REPORT NO. 2014-007
AUGUST 2013

DEPARTMENT OF VETERANS' AFFAIRS

Operational Audit

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

DEPARTMENT OF VETERANS' AFFAIRS

Section 20.37, Florida Statutes, creates the Department of Veterans' Affairs. The head of the Department is the Governor and Cabinet. The Executive Director of the Department is appointed by the Governor with the approval of the three members of the Cabinet and is subject to confirmation by the Senate. Mike Prendergast served as Executive Director during the period of our audit.

The audit team leader was Chris Stanisci, CPA, and the audit was supervised by Janice Priolo, CPA. Please address inquiries regarding this report to Matthew Tracy, CPA, Audit Manager, by e-mail at matthewtracy@aud.state.fl.us or by telephone at (850) 412-2749.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

DEPARTMENT OF VETERANS' AFFAIRS

SUMMARY

This operational audit of the Department of Veterans' Affairs (Department) focused on resident care assessments and collections, Residents' Deposits Trust Fund accounts, and nursing home service provider contracts. The audit also focused on tangible personal property controls, financial reporting, selected information technology controls, and included a follow-up on the audit findings noted in our report No. 2011-015. Our audit disclosed the following:

RESIDENT CARE ASSESSMENTS AND COLLECTIONS

Finding No. 1: At Department nursing homes and Domiciliary, controls were not always sufficient to effectively safeguard moneys collected.

Finding No. 2: At one nursing home, the amounts charged to residents for services provided and supplies utilized were not supported by the cost records of such services and supplies. At another nursing home, annual financial update information used to verify resident income and determine resident assessments was not always on file or supported by adequate documentation.

RESIDENTS' DEPOSITS TRUST FUND ACCOUNTS

Finding No. 3: Some nursing homes and the Domiciliary did not effectively implement Department policies and procedures for the administration of the Residents' Deposits Trust Fund.

Finding No. 4: Contrary to Department policy, some resident accounts were not subject to a final review upon a resident's discharge or death.

Finding No. 5: The Department had not implemented effective policies and procedures to ensure that resident account balances complied with Medicaid asset limit requirements.

NURSING HOME SERVICE PROVIDER CONTRACTS

Finding No. 6: At some nursing homes, controls were not sufficient to ensure that documentation was maintained to evidence adequate contract monitoring efforts.

OTHER ADMINISTRATIVE MATTERS

Finding No. 7: The Department had not effectively implemented policies and procedures to ensure the adequate control of attractive property items and did not timely inventory certain tangible personal property items.

Finding No. 8: The Department's policies and procedures did not ensure the adequacy and accuracy of Department capital asset records.

Finding No. 9: The Department's policies and procedures did not ensure that Residents' Deposits Trust Fund deposits and withdrawals were properly posted in the State's accounting records.

Finding No. 10: The Department had not submitted account collection and write-off activities reports to the President of the Senate, Speaker of the House of Representatives, and Chief Financial Officer although required by State law.

Finding No. 11: The Department did not always timely remove terminated employees' access to the Department's network and the UltraCare database.

BACKGROUND

The Department of Veterans' Affairs (Department) is a Cabinet agency created to assist all former, present, and future members of the Armed Forces of the United States and their dependents in preparing claims for and securing compensation, hospitalization, career training, and other benefits or privileges to which such persons are, or may

become, entitled to under Federal or State law or regulation as a result of their service in the Armed Forces.[1] The Department provides advocacy and representation for many of Florida's more than 1.6 million veterans and their families.[2]

Pursuant to State law,[3] the Department provides long-term health care and domiciliary services for honorably discharged veterans through six nursing homes and a Domiciliary (assisted living facility). State law[4] requires the Department to operate the nursing homes under the State provisions for licensed health care facilities. Table 1 provides a listing of, and information related to, Department-operated residential facilities.

Table 1

Veterans' Nursing Homes and Domiciliary
Number of Beds, Residents, and Authorized Staff Positions
and Total Resident Care Assessments, Resident Care Collections,
and Residents' Deposits Trust Fund Balances

		As of June 30, 2012			2011-12 Fiscal Year		Total Residents' Deposits Trust Fund Balances at June 30, 2012
Facility	Location	Number of Available Beds	Number of Residents	Number of Authorized Staff Positions	Total Resident Care Assessments	Total Resident Care Collections	
Emory L. Bennett State Veterans' Nursing Home (Bennett Nursing Home)	Daytona Beach	120	120	137	$11,030,839	$10,959,482	$ 79,054
Douglas T. Jacobson State Veterans' Nursing Home (Jacobson Nursing Home)	Port Charlotte	120	119	141	11,822,899	11,844,018	25,574
Clyde E. Lassen State Veterans' Nursing Home (Lassen Nursing Home)	St. Augustine	120	118	157	10,411,195	10,243,006	11,265
Baldomero Lopez State Veterans' Nursing Home (Lopez Nursing Home)	Land O'Lakes	120	120	146	12,302,756	12,231,474	14,242
Alexander Nininger, Jr. State Veterans' Nursing Home (Nininger Nursing Home)	Pembroke Pines	120	117	139	12,137,800	11,992,339	67,412
Clifford Chester Sims State Veterans' Home (Sims Nursing Home)	Panama City	120	119	139	10,542,804	10,477,808	113,297
Robert H. Jenkins, Jr. State Veterans' Domiciliary Home (Domiciliary)	Lake City	149	126	64	3,297,626	3,302,011	37,242
Totals		**869**	**839**	**923**	**$71,545,919**	**$71,050,138**	**$348,086**

Source: Department-provided documentation.

The Department utilizes the UltraCare for Windows (UltraCare) database, through a licensing agreement with MDI Achieve, Inc., to manage the financial and clinical functions of the Department's nursing homes and Domiciliary. UltraCare provides integrated financial and clinical modules including: Admissions, Assessments,

[1] Section 292.05(1), Florida Statutes.
[2] Department 2011-12 *Annual Report*, dated November 30, 2012.
[3] Chapter 296, Florida Statutes.
[4] Sections 296.33(4) and 400.23, Florida Statutes.

Resident Care Plans, Billings, Accounts Receivables, Nurse's Notes, Physician's Orders, and Resident Trust. Several of these modules contain resident health information that is required to be protected under Federal law.[5]

For each of the six nursing homes and Domiciliary, the Department had also entered into contracts with various providers for pharmacy (professional pharmacy services, supplies, and pharmaceuticals); rehabilitation (speech, occupational, and physical therapy); and housekeeping (housekeeping and laundry services) services. During the 2011-12 fiscal year, expenditures related to these contracts totaled over $8.9 million or approximately 86 percent of all Department contractual expenditures. Table 2 provides the amount of expenditures recorded in the State's accounting records for the 2011-12 and 2012-13 fiscal years for rehabilitation, housekeeping, and pharmacy services.

Table 2

Expenditures by Contract Service Type

Service Type	2011-12 Fiscal Year	2012-13 Fiscal Year [a]
Rehabilitation	$3,666,936	$3,108,596
Housekeeping	2,425,827	2,250,468
Pharmacy	2,813,301	2,175,803
Total	**$8,906,064**	**$7,534,867**

[a] As of June 30, 2013, prior to any fiscal year adjustments.

Source: Florida Accounting Information Resource Subsystem (FLAIR) records.

The rehabilitation and housekeeping contracts were entered into subject to State procurement and contract laws, including Sections 287.057 and 287.058, Florida Statutes. The pharmacy contract was entered into with the United States Department of Veterans' Affairs (USDVA), and was therefore exempt from State procurement laws.[6]

FINDINGS AND RECOMMENDATIONS

Resident Care Assessments and Collections

The operating costs of the nursing homes and Domiciliary are funded through the Grants and Donations Trust Fund, Operations and Maintenance Trust Fund, and the State Homes for Veterans' Trust Fund. Nursing home and Domiciliary residents are required by State law to contribute to the cost of their care based upon their level of income.[7] In addition to resident contributions, each nursing home and the Domiciliary receives per diem payments, based on the facility's occupancy, from the USDVA and, for eligible residents, payments from third-parties such as private insurance and the Medicare and Medicaid programs.

Finding No. 1: Collection Safeguards

Appropriate safeguards for moneys collected are essential for the prevention or detection of theft or loss. Such safeguards include preparing receipts or logs of collections, restrictively endorsing collections immediately upon receipt, documenting any transfers of collections between employees, and reconciling accounting system records to

[5] Title 45, Section 164, Code of Federal Regulations (2012), Subpart C.
[6] Section 287.057(3)(f)(6), Florida Statutes.
[7] Sections 296.10 and 296.37, Florida Statutes, require that the total amounts of the residents' contributions be to the fullest extent possible, but in no case shall exceed the actual cost of operating and maintaining the home.

initial collection receipts or logs. During the 2011-12 fiscal year, total revenue collected by the nursing homes and Domiciliary totaled approximately $71 million. We evaluated Department policies and procedures and the collection controls at the nursing homes and Domiciliary and noted the following deficiencies:

- *Receipting and logging of collections.* At the Jacobson, Lassen, and Lopez Nursing Homes, staff did not prepare pre-numbered receipts when checks were received. Additionally, at the Nininger Nursing Home we found that staff only prepared pre-numbered receipts for checks upon request. At the Bennett Nursing Home, we noted that, although staff prepared receipts for incoming checks, the receipt numbers were not entered into UltraCare. While Department policies and procedures provided that pre-numbered manual receipts be prepared for cash, the Department's policies and procedures were unclear as to whether pre-numbered receipts should be prepared for checks. In response to our audit inquiry, Department management indicated that Department policies and procedures would be revised to clarify that pre-numbered receipts should be prepared for checks.
- *Restrictive endorsement of collections.* At the Bennett, Lassen, Lopez, and Sims Nursing Homes, as well as the Domiciliary, checks were not restrictively endorsed at the point and time of receipt. Additionally, our audit disclosed that the Department's policies and procedures did not specify the employee position responsible for endorsing checks at the nursing homes and Domiciliary.
- *Transfer of custodial responsibility.* Sims Nursing Home staff did not document the transfer of collections from one employee to another. In addition, we found that Bennett Nursing Home staff did not document the transfer of collections from the employee receiving the collections to the staff responsible for entering the collections into UltraCare.
- *Records reconciliation.* Sims Nursing Home staff did not periodically compare manual collection receipts to UltraCare records to ensure that all amounts collected were entered into the database accurately.

We noted similar issues in prior audit reports, most recently in our report No. 2011-015, finding No. 1. Absent effective collection controls, the risk is increased that funds will be misappropriated, any theft or loss will not be timely detected, and accounting records will be inaccurate.

Recommendation: We again recommend that the Department review and monitor the collection policies and procedures implemented at the nursing homes and Domiciliary. Proper collection controls should ensure that all checks are restrictively endorsed and logged at the time of receipt, and that all transfers of collections between employees are documented. In addition, to ensure the completeness of the facilities' accounting records, UltraCare collection records should be periodically reconciled to records of initial collection receipt.

Finding No. 2: Resident Care Assessments

We examined resident care assessments for a total of 70 residents, 10 residents at each of the Department's six nursing homes and 10 residents at the Domiciliary. Our examination included analyzing whether the account ledgers for the selected residents correctly reflected charges for the various services received and the supplies used by the residents during the period July 2011 through February 2013, as well as assessing annual resident income determinations.

Department policies and procedures required that certain charges, including those for laboratory and radiology services, be entered into resident UltraCare account ledgers monthly. Department policies and procedures also required that every January 1st, the Department update each resident's financial status utilizing an Annual Financial Update (AFU) form to determine if there were any changes in the amounts or types of moneys received by residents. The policies and procedures required that AFU forms and all supporting documentation (such as monetary award letters, Social Security notices, and bank statements) be maintained.

Our audit tests disclosed that, for the resident account ledgers tested at four nursing homes and the Domiciliary, the resident care assessments were properly recorded and annual resident income determinations were properly documented. However, our test of resident ledgers at the Nininger Nursing Home disclosed that controls related to resident care assessments may not have been effective and our testing at the Sims Nursing Home disclosed that annual resident income determinations were not always documented in accordance with Department policies and procedures. Specifically:

- At the Nininger Nursing Home, we noted that for 7 of 10 ledgers tested, contrary to Department policies and procedures, charges for laboratory and radiology services were not entered into the resident's UltraCare account ledger.
- At the Sims Nursing Home, we noted for 1 of 10 residents that information listed on an AFU form was not supported. Specifically, documentation supporting the monthly social security ($699), interest ($34), and other retirement income ($1,765) amounts listed on the 2011 AFU form was not available. Additionally, we found that the resident's 2012 AFU form was not supported by documentation evidencing all sources and amounts of income listed. For another resident, an AFU form for the 2012 calendar year was not available.

As UltraCare resident account ledgers provide the means for capturing the amounts billed, collected, and outstanding for the services and supplies utilized by each resident at each nursing home and the Domiciliary, and the AFU form provides resident financial information for recording in UltraCare and determining resident assessments, record accuracy and completeness is critical. In response to our audit inquiry, Department management indicated that oversight issues contributed to the matters noted.

Recommendation: We recommend that the Department ensure that UltraCare resident account ledgers are updated to reflect applicable charges for all services received and supplies used by residents. Additionally, we recommend that AFU information be obtained, documented, and recorded in UltraCare in compliance with Department policies and procedures.

Residents' Deposits Trust Fund Accounts

Pursuant to State law,[8] the Department administers Residents' Deposits Trust Funds in separate local bank accounts for each of the nursing homes and the Domiciliary. The law requires that, within each Trust Fund, accounts be maintained for each resident without charge and provides that the residents may voluntarily withdrawal all personal moneys deposited and interest earned.

Finding No. 3: Residents' Deposits Trust Fund Procedures

In our report No. 2011-105, finding No. 3, we noted that the Department had not implemented effective policies and procedures for administering the Residents' Deposits Trust Funds, thus limiting accountability for resident moneys. During our current audit, we noted that the Department had established business office policies and procedures for the administration of the Trust Funds that, if effectively implemented, would provide improved accountability. In addition, the Department periodically monitored compliance with Resident Trust Fund procedures.[9]

To determine whether facility staff had appropriately implemented the procedures, we performed audit tests at the six nursing homes and Domiciliary and found that employees who were authorized check signers at the Bennett,

[8] Sections 296.12 and 296.38, Florida Statutes.
[9] Department of Veterans' Affairs *Business Office Procedures*, Sections III-1 and I-4, dated August 8, 2011, and November 1, 2011, respectively.

Jacobson, and Lopez Nursing Homes and Domiciliary were not always timely removed as signers on facility bank accounts upon employment termination. Specifically:

- One Bennett Nursing Home employee who terminated employment on December 13, 2012, was not removed as an authorized check signer until March 11, 2013, 88 days later and subsequent to our audit inquiry.
- Two Jacobson Nursing Home employees who terminated employment on March 27, 2012, and July 11, 2012, respectively, were not removed as authorized check signers until March 29, 2013, 367 and 261 days after their employment terminated.
- One Domiciliary employee who terminated employment on September 22, 2012, was not removed as an authorized check signer until March 14, 2013, 173 days later.
- One Lopez Nursing Home employee who terminated employment on January 19, 2012, was not removed as an authorized check signer until May 9, 2012, 111 days later.

At the Jacobson Nursing Home, we also noted that staff did not ensure that checks were always signed by two authorized check signers in accordance with Department policy. We tested ten check disbursement transactions and noted one transaction in the amount of $56 with only one signature on the check.

Finally, at the Nininger Nursing Home, we found that staff did not consistently obtain or maintain appropriate documentation of authorizations for disbursements from resident accounts. Specifically, for the 20 disbursement transactions tested, written authorizations were not available for 2 transactions totaling $3,367. In response to our audit inquiry, Nursing Home management indicated that staff had obtained telephone authorization for one of the disbursements. However, there was no evidence of authorization for the second disbursement transaction.

The deficiencies noted resulted primarily from ineffective implementation of the Department's business office policies and procedures. These deficiencies increase the risk that resident moneys will be subjected to unauthorized disbursement.

Recommendation: To ensure the proper administration of the Residents' Deposits Trust Funds, we recommend that Department management continue to monitor Nursing Home and Domiciliary staff adherence to established Residents' Deposits Trust Funds procedures.

Finding No. 4: Resident Account Close-Out Process

State law[10] requires that, upon the death or discharge of a resident with personal funds deposited with a facility, the facility must convey within 30 days, the resident's funds, including interest, and a final accounting of those funds to the resident's designated representative. Department policies and procedures required that, if the amount of funds exceeded $50, a final review of the account be conducted by Department staff prior to disbursement of the funds. For the period July 2011 through February 2013, Department management identified a total of 634 resident accounts at the nursing homes and Domiciliary that required close-out due to the death or discharge of the resident.

We examined documentation for 105 resident accounts (15 at each of the six nursing homes and 15 at the Domiciliary) and noted that, for four of the six nursing homes and the Domiciliary, resident accounts were properly reviewed and funds were timely disbursed upon the death or discharge of a resident. However, as similarly noted in our report No. 2011-015, finding No. 4, our audit disclosed instances in which resident accounts were not closed out in accordance with Department policies and procedures. Specifically:

[10] Section 400.022(1)(h)(4), Florida Statutes.

- Lopez Nursing Home staff did not maintain documentation evidencing that, for 4 of 15 resident accounts tested, a final review of the account was performed prior to the release of funds ranging from $52 to $381 and totaling $544.
- Bennett Nursing Home staff did not maintain documentation evidencing that, for 1 of 15 resident accounts tested, a final review of the account was performed prior to the release of funds totaling $56.

The conditions noted resulted primarily from ineffective implementation of Department policies and procedures. To ensure accountability and compliance with State law, appropriate review and close-out of a resident's account upon the resident's death or discharge is essential.

Recommendation: To ensure the timely and accurate close-out of resident accounts, we recommend that all final resident account reviews be performed and documented in accordance with Department policies and procedures.

Finding No. 5: Medicaid Asset Limit

Residents in Department facilities may receive assistance from the Medicaid program to pay for services received. Federal regulations[11] provide that nursing home facilities must notify each resident who receives Medicaid benefits when the amount in the resident's account reaches the Supplemental Security Income (SSI) resource limit (specified as the Medicaid asset limit) for one person ($2,000). Federal regulations specify that if the amount in a resident's account, in addition to the resident's other nonexempt resources, reaches the SSI resource limit, the resident may become ineligible for Medicaid or SSI.

Pursuant to Federal regulations, Department policies and procedures required that when the true spending balance[12] in a Medicaid-participating resident trust fund (RTF) account was near or at $1,500, Nursing Home staff were to discuss with the resident or the resident's representative a spending plan and the potential for Medicaid ineligibility. Further, Department policy required that when a Medicaid-participating RTF account's true spending balance reached $1,800, the resident or resident's representative was to be notified in writing that the resident was approaching the Medicaid asset limit of $2,000. The Department's notification template indicated that if a Medicaid-participating RTF account's true spending balance exceeded the $2,000 limit, the Medicaid program was to be notified and that Medicaid benefits may stop.

As part of our audit, we tested Medicaid-participating RTF account balances at the Bennett, Jacobson, Nininger, and Sims nursing homes.[13] We noted that:

- Bennett Nursing Home staff could not provide documentation demonstrating that, for four residents, the Department discussed a spending plan with the resident or their representative or sent a letter notifying the resident or their representative that the Medicaid asset limit was being approached when their RTF accounts' true spending balances reached $1,800. For two of the four residents' accounts, staff could not provide documentation demonstrating that the Medicaid program was notified when the accounts' true spending balances exceeded $2,000.
- Jacobson Nursing Home staff could not provide documentation demonstrating that a spending plan had been discussed with seven residents or their representatives when their RTF accounts' true spending balances

[11] Title 42, Section 483.10(c)(5), Code of Federal Regulations (2012).

[12] "True spending balance" was defined by the Department in response to our audit inquiry as funds in RTF accounts which will not be spent in the near or immediate future (i.e., within 30 days).

[13] We did not identify any Medicaid-participating residents at the Lassen and Lopez Nursing Homes who had true spending balances in excess of $1,500 during the period July 2011 through February 2013. Additionally, the Domiciliary did not bill for Medicaid services during the period July 2011 through February 2013.

were near or at $1,500. Additionally, for three of these residents, staff could not provide documentation demonstrating that a letter was sent to the resident or their representative when the true spending balances exceeded $1,800. Staff could also not provide evidence that the Medicaid program was notified when one of these resident's true spending balance exceeded $2,000.

- Nininger Nursing Home staff could not provide documentation demonstrating that a spending plan had been discussed with three residents or their representatives when the residents' account true spending balances exceeded $1,500. Additionally, for three other residents, staff could not provide documentation demonstrating that when their RTF accounts' true spending balances exceeded $1,800, a letter was sent notifying the resident or their representative that the Medicaid asset limit was being approached.
- Sims Nursing Home staff could not provide documentation demonstrating that a spending plan had been discussed with three residents or their representatives when their RTF accounts' true spending balances exceeded $1,500.
- Department policies and procedures did not define true spending balances or specify all the anticipated costs that could be excluded from an RTF account's true spending balance. In addition, Department policies and procedures did not describe the process staff should follow when notifying the Medicaid program that a Medicaid-participating RTF account's true spending balance exceeded $2,000. Although not addressed in Department policies and procedures, the Department's notification template did indicate that the Medicaid program was to be notified if a resident's balance exceeded $2,000.

Subsequent to our audit inquiry, the Department updated its policies and procedures to provide for additional monitoring of RTF accounts' true spending balances by Department staff on an annual basis. Absent adherence to Department policies and procedures, the risk is increased that residents may not be notified when the amounts in their RTF accounts approach the Medicaid asset limit. Additionally, absent policies and procedures addressing notification of the Medicaid program when resident assets exceed the Medicaid limit, the risk is increased that residents could improperly receive Medicaid benefits.

Recommendation: We recommend that the Department ensure that applicable residents are timely and properly informed of potential Medicaid program ineligibility in accordance with Department policies and procedures. We also recommend that the Department further enhance its policies and procedures to define true spending balance, specify the anticipated costs that may be excluded from a resident's true spending balance, and describe the process for notifying the Medicaid program when a resident's assets exceed the Medicaid limit.

Nursing Home Service Provider Contracts

The Department, during the period July 2011 through February 2013, contracted with Functional Pathways (Jacobson and Lassen Nursing Homes) and RehabCare Group East, Inc. (the other four nursing homes and the Domiciliary) to provide rehabilitation services to facility residents. The Department also contracted with the USDVA to provide pharmacy services (at the six nursing homes only), and Crothall HealthCare Inc. to provide housekeeping services (at the six nursing homes only). During the period July 2011 through February 2013, expenditures related to these four contracts totaled $13.3 million.

Finding No. 6: Contract Monitoring

The Department's contract with RehabCare Group East, Inc. (RehabCare) required that RehabCare meet or exceed the acceptable level of service for each of the following key performance outcomes:

- *Resident satisfaction.* RehabCare was to conduct quarterly facility resident surveys that covered, at a minimum, the quality of service operations. The surveys were to be coordinated with each facilities' contract manager and the acceptable level of service was established as 95 percent.

- *License and certification.* RehabCare therapy services were to be 100 percent compliant with required license and certification standards.
- *Therapy screens.* All residents were to be screened upon admission and on a quarterly basis by a speech, occupational, and physical therapist.
- *Resident charts.* Current and accurate documentation of all therapy services was to be contained in 100 percent of the resident charts.
- *Minimum data set information.* Minutes of therapy and therapy input on residents' conditions were to be 100 percent accurate and timely.

The Department's contract with the USDVA required performance monitoring by each nursing home's Quality Assurance Monitor (Risk Manager). The Department's contract with Crothall HealthCare Inc. (Crothall) required Crothall to conduct semiannual surveys of residents and resident family members and receive a minimum 95 percent satisfaction rating.

We examined documentation supporting the Department's monitoring efforts related to the RehabCare, Functional Pathways, USDVA, and Crothall contracts at the six nursing homes for the period July 2011 through February 2013 and noted the following:

- At the Bennett Nursing Home, documentation evidencing the monitoring of the key performance RehabCare contract outcomes was not available. In addition, documentation evidencing the monitoring of USDVA contract deliverables, including documentation of the Nursing Home's random review of drugs and biologics for residents was not available. In response to our audit inquiry, the Nursing Home's Risk Manager provided a blank form used for monitoring on a monthly basis, and indicated that she had tested on a monthly basis. However, documentation to evidence these efforts was not provided.
- Lopez Nursing Home staff had not ensured that Crothall conducted the contractually required semiannual resident surveys. Instead, surveys had been conducted on an annual basis. Additionally, contrary to contract requirements, the survey results did not include evidence of a 95 percent resident satisfaction rating.

We also reviewed Department policies and procedures and found that they did not specify the length of time contract monitoring documentation should be maintained. Without sufficient monitoring controls and documentation of monitoring efforts, the Department cannot clearly demonstrate that responsibilities and deliverables specified in contracts were met and the risk is increased that the Department will not timely detect contractor performance deficiencies or ensure that any noted deficiencies are appropriately remedied.

Recommendation: We recommend that documentation of contract monitoring efforts be maintained to clearly demonstrate that contractual requirements were met and that any contractor performance deficiencies were appropriated remedied. We also recommend that the Department enhance its policies and procedures to specify contract monitoring documentation retention requirements.

Other Administrative Matters

As previously mentioned, the Department maintains six nursing homes and a Domiciliary. Additionally, the Department maintains its headquarters in Largo, an administrative office in Tallahassee, and its Division of Benefits and Assistance which is located within the USDVA's Bay Pines Facility. Department management has established policies and procedures that provide staff at the various Department locations with guidance on a variety of administrative matters, such as accounting, financial reporting, information security, and the acquisition, control, and inventory of Department assets. However, as described in the following findings, those policies and procedures were not always adequately designed or effectively implemented.

Finding No. 7: Tangible Personal Property Controls

According to Department records, as of June 30, 2012, the Department had capital assets totaling approximately $95.6 million, including tangible personal property totaling more than $6.5 million. Department of Financial Services (DFS) rules[14] and Department policies and procedures provide requirements for the proper acquisition, assignment, control, use, and disposition of tangible personal property. For example, Department policies and procedures required that attractive items costing less than $1,000 be tracked and DFS rules require that the Department conduct an annual inventory of tangible personal property.

Department policies and procedures, effective June 2009, indicated that records for attractive property items (those with a value less than $1,000) were to be maintained for security, insurance, and expenditure control purposes. However, contrary to policies and procedures, we noted that the Department did not always maintain complete records of attractive property items. Specifically, we noted that as of April 12, 2013, that the Department had not identified and tracked any attractive items at the Bennett, Jacobson, and Lopez Nursing Homes. In response to our audit inquiry, the Department estimated that identification and tracking of attractive items for the homes would be accomplished between November 2013 and January 2014. Absent the identification and tracking of all attractive property items, the Department has less assurance that it is maintaining adequate accountability over Department property.

Additionally, we reviewed the Department's property records as of December 31, 2012, and noted that 19 items, with acquisition costs totaling $15,750 and acquisition dates ranging from June 30, 2008, through December 21, 2011, had not been physically inventoried as of December 31, 2012. In response to our audit inquiry, Department management stated that 1 of the 19 items was physically inventoried on April 19, 2013, 4 items were inventoried on April 24, 2013, and another 12 items were inventoried on May 7, 2013. Department management also responded that, as of July 15, 2013, the remaining 2 items, laptop computers with acquisition costs totaling $2,416, had not been located, and consequently, the matter had been referred to the Office of Inspector General for further investigation.

Absent effective inventory controls, the risk is increased that the information necessary to maintain accountability over Department property will not be recorded for all applicable property items and items that are lost or stolen will not be readily identified and subject to appropriate follow-up.

Recommendation: We recommend that the Department take appropriate actions to ensure that all attractive items are identified and tracked. We also recommend that the Department enhance its controls to ensure that all tangible personal property is properly accounted for during the physical inventory process.

Finding No. 8: Capital Assets

Typically, State governments report capital asset amounts that exceed the amounts reported for all other types of assets combined. A proportionate share of the capital asset costs are allocated as depreciation expense to each period that receives benefit. Until a capital asset is substantially ready to be placed into service, no benefit is received. Accordingly, DFS guidance[15] directs that depreciation expense is not to be recognized for assets such as *construction in progress*. To establish control and accountability for capital assets, the maintenance of accurate subsidiary records that support capital asset costs which are to be depreciated is essential.

[14] Department of Financial Services Rules, Chapter 69I-72, Florida Administrative Code.
[15] Chief Financial Officer Memorandum No. 05 (2011-2012).

During our audit, we reviewed the Department's recording and reporting of capital assets. We noted that the Department did not maintain sufficient subsidiary records to accurately account for the value of its buildings and capitalizable expenditures. Specifically, as of December 31, 2012, the Department had recorded in the State's accounting records, the Florida Accounting Information Resource Subsystem (FLAIR), $21.5 million for ongoing construction projects. However, Department-provided documentation indicated that $16.2 million of the $21.5 million related to projects that had been completed prior to the start of the 2012-13 fiscal year. As a result, the costs associated with these projects should have been capitalized as building assets in FLAIR and not recorded as ongoing construction projects. Specifically, of the $16.2 million:

- $11.9 million related to costs to construct the Lassen Nursing Home. The home was completed in May 2010 and the Nursing Home accepted its first resident on September 20, 2010.
- $4.3 million related to renovations to the Bennett Nursing Home and the Domiciliary. Both projects were completed during the 2010-11 fiscal year.

In addition, DFS guidance[16] specifies that building improvements are capital events that materially extend the useful life of a building, or both beyond one year. The guidance notes that building improvements should not include maintenance and repairs done in the normal course of business. As part of our audit, we noted $98,000 in minor repairs and maintenance expenses for the Domiciliary which were reported as ongoing construction costs as of December 31, 2012, instead of being expensed when incurred. These expenses were for work completed during the 2000-01 through 2003-04 fiscal years.

In response to our audit inquiry, Department management indicated that appropriate staff will meet on a monthly basis to reconcile data between the Homes Program's capital asset subsidiary records and the Department's FLAIR records. Further, the Department was in the process of establishing a tool to perform the reconciliation and ensure the accuracy of the FLAIR data. Without appropriately maintained capital asset subsidiary records, the Department's ability to properly account for its assets is limited.

Recommendation: We recommend that the Department improve its policies and procedures to ensure that adequate and accurate capital asset subsidiary records are maintained and used for the proper financial reporting of capital assets in accordance with DFS requirements.

Finding No. 9: Residents' Deposits Trust Fund Reporting

Generally accepted accounting principles[17] require that agency funds be used to report resources held by a reporting government in a purely custodial capacity. Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments. In the statement of net assets, agency fund assets should equal liabilities. Additionally, agency fund activities are to be reported in a statement of changes to assets and liabilities that may be presented as supplementary information to the government's financial statements.

As the Department has custodial responsibilities related to resident moneys maintained in the Residents' Deposits Trust Fund, the Department should use agency fund accounting for the Trust Fund. Throughout the fiscal year, the Department utilizes UltraCare to account for Trust Fund activities; therefore, to facilitate accurate financial reporting, the Department should record the related Trust Fund balances and activities in FLAIR at fiscal year-end. In our

[16] Ibid.
[17] *Governmental Accounting Standards Board Statement* 34.

report No. 2011-015, finding No. 5, we noted that the Department had not implemented procedures to ensure that the balances and activities of the Trust Fund were reported in FLAIR.

Our follow-up procedures disclosed that, while the Department had recorded a 2011-12 fiscal year-end balance for the Trust Fund, the Department had not recorded in FLAIR, Trust Fund deposits totaling $3.9 million or withdrawals of the same amount. Absent the proper recording of Residents' Deposits Trust Fund activities in FLAIR, the Department cannot demonstrate that Department financial records were prepared in accordance with generally accepted accounting principles. While the amounts of the Trust Fund activities were not material to the State's financial statements taken as a whole, the lack of proper accounting controls for required fiscal year-end accounting entries limits Department management's assurances that the Department's fiscal year-end close-out process promotes accurate financial reporting.

Recommendation: To promote the accurate financial reporting of the Residents' Deposits Trust Fund activities in accordance with generally accepted accounting principles, we recommend that the Department properly record activities in FLAIR and implement effective controls for fiscal year-end accounting entries.

Finding No. 10: Account Write-Offs

As previously noted, State law[18] requires that nursing home and Domiciliary residents contribute to the cost of their care based upon their level of income. During the 2011-12 fiscal year, the Department collected resident contributions totaling approximately $15 million and wrote off uncollectible accounts totaling approximately $19,000.

State law[19] provides that each State agency is responsible for exercising due diligence in securing full payment of all accounts receivable and other claims due the State and requires that, beginning October 1, 2010, and each October 1st thereafter, State agencies, including the Department, submit to the President of the Senate, the Speaker of the House of Representatives, and the Chief Financial Officer an account collection and write-off activities report that includes:

- A detailed list and total of all accounts that were referred for collection and the status of such accounts.
- A list and total of all delinquent accounts that were not referred to a collection agency, the reasons for not referring the accounts, and the actions taken by the Department to collect.
- A list of all accounts or claims which were written off by the Department during the prior fiscal year.

Department management, in response to our audit inquiry, indicated that the statutorily required reports detailing the Department's account collection and write-off activities had not been submitted.

Absent submission of account collection and write-off activities reports to legislative leadership and the Chief Financial Officer, the accountability required by law may be limited.

Recommendation: We recommend that the Department timely prepare and submit reports detailing account collection and write-off activities to the President of the Senate, Speaker of the House of Representatives, and Chief Financial Officer as required by State law.

[18] Sections 296.10 and 296.37, Florida Statutes.
[19] Section 17.20(3) and (4), Florida Statutes.

Finding No. 11: Information Technology Access Controls

Effective information technology (IT) access controls include provisions for the timely deactivation of employee IT access privileges upon employment termination. Prompt action is necessary to ensure that the access privileges of former employees are not misused by the former employee or others to compromise data or IT resources.

As part of our audit, we reviewed the access privileges for ten employees who terminated employment during the period July 2011 through December 2012. Our audit disclosed that access privileges to certain IT resources (UltraCare and the Department's network) for five of the employees remained active from 53 to 466 days after the employees' termination dates. Although the Department had implemented written procedures that required Department supervisors and managers to provide timely information to IT staff of all personnel status changes affecting access to the Department's network and other systems, the procedures did not provide a time frame in which access should be modified. Without effective procedures that ensure the prompt deactivation of employee access privileges upon employment termination, the Department is exposed to greater risk of unauthorized disclosure, modification, or destruction of Department data and IT resources.

Recommendation: To reduce the risks associated with unauthorized access, we recommend that the Department enhance its procedures to define the time frame in which personnel status change information is provided to IT staff and requisite access privilege changes are made.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the Department had taken corrective actions for the findings included in our report No. 2011-015.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit from February 2013 through June 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This operational audit focused on resident care assessments and collections, Residents' Deposits Trust Fund accounts, and nursing home service provider contracts. The audit also included a review of tangible personal property controls, financial reporting, and selected information technology controls.

The overall objectives of the audit were:

- To evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, administrative rules, contracts, grant agreements, and guidelines.
- To examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, the

reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those internal controls.

- To determine whether management had corrected, or was in the process of correcting, all deficiencies disclosed in our report No. 2011-015.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls, instances of noncompliance with applicable governing laws, rules, or contracts, and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit's findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included the selection and examination of transactions and records. Unless otherwise indicated in this report, these transactions and records were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature, does not include a review of all records and actions of agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, abuse, or inefficiency.

In conducting our audit we:

- Interviewed Department personnel.
- Obtained an understanding of internal controls and tested key processes related to resident care assessments and collections and Residents' Deposits Trust Funds. Specifically, we:
    - Analyzed Medicaid and Medicare billings and collections at the Department's Central Office as well as at all six nursing homes and the Domiciliary to determine whether payments were for rooms that were occupied by residents for the 2010-11 and 2011-12 fiscal years.
    - Analyzed occupancy rates and resident care reimbursements to evaluate the reasonableness of cost-of-care revenues compared to occupancy rates and verified that Department management was provided with timely occupancy rates and revenue reports for the 2010-11 and 2011-12 fiscal years.
    - Evaluated internal controls over resident account write-offs for the period July 2011 through February 2013.
    - Tested the assessment amounts recorded as due from 70 residents (10 at each of the six nursing homes and 10 at the Domiciliary) during the period July 2011 through February 2013 to determine whether facility staff properly calculated the amounts.

- Tested a total of 70 resident cost-of-care collections (10 at each of the six nursing homes and 10 at the Domiciliary) recorded during the period July 2011 through February 2013 to determine whether the collections were timely received.
- Evaluated the actions taken by staff at the nursing homes and the Domiciliary to safeguard moneys collected during the period July 2011 through February 2013.
- Evaluated internal controls over the Resident's Deposits Trust Funds at all six nursing homes and the Domiciliary and tested the facilities' compliance with the requirements of State law during the period July 2011 through February 2013.
- Tested 70 Residents' Deposits Trust Fund deposits (10 at each of the six nursing homes and 10 at the Domiciliary) made during the period July 2011 through February 2013 to determine whether the deposits were accurately recorded to the appropriate resident account.
- Tested a total of 70 cash disbursements (10 at each of the six nursing homes and 10 at the Domiciliary) and 70 disbursements made by check (10 at each of the six nursing homes and 10 at the Domiciliary) made from the Residents' Deposits Trust Fund during the period July 2011 through February 2013 to determine whether the disbursements were adequately supported and properly authorized.
- Tested the Residents' Deposits Trust Fund accounts for 105 residents (15 residents at each of the 6 nursing homes who were discharged or who deceased during the period July 2011 through February 2013 and 15 Domiciliary residents who were discharged or who deceased during the period July 2011 through February 2013) to determine whether the accounts were timely and properly closed-out and that Department close-out procedures were followed.
- Reviewed Residents' Deposits Trust Fund summaries at each of the nursing homes to determine whether the Department complied with Medicaid asset limit requirements during the period July 2011 through February 2013.

➢ Obtained an understanding of internal controls and tested key processes related to nursing home service provider contracts. Specifically, we:

- Reviewed the Department's contracts with Crothall Healthcare Inc., Functional Pathways, RehabCare Group East, Inc., and the USDVA to determine whether the contract documents complied with the requirements of State law.
- Reviewed Department procurement documentation for the Crothall Healthcare Inc., Functional Pathways, and RehabCare Group East, Inc., contracts to determine whether the contracts were procured in compliance with the requirements of State law.
- Tested 54 monthly compliance reviews (3 monthly reviews for 3 service providers at all 6 nursing homes) performed during the period July 2011 through February 2013 to determine whether the compliance checklist responses matched supporting documentation.
- Evaluated the Department's Purchasing Section compliance with Department and statutory contract monitoring requirements for the Crothall Healthcare Inc., Functional Pathways, RehabCare Group East, Inc., and USDVA contracts during the period July 2011 through February 2013.
- Tested 20 payments made during the period July 2011 through January 2013 to Crothall Healthcare Inc., Functional Pathways, RehabCare Group East, Inc., and the USDVA to verify that billings and payments were in accordance with contract terms and agreed with FLAIR records.
- Performed an analysis, covering the period July 2011 through February 2013, of contract payment amounts and compliance reviews for the Department's contracts with Crothall Healthcare Inc., Functional Pathways, RehabCare Group East, Inc., and the USDVA to identify and evaluate fluctuations in billings and payments by provider and nursing home and to evaluate the monthly compliance reviews by provider and home.

- Observed, documented, and evaluated the effectiveness of key processes and procedures for selected tangible personal property, capital asset, Residents' Deposits Trust Fund financial reporting, resident account write-off, and IT controls.
- Reviewed the Department's property and accounting records as of December 31, 2012, to determine whether the Department had timely inventoried all tangible personal property and properly recorded and reported capital assets.
- Tested user access privileges for ten employees who had terminated employment during the period July 2011 through December 2012 to determine whether the employees' access to UltraCare and the Department's network had been timely deactivated.
- Reviewed documentation for ten IT employees and assessed whether the Department maintained documentation demonstrating that the employees had undergone appropriate background screenings.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other audit procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe those matters requiring corrective actions.

AUTHORITY

Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each State agency on a periodic basis. Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



David W. Martin, CPA
Auditor General

MANAGEMENT'S RESPONSE

In a response letter dated August 9, 2013, the Executive Director of the Department provided responses to our audit findings and recommendations. The Executive Director's response is included as **EXHIBIT A**.

EXHIBIT A
MANAGEMENT'S RESPONSE

State of Florida
DEPARTMENT OF VETERANS' AFFAIRS
Office of the Executive Director
11351 Ulmerton Road, #311-K
Largo, FL 33778-1630
Phone: (727) 518-3202 Fax: (727) 518-3407
www.FloridaVets.org

Mike Prendergast
Executive Director

Rick Scott
Governor
Pam Bondi
Attorney General
Jeff Atwater
Chief Financial Officer
Adam Putnam
Commissioner of Agriculture

August 9, 2013

David W. Martin, CPA
Auditor General
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Mr. Martin:

Pursuant to Section 11.45(4) (d), Florida Statutes, we are providing our response to the preliminary and tentative operational audit findings and recommendations of the Department of Veterans' Affairs financial processes. Your staff was very professional and thorough during the audit process.

Administration management has been very proactive in improving the guidance provided since the Operational Audit in September 2010. The Department strives for excellence in program and administration responsibilities and appreciates your efforts in assisting us in further improving our operations.

Should you have questions regarding our responses, please contact Mr. Dave Alcorn, Inspector General, at 727-518-3202, x5570 or at AlcornD@fdva.state.fl.us.

Sincerely,

Mike Prendergast
Colonel, US Army (Retired)
Executive Director

"Honoring Those Who Served U.S. ®"

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

FLORIDA DEPARTMENT OF VETERANS' AFFAIRS
RESPONSE TO FLORIDA AUDITOR GENERAL PRELIMINARY AUDIT REPORT

Finding No. 1: Collection Safeguards

At State Veterans' Nursing Homes (SVNH) and Domiciliary, controls were not always sufficient to effectively safeguard moneys collected.

Recommendation:

We again recommend that the Department review and monitor the collection policies and procedures implemented at the nursing homes and Domiciliary. Proper collection controls should ensure that all checks are restrictively endorsed and logged at the time of receipt, and that all transfers of collections between employees are documented. In addition, to ensure the completeness of the facilities' accounting records, UltraCare collection records should be periodically reconciled to records of initial collection receipt.

Response:

The Department will revise standards and procedures[i] and implement monitoring activities, no later than December 31, 2013, to ensure compliance and adherence to applicable standards and procedures[i].

Finding No. 2: Resident Care Assessments

At one nursing home, the amounts charged to residents for services provided and supplies utilized were not supported by the cost records of such services and supplies. At another nursing home, annual financial update information used to verify resident income and determine resident assessments was not always on file or supported by adequate documentation.

Recommendation:

We recommend that the Department ensure that UltraCare resident account ledgers are updated to reflect applicable charges for all services received and supplies used by residents. Additionally, we recommend that AFU information be obtained, documented, and recorded in UltraCare in compliance with Department policies and procedures.

Response:

The Department will implement monitoring activities, no later than December 31, 2013, to ensure compliance and adherence to applicable standards and procedures[i].

Finding No. 3: Residents' Deposits Trust Fund Procedures

Some nursing homes and the Domiciliary did not effectively implement Department policies and procedures for the administration of the Residents' Deposits Trust Fund.

Recommendation:

To ensure the proper administration of the Residents' Deposits Trust Funds, we recommend that Department management continue to monitor Nursing Home and Domiciliary staff adherence to established Residents' Deposits Trust Funds procedures.

Response:

The Department will implement monitoring activities, no later than December 31, 2013, to ensure compliance and adherence to applicable standards and procedures[i].

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

FLORIDA DEPARTMENT OF VETERANS' AFFAIRS
RESPONSE TO FLORIDA AUDITOR GENERAL PRELIMINARY AUDIT REPORT

Finding No. 4: Resident Account Close-Out Process

Contrary to Department policy, some resident accounts were not subject to a final review upon a resident's discharge or death.

Recommendation:

To ensure the timely and accurate close-out of resident accounts, we recommend that all final resident account reviews be performed and documented in accordance with Department policies and procedures.

Response:

The Department will implement monitoring activities, no later than December 31, 2013, to ensure compliance and adherence to applicable standards and procedures[i].

Finding No. 5: Medicaid Asset Limit

The Department had not implemented effective policies and procedures to ensure that resident account balances complied with Medicaid asset limit requirements.

Recommendation:

We recommend that the Department ensure that applicable residents are timely and properly informed of potential Medicaid program ineligibility in accordance with Department policies and procedures. We also recommend that the Department further enhance its policies and procedures to define true spending balance, specify the anticipated costs that may be excluded from a resident's true spending balance, and describe the process for notifying the Medicaid program when a resident's assets exceed the Medicaid limit.

Response:

The Department will revise standards and procedures[i] and implement monitoring activities, no later than December 31, 2013, to ensure compliance and adherence to applicable standards and procedures[i].

Finding No. 6: Contract Monitoring

At some nursing homes, controls were not sufficient to ensure that documentation was maintained to evidence adequate contract monitoring efforts.

Recommendation:

We recommend that documentation of contract monitoring efforts be maintained to clearly demonstrate that contractual requirements were met and that any contractor performance deficiencies were appropriated remedied. We also recommend that the Department enhance its policies and procedures to specify contract monitoring documentation retention requirements.

Response:

The Department will revise its policy[j] and implement monitoring activities, no later than December 31, 2013, to ensure compliance and adherence to applicable policy[i].

Finding No. 7: Tangible Personal Property Controls

The Department had not effectively implemented policies and procedures to ensure the adequate control of attractive property items and did not timely inventory certain tangible personal property items.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

FLORIDA DEPARTMENT OF VETERANS' AFFAIRS
RESPONSE TO FLORIDA AUDITOR GENERAL PRELIMINARY AUDIT REPORT

Recommendation:

We recommend that the Department take appropriate actions to ensure that all attractive items are identified and tracked. We also recommend that the Department enhance its controls to ensure that all tangible personal property is properly accounted for during the physical inventory process.

Response:

The Department will revise standards and procedures[i], no later than March 31, 2014, to ensure that all attractive items are identified and tracked and appropriate controls are in place to accurately account for tangible property during the physical inventory process.

The Florida Accounting Information Resource (FLAIR) does not require items with a value of less than $1,000 to be tracked in the Property Subsystem. To ensure identification and tracking of attractive items outside of FLAIR, the Department developed and implemented a tracking system in May 2012.

During FY 2012-13, the Fiscal Property Unit performed physical audits of six (6) locations. Lists of attractive items were created for each of the facilities physically audited with the purpose of creating a base line of attractive items for identification and tracking purposes. During FY 2013-14, the remaining locations will be subject to a physical audit and the creation of the list of attractive items.

Finding No. 8: Capital Assets

The Department's policies and procedures did not ensure the adequacy and accuracy of Department capital asset records.

Recommendation:

We recommend that the Department improve its policies and procedures to ensure that adequate and accurate capital asset subsidiary records are maintained and used for the proper financial reporting of capital assets in accordance with DFS requirements.

Response:

The Department will revise standards and procedures[i], no later than March 31, 2014, to ensure compliance with DFS requirements.

Finding No. 9: Residents' Deposits Trust Fund Reporting

The Department's policies and procedures did not ensure that Residents' Deposits Trust Fund deposits and withdrawals were properly posted in the State's accounting records.

Recommendation:

To promote the accurate financial reporting of the Residents' Deposits Trust Fund activities in accordance with generally accepted accounting principles, we recommend that the Department properly record activities in FLAIR and implement effective controls for fiscal year-end accounting entries.

Response:

The Department will revise standards and procedures[i], no later than March 31, 2014, to ensure compliance with applicable standards and procedures[i]. Current procedures only include the recording in FLAIR of Resident Deposit Trust Fund's ending balance at fiscal year-end. Revised procedures will also include the recording at year-end of deposits and withdrawals in accordance with generally accepted accounting principles.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

FLORIDA DEPARTMENT OF VETERANS' AFFAIRS
RESPONSE TO FLORIDA AUDITOR GENERAL PRELIMINARY AUDIT REPORT

Finding No. 10: Accounts Write-Offs

The Department had not submitted account collection and write-off activities reports to the President of the Senate, Speaker of the House of Representatives, and Chief Financial Officer although required by State law.

Recommendation:

We recommend that the Department timely prepare and submit reports detailing account collection and write-off activities to the President of the Senate, Speaker of the House of Representatives, and Chief Financial Officer as required by State law.

Response:

The Department is in the process of implementing a Debt Collection Program and developing standards and procedures to ensure timely reporting of account collection and write-off activities in compliance with DFS requirements. The target completion date is June 30, 2014.

Finding No. 11: Information Technology Access Controls

The Department did not always timely remove terminated employees' access to the Department's network and the UltraCare database.

Recommendation:

To reduce the risks associated with unauthorized access, we recommend that the Department enhance its procedures to define the time frame in which personnel status change information is provided to IT staff and requisite access privilege changes are made.

Response:

The Department will revise standards and procedures[i] and develop monitoring activities, no later than August 31, 2013, to ensure compliance and adherence to Information Technology access control measures.

[i] Florida Auditor General preliminary report included recommendations throughout the document for the enhancement of policies and procedures. The Department responses make reference to the enhancement of standards and procedures and/or policy, as applicable. It is our understanding that this distinction provides clarity to the corrective action(s) planned by the Department to cure the deficiency and identifies the area to be subject for review to ensure timely implementation of proposed action plan.