

The California State Auditor released the following report today:

California Department of Veterans Affairs

*Wastefulness, Failure to Comply With State Contracting Requirements,
and Inexcusable Neglect of Duty*

BACKGROUND

The California Whistleblower Protection Act authorizes the California State Auditor (state auditor) to investigate allegations of improper governmental activities by state agencies and employees. The state auditor received allegations that the administrator of a veterans home operated by the California Department of Veterans Affairs (Veterans Affairs) unlawfully entered into two wasteful contracts. The home administrator (administrator), who is overseen by a member of Veterans Affairs' executive staff, is responsible for the day-to-day operations of the home and is authorized to use a morale, welfare, and recreation fund (recreation fund) to conduct lawful endeavors that benefit veterans. Under this authority, the home we focused on operates several businesses on its grounds including a café and tavern.

KEY FINDINGS

Our investigation revealed the following:

- The administrator wasted over \$652,000 by executing two contracts—one to build an adventure park on the grounds of the home and the other to operate a café and tavern at the home.
 - ✓ The administrator entered into the contract with a vendor to build an adventure park on grounds leased from the home without making any effort to find out how the residents felt about an adventure park being built on the grounds and without consulting with anyone at Veteran Affairs headquarters or anyone at the California Department of General Services (General Services), which has sole authority to lease veterans home property.
 - ✓ Veterans Affairs spent over \$228,000 in state funds to halt construction of the adventure park when Veterans Affairs' executives learned of it two months after construction had commenced.
 - ✓ The administrator executed a contract with a vendor to operate a café and tavern without conducting any research into the advisability of accepting the vendor's terms and without soliciting proposals from any other vendors.
 - ✓ The contract to operate the café and tavern charged the vendor rent of only \$1 per year to occupy space at the home. Further, the home agreed to pay the vendor a \$75,000 annual management fee and to subsidize the cost of operating the two businesses.
 - ✓ Even though General Services advised Veterans Affairs to terminate the contract to operate the café and tavern, Veterans Affairs allowed the contract to continue until the vendor ultimately relinquished operation of the two businesses, over a year later and after paying over \$424,000 to the vendor.
- The administrator's former supervisor neglected his duty to oversee the administrator's activities and, therefore, did not prevent the unwise, unlawful, and wasteful contracting from occurring.

KEY RECOMMENDATIONS

We recommended that Veterans Affairs implement specific contracting policies consistent with state requirements and that its recreation fund contracts be reviewed and approved by Veterans Affairs attorneys and the secretary of Veterans Affairs prior to execution. Further, to ensure greater oversight of the recreation fund maintained by each of the veterans homes, we recommended that Veterans Affairs require a separate list of certain expenditures from the recreation fund. Also, we recommended that appropriate disciplinary action be taken against the administrator. Finally, we recommended that the Legislature consider increasing statutory controls over the management of the recreation fund.

Date: October 17, 2013

Report: I2011-0837

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To report suspected improper governmental activities, contact the Whistleblower Hotline: (800) 952-5665, mail information to the state auditor, or submit a complaint online to www.auditor.ca.gov