



Transmitted via e-mail

January 31, 2014

Major General Peter J. Gravett, Secretary  
California Department of Veterans Affairs  
1227 O Street  
Sacramento, CA 95814

Dear Major General Gravett:

### **Management Letter—Yountville Veterans Home's Morale, Welfare, and Recreation Fund Review**

The California Department of Veterans Affairs (CalVet) requested the Department of Finance, Office of State Audits and Evaluations, to review the Yountville Veterans Home's (Yountville) Morale, Welfare, and Recreation (MWR) Fund's fiscal procedures and expenditures for the period July 1, 2009 through June 30, 2013.

#### **Results Summary**

The Military and Veterans Code (MVC) is ambiguous regarding whether state policies and procedures apply to the MWR Fund. Further, the MVC is vague related to the appropriate uses of the MWR Fund. This creates confusion for CalVet and Yountville in determining what fiscal policies apply to the MWR Fund and whether to approve certain expenditures. As a result, the MWR Funds are not adequately safeguarded and have an increased risk of fraud, waste, and abuse. We identified the following fiscal control weaknesses:

- Ambiguous MVC fiscal requirements
- Inadequate procurement, contract, and payment practices
- Inadequate personnel/payroll practices
- General Fund subsidizes certain MWR Fund activities
- Hostess House and picnic facilities revenues are remitted to the MWR Fund instead of the state's General Fund

CalVet should develop and propose legislation to clarify the fiscal requirements for the MWR Fund. Additionally, CalVet and Yountville should implement more stringent fiscal policies and procedures, including practices required by the State Contracting Manual (SCM) and State Administrative Manual (SAM).

#### **Background**

Yountville provides veterans residential live-in care facilities offering a comprehensive plan of medical, dental, pharmacy, and rehabilitation services, and social activities within a homelike, small community environment. Residents engage in a variety of activities including social events, dances, patriotic programs, volunteer activities, arts and crafts, computer access, shopping trips, and other off-site activities.<sup>1</sup> MVC, section 1047, requires that the administrator

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<sup>1</sup> Excerpts from [www.calvet.ca.gov/VetHomes/Default.aspx](http://www.calvet.ca.gov/VetHomes/Default.aspx)

of each veterans home maintain a MWR Fund to provide for the general welfare of its residents. Expenditures are at the discretion of the home administrator and are subject to the approval of the CalVet Secretary. Expenditure authority is very broad. The only expenditure restrictions are that the funds cannot be spent for medical or other related treatments; maintenance of the physical plant of the home; or any function, operation, or activity not directly related to the morale, welfare, and recreation of the veterans.

The MWR Advisory Committee advises the Yountville Administrator on the uses of the MWR Fund and prepares the annual MWR Fund budget. The MWR Advisory Committee consists of a Chairperson, Allied Council, and four additional members appointed by the Chairperson. The Allied Council, comprised of residents of Yountville, is an advisory body to the Yountville Administrator. The MWR Fund budget is signed by the MWR Advisory Committee, Allied Council Chairperson, and Yountville Administrator and submitted to the CalVet Secretary for final approval.

### **Scope and Methodology**

We reviewed Yountville's MWR Fund's fiscal procedures and expenditures for the period July 1, 2009 through June 30, 2013. To complete our review, we performed the following:

- Reviewed applicable laws, regulations, policies, and procedures to identify authorized MWR Fund uses and restrictions.
- Interviewed various personnel at Yountville to gain an understanding of the fiscal activities and procedures.
- Reviewed accounting records to identify fiscal weaknesses and evaluate the compliance of expenditures with authorizing statutes, regulations, and other applicable policies and procedures.

In October 2013, the California State Auditor reported contracting weaknesses related to a café and food service contract and an adventure park contract executed by Yountville. To avoid duplication, we excluded these specific contracts and related expenditures from our review.

### **Results**

Based on our review of documentation, other information made available to us, and interviews with management and staff, we determined that the expenditures reviewed complied with the broad authority of the MVC. However, we identified the following fiscal control weaknesses:

#### **Ambiguous MVC Code Fiscal Requirements**

The MVC does not clearly state whether the MWR Fund is subject to state purchasing and contracting requirements. Further, except for the limitations in MVC section 1047, the MVC only requires that the expenditures be directly related to the morale, welfare, and recreation of the veterans. Various legal opinions over the years have provided conflicting conclusions as to whether state fiscal policies apply to the MWR Fund. Further, Yountville does not have detailed fiscal policies and procedures for MWR procurement, contracts, and expenditures transactions and authorizations. This lack of clarity creates ambiguity for CalVet and Yountville in determining what fiscal policies apply to the MWR Fund and whether to approve certain expenditures.

## Recommendations:

CalVet should perform the following:

- A. Develop and propose legislation to clarify the fiscal requirements that apply to the MWR Fund and its authorized uses.
- B. Apply the SCM and SAM policies and procedures to the MWR Fund. Regardless of whether the MWR is legally required to follow the SCM and SAM, these policies and procedures establish best practices for the fiscal integrity and safeguarding of the MWR Fund.
- C. Develop internal policies and procedures to complement the SCM and SAM where necessary. These policies and procedures should be documented, revised periodically, and communicated to employees.

## Inadequate Procurement, Contract, and Payment Practices

Procurement, contract, and payment practices are inadequate to ensure the MWR Funds are adequately safeguarded from fraud, waste, and abuse. Specifically, we identified the following fiscal weaknesses:

- *Purchase Orders Lacked Required Approvals*—Purchase orders for a pond restoration design, fiber optics cable installation, and bocce court design in the amounts of \$47,157, \$46,338, and \$5,777, respectively, lacked CalVet Headquarters and the Department of General Services (DGS) approvals. Because these projects are on the grounds of Yountville, they may require CalVet Headquarters and DGS approval if it is determined these projects significantly impact the grounds. Not obtaining approvals prior to executing these transactions exposes the MWR Fund to loss if these projects cannot be completed due to the lack of required approvals, or noncompliance with environmental regulations.
- *Contracts Lacked DGS Approval*—Contracts for the Veterans Home Exchange and beauty/barber shop lacked DGS approval. The Veterans Home Exchange lease provides for the operation of a retail store for the veterans. The Veterans Home Exchange revenue is undetermined due to a lack of accountability and the contract monitoring weakness described below. The beauty/barber shop lease revenue for fiscal year 2011-2012 was approximately \$12,500. However, no revenue was received during 2012-2013. MVC, section 1023 (b), states that the DGS Director may lease or let any real property held by CalVet for the veterans home, and not needed for any direct or immediate purpose of the home, to any entity or person upon terms and conditions determined to be in the best interests of the home. Additionally, DGS approval ensures compliance with all applicable state contracting requirements, land use requirements, and that the contract terms are in the best interest of Yountville and the state.
- *Contract Monitoring*—Yountville did not monitor the Veterans Home Exchange contract to ensure that the vendor made payments to the MWR Fund in accordance with the contract terms. The Veterans Home Exchange contract requires 50 percent of operating income be paid to the MWR Fund. However, the Veterans Home Exchange has not made any payments to the MWR Fund. Therefore, an undetermined amount may be owed to the MWR Fund.

- *Incomplete Files*—The purchasing and contract files were incomplete as follows:
  - 27 of 53 expenditures reviewed lacked documentation supporting bidding, informal price quotations, or justification for sole source purchases and contracts (13 of these 27 expenditures were greater than \$5,000). The two largest transactions included two modular buildings purchased for \$106,116 and moving/set-up of library collections for \$65,660.
  - 9 of 53 expenditure transactions reviewed lacked documentation indicating goods or services were received. Examples include video broadcast equipment and therapeutic supplies purchased for \$11,437 and \$2,805, respectively.
  - The contract file for the investment manager who invested and managed a portion of the MWR Fund portfolio prior to July 1, 2013 could not be located. The MWR assets managed by this investment manager consisted of approximately \$1.8 million as of June 30, 2013. Yountville functions as the trustee of the MWR Fund and has a fiduciary responsibility to ensure that funds are invested in a prudent manner. Without contract documents, Yountville could not monitor compliance and performance to ensure funds were adequately invested and safeguarded.
  
- *Gift Card Usage*—Gift cards purchased from retailers were used as informal blanket purchase orders. For example, ten \$1,000 gift cards and five \$500 gift cards were purchased from two retailers. The gift cards were provided to employees and residents to make purchases for Yountville. There was inadequate accountability for the items purchased to ensure they were used exclusively for Yountville activities. This process circumvents standard procurement approvals and creates a high risk of inappropriate or unapproved purchases.
  
- *Untimely Purchase Request Approvals*—Three purchase requests for food and beverages were approved after the goods were purchased. This practice creates a risk of obligating the MWR Fund for items or amounts not previously approved in the MWR Fund’s budget.
  
- *Payment Processing Weaknesses*—Vendor payment duties are not adequately segregated. Specifically, the Accounting Officer Specialist posts expenditures to the accounting system, controls the blank check stock, operates the check signing machine, verifies checks to the invoices, and distributes checks. As a result, the Accounting Officer Specialist performs the entire transaction cycle without review or approval of another individual to verify the propriety and accuracy of the payments processed and the related accounting records. This lack of segregation significantly increases the risk of fraud, waste, and abuse of the MWR Funds without timely detection.

**Recommendations:**

To ensure adequate fiscal controls are applied to procurement, contracting and payment processing, Yountville should implement the following:

- A. Obtain CalVet Headquarters and DGS approval for purchase orders and contracts in accordance with the SCM and SAM.
  
- B. Monitor contracts to identify revenues due to the MWR Fund, record related receivables timely and accurately, and apply collection activities promptly to ensure revenues are collected.

- C. Ensure the contract and procurement files are complete and include documentation related to bidding, informal price quotations, or justification for sole source purchases or contracts.
- D. Discontinue using gift cards for purchases.
- E. Require documented approvals prior to purchasing and receiving goods and services.
- F. Reassign incompatible duties and/or develop alternative procedures to ensure the propriety and accuracy of accounting transactions.

### **Inadequate Personnel/Payroll Practices**

The MWR Fund personnel and payroll practices are inadequate. The conditions below increase the risk of noncompliance with bargaining unit, state, or federal labor laws, and expose the MWR Fund to payroll irregularities:

- *MWR Driver Employment Practices*—Prior to July 1, 2013, in addition to their regular Yountville employment, certain employees were also hired (outside their regular state hours) to transport residents to offsite activities. These drivers were paid \$18 per hour by the MWR Fund. However, because these employees were already employed by Yountville, the \$18 hourly rate may not have complied with bargaining unit, state, or federal overtime requirements. Yountville stated that effective July 1, 2013, drivers are now paid through the state payroll process. However, policies and procedures for drivers are not documented to verify that the new policy complies with applicable bargaining unit, state, and federal requirements.
- *Sound Technician Payroll Practices*—The Sound Technician was budgeted and paid for 128 hours per month, even though this employee's timesheet reported between 135 and 187 hours worked per month for the period July 2012 through June 2013. Yountville indicated the Sound Technician was aware he was not to exceed working 128 hours per pay period. However, this practice was allowed to continue. As a result, Yountville may owe the Sound Technician for the work performed in excess of the 128 hours per month.
- *Allied Council Stipend Practices*—Yountville could not provide information or other documentation establishing the initial policy to pay stipends for Allied Council positions. They are paid monthly stipends ranging from \$103 to \$700. These positions are classified under the MWR Fund and are not established as state positions. The stipends are included in the approved 2012-13 MWR Fund budget.
- *Member Helper Program Compensation Policies*—Residents working in the Member Helper Program (MHP) are paid between \$200 and \$400 per month. The total MWR Fund budget for the MHP was \$300,000 for 2012-13. Yountville has policies and procedures for member helpers performing duties funded by the General Fund. However, Yountville has not developed policies and procedures specific to the MWR Fund, or documented a requirement to follow the procedures established for the General Fund for MWR member helpers. This creates the risk of inconsistent practices for member helpers performing services related to the MWR Fund.

- *MWR Member Helper Payroll Distribution Practices*—Yountville does not have policies and procedures to ensure the same Yountville employees submitting payroll information for MWR member helpers do not also pick up payroll checks from the Accounting Office for distribution to the helpers. This creates a risk that fraudulent member helper payments could occur, or that payments could be misdirected without timely detection.

**Recommendations:**

The following recommendations will help improve the MWR Fund payroll controls:

- A. Document policies and procedures for drivers used to transport residents. Ensure the policies and procedures comply with bargaining unit, state, and federal payroll requirements.
- B. Require the Sound Technician to comply with the authorized work hours and not work any additional time without advance approval.
- C. CalVet should determine whether to continue paying stipends for the Allied Council positions. If stipends are continued, document the authority for these payments.
- D. Document policies and procedures for the MWR Member Helper Program.
- E. Ensure employees designated to process or authorize MWR member helpers' payroll do not also distribute the payroll checks.

**General Fund Subsidizes Some MWR Fund Activities**

The MWR Fund does not reimburse the General Fund for personnel costs incurred for MWR activities, such as processing purchase orders, recording accounting transactions, and performing janitorial services. For example, the Accounting Officer Specialist (a General Fund position) indicated that all of her duties relate to MWR activities. However, this employee's annual salary of approximately \$48,000 plus benefits is not reimbursed by the MWR Fund to the General Fund. SAM section 9200 requires that costs be allocated between funds in the most equitable basis.

**Recommendation:**

Implement a cost allocation methodology to reimburse the General Fund for MWR costs incurred.

**Hostess House and Picnic Revenues Remitted to MWR Fund Instead of General Fund**

The Hostess House and picnic facilities rental revenues are remitted to the MWR Fund instead of the General Fund. Specifically, Yountville provides lodging at the Hostess House to friends and family visiting Yountville residents for \$35 per night. It also rents picnic facilities for day use. The Hostess House and picnic rental receipts totaled approximately \$70,000 and \$24,000, respectively, for fiscal year 2012-2013. It is unclear whether CalVet or DGS approved these activities. MVC, section 1023, states that the DGS Director may lease any real property held by the department for Yountville, and not needed for any direct or immediate purpose of Yountville, to any entity or person upon terms and conditions determined to be in the best interests of Yountville. Except as provided in MVC, section 1048, all moneys received in connection therewith shall be deposited in the General Fund to the credit of the appropriation for the support of Yountville.

**Recommendations:**

- A. Record the Hostess House and picnic facilities revenues in the General Fund instead of the MWR Fund.
- B. CalVet should determine whether to continue supporting Yountville's Hostess House and picnic facilities rentals. If so, CalVet should obtain DGS approval for these activities.

The information in this letter is intended to assist CalVet and Yountville management in improving the operation and control of the MWR Fund. The recommendations, if implemented, will help reduce the risk of loss or misuse of the Funds. CalVet agreed with the recommendations and its response is attached to this letter.

We appreciate the assistance and cooperation of CalVet and Yountville. If you have any questions regarding this letter, please contact Kimberly Tarvin, Manager, or Rick Cervantes, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Richard R. Sierra, CPA  
Chief, Office of State Audits and Evaluations

Attachment

cc: Mr. Michael N. Wells, Undersecretary, Operations, California Department of Veterans Affairs  
Ms. Diane Vanderpot, Undersecretary, Veterans Homes, California Department of Veterans Affairs

**DEPARTMENT OF VETERANS AFFAIRS**

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January 22, 2014

Richard Sierra, CPA  
Chief, Office of State Audits and Evaluations  
Department of Finance  
915 L Street  
Sacramento, California 95814

Re: Yountville Veterans Home's Morale, Welfare, and Recreation Fund Review

Dear Mr. Sierra,

Thank you for preparing this report on the Yountville Veterans Home's Morale, Welfare, and Recreation (MWR) Fund. The California Department of Veterans Affairs (CalVet) is committed to offering the veterans in its facilities the social benefits of the MWR fund while ensuring that these expenditures follow the state's best financial practices.

This report highlights several important outstanding issues, such as the appropriateness of state stipends for Allied Councils, for which CalVet would like further clarification. Additionally, the character of the MWR Fund remains undefined, as it is still unclear whether it is a state fund or semi-private. We will continue to work with the Department of Finance to resolve these issues and to identify secure investments, such as the state Surplus Money Investment Fund Program, to safeguard these funds.

In response to this audit, CalVet has already begun improving the management and oversight of MWR funds across every Veterans Home and will continue to do so. In anticipation of this audit's findings and recommendations, a taskforce consisting of accounting, procurement, legal, and executive staff convened in December. This taskforce will meet regularly on an ongoing basis and will provide me with recommendations for handling MWR funds at all of the Veterans Homes and ensuring that expenditures are compliant with the State Contracting Manual and the State Administrative Manual.

In the meantime, headquarters staff will continue to review all MWR expenditures for approval. Due to this change in the approval process, CalVet has already identified and corrected a number of deficient practices within the Veterans Homes.

On behalf of CalVet and our Veterans Homes' residents, thank you for your findings and recommendations. Your report will be a great resource as we restructure and improve the management of these funds.

Sincerely,

Original signed by:

PETER J. GRAYETT  
Major General (Retired)  
Secretary