of excess cash to the Welfare Fund; however, there were no such transfers during the audited period. According to the Department's financial statements, the Activity Fund's cash and cash equivalents balance was \$6,059 as of June 30, 2004.

Fitch and Posthumous Funds:

The Fitch and Posthumous Funds are long-standing permanent trust funds whose assets are in the custody of the State Treasurer. The principal balances of these two funds amounted to \$11,815 and \$23,441, respectively, as of June 30, 2004. Interest earned on these funds is transferred to the Institutional General Welfare Fund and used for the benefit of the Department's clients. The Posthumous Fund is governed by Section 3-38 of the General Statutes.

PROGRAM EVALUATION:

Under Section 2-90 of the Connecticut General Statutes, the Auditors of Public Accounts are authorized to perform audits of programs and activities. In our prior audit report, we reviewed the cost of care collections and the accounts receivable function at the Department. Our current review followed-up on our prior review. Essentially, the conditions remain unchanged; the enforcement of the cost of care collections statutes and regulations continues to be ineffective as follows:

Criteria: Section 27-108 (c) of the General Statutes states that "Such veterans who are able to pay in whole or in part for such program or services, as deemed by the applicable fee schedule adopted pursuant to subsection (c) of Section 27-102l, shall receive a monthly bill for such services rendered." Section 27-108 (d) of the General Statutes states: "In the event that a bill of a veteran remains unpaid and past due, the chief fiscal officer with the approval of the commissioner shall require the veteran to assign his or her right to receive payment of income from whatever source to the commissioner until such account is made current and the veteran demonstrates to the satisfaction of the commissioner a reasonable likelihood of more prudent financial management for the future. Any veteran shall be provided an opportunity for a hearing when an order of assignment is issued."

Numerous Department Regulations require the veteran to pay based on his ability to pay and provide for administrative action, including dismissal from the Veterans' Home and Hospital, when accounts are not kept in good standing.

Condition: Many veterans' accounts, both for current and former residents of the home are not in good standing. The exact amount of overdue amounts can not be determined due to a poorly designed accounts receivable system.

Cause: The Department does not want to discharge domiciled veterans solely because their accounts are overdue because such action ceases their rehabilitation. Discharging veterans for nonpayment also reduces the daily census, which must be maintained at a certain level to ensure the facility is economical to keep open. Department personnel also cite limited ability to enforce the cost of care regulations short of involuntary discharge and a lack of staff.

Effect: The intent of the General Statutes and Regulations are not being strictly adhered to. Critical financial resources, needed to run the Department, are not being collected. Wide scale noncompliance makes administration of the Department's poorly designed accounts receivable system that much more inefficient.

Lastly, as veterans hear of other veterans whose accounts are not in good standing for which no sanctions have been imposed, they too may reconsider making their monthly payments, so the rate of collection may suffer.

Recommendation: The Department of Veterans Affairs should develop a comprehensive policy, incorporating all of its administrative, statutory, and regulatory powers, to ensure that all veterans' accounts are brought into good standing, and kept in good standing, as required by the General Statutes and Department regulations. (See Recommendation 1.)

Agency Response: "The "ability to pay", noted in General Statutes, is a subjective term open to interpretation with narrow regulatory guidelines. Since the discrepancy was first brought to the attention of the Commissioner in 2003, an effort to institute a comprehensive and equitable fee schedule for all services and programs levied on veterans has been developed.

Regulations to implement this fee schedule were approved by the Board

of Trustees in March 2005, in accordance with CGS Section 27-102n, and submitted to the Attorney General. Presently the regulation changes are under review at OPM.

We recognize that the agency needs to develop a comprehensive policy, which will incorporate all of its administrative, statutory and regulatory powers to ensure that all veterans' accounts are brought into good standing and kept in good standing as required by the General Statutes and the Department regulations. However, it is not good public policy to enforce laws that will put our Veterans on the street.

The primary goal of the agency's administration during this audit period was rehabilitation. Return to the main stream community as many veterans as possible. Consequently, the agency's mission took precedence to the stringent General Statutes and Regulations that were being imposed. Changes in the general statutes and regulations governing billing residents for services are currently being reviewed."

CONDITION OF RECORDS

Our review of the financial records of the Department of Veterans' Affairs revealed certain areas warranting attention that are discussed in the following findings.

Accounts Receivable System:

Background: Accounts receivable balances as of June 30th of each year are required to be reported on GAAP Form No. 2. Net accounts receivable at the Department of Veterans' Affairs result from charges for room, board and care less those charges estimated to be uncollectible. Net receivable amounts reported should be valid.

Criteria: An accounts receivable system should reflect account balances that are valid and collectible. Such accounts receivable system should have a control account showing the total debits and credits posted and allowing for an audit trail for all activity affecting the accounts receivable balance.

Condition: The Department reported accounts receivable of \$273,379,840 on GAAP Form No. 2 as of June 30, 2005. Receivables estimated to be uncollectible were reported as \$270,919,421.

As stated in our prior review, the accounts receivable system put into place in 1999 does not incorporate the necessary control and subsidiary accounts to permit a valid audit trail. The receivable balances include credit balances and balances for deceased veterans. There is no user manual nor are there monthly reports produced for management's review.

Effect: Including receivable balances with credit receivable balances or receivables of deceased veterans that are not expected to be collected, misstates the true receivable balance. Internal control over accounts receivable is lessened due to the poor design of the system and the lack of a proper audit trail.

Cause: The Department does not have a system in place to evaluate whether reported net receivables are valid. Reasons for credit receivable balances varied.

Recommendation: The Department's accounts receivable balances should reflect valid collectible receivable accounts. The accounts receivable system should be modified (or replaced) to provide for proper control and subsidiary

accounts and to provide an audit trail, monthly reports and a user's manual. (See Recommendation 2.)

Agency Response: "Since the discrepancy was first brought to the attention of the Commissioner, an aggressive investigation of the accounts receivable was conducted. The uncollectible receivables date back to the late 1980's when a systematic review of each veteran's lifetime obligation and ability to pay this debt was conducted by the Commandant. This sizable disparity of receivables was discussed with the Comptroller in 2003 and 2004 and a plan for review and reducing the accounts receivables was agreed upon. Veterans with outstanding debts, who are deceased more than 10 years and have no discernable assets, will be reviewed in early January 2006 and recommendations will be made to the Commissioner to reduce these debts.

The agency is aware of the current problems in its accounts receivable system. The billing system is cumbersome and difficult to maintain due to its poor design. The agency is currently working with Department of Information Technology (DOIT) to determine if the current legacy system should be modified or replaced. New billing regulations have been drafted and are currently being reviewed by the Attorney General's Office. These new regulations are targeted for legislative approval during the upcoming SFY06 session."

Excess Cash Balances in the Institutional General Welfare Fund Bank Account:

Criteria: The State of Connecticut's Activity and Welfare Fund Manual states that any excess moneys not needed for the on-going operations should be placed in the State Treasurer's Short Term Investment Fund (STIF). Bank account balances are insured by the FDIC only up to \$100,000.

Condition: Our prior review of the Department's Institutional General Welfare Fund savings account showed the balances were often in excess of \$100,000. Our current review found that from July 2002 through August 2005, the monthly ending balance was in excess of \$100,000 in 15 out of 42 months. In addition, for the period July 2004 through August 2005, the balance exceeded \$100,000 for 101 out of 256 days. Excessive balances for that period ranged from \$100,000 to \$300,000.

Effect: Cash balances kept at levels considerably over that which is needed for on-going operations reduces interest income as returns are better in the STIF. Bank balances above \$100,000 are not FDIC insured.

Cause: It appears monitoring of this balance was not performed routinely.

Recommendation: The Department should closely monitor the bank account balance of the Institutional General Welfare Fund to ensure that it does not routinely exceed an amount needed for on-going operations. (See Recommendation 3.)

Agency Response: “We agree with the recommendation. However, the agency receives transfers from patient “Power Of Attorney” accounts in excess of \$100,000 regularly that causes the account to exceed the FDIC insured amount. The agency will continue to closely monitor the account. Additionally, we have requested to have the bank routinely sweep accounts when in excess of \$100,000 daily, effective January 2006.”

Property Control:

Criteria: Section 4-36 of the General Statutes requires each State agency to establish and keep an inventory account in a form prescribed by the State Comptroller. The State’s Property Control Manual requires a detailed subsidiary record supporting each inventory category amount reported on the annual inventory report to the State Comptroller. Also, inventory records should be properly maintained with new acquisitions and any changes in location promptly recorded.

Conditions:

1. Annual Inventory Report- Additions and deletions for three of four categories on the annual inventory report to the State Comptroller, as of June 30, 2003, were not supported by documentation. This resulted in \$167,554 of the \$427,425 in total additions and all of the \$861,835 in deletions not being supported by documentation. For the June 30, 2004 report, additions and deletions for three of the five categories were not supported by documentation. This resulted in \$83,361 of the \$389,326 in total additions and all of the \$396,556 in deletions not supported by documentation. The current value of the Department’s property was reported to be \$20,775,088 as of June 30, 2004.

2. Physical Inventory- We attempted to physically verify 26 equipment items listed on the inventory records. Of the 26, three items could not be located, ten were not in the correct location, and eight were either not tagged, did not include the serial number, or both. We also randomly selected 25 equipment items at the agency to verify that they were recorded on Agency inventory records. Our review showed eight items

could not be traced to inventory records. We also found information for ten items incomplete; the cost was not recorded for three items, the serial number was not recorded for six items, and one item was missing both the cost and the serial number.

3. Software and controllable inventory- The Department maintains both a software and controllable inventory. During our current review, neither set of records were found to be complete.

Effect: The Department is not in compliance with the State Property Control Manual. There is a higher risk of loss and theft of State property due to poor internal controls.

Cause: The reasons for these conditions could not be determined.

Recommendation: The Department should improve its property control records. (See Recommendation 4.)

Agency Response: “The Agency recognizes this deficiency and has made inventory control a priority issue. This discrepancy has been noted in past audits, dating to the 1990’s, due to the magnitude of the problem.

A corrective action plan is currently in place for conditions noted. The agency has a two year plan currently in place to get us to the new Health facility scheduled for opening January 2008.

The agency planned and recently consolidated multiple supply houses into one central warehouse. The agency also implemented new internal controls to track and record inventory. Staffing needs are being addressed to facilitate better agency-wide internal audit controls. A new file system has been created to insure that any additions made to the CO-59 for previous years will be kept with the current CO-59. Supporting documentation of all deletions exists through the State Property Disposal System. This data will be kept with the current fiscal year as well.

During the time of the audit the agency was in the process of developing a controllable asset inventory to bring the agency into compliance with the State Property Control Manual.

The underlying cause of deficiency in our Asset Management Program continues to be a significant staffing constraint. In 2003, the Materials Management Department was forced by the Early Retirement Program to accept a reduction of three full-time employees due to layoffs. Two of

the employees laid off worked directly in inventory control and on property control. Two positions have been requested to fill the need to more adequately manage our assets. The addition of staff will allow the agency to create and maintain a software inventory, and allow the creation of a bar code system for all agency assets.”

Veterans’ Improvement Programs not Covered by Departmental Regulations:

Criteria: Section 4-168, subsection (e), of the General Statutes states that “except as provided in subsection (f) of this section, no regulation may be adopted amended or repealed by any Department until it is (1) approved by the Attorney General as to legal sufficiency, as provided in Section 4-169, (2) approved by the standing legislative regulation review committee, as provided in Section 4-170 and (3) filed in the Office of the Secretary of State, as provided in Section 4-172.”

Condition: Our prior review disclosed that the Department had implemented or revised residential programs without first amending the regulations. This mainly involved the implementation of the “Extended Living Veterans’ Improvement Program” which allows the veteran to keep two-thirds of his income as his personal needs allowance.

During the current review, the Department was in the process of obtaining approval for changes to the regulations.

Cause: A Department official stated that the regulations could be amended after the programs were instituted due to the lengthy period associated with amending regulations.

Effect: The statutory process for amending regulations has not been followed. A Veterans’ Improvement Program is being offered that is not covered by Departmental regulation. As a result, the necessary legal and fiscal reviews have not been performed. For example, the “Ability to Pay” calculations are affected with the introduction of new programs or changes to existing programs’ personal needs allowances. This in turn has a financial impact on the budget. Additionally, any potential legal issues associated with introducing new programs have not been formally addressed.

Recommendation: New programs or procedural changes should be implemented only after Departmental regulations have been amended in accordance with the General Statutes. (See Recommendation 5.)

Agency Response: “The Department has followed the process for revising regulations in accordance with the General Statutes. A Notice of Intent to amend regulations was submitted to the Attorney General in March 2005. As of December 2005, documents are being prepared for the Connecticut Law Journal at OPM.

In an effort to address problems with the accounts receivable system billing system, the agency acted to repair its current billing system by revising its residential billing program, this undertaking became cumbersome and unresponsive.”

Payments for Data Processing Consulting for the Billing System:

Criteria: According to Department regulations for billing domicile residents for services and care, such billings shall be based on their ability to pay.

All purchases should adhere to the original approved request, be completely documented, and not in conflict with any existing State regulations.

Condition: The Department paid \$121,780 to a consultant during the 2004-2005 fiscal year for work on the patient billing system. The work, approved by the Department of Information Technology (DOIT), involved fixing the system which was not functioning. However, the Department also had the consultant develop a modification to the billing system to allow for new domicile billing rules starting April 2005. We did not find any authorization for work to develop a new billing system.

Under the new rules, billings would be based on the patient’s total, cumulative months at the Veterans’ Home rather than their ability to pay. However, the new billing rules were not implemented since they contradicted existing regulations requiring that billings be based on the resident’s ability to pay. We were unable to determine from available documentation what portion of the \$121,780 paid to the consultant was for developing the new billing method.

Effect: The Department incurred costs for services to implement a system that can not be used.

Cause: The cause of the oversight was not determined.

Recommendation: New programs or procedural changes should be implemented only after

Departmental regulations have been amended in accordance with the General Statutes. (See Recommendation 5.)

Agency Response: “The statement of work approved by the Department of Information Technology (DOIT) involved fixing the existing billing system which was not functioning. However, in an effort to repair the billing system, the consultant discovered underlying problems that warranted additional modifications. The modifications required writing new code and programming language to make the system more robust. The logistics of that business process change evolved into the “blue print” for what the auditors are calling a “new” billing system. No new rules or programs have been implemented. The proposed regulation changes are being reviewed in accordance with the General Statutes.”

Expenditures:

Criteria: All purchases should be fully documented, approved in advance by the appropriate authority, and paid on a timely basis within 45 days in accordance with Section 4a-71 of the General Statutes.

Condition: 1. Lack of documented approval for purchases-Our sample of 25 General Fund transactions showed ten, totaling \$30,128, that were either not pre-approved and/or not completely documented. Seven were approved after the goods and/or services were rendered. Three did not have a copy of the purchase requisition or purchase order.

2. Lack of documentation- In our transaction sample of 25, one payment for \$1,394 did not have an original invoice or receiving report and two payments, for \$706 and \$1,818, did not have any documentation to support the payment on file.

3. Late payments- Five of the 25 sampled General Fund invoices, totaling \$21,116, were paid from two to nine months after the invoice and receipt date. For our test of Capital Equipment Fund expenditures, two payments reflected significant delays in payment. An invoice for two computers, totaling \$2,276, dated in March 2003, was not paid until February 2004, over 11 months late. An invoice for a lifting device, totaling \$3,815, was dated in July 2003, but not stamped as received by the business office until August 2004. The invoice was not paid until late March 2005, over seven months late.

4. Phone pagers- During September 2005, we obtained a list of phone

paggers at the Department. A call by Agency staff to each of the 53 paggers on the list resulted in only 13 employees returning the call. Whether the other 40 paggers were being used could not be determined. Payments for pagger services were slightly over \$5,000 for the 2003-2004 fiscal year.

Effect: Errors in payments may go undetected.

Cause: It appears that the Department lacks sufficient internal controls over purchasing and accounts payable.

Recommendation: The Department needs to improve internal control over expenditures. (See Recommendation 6.)

Agency Response: “These paggers were discontinued by the Chief Fiscal Administrator in 2004 due to the expense. The agency has improved internal control over its expenditures by having purchasing requests on a form DVA-1A. All requisitions require either a Supervisor and/or Department Head signature authorizing the request. The requests are then logged into a ‘Requisition Tracking System’ until disposition. This system ensures proper documentation for all purchasing requests.

To improve payment documentation, the agency established an ‘Invoice Tracking System’ that entails the recording of every invoice received by the agency. Once an invoice is paid, it is also entered in the System to avoid duplicate payments. These new internal controls were not in place during the audit period being recorded. Also, with the implementation of CORE-CT in July 2003, a more efficient statewide fiscal system has resulted in improved fiscal accounting.”

Purchasing Cards:

Criteria: Standard procedures for the State of Connecticut Purchasing Card Program require the maintenance of a monthly purchasing log for each card to record purchases. The log must be signed by the cardholder and his/her supervisor or an assigned reviewer. Vendor invoices should be maintained to support any purchasing card transactions, which should not exceed \$1,000 per transaction for commodities. The card should not be used for repetitive purchases which are available from vendors on State contract.

In accordance with Section 5-248i of the General Statutes, employees may be granted permission by DAS to telecommute and/or work at home.

The DOIT Telecommunications Equipment Policy governs the use of cell phones and telephone calling cards.

Condition:

Our review of the Department's use of purchasing cards during the audited period noted the following:

1. Numerous cases were noted where the Department's purchasing logs did not have the required cardholder's and/or supervisory signatures.
2. Several purchases were not supported by vendor invoices.
3. Several purchases for commodities were for repetitive items and some appeared to be split to avoid the \$1,000 transaction limit.
4. Purchases were made for computer equipment, supplies and accessories from vendors not approved by DAS.
5. Four payments included late fees charged to the Institutional General Welfare Fund totaling \$590.
6. We found purchasing card payments for a Department employee for Internet services at their leased residence on the grounds of the Veterans' Home. There was no approval from DAS for the employee to work at home. Total payments, through both purchasing cards and accounts payable, were \$2,698, from July 2002 through July 2005.
7. We found that the purchasing card was used to buy pre-paid wireless phone cards from a retail vendor totaling \$1,390 during the audited period. These purchases were not in compliance with DOIT policies since the cards were not approved by DOIT nor were the required Individual Calling Card Usage Reports filed.

Effect:

Purchasing cards were used to circumvent State purchasing procedures which can result in improper and/or unauthorized expenditures.

Cause:

There appeared to be a lack of control and oversight over purchasing card activities.

Recommendation:

The Department needs to improve internal control over expenditures. (See Recommendation 6.)

Agency Response: “The agency has improved internal control over expenditures of its procurement credit cards (P-Cards). Reinforcement of policy and procedure are in place. The conditions stated above, were an oversight by the agency. The agency will conduct quarterly audits and notify cardholders and managers of detected irregularities or misuse. The agency has also revoked and cancelled P-Card holders that were determined to have abused the usage regulations stated in the audit review.”

Cash Receipts:

Criteria: Section 4-32 of the General Statutes requires receipts of \$500 or more to be deposited and reported within 24 hours. Less than \$500 should be deposited within seven days.

Agency procedures require that cash receipts received in the mail are date stamped, photocopied and recorded in a daily receipts log.

The State of Connecticut’s Activity and Welfare Fund Manual states that funds received as donations should be credited to the client account specified or if not identifiable, the miscellaneous account may be used.

Condition:

1. Lack of receipt recordkeeping- Our sample of 25 receipt dates, consisting of 160 individual receipts, showed that receipt logs were not on file for three receipt dates. Of the 160 receipts processed in our sample, 109 were not date stamped.
2. Delays in receipt recording- We found in five of the 25 dates tested, five were not posted to the accounting records in a timely manner with delays ranging from one to five days.
3. Lack of timely deposit- We found receipts were not deposited in a timely manner for eight of the 25 dates reviewed. Four amounts totaling \$14,028 were deposited one day late, one totaling \$2,248 was two days late, three totaling \$2,092 were three days late, three totaling \$2,750 were four to eight days late, and one for \$57 was 14 days late.
4. Donations- Our sample of 25 dates included seven amounts classified as donations. We found four of the seven donations, totaling \$670, were incorrectly recorded to an account not designated by the donor.

Effect: Receipts are not recorded and deposited on a timely basis as required by

Section 4-32 of the General Statutes. Donated funds are not being used for their intended purpose.

Cause: The lack of timely deposits was mainly due to Agency procedures in processing workers' compensation checks. We could not determine the causes of the other conditions noted above.

Recommendation: All receipts should be recorded and deposited in a timely manner as required by Section 4-32 of the General Statutes. (See Recommendation 7.)

Agency Response: "The agency now has a system in place which will ensure timely deposits. Ancillary departments have been made aware of depository rules and full compliance is expected in the future.

Since June 2003, the Commissioner has instituted a policy for entering all donations as donations in the IGWF account. The agency keeps internal control by separating each deposit by its criteria as specified by donor— i.e. specific purposes, nonspecific purposes, etc. All donations are used for their intended purposes.

Going forward, the agency will be more diligent in terms of maintaining receipt logs and date stamp all receipts. The Human Resource Department will continue to forward all receipts daily to the business office to be deposited within the 24 hour period required by Section 4-32."

Patient Worker Payroll:

Criteria: The Department has a patient worker payroll where veterans are paid minimum wage to perform various duties. Agency procedures require that the timesheets for these workers be initialed by the veteran and their supervisor.

Condition: Our sample of 25 patient worker timesheets showed 10 were not properly signed. Seven lacked a veteran's initials while three lacked a supervisor's initials.

Effect: Timesheets for patient workers may contain errors that go undetected resulting in erroneous payments.

Cause: Certain supervisors are apparently approving timesheets despite the

absence of a signature by the patient worker and some supervisors are neglecting to sign timesheets before they are submitted for processing.

Recommendation: The Department should ensure that all patient worker timesheets are signed by both the supervisor and worker. (See Recommendation 8.)

Agency Response: “Business process improvement will be implemented by managers/supervisors reviewing and approving all patient worker timesheets on a timely manner. Going forward, the agency will be diligent in having patient workers’ signature on timesheets prior to payroll processing.”

Unauthorized Overtime Payments:

Criteria: For employees under the P-4 collective bargaining unit, the Engineering, Scientific and Technical contract, those above salary grade 24 are not eligible for overtime payments unless approved by the Office of Policy and Management (OPM).

Condition: The Department paid \$11,634 in overtime payments, for the period July 1, 2004 to October 28, 2004, to an employee above salary grade 24 in the P-4 contract. The Department was unable to provide any documentation that the payments were approved by OPM.

Effect: The Department made overtime payments which were not properly authorized.

Cause: We were informed that the payroll office was verbally instructed by the business office to make the overtime payments and that approval was forthcoming. Apparently, no OPM approval was actually obtained.

Recommendation: The Department needs to improve internal control over expenditures. (See Recommendation 6.)

Agency Response: “The Department had written approval for overtime payments made up to June 2004 and had received verbal approval for current fiscal period FY05 from OPM while awaiting follow-up written approval. Due to the uncertainty and indecision statewide with IT positions during the period from July to October 2004...the proper paperwork and approvals were not finalized.

Going forward, no overtime payment will be provided to an employee

prior to payroll processing without receiving appropriate approval. State and Union contract guideline will be followed to the strictest of measures.”

Agency Investigation in Progress:

Background: On September 16, 2005, the Governor’s Office issued a press release announcing the investigation of alleged computer misuse at the DVA. At that time, several employees were placed on paid administrative leave pending the outcome of an investigation into possible improper usage of State computers.

Criteria: All audits conducted in accordance with Generally Accepted Governmental Auditing Standards must include a consideration of fraud in accordance with Statement on Auditing Standards (SAS) 99, “Consideration of Fraud in a Financial Statement Audit”. This includes all audits conducted by the Auditors of Public Accounts under Section 2-90 of the General Statutes.

Under SAS 99, the auditor must assess the risk of fraud during an audit engagement to help prevent, deter and detect material misstatements due to fraud. Such misstatements may be due to either fraudulent financial reporting or misappropriation of assets. Any assessment of risk includes inquiring of management whether they have direct knowledge of any fraud or suspected fraud. Also, inquiries should be made as to whether management is aware of any fraud or suspected fraud that may have been communicated to management by employees or regulators.

Condition: As of March 2006, the investigation at the Department announced by the Governor’s Office was still ongoing. We asked the management of DVA for any details of the investigation as to the involved individuals and the nature of the allegations. We were informed that the investigation was under the direction of the Department of Administrative Services (DAS) and they were instructed not to provide any details to the Auditors of Public Accounts or any other outside parties until it was completed. This was confirmed by our direct contact with DAS.

Effect: Under the direction of the Department of Administrative Services, the Department’s management has been prevented from disclosing the nature or extent of its knowledge of alleged fraud involving the investigation noted above. Thus, we are limited in our ability to conduct our audit in accordance with Generally Accepted Governmental Auditing Standards

regarding the consideration of fraud.

Cause: We were informed that the Department was instructed by the Department of Administrative Services to keep any details of its investigation confidential until it is completed. We concur that the confidentiality of the DAS investigation must be maintained. However, Section 2-90, subsection (h) of the General Statutes places the same requirements of confidentiality on the State Auditors and their representatives concerning their records as applies to the State agency being audited. We are not aware of any statute or regulation that prohibits confidential information from an administrative investigation being withheld from the State Auditors for audits conducted in accordance with Section 2-90.

Conclusion: We are prevented from being able to comply with Generally Accepted Governmental Auditing Standards regarding the consideration of fraud due to a lack of complete disclosure by the Department management as instructed by the Department of Administrative Services. Independent Auditors may assist management by providing an assessment of the agency's process for identifying, assessing, and responding to the risks of fraud. The lack of disclosure prevents us from determining whether matters under investigation would have any adverse effect on the Department's financial operations and internal control structure. We consider the Agency's lack of disclosure, mandated by the Department of Administrative Services, a material internal control deficiency.

Agency Response: "The Agency is aware that the lack of disclosure could potentially create misconceptions and speculative behavior on the part of the auditors. However, the investigation of alleged computer misuse at the DVA was not an internal investigation therefore the Agency had no control of the details of the investigation. The investigation and seizing of the computers were conducted by the Department of Administrative Services, Department of Public Safety and Department of Information Technology. The Agency was informed that DAS was investigating the alleged misuse of state computers, the deliberate violation of law, state regulation or agency rule, neglect of duty or other employment related conduct, and engaging in activity which is detrimental to the best interest of the agency or the state. The Agency was also informed by DAS that any information regarding the investigation should not be disclosed to anyone and to refer all inquires to DAS. Due to the findings of this investigation...[an administrative employee]...was terminated on October 28, 2005. The discrepancies noted in this audit raise concern that, [during the terminated employee's presence] , standard policies and

financial regulation were not followed. To our knowledge, evidence of fraud was not found or made known to this Agency. [As of March 2006], the final report of the investigation is pending and has not been provided to the Agency.”

RECOMMENDATIONS

Our prior report on the Department of Veterans' Affairs covered the fiscal years ended June 30, 2001 and 2002, and contained nine recommendations. The following is a summary of those recommendations and the action taken by the Department of Veterans' Affairs.

Status of Prior Audit Recommendations:

- The Department of Veterans Affairs should develop a comprehensive policy, incorporating all of its administrative, statutory, and regulatory powers, to ensure that all veterans' accounts are brought into good standing, and kept in good standing as required by General Statutes and Department regulations. This recommendation is repeated. (See Recommendation 1.)
- The Department's accounts receivable balances should reflect valid collectible receivable accounts. The accounts receivable system should be modified (or replaced) to provide for proper control and subsidiary accounts and to provide an audit trail, monthly reports and user's manual. This recommendation is repeated. (See Recommendation 2.)
- The Department should closely monitor the bank account balance of the Institutional General Welfare Fund to ensure that it does not routinely exceed an amount needed for on-going operations. This recommendation is repeated. (See Recommendation 3.)
- The Department should comply with all requirements of Section 4-36 of the General Statutes and the State of Connecticut's *Property Control Manual*, including a controllable inventory list, software inventory list and the filing of loss reports for missing items. All unneeded items should be surplused in accordance with established procedures. The Department should improve their property control records and conduct physical inventories periodically. This recommendation has been restated and repeated. (See Recommendation 4.)
- The Board of Trustees should comply with Public Act 01-58 which requires, at a minimum, quarterly meetings of the Board. Whenever such meetings are held, the Board should exercise oversight over the operations of the Department as permitted by the General Statutes. This recommendation has been resolved.
- The Department should use the Capital Equipment Purchase Fund only for the purposes permitted under Section 4a-9 of the General Statutes and State Comptroller directives. This recommendation has been sufficiently resolved.
- The Department should introduce new residential programs or changes to existing residential programs only after the Departmental regulations have been amended in accordance with the General Statutes. This recommendation has been restated and repeated. (See

Recommendation 5.)

- The Department should resolve the outstanding invoice for \$5,054 from the Joint Commission on the Accreditation of Healthcare Organizations in a manner consistent with the General Statutes. The invoice was paid during October 2005, which resolved the recommendation.
- The Department should develop a policy to ensure that all Medicare eligible services are billed in a timely manner. This recommendation has been resolved.

Current Audit Recommendations:

- 1. The Department of Veterans Affairs should develop a comprehensive policy, incorporating all of its administrative, statutory, and regulatory powers, to ensure that all veterans' accounts are brought into good standing, and kept in good standing as required by General Statutes and Department regulations.**

Comment:

Many veterans' accounts, both for current and former residents of the home are not in good standing as required by Department regulations. The exact amount of overdue amounts is difficult to determine, due to a poorly designed accounts receivable system.

- 2. The Department's accounts receivable balances should reflect valid collectible receivable accounts. The accounts receivable system should be modified (or replaced) to provide for proper control and subsidiary accounts and to provide an audit trail, monthly reports and a user's manual.**

Comment:

The accounts receivable system put into place in 1999 does not incorporate the necessary control and subsidiary accounts to permit a valid audit trail. There is no user manual nor are there monthly reports produced for management's review.

- 3. The Department should closely monitor the bank account balance of the Institutional**

General Welfare Fund to ensure that it does not routinely exceed an amount needed for on-going operations.

Comment:

The Department's Institutional General Welfare Fund savings account continued to routinely exceed \$100,000. As example, for the period July 2004 through August 2005, the balance exceeded \$100,000 for 101 out of 256 days. Excessive account balances for that period ranged from \$100,000 to \$300,000.

4. The Department should improve its property control records.

Comment:

Totals for additions and deletions of the annual inventory report to the State Comptroller were not supported by documentation. The Department's capital, controllable and software inventory records were incomplete.

5. New programs or procedural changes should be implemented only after Departmental regulations have been amended in accordance with the General Statutes.

Comment:

The Department had implemented or revised residential programs and billing procedures for domicile residents without first amending the regulations.

6. The Department needs to improve internal control over expenditures.

Comment:

We noted deficiencies in several areas regarding Agency expenditures. Our test check of expenditures found cases where there was a lack of documented approval for purchases, lack of expenditure documentation, late payments and questionable payments for phone cards and Internet services. Also, there was a lack of documentation for numerous purchasing card transactions, purchases split to avoid the \$1,000 transaction limit and purchases for repetitive items or from unapproved vendors when the item(s) are available on State contracts. In addition, the business office instructed the payroll office to make overtime payments to an employee without obtaining the proper approval from OPM.

- 7. All receipts should be recorded and deposited in a timely manner as required by Section 4-32 of the General Statutes.**

Comment:

Our review showed a lack of complete receipt recordkeeping and numerous delays in receipt recording and depositing.

- 8. The Department should ensure that all patient worker timesheets are signed by both the supervisor and worker.**

Comment:

Our test check of the patient worker payroll showed that timesheets were not consistently signed by the patient worker and the supervisor.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes we have audited the books and accounts of the Department of Veterans' Affairs for the fiscal years ended June 30, 2003 and 2004. This audit was primarily limited to performing tests of the Department's compliance with certain provisions of laws, regulations and contracts, and to understanding and evaluating the effectiveness of the Department's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations and contracts applicable to the Department are complied with, (2) the financial transactions of the Department are properly recorded, processed, summarized and reported on consistent with management's authorization, and (3) the assets of the Department are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Veterans' Affairs for the fiscal years ended June 30, 2003 and 2004, are included as a part of our Statewide Single Audit of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, except for the audit scope limitation that is described in the following paragraph. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Department of Veterans' Affairs complied in all material or significant respects with the provisions of certain laws, regulations and contracts and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

A limitation was placed on our ability to assess the risks of fraud and evaluate their effect on the Department's financial operations and internal control structure as required by generally accepted auditing standards due to the Department's lack of complete disclosure regarding details of an investigation into alleged employee misconduct. Further information concerning this lack of disclosure can be found in the Condition of Records section of this report.

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Department of Veterans' Affairs is the responsibility of the Department of Veterans' Affairs management. As part of obtaining reasonable assurance about whether the Department complied with laws, regulations, contracts, and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Department's financial operations for the fiscal years ended June 30, 2003 and 2004, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported

under *Government Auditing Standards*. However, we noted certain immaterial or less than significant instances of noncompliance, which are described in the accompanying “Condition of Records” and “Recommendations” sections of this report.

Internal Control over Financial Operations, Safeguarding of Assets and Compliance:

The management of the Department of Veterans’ Affairs is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the Department. In planning and performing our audit, we considered the Department’s internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Department’s financial operations in order to determine our auditing procedures for the purpose of evaluating the Department’s financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives.

However, we noted certain matters involving the internal control over the Department’s financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Department’s financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Department’s ability to properly record, process, summarize and report financial data consistent with management’s authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe the following findings represent reportable conditions: cost of care payments are not being collected in accordance with state statutes and regulations, net accounts receivable were misstated and the accounts receivable system is poorly designed; there were excess cash balances in the Welfare Fund checking account; the Department did not comply with the property inventory requirements, lack of internal control over expenditures.

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or the requirements to safeguard assets that would be material in relation to the Department’s financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Department being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the Department’s financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. We believe the accounts receivable system to be a material or significant weakness and the lack of disclosure of the details involving an alleged fraud investigation discussed in the “Condition of Records” section to be a material weakness.

We also noted other matters involving internal control over the Department's financial operations and over compliance that are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

This report is intended for the information of the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.

CONCLUSION

We wish to express our appreciation for the cooperation and courtesies extended our representatives by the officials and staff of the Department of Veterans' Affairs during the examination.

Donald R. Purchla
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts