

Internal Control and Compliance Assessment

Arkansas Legislative Audit

Arkansas Department of Veterans Affairs

For the Fiscal Year Ended June 30, 2022



INTRODUCTION

This report is issued to inform the Legislative Joint Auditing Committee of compliance with state fiscal laws and regulations as well as deficiencies in internal controls for the Arkansas Department of Veterans Affairs. As discussed in the Results of Assessment section below, our procedures disclosed direct payments made outside a contract (Finding 1) and failure to obtain competitive bids (Finding 2).

SCOPE AND METHODOLOGY

We performed an internal control and compliance assessment of the Arkansas Department of Veterans Affairs, a department of Arkansas state government, as of and for the year ended June 30, 2022, and have issued our report dated August 22, 2023. Management of the Agency is responsible for establishing and maintaining internal controls and complying with applicable laws and regulations.

The assessment included cash on deposit, cash receipts, accounts receivable, expenditures, liabilities, capital assets, and data entry to the Arkansas Administrative Statewide Information System (AASIS). The assessment consisted principally of inquiries, observations, analytical procedures, and selected tests of internal control policies and procedures, accounting records, and other relevant documents. We relied on financial data in AASIS recorded by the Agency and audit work conducted in the fiscal year 2022 State Annual Comprehensive Financial Report (ACFR) and Single Audit Report.

RESULTS OF ASSESSMENT

Assessment procedures disclosed the following internal control or compliance matters that were discussed with Agency officials during the assessment and at the exit conference:

Finding 1: Our review of contracts and expenses/payments revealed direct payments to two vendors. Direct payments are not tied to a contract within AASIS, which can cause contracts to be overpaid. The following issues were noted:

- Quality Staffing – As of June 30, 2022, the contract (including amendments) totaled \$1.5 million, with payments charged against the contract totaling \$766,840. We discovered one contract service payment totaling \$26,275 made outside the contract.
- Highland Healthcare – As of June 30, 2022, the contract (including amendments) totaled \$2 million, with payments charged against the contract totaling \$1,356,746. We discovered one contract service payment totaling \$4,743 made outside the contract.

These payments would not have created a contract overage, but they could lead to an overage in the future.

ARKANSAS LEGISLATIVE AUDIT

500 Woodlane Street, Suite 172, Little Rock, AR 72201

Phone: 501-683-8600 Fax: 501-683-8605

www.arklegaudit.gov

Report ID: SAC991522

Report Date: August 22, 2023



Although outside the fiscal year under audit, it should be noted that we also discovered a direct payment in fiscal year 2023 totaling \$31,793.

Additionally, the contract listing provided by the Agency was outdated and incomplete.

We recommend the Agency's new administration review with applicable employees its current procedures regarding contract payments to ensure compliance.

Management response: *Direct payments were made at the direction of the former Accounting Operations Manager. Executive Order 20-03 as authorized by Ark. Code Ann. 19-11-233 was believed to be the authorization to make direct payments. Remaining staff note they were also advised to pay prior year invoices that were past the 45 days by direct pay as a way to separate old expenditures from the current fiscal year.*

As of April 2023, the Agency has a new Procurement Manager. All contracts are being reviewed and updated as needed. There will be a few direct payments during the time it takes for these contracts to go through OSP and ALC review and approval process. Once new contracts are completed, all future direct payments must have the approval of the CFO or Account Operations Manager. The CFO and AOM will only approve direct payments for such things as utilities, rent, and leases unless there is an emergency that will cause harm or death.

An internal Excel workbook has been created as an additional check point for the expenditure amounts and outlined agreement numbers. This will provide a heads up when contracts are getting low on funds or reaching the expiration date. An AASIS status report will be generated the first week of each month by the fiscal team and/or the Procurement Manager to check for expiring contracts.

The Agency is also in contact with OSP about the possibility of in-person training for procurement. Online training is also available through the OSP website.

All staffing contracts for the Veterans' Homes will be ran through an additional employee that will create and contact the vendors for adjustments when needed. We believe this will speed up the process of getting the correct invoices to the fiscal team to be paid in a timely manner.

Finally, the fiscal team will conduct monthly unliquidated reviews with Cemeteries and Veterans' Homes to forecast contract needs.

Finding 2: In accordance with Chapter 5 of the Arkansas Procurement Manual, a competitive bid is a procurement method used for purchases between \$20,000 and \$75,000. Competitive bids require the buyer to request price quotes (bids) from at least three different prospective contractors to allow for competitive pricing. Low cost determines the successful contractor.

Our review of expenditures revealed one vendor that provided drapes for the Fayetteville Veterans Home was paid \$33,629. Although a purchase order was created for this service, documented competitive bid information or a contract could not be provided.

We recommend the Agency's new administration review, strengthen, and implement procedures to ensure applicable employees adhere to competitive bidding procedures and contract requirements, in accordance with the Arkansas Procurement Manual and state law.

Management response: *The Agency is no longer using this vendor. The procurement department has been told that anything with historical data of being over \$18,000 annually needs to be sent out for competitive bidding for future use of that vendor as a safeguard for unforeseen expenses.*

ENABLING LEGISLATION AND ORGANIZATIONAL STRUCTURE

The Arkansas Department of Veterans Affairs was created by Act 127 of 1923 as the Arkansas Service Bureau to help veterans of American wars obtain government benefits. Subsequent acts throughout the years renamed the Department and changed its responsibilities. It serves Arkansas veterans and their dependents by connecting them to state and federal services through two state veterans' cemeteries, two state veteran nursing homes, and the Veteran Service Officer (VSO) network.

The Arkansas State Veterans Cemetery in North Little Rock is an 82-acre site that opened in 2001, and the 100-acre Birdeye Cemetery in Cross County opened in 2012. The Fayetteville Veterans Home opened in 2006 and operates a 90-bed licensed Medicaid/Medicare skilled-care facility in Fayetteville. The North Little Rock Veterans Home is a "small home" design with eight individual homes that serve 12 residents each.

The Department also supervises the activities, training, and testing of the County Veterans Service Officers (VSOs) in each of the State's 75 counties and assists veterans, their dependents, and their survivors with their claims with the U.S. Department of Veterans Affairs for benefits to which they are entitled.

In accordance with Act 910 of 2019, effective July 1, 2019, the Department of Veterans Affairs became part of the newly created cabinet-level Department of Veterans Affairs. The new Department includes Veterans Child Welfare and Disabled Veterans Services Offices. **Exhibit I on page 4** illustrates the Department's current structure.

FISCAL ANALYSIS

As previously mentioned, in accordance with Act 910 of 2019, several departments were consolidated to form the cabinet-level Department of Veterans Affairs, effective July 1, 2019. Summary financial information for each business area is presented in **Exhibit II**.

Exhibit II

Arkansas Department of Veterans Affairs Summary of Financial Information by Business Area For the Year Ended June 30, 2022

Board/Commission/Division	Assets	Liabilities and Deferred Inflows	Revenues	Expenditures	Net Transfers In/(Out)
Secretarial Office of Veteran Affairs	\$ 1,259	\$ 11,365	\$ 0	\$ 183,522	\$ 185,942
Department of Veterans Affairs	74,288,111	3,162,966	31,253,612	32,656,867	2,910,368
Veterans Child Welfare Office	19,845	22,066	0	110,986	124,658
Disabled Veterans Services Office	2,180	2,184	0	34,488	38,345
Totals	\$ 74,311,395	\$ 3,198,581	\$ 31,253,612	\$ 32,985,863	\$ 3,259,313

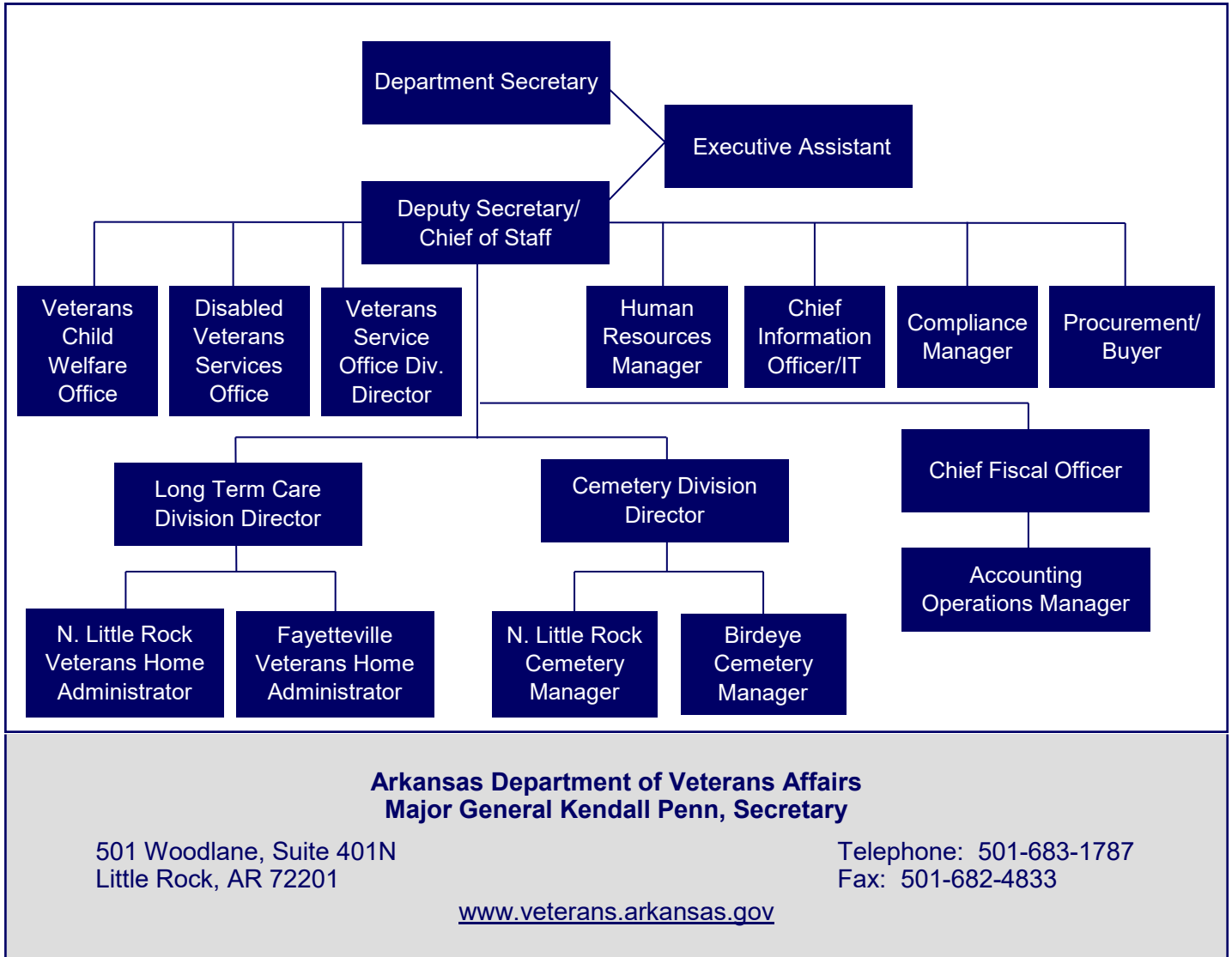
Source: Arkansas Administrative Statewide Information System Trial Balance (unaudited by Arkansas Legislative Audit)

Revenues, Expenditures, and Transfers

Revenues, expenditures, and transfers for fiscal years 2018 through 2022 are presented in **Exhibit III on page 5**.

Exhibit I

Arkansas Department of Veterans Affairs
Organizational Chart



Arkansas Department of Veterans Affairs
Major General Kendall Penn, Secretary

501 Woodlane, Suite 401N
Little Rock, AR 72201

Telephone: 501-683-1787
Fax: 501-682-4833

www.veterans.arkansas.gov

Source: Arkansas Department of Veterans Affairs

Exhibit III
Arkansas Department of Veterans Affairs
Revenues, Expenditures, and Transfers
For the Years Ended June 30, 2018 through 2022

	Fiscal Year				
	2022	2021	2020	2019	2018
Revenues					
Federal grants and reimbursements	\$ 20,019,100	\$ 17,053,311	\$ 17,829,789	\$ 14,820,884	\$ 9,231,161
Rent	2,365,594	2,193,097	2,728,061	2,718,806	2,469,634
Medicaid/Medicare reimbursements	2,993,348	3,923,896	3,253,917	3,361,752	1,946,564
Other income	5,875,570	15,376	(64,661)	183,202	170,621
Total Revenues	\$ 31,253,612	\$ 23,185,680	\$ 23,747,106	\$ 21,084,644	\$ 13,817,980
Expenditures					
Salaries	\$ 12,079,722	\$ 12,723,902	\$ 13,899,528	\$ 13,152,829	\$ 11,254,836
Capital outlay	8,615,960	1,269,506	2,558,480	1,860,325	304,275
Utilities and rent	998,705	999,091	1,003,744	1,062,761	942,453
Commodities	2,603,011	2,335,354	2,452,378	2,163,426	1,643,995
Other expenses	8,688,465	6,216,197	4,897,519	3,943,704	3,668,448
Total Expenditures	\$ 32,985,863	\$ 23,544,050	\$ 24,811,649	\$ 22,183,045	\$ 17,814,007
Net Transfers In (Out)	\$ 3,259,313	\$ 2,109,519	\$ 2,048,264	\$ 4,331,170	\$ 2,772,381

Source: Arkansas Administrative Statewide Information System Trial Balance (unaudited by Arkansas Legislative Audit)

Revenues totaled \$31.3 million for the fiscal year ended June 30, 2022. Revenues were comprised of federal grants and reimbursements received from the U.S. Department of Veterans Affairs for the North Little Rock Cemetery expansion project. Revenues also consisted of per diems for residents at the Fayetteville and North Little Rock Veterans Homes, maintenance payments received from residents, and Medicaid/Medicare reimbursements. Other income includes special revenue from motor vehicle license fees, donations, bank interest, and interment fees.

Notable changes in revenues included a \$2.9 million increase in federal grants and reimbursements related to the North Little Rock Cemetery expansion and a \$5.8 million increase in other income primarily due to the value of donated land (\$5.5 million) in Rogers for the construction of a new Veterans Home.

Expenditures totaled \$33 million for the fiscal year ended June 30, 2022. Salaries comprised 36.62% of total expenditures.

Capital outlay expenditures increased \$7.3 million, also primarily due to the value of donated land in Rogers for the new Veterans Home. The phase IV expansion at the North Little Rock Cemetery also contributed to the increase in capital outlay.

Assets, Liabilities, and Deferred Inflows of Resources

Asset and liability balances for fiscal years 2018 through 2022 are presented in **Exhibit IV on page 6**.

Assets and liabilities totaled \$74.3 million and \$3.2 million, respectively. A material increase in assets totaling \$9.4 million occurred from 2021 to 2022, primarily due to the recording of donated land of \$5.5 million, a \$5.5 million increase in completed land improvements related to the North Little Rock Cemetery expansion, and a \$2.6 million decrease in amounts charged to assets under construction during fiscal year 2022.

Exhibit IV

Arkansas Department of Veterans Affairs
Assets, Liabilities, and Deferred Inflows of Resources
For the Years Ended June 30, 2018 through 2022

	Fiscal Year				
	2022	2021	2020	2019	2018
Assets					
Cash and cash equivalents	\$ 8,091,453	\$ 6,528,186	\$ 3,856,704	\$ 3,140,514	\$ 1,341,194
Fixed assets	63,649,967	55,159,069	53,786,052	51,506,139	49,714,638
Other assets	2,569,975	3,197,397	2,532,146	2,103,556	1,868,487
Total Assets	\$ 74,311,395	\$ 64,884,652	\$ 60,174,902	\$ 56,750,209	\$ 52,924,319
Liabilities					
Accounts payable	\$ 894,750	\$ 514,568	\$ 661,654	\$ 543,847	\$ 414,132
Payroll liability	613,707	606,150	648,032	496,957	457,603
Other liabilities	1,690,124	1,806,729	248,664	211,336	431,464
Total Liabilities	\$ 3,198,581	\$ 2,927,447	\$ 1,558,350	\$ 1,252,140	\$ 1,303,199
Deferred Inflows of Resources					
Related to revenues	\$ 848,278	\$ 902,707	\$ 513,045	\$ 353,909	\$ 378,905

Source: Arkansas Administrative Statewide Information System Trial Balance (unaudited by Arkansas Legislative Audit)

