

2018-112 AUDIT SCOPE AND OBJECTIVES
California Department of Veterans Affairs—
Veterans Homes Leases and Third-Party Use

The audit by the California State Auditor will provide independently developed and verified information related to leases and other third-party uses of state property at veterans homes operated by the California Department of Veterans Affairs (CalVet). The audit's scope will include, but not be limited to, the following activities:

1. Review and evaluate the laws, rules, and regulations significant to the audit objectives.
2. Determine the number of active leases of state-owned property at the veterans homes and identify the value of those leases.
3. Evaluate the processes used to establish leases of state property within the veterans home system by performing the following:
 - a. Identify the current processes used by CalVet and the Department of General Services (DGS) to pursue, renew, recommend, and approve leases of properties and determine whether these processes comply with legal requirements.
 - b. Determine the local administrator's role at each veterans home in negotiating, recommending, monitoring, and approving leases and other third-party uses.
4. Review active leases of state property within the veterans home system to determine the following:
 - a. How active leases were pursued, renewed, recommended, and approved. Evaluate the processes used by CalVet and DGS to establish and approve the terms of the lease agreement.
 - b. Whether CalVet or DGS have determined that the rates charged on the leases of state property compare reasonably to similar market rates. Identify assumptions used in the market comparison.
 - c. How often CalVet or DGS assesses the value of the leased properties.
 - d. Whether there are variations in lease terms—including the rates of increase, duration, and renewals—and the reasoning for such variation.
 - e. Whether the lease terms and conditions include in-lieu payments. If so, determine how the in-lieu payments were determined.
5. Review active leases to determine how the leased properties are being used.
 - a. Identify whether unsanctioned uses of leased property are occurring.

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- b. Determine whether certain uses of leased property, such as paid event parking and special outdoor events, are approved by the property manager and incorporated in the lease terms.
6. Evaluate CalVet's and DGS' oversight for active lease agreements.
 - a. Determine the extent to which CalVet and DGS ensure that lessees are complying with the terms and conditions of leases.
 - b. Evaluate how CalVet tracks and reports lease payments to determine if it is complying with relevant state laws and regulations.
 - c. Evaluate the method by which the proceeds from the lease agreements have been reinvested into the veterans homes in accordance with state law, and determine whether this requirement has ever informed decisions about lease terms.
7. Determine the extent to which third parties use veterans home property without having lease agreements in place. Identify the terms of these arrangements and the authority under which the parties in these arrangements operate.
8. Review and assess any other issues that are significant to the audit.