

OPERATIONAL AUDIT

# OKLAHOMA DEPARTMENT OF VETERANS AFFAIRS

For the period July 1, 2012 through June 30, 2014



*Independently serving the citizens of  
Oklahoma by promoting the  
accountability and fiscal integrity of  
governmental funds.*



Oklahoma State  
Auditor & Inspector  
Gary A. Jones, CPA, CFE

**Audit Report of the  
Oklahoma Department of Veterans Affairs**

**For the Period  
July 1, 2012 through June 30, 2014**



# Oklahoma State Auditor & Inspector

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February 20, 2017

## **TO GOVERNOR MARY FALLIN**

This is the audit report of the Oklahoma Department of Veterans Affairs for the period July 1, 2012 through June 30, 2014. The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during our engagement.

This report is a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones". The signature is fluid and cursive, with the first letters of each name being capitalized and prominent.

GARY A. JONES, CPA, CFE  
OKLAHOMA STATE AUDITOR & INSPECTOR

# Oklahoma Department of Veterans Affairs Operational Audit

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## Background

The Oklahoma Department of Veterans Affairs (ODVA or Agency) was created by the Oklahoma Legislature in 1947 and is responsible for the administration of the general duties of the Oklahoma Veterans Commission, including assistance to veterans and their dependents in obtaining benefits.

The Oklahoma Veterans Commission (Commission) is composed of nine members, appointed by the governor with advice and consent of the senate, each serving three-year terms. At least eight members are honorably discharged veterans; the other member may be a non-veteran on the condition they have a family member residing in a state veterans center.

ODVA provides benefits, services, and care to veterans living in Oklahoma through claims and benefits assistance and residential care. Approximately 1,420 veterans reside in its seven long-term care centers located in Norman, Clinton, Ardmore, Sulphur, Claremore, Talihina, and Lawton. Each center has its own administrator, business manager, and administrative staff in addition to its medical and food service functions. The central office houses the executive director and central business staff and provides support services and oversight for the seven veterans centers and other divisions.

The Agency's mission is that, in partnership with the Secretary of Veterans Affairs, the Oklahoma Department of Veterans Affairs, state and local agencies, and veterans services organizations, the state of Oklahoma will facilitate in providing to the veterans residing in the state of Oklahoma the highest quality support and care available anywhere in the nation.

Commissioners as of June 2014 were:

Mr. Richard Putnam ..... Chairman, American Legion  
Mr. Darrell McGee ..... Vice Chairman, Veterans of Foreign Wars  
Mr. Tommy Howell ..... Secretary, Disabled American Veterans  
Mr. John Wes Benge. .... American Legion  
Mr. Robert Clark ..... Veterans of Foreign Wars  
Ms. Jerletta Halford-Pandos ..... Disabled American Veterans  
Mr. Robert Keister ..... American Legion  
Ms. Rebecca McGary ..... Veterans of Foreign Wars  
Mr. Robert Willis ..... American Legion

A new director has been appointed since the close of the audit period covered in this report.

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## Scope and Methodology

Our audit was conducted in response to Governor Fallin’s request in accordance with 74 O.S. §§ 212.C and 213.2.B.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessment of materiality and risk for the period July 1, 2012 through June 30, 2014.

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of ODVA’s operations. We utilized sampling of transactions to achieve our objectives. To ensure the samples were representative of the population and provided sufficient, appropriate evidence, the random sample methodology was used. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

## OBJECTIVE I

Determine whether ODVA internal controls provide reasonable assurance that expenditures and inventory (equipment and supplies) were accurately reported in the accounting records.

## Conclusion

The Agency’s internal controls generally provide reasonable assurance that expenditures were accurately reported in the accounting records. However, improvements could be made to the tracking and timeliness of transfers of deceased resident funds to OST. Internal controls do not appear to be operating to provide reasonable assurance that inventory was accurately reported.

FINDINGS AND RECOMMENDATIONS

**Inventory  
Counts and  
Related  
Reviews Need  
Improvement**

*Equipment Inventory*

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (2014 Revision) state that, "Management must establish physical control to secure and safeguard vulnerable assets. . . . Management periodically counts and compares such assets to control records." The *Standards* also state that management should design "an internal control system to provide reasonable assurance regarding prevention or prompt detection and correction of unauthorized acquisition, use, or disposition of an entity's assets." Furthermore, ODVA Standing Operating Procedure (SOP) #350 states that "an annual physical inventory of fixed assets shall be conducted and reported to Central Office Administration at the end of each fiscal year."

At the Ardmore, Claremore, Norman, and Talihina centers and the central office, controls are not designed and implemented to ensure independent fixed asset inventory counts are regularly performed, documented, and approved. At the Clinton, Sulphur, and Lawton centers, controls are not operating effectively to ensure proper review and approval of the fixed asset inventory count is performed and documented.

Issues related to specific centers were as follows:

- At the Norman center, there was no documentation available of inventory counts being performed or reviewed during the audit period.
- At the Ardmore center, documentation of the 2013 count was not available.
- At the Claremore, Norman, and Talihina centers, the party that performed the count also maintained inventory records.
- At the central office, IT inventory was reportedly performed by IT staff but documentation was not retained. General fixed asset inventory counts were not performed.
- While annual, independent counts appear to have been performed at the Sulphur, Clinton, and Lawton centers, no documentation of management review and approval of those counts were available.

Without independent inventory counts and proper review of those counts, the opportunity exists for fixed asset inventory to be misstated or misappropriated without detection. Without documentation of the inventory counts and approvals, there is no evidence they occurred, and audit procedures and public accountability are hindered. These weaknesses may also result in noncompliance with ODVA SOPs.

*Perpetual Expendable Supply Inventory*

SOP 352 requires that “the Veterans Centers and Central Office shall maintain a well-managed perpetual expendable supply inventory.” A physical inventory is also required to be taken at least once per fiscal year.

There was no record of a perpetual supply inventory count being conducted at the Norman center during audit period, and the central office does not maintain a perpetual supply inventory. While the central office does not stock a large amount of expendable supplies, or medical supplies, and therefore likely does not need a perpetual supply inventory from risk or stock maintenance perspectives, they are listed on the SOP as requiring such an inventory and count.

Failure to perform and document perpetual supply inventory counts increases the risk of failing to maintain an adequate stock of supplies, and of not detecting missing or damaged supplies. These locations also appear to be out of compliance with SOP #352.

It appears management was unaware of the risks created by each location’s arrangement of duties related to the inventory process, and by failure to perform and review inventory counts and document such procedures. Central administration and veterans center administrators have neglected to consistently and adequately enforce the inventory documentation and count requirements reflected in their SOPs.

**Recommendation**

Management at each veterans center and the central office should ensure regular fixed asset inventory counts are conducted by individuals who are independent from maintaining inventory records, or performed by multiple parties together. Appropriate authorities should review and approve inventory counts, comparing to the previous count to ensure any deleted items trace to approved transfers or surplus documentation. Documentation of the count and approval should be retained.

Management at the Norman center should ensure a perpetual supply inventory is maintained and a count performed at least annually. Documentation of the count should be retained. In addition, central office management should consider removing the central office from SOP #352 unless they plan to implement a perpetual supply inventory.

### Views of Responsible Officials

Corrective action is already in place. ODVA strongly believes in independent inventory counts and proper review of those counts. The agency has hired a Programs Administrator for Inventory Management.

We concur that the Central Office does not maintain a perpetual supply inventory. You are correct that the central office does not stock a large amount of expendable supplies, or medical supplies, and therefore likely does not need a perpetual supply inventory from risk or stock maintenance perspectives, and they are listed on the SOP as requiring such an inventory and count. We will revise SOP accordingly.

### Tracking and Transfer of Unclaimed Deceased Resident Assets Should Be Formalized

Each veterans center retains residents' monetary assets in a dedicated fund (referred to as a 700 fund). Our testwork related to expenditures made from these funds (such as resident cash withdrawals or purchases for center resident events) did not result in any exceptions or findings. However, we noted an opportunity for improvement in the handling of deceased residents' assets.

ODVA Standing Operating Procedure (SOP) 600 dictates centers' handling of such assets. In accordance with that SOP, if the proper paperwork is not in place for immediate disposition of a deceased resident's property, the veterans center business office begins a process of contacting the resident's next of kin or representatives every 30 days. If the property has not been claimed 180 days after the written notification process begins, funds or property with intrinsic value is to be reported as unclaimed property and turned over to the Office of the State Treasurer (OST).

Veterans center business managers generally reported they use aging reports to conduct this process, and retain copies of notification letters in resident files. However, it appears the centers do not have a formal process in place for tracking the timeline of notifications and remittance to OST.

Without procedures to ensure the required timeline is followed and all appropriate balances are transferred, remittances to OST may be incomplete or untimely. Centers may not be in compliance with SOP 600, and fund 700 balances and related interest allocations may be impacted.

### Recommendation

We recommend veterans center management, with central guidance to ensure standardization where effective, formalize the process of tracking notification dates and OST remittances, and implement periodic reviews



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to ensure remittances are complete and timely. SOP 600 should be updated as appropriate.

## Views of Responsible Officials

ODVA believes in following proper procedures for the remittances to OST in a timely manner.

SOP #600- Disbursement of Deceased Residents Assets provides specific guidance regarding reporting to OST to be compliant with Administrative Code 770:10-3-6 and 58 O.S. §§ 393 and 394. It should be noted that items that are not stored in a safe deposit box or other safekeeping repository are not accepted by OST per statute 60 O.S. § 657.3.

Remittances are not made to OST after 180 days per SOP #600 because Unclaimed Property only allows the centers to send it in to them once a year. SOP will be revised accordingly. We would also bring to your attention that all patient trust funds (700 funds) ODVA was holding continued to accrue interest monthly until the monies were disbursed.

## OBJECTIVE II

Determine whether ODVA internal controls provide reasonable assurance that goods and supplies were purchased on an as-needed basis and that the purchases were made in compliance with state purchasing requirements.

## Conclusion

It appears the Agency's internal controls provide reasonable assurance that goods and supplies are purchased as needed and in compliance with state purchasing requirements.

## OBJECTIVE III

Determine whether ODVA internal controls provide reasonable assurance that facilities are accurately accounting for the purchase and consumption of food and that facilities are complying with related policies and procedures.

## Conclusion

The Agency's internal controls do not provide reasonable assurance that facilities are accurately accounting for the purchase and consumption of food. In addition, adequate oversight is not in place to ensure facilities are complying with related policies and procedures.

FINDINGS AND RECOMMENDATIONS

**Food Order  
Review and  
Food Inventory  
Should Be  
Formalized**

The GAO *Standards* state that key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. No one individual should control all key aspects of a transaction or event. In addition, the *Standards* state that in order to safeguard vulnerable assets, such assets should be periodically counted and compared to control records. Finally, the *Standards* state that internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination.

At each of the veterans centers, food orders are compiled and informally reviewed by food service personnel. The orders are then received throughout the week and inspected by food service staff, warehouse staff, or some combination. The resulting invoices are formally reviewed and approved by the business office at all centers except the Norman center.

Formal food inventory records are not maintained. This is due in part to the constantly changing inventory and the extensive experience of some staff members, who are able to estimate orders without exact records.

While the business office review of food invoices is helpful for ensuring that unfavorable trends are not occurring over time and relevant policies are being followed, business office staff are not adequately involved with menu planning and food usage to quickly identify unusual items or quantities being ordered on a short-term basis. This could lead to errors, waste, or abuse not being identified in a timely manner.

**Recommendation**

Food-related internal controls should be strengthened in two ways:

- Ensure the completed food order is reviewed by an independent party, or dual parties as necessary, to ensure the order contains appropriate items and quantities in light of the current inventory and upcoming menu needs. For example, food service staff could enter the order and the food service manager could review, or if the food service manager compiles the order, that manager could then review it with a high level food service staff member or another responsible party. Document this review by printing and signing the total page, retaining electronic records, or some other method.
- Formalize inventory records, providing a running inventory on which food is added as received and removed as used or otherwise discarded. This will provide helpful and complete information for the parties responsible for compiling and reviewing the food order. It will also provide documentary evidence of food usage, helpful

not only for accountability purposes but for future analysis during activities such as creating purchase orders and menu planning, or in the event that less experienced kitchen staff is involved. This count could also be periodically verified against food on hand to ensure no errors or misappropriation has occurred. Documentation of such review should be retained.

#### Views of Responsible Officials

Corrective action is already in place.

Better controls are currently being developed. We are in the process of standardizing menus throughout the agency. These menus are being developed by a contracted Registered Dietitian and will result in ease of procurement of food items. Policy is being developed requiring high cost food items (meat, seafood, frozen entrees, and liquid supplements) be kept under lock and key at all times with supervisory personnel overseeing transferring of items from inventory to use.

#### Improved Oversight Needed Over Dietary Controls and Compliance

Policies and procedures related to food service differ at each veterans center. In general, center policies require that menus be created by the food service manager and approved by the consulting dietician, and that those menus be followed in preparing meals for residents. Policies also generally require that individual resident food intake be tracked and residents' specific dietary needs met.

In addition, the GAO *Standards* advise that management is responsible for setting objectives, implementing controls, and holding entity personnel accountable for performing their assigned internal control responsibilities. ODVA's relevant objectives here include achieving its mission of providing veterans the "highest quality support and care," and complying with internal and external regulations. Management should internally communicate the necessary quality information to achieve those objectives, and remediate identified deficiencies on a timely basis.

The veterans centers utilize consultant dieticians to approve menus, address resident dietary needs, and perform related reviews and assessments. Internal staff also tracks resident food intake through various methods. However, it appears veterans center management and central administration have not developed formal controls to ensure these key reviews and inspections occur and any problems noted as a result are addressed. The centers employ varied practices in documenting dietary reviews and menus, providing on-site dietary training to relevant employees, and complying with the dieticians' directives.

The dieticians reported discrepancies in the willingness of dietary managers to comply with their recommendations, and in the level of

interest and involvement of center administrators in addressing ongoing issues. Further, because the dieticians' reports ceased being forwarded to the central office in 2011, central administration may not be aware when a recurring problem is neglected at the center level.

Residents at centers where dieticians' advice is not heeded may be consuming food that negatively impacts their health, does not meet various nutritional guidelines, or conflicts with their prescribed medical courses. This in turn affects the Agency's ability to fulfill its mission of excellent care. Lack of documented reviews and failure to enforce correction of significant discrepancies may result in noncompliance with internal policies. While policies and practices differ across centers, and thus the technical level of compliance may differ by center, the need for oversight is universal.

By being uninvolved, central administration may be missing valuable information about the treatment of residents and compliance with center policies, and an opportunity for effective standardization of policy, control, and reporting measures.

### **Recommendation**

Administration at both the individual centers and the central office should take a formal role in reviewing dieticians' reports and ensuring any needed corrections or training are implemented to provide the proper level of care to residents. The central office should resume collecting dieticians' reports, reviewing them to determine whether problems identified by the dieticians appear to be resolved over time or to persist, and intervening as needed.

Documentation of these efforts as well as the standard records of menu approvals, trainings, and so forth should be retained as evidence of compliance.

### **Views of Responsible Officials**

Corrective action is in place. The agency has hired a Director of Clinical Compliance.

The Compliance Department of the ODVA will continue to spot check resident records for weight changes and investigate as necessary. The veteran center staff, nursing, dietary, medical, and MDS are required to monitor residents' food intake and weight and make adjustments to the care plan as necessary. State and federal surveyors review individual resident records as well and internal monitoring processes regarding ongoing nutritional assessments and weight management.



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