



Department of Veterans Services

Veterans Bonus Payment Audit

Audit Period: August 4, 2010 to March 18, 2011



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Executive Summary

Background

In November 2009, the voters of Ohio approved a constitutional amendment to provide for the issuance of up to \$200 million in general obligation bonds to pay for compensation to veterans of the Persian Gulf, Afghanistan, and Iraq conflicts. The Department of Veterans Services (DVS) hired and trained staff to process applications for bonuses for an estimated 200,000 Ohio resident veterans. DVS contracted with a third party vendor to provide a solution consisting of an information system and call center that helps to facilitate the management and administration of the Veterans Bonus Program.

The Veterans Bonus Program officially began operations August 24, 2010. From August 2010 through February 2011, DVS received 62,939 Veterans Bonus applications. Of those, 25,684 were approved for payment and 715 were rejected. The remaining 36,540 were in various stages of processing.

The scope of this review included the application, communication, and payment processes as well as the system that supports these processes. Our review was focused on existing processes, procedures and internal controls and did not focus on the contractual obligations of the vendor. The assessment included the operation, support and maintenance of the IT components of the Veterans Bonus System (VBS).

During the audit, OIA identified opportunities for DVS to strengthen internal controls and improve business operations. A summary, along with detailed observations, have been provided. OIA would like to thank DVS staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.



Scope and Objectives

OIA staff was engaged to perform assurance work related to the Veterans Bonus Payment program. This work was completed between July 19, 2010 and March 18, 2011. The scope of this audit included the following areas:

- Communication of availability;
- Application process and
- Payment process

The following summarizes the objectives of the review along with a conclusion on the effectiveness of management's internal controls.

Objective	Conclusion ¹
Evaluate the design and adequacy of communications, related to Veterans Bonus availability, to potential recipients.	Well-Controlled
Evaluate the design and effectiveness of controls over the Veterans Bonus application process.	Well Controlled with Improvements Needed (IT observations – Security records)
Evaluate the design and effectiveness of controls over the Veterans Bonus payment process.	Improvements Needed - See Observation 1 (IT observations – Security records)

¹ Refer to Appendix A for classification of audit objective conclusions.



Summary of Observations and Recommendations

The Summary of Observations and Recommendations includes only those risks which were deemed high or moderate. IT security records and low risk observations and recommendations were discussed with individual agency management and are not part of this report. However, the IT security records and low risk observations and recommendations were considered as part of the audit objective conclusions on the prior page.

No.	Observation	Risk
1.	Timeliness of Payment - Processing times were reviewed for 26,956 claims paid between August 2010 and March 2, 2011. Claim processing, from the time claimant documentation was received until the claim was approved, was within 60 days for 5,997 claims (22%). The remaining 20,959 (78%) claims were processed in excess of 60 days. Processing times ranged from the same day to 150 days.	Moderate



Detailed Observations and Recommendations

Observation 1 – Timeliness of Payment

The DVS web site indicates that eligible bonus applicants should receive payment about eight weeks after they submit a complete, correct application.

Processing times were reviewed for 26,956 claims paid between August 2010 and March 2, 2011. Claim processing, from the time all documentation was received from the claimant until the claim was approved, was within 60 days for 5,997 claims (22%). The remaining 20,959 (78%) claims were processed in excess of 60 days. Processing times ranged from the same day to 150 days.

Prolonged claim processing time could result in claimant displeasure and/or the perception of inefficient and ineffective operations.

Recommendation

Evaluate the cause of processing delays to determine the appropriate corrective action. Reinforce the importance of monitoring aging reports to ensure timely bonus payment. Consider practicality of using personnel from other DVS departments to process claims during times of peak workload.

Management Response

The Department of Veterans Services strongly agrees that it is important that Veterans Bonus claims be paid timely and accurately. The period examined by this examination was for the first six months of the program, and covered a period when staff was new, procedures were untested and we received the highest volume of applications that we expect during the program. All of these conditions were anticipated; however this resulted in a backlog, some of which was expected. The number of applications received did greatly exceed our original estimates; however we did monitor the situation, quickly modified procedures and hired additional staff to improve the timeliness of the payments without sacrificing accuracy. In addition, our staff has become more productive as they gain experience. There was no way for them to gain experience prior to the start of the program. We still have a backlog of outstanding applications, but we have made significant progress in reducing the backlog. We expect that we shall meet the eight week standard for new claims within a month.

Risk	Remediation Owner	Estimated Completion Date
Moderate	Veterans Bonus Program Manager	June 2011



Appendix A – Classification of Audit Objective Conclusions and Observations

Classification of Audit Objective Conclusions

Conclusion	Description of Factors
Major Improvements Needed	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.
Improvements Needed	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
Well-controlled with Improvements Needed	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
Well-Controlled	The processes are appropriately designed and are operating effectively to manage risks. Control issues may exist, but are minor.

Classification of Audit Observations

Rating	Description of Factors	Reporting Level
High	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	State Audit Committee, Senior Management, Department Management
Moderate	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	State Audit Committee, Senior Management, Department Management
Low	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Department Management, Senior Management (Optional), Audit Committee (Not reported)



Appendix B – Audit Follow-up Procedures

OIA will periodically follow-up on management’s plans to remediate high and moderate risk audit observations. Follow-up activities may generally be broken down into three categories:

- Detailed** Detailed follow-up is usually more time-consuming and can include substantial audit customer involvement. Verifying and testing procedures implemented as well as substantiating records are examples. The more critical audit observations usually require detailed follow-up.

- Limited** Limited follow-up typically involves more audit customer interaction. This may include actually verifying procedures or transactions and, in most cases, cannot be accomplished through memos or telephone conversations with the audit customer but requires onsite observation or testing.

- Informal** This is the most basic form of follow-up and may be satisfied by review of the audit customer's procedures or an informal telephone conversation. Memo correspondence may also be used. This is usually applicable to the less critical observations.

Low risk audit observations will not result in an OIA audit follow-up, although these observations will be factored into the continuous risk assessment process for future OIA engagements.