

DEPARTMENT OF VETERANS' AFFAIRS

Operational Audit



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. The late LeRoy Collins, Jr. 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 Sherrill F. Norman, CPA, Audit Manager, by e-mail at sherrillnorman@aud.state.fl.us or by telephone at (850) 487-9316.

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) 487-9024; 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 the system used by the Department to manage the financial and clinical functions of the Department's Domiciliary and nursing homes. The scope of the audit also included a follow-up on prior audit findings.

RESIDENT CARE ASSESSMENTS AND COLLECTIONS

Finding No. 1: At some nursing homes, controls were not 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.

RESIDENTS' DEPOSITS TRUST FUNDS

Finding No. 3: The nursing homes did not effectively implement Department standards and procedures for the administration of the Residents' Deposits Trust Funds.

Finding No. 4: Resident accounts were not properly and timely closed out upon a resident's discharge or death.

Finding No. 5: The Department had not implemented procedures to ensure that activities and balances of Residents' Deposit Trust Funds were reported as required by generally accepted accounting principles.

POSITIONS OF SPECIAL TRUST

Finding No. 6: The Department did not ensure that, prior to hire, appropriate security background investigations of individuals in positions of special trust had been performed.

BACKGROUND

The 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 1.7 million veterans and their families.²

Pursuant to State law, the Department provides long-term health care services for honorably discharged veterans through a domiciliary (assisted living facility) and five nursing homes.³ A sixth nursing home is scheduled to open in late 2010. State law requires the Department to operate the nursing homes under the State provisions for licensed health care facilities.⁴ Table 1 provides a listing of the names and locations of the Department-operated residential facilities.

¹ Section 292.05(1), Florida Statutes.

² Department 2008-09 *Annual Report*, dated December 31, 2009.

³ Chapter 296, Florida Statutes.

⁴ Sections 296.33(4) and 400.23, Florida Statutes.

Table 1
Veterans' Domiciliary and Nursing Homes
Number of Beds, Authorized Staff Positions, Resident Care Assessments,
Resident Care Collections, and Residents' Deposits Trust Fund Balances

Facility	Location	2008-09 Fiscal Year				Total Residents' Deposits Trust Fund Balances at June 30, 2009
		Number of Available Beds	Number of Authorized Staff Positions	Total Resident Care Assessments ^b	Total Resident Care Collections	
Robert H. Jenkins, Jr. Veterans' Domiciliary Home (Domiciliary)	Lake City	150 ^a	63.50	\$ 2,988,579	\$ 2,799,824	\$108,721
Emory L. Bennett State Veterans' Nursing Home (Bennett Nursing Home)	Daytona Beach	120	147.00	9,506,375	8,188,254	122,758
Douglas T. Jacobsen State Veterans' Nursing Home (Jacobsen Nursing Home)	Port Charlotte	120	135.00	10,062,020	10,060,611	79,580
Baldomero Lopez State Veterans' Nursing Home (Lopez Nursing Home)	Land O'Lakes	120	152.00	11,645,573	10,273,372	8,755
Alexander Nininger State Veterans' Nursing Home (Nininger Nursing Home)	Pembroke Pines	120	136.00	10,961,610	9,225,157	113,954
Clifford Chester Sims State Veterans' Home (Sims Nursing Home)	Springfield	120	132.00	9,747,548	8,582,183	106,872
Clyde E. Lassen State Veterans' Nursing Home (Opening in Late 2010)	St. Augustine	-	-	-	-	-
Totals		750	765.50	\$54,911,705	\$49,129,401	\$540,640

Sources: Department Web site and staff, UltraCare, and Florida Accounting Information Resource Subsystem (FLAIR).

Notes:

^a Due to renovation projects, 37 of the 150 beds at the Domiciliary were not available during the 2008-09 fiscal year.

^b Resident Care Assessment amounts were compiled using UltraCare records and include Medicare, Medicaid, and VA Per Diem assessments. As the Department did not capture the total amounts billed for resident contributions and third-party private insurers until the 2009-10 fiscal year, the amounts collected from resident contributions and third-party private insurers have been added to the Medicare, Medicaid, and VA Per Diem assessments for presentation purposes.

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 Domiciliary and nursing homes. UltraCare provides integrated financial and clinical modules including: Admissions, Assessments, Resident Care Plans, Billings, Accounts Receivable, 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

⁵ Title 45, Section 164, Code of Federal Regulations (2010), Subpart C.

FINDINGS AND RECOMMENDATIONS

Resident Care Assessments and Collections

Domiciliary and nursing home residents are required by State law to contribute to the cost of their care based upon their level of income.⁶ In addition to resident contributions, the Domiciliary and nursing homes receive per diem payments, based on the facility’s occupancy, from the United States Department of Veterans Affairs (USDVA) and, for eligible residents, payments from third-parties such as private insurance and the Medicare and Medicaid programs. The operating costs of the Domiciliary and nursing homes are also funded, in part, by General Revenue.

Finding No. 1: Collection Safeguards

Appropriate safeguards for money 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, securing collections until they can be timely deposited, timely recording collections in the accounting system, and reconciling accounting system records to initial collection receipts or logs. During the 2008-09 fiscal year, total revenue collected by the Domiciliary and nursing homes totaled approximately \$49 million. We evaluated the collection controls at the Domiciliary and nursing homes and noted the following deficiencies:

- Contrary to Department policy, Sims Nursing Home staff did not attach pre-numbered manual receipts to system-generated receipts or periodically compare the manual receipts to UltraCare records to ensure that the amounts collected were entered into UltraCare accurately and completely. In addition, Sims Nursing Home staff did not document the transfer of collections from one employee to another.
- Bennett Nursing Home staff did not log incoming checks or document the transfer of collections from the person receiving the collections to the nursing home staff responsible for entering the collections into UltraCare. The absence of the logs precluded a determination that the amounts received at the initial point of collection were ultimately deposited. Additionally, checks were not restrictively endorsed at the point and time of receipt.
- Although Nininger Nursing Home staff purported that a list of checks pending deposit due to required resident endorsement was maintained as evidence of the transfer of collections, Nursing Home staff were unable to provide such a list for our examination. In response to our audit inquiry, Nursing Home staff indicated that the person responsible for maintaining the list had separated from employment with the Nursing Home prior to our audit field work and the list could not be located.

We noted similar findings in prior audit reports, most recently in report No. 2009-197. Absent effective collection controls, the risk is increased that funds will be misappropriated, any theft or loss will not be prevented or timely detected, and accounting records will be inaccurate.

Recommendation: We recommend that the Department review and monitor the collection procedures implemented at the nursing homes noted above. Proper collection controls should ensure that all checks are restrictively endorsed and logged at time of receipt and that all transfers of collections between employees are documented. In addition, to ensure the completeness of nursing home accounting records, UltraCare records should be periodically reconciled to records of initial collection. To serve as an additional safeguard and facilitate the reconciliation of UltraCare records to records of initial collection, lists of checks that are not immediately deposited due to lack of required resident endorsement should be maintained.

⁶ 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.

Finding No. 2: Resident Care Assessments

We examined resident care assessments for a total of 60 residents, 10 residents at the Domiciliary and 10 residents at each of the Department’s five nursing homes. Our examination included an analysis of whether the account ledgers for the selected residents correctly reflected charges for the various services received and supplies used by the residents during the period March 2008 through February 2010.

Our tests disclosed that, for the resident account ledgers tested at the Domiciliary and four of the five nursing homes, the resident care assessments were properly recorded. However, our tests of the resident account ledgers at the Nininger Nursing Home disclosed that controls related to resident care assessments may not have been effective. Specifically, we noted that, for 4 of the 6 Nininger Nursing Home residents who received supplies or services, the amounts recorded in the resident’s UltraCare account ledger did not agree with the amounts on reports of items dispensed to residents (Resident Margin Reports):⁷

- For 3 residents, items listed on the Resident Margin Reports were not recorded in the residents’ UltraCare account ledgers. Specifically:
 - For one resident, 2 items listed on the Resident Margin Report with a total value of \$2.93 were not recorded in the resident’s UltraCare account ledger. An additional item was assessed at \$39, but the amount recorded in the resident’s account ledger was \$90. As a result of these errors, this resident’s account was overcharged \$48.07.
 - For the second resident, 12 items listed on the Resident Margin Report were not recorded in the resident’s UltraCare account ledger. As a result, the resident’s account was undercharged \$110.81.
 - For the third resident, 5 items listed on the Resident Margin Report were not recorded in the resident’s UltraCare account ledger. As a result, the resident’s account was undercharged \$48.01.
- Another resident’s account was overcharged \$38.25 as the resident was billed \$22.50 each for 3 items listed on the Resident Margin Report at a cost of \$9.75 each.

As UltraCare resident account ledgers provide the means for capturing the amounts billed, collected, and outstanding for the services received and supplies utilized by each Domiciliary or nursing home resident, record accuracy and completeness is critical. In response to our audit inquiry, Nininger Nursing Home staff indicated that the above differences resulted either from UltraCare data entry errors or Resident Margin Report pricing adjustments.

Recommendation: The Department should ensure that UltraCare resident account ledger procedures at the Nininger Nursing Home be enhanced to ensure that resident account ledgers are charged the correct prices for services and supplies. Such procedures should include independent verification that the amounts charged agree with the applicable Resident Margin Report and require that documentation of the accuracy and approval of any pricing adjustments be maintained. Additionally, Nininger Nursing Home staff should take appropriate actions to correct the errors noted above.

Residents’ Deposits Trust Funds

Pursuant to State law, the Department administers Residents’ Deposits Trust Funds in separate local bank accounts for the Domiciliary and each of the nursing homes.⁸ The law requires that, within each Trust Fund, accounts be

⁷ Resident Margin Reports, generated by the Department’s Veterans Tracking and Central Supply (V-TRACS) system list items dispensed for each resident along with the cost and price for each item.

⁸ Sections 296.12 and 296.38, Florida Statutes.

maintained for each resident without charge and that the residents may voluntarily withdrawal all personal moneys deposited and interest earned.

Finding No. 3: Residents' Deposits Trust Fund Procedures

In report Nos. 2007-049 and 2009-197, we noted that the Department had not implemented effective 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 standards and procedures for the administration of the Trust Funds that, if effectively implemented, would provide improved accountability.⁹ To determine whether facility staff had appropriately implemented the standards and procedures, we performed audit procedures at the Domiciliary and five nursing homes and noted that:

- Lopez and Jacobsen Nursing Home staff did not consistently obtain or maintain appropriate documentation of authorizations for disbursements from resident accounts. Specifically, written authorizations were not available for 2 of the 37 disbursements tested. The authorizations for another 10 disbursements did not contain the required signatures of two witnesses.
- Bennett and Nininger Nursing Home staff did not timely research, cancel, or stop payment on checks identified as outstanding during the performance of bank account reconciliations. Specifically, at the Bennett Nursing Home, 11 checks totaling \$495 had been shown as outstanding from 4 months to more than 10 years as of January 2010. Similarly, at the Nininger Nursing Home, 4 checks totaling \$2,563 had been shown as outstanding from 5 months to more than 2 years as of January 2010. In addition, the Department had undertaken a project whereby all the bank reconciliations for the Sims Nursing Home were to be reperformed. According to Department management, the project was necessary as the reconciliations originally performed by Sims Nursing Home staff were inaccurate and appropriate accounting entries had not been made. Accordingly, Department management determined that reperformance of the bank reconciliations from the time the Sims Nursing Home opened in 2003 was in the best interest of the Nursing Home and residents. While, at the time of our audit field work in April 2010, the Department had completed the reperformance of the reconciliations for the months of October 2003 through March 2006, the Department had not completed the reconciliations or researched all the outstanding checks for the months subsequent to March 2006. Department management indicated that the reconciliations were being reperformed as time permitted.
- Bennett Nursing Home staff did not timely update authorized signatures for the bank account after the retirement of a nursing home employee. Specifically, the employee retired effective October 21, 2009, but the authorized signatures were not updated with the bank until March 12, 2010, subsequent to our audit inquiry.

The deficiencies noted above primarily resulted from turnover in nursing home staff or lack of effective implementation of the new Residents' Deposits Trust Funds standards and procedures. These deficiencies increase the risk that resident moneys will be subjected to unauthorized disbursements or inappropriate charges.

Recommendation: To ensure the proper administration of the Residents' Deposits Trust Funds, we recommend that Department management monitor Domiciliary and nursing home staff implementation of and adherence to established Residents' Deposits Trust Funds standards and procedures. In addition, we recommend that the Department continue its efforts to reperform the bank reconciliations for the Sims Nursing Home and take appropriate action to resolve any reconciling items and stop payment on any outstanding checks.

⁹ FDVA 5040.6-A, *Residents' Trust Fund Business Office Standards and Procedures*, dated February 2, 2009.

Finding No. 4: Resident Account Close-Out Process

State law 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.¹⁰ Department policy requires that, if the amount of funds exceeds \$50, a final review of the account be conducted by Department staff prior to the disbursement of the funds.¹¹ For the period July 2008 through February 2010, we identified a total of 678 resident accounts at the Domiciliary and nursing homes that required close-out due to the death or discharge of the resident.

We examined documentation for 90 resident accounts (15 at each nursing home and 15 at the Domiciliary) and noted that, for the Domiciliary and three of the five nursing homes, resident accounts were properly reviewed and funds were timely disbursed upon the death or discharge of a resident. However, as similarly noted in report Nos. 2007-049 and 2009-197, our current audit disclosed instances at two nursing homes in which resident accounts were not closed out in accordance with Department procedures. Specifically:

- For the resident accounts selected for testing at the Jacobsen Nursing Home:
 - Five resident accounts had funds exceeding \$50 on the dates of residents’ deaths or discharges. Contrary to Department policy, there was no evidence, for 4 of the 5 resident accounts, of Department staff review prior to the disbursement of funds totaling \$3,589.
 - There was insufficient documentation to support the close-out disbursement for 2 resident accounts. For one account, the payee’s identity was not properly documented as either the resident’s heir or designated representative. For the other account, Nursing Home staff used \$1,859 of the resident’s \$2,228 account balance to pay outstanding room and board assessments absent evidence that the resident’s account ledger had been reviewed prior to the transfer of funds.
 - For 4 resident accounts, the number of days between the former resident’s discharge or death and the Nursing Home’s disbursement of funds exceeded 30 days by 7 to 58 days.
- Although 9 resident accounts selected for testing at the Nininger Nursing Home had funds exceeding \$50 on the dates of the residents’ deaths or discharges, there was no evidence of Department staff review prior to the disbursement of funds totaling \$765 for 4 of the 9 accounts.

To ensure accountability and compliance with State law, timely review and close-out of a resident’s trust fund account upon the resident’s discharge or death is essential. The conditions noted above were the result of inadequate administrative oversight, lack of evidence of final review, or turnover in the nursing homes’ business manager positions.

Recommendation: The Department should monitor the nursing homes’ adherence to Department resident trust fund account close-out procedures to ensure that the nursing homes can demonstrate that the accounts are timely closed out and that amounts are paid in the correct amounts and only to authorized persons. In addition, the Department should retain evidence of all final account reviews performed.

Finding No. 5: Residents’ Deposits Trust Fund Reporting

Generally accepted accounting principles require that agency funds be used to report resources held by the reporting government in a purely custodial capacity.¹² Agency funds typically involve only the receipt, temporary investment,

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

¹¹ FDVA 5040.6-A, *Residents’ Trust Fund Business Office Standards and Procedures*, dated February 2, 2009.

¹² *Governmental Accounting Standards Board Statement 34*.

and remittance of fiduciary resources to individuals, private organizations, or other governments. In the statement of net assets, agency fund assets should equal liabilities. Also, agency fund activities may be reported in a statement of changes to assets and liabilities that may be presented as supplementary information to the 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 the Residents’ Deposit Trust Fund activities; therefore, to facilitate accurate financial reporting, the Department should record the related Trust Fund balances and activities in FLAIR (the State’s accounting records) at fiscal year-end. However, our audit disclosed that, for the past several years, including the 2007-08 and 2008-09 fiscal years, the Department did not record in FLAIR the Residents’ Deposits Trust Fund balances or activities. According to UltraCare records, during the 2008-09 fiscal year, deposits to the Trust Fund totaled \$3.68 million and withdrawals totaled \$3.56 million and, at June 30, 2009, the balance in the Trust Fund was \$540,640.

Absent the proper recording of Residents’ Deposits Trust Fund balances and 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 balances and activities are not material to the State’s financial statements taken as a whole, the lack of proper accounting controls, such as an effective supervisory review of required fiscal year-end accounting entries, limit 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 balances and activities in accordance with generally accepted accounting principles, we recommend that the Department properly record Trust Fund activities and balances in FLAIR and implement effective accounting controls, including supervisory review of required fiscal year-end accounting entries.

Positions of Special Trust

Finding No. 6: Background Investigations

Agency for Enterprise Information Technology (AEIT) guidelines provide that information technology positions are positions of special trust and that agencies are to conduct background investigations as set forth in State law.¹³ State law requires security background investigations for persons in positions of special trust as a condition of employment and continued employment.¹⁴ Those background investigations are to follow level 2 screening standards which include fingerprinting, Statewide criminal and juvenile records checks through the Florida Department of Law Enforcement, and Federal criminal records checks through the Federal Bureau of Investigation.¹⁵

Due to the confidential nature of the Domiciliary and nursing home resident health information maintained in UltraCare, security background investigations of Department information technology (IT) staff are especially important. Our audit procedures disclosed that, although the Department had designed procedures to comply with the AEIT guidelines and State law, the Department had not conducted, prior to hire, the required security background

¹³ Agency for Enterprise Information Technology, Office of Information Security, *Information Security Policies, Agency Guidelines*, dated August 2007.
¹⁴ Section 110.1127, Florida Statutes.
¹⁵ Sections 110.1127(2)(c) and 435.04, Florida Statutes.

investigations for four of the Department’s ten IT staff. Subsequent to audit inquiry, the Department conducted the necessary background investigations.

Absent documentation of the conduct of requisite security background investigations, the Department cannot demonstrate that only persons with the appropriate backgrounds are allowed access to sensitive Department IT resources and confidential personal information of residents.

Recommendation: The Department should ensure that security background investigations, including level 2 screenings, are conducted for all IT staff in accordance with Department policy.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the Department had taken appropriate corrective actions for the applicable findings included in our report Nos. 2007-049 and 2009-197.

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 2010 to July 2010 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 Funds, and UltraCare.

The overall objectives of the audit were:

- To evaluate the effectiveness of established internal controls in achieving management’s control objectives in the categories of compliance with controlling laws, administrative rules, and other guidelines; the economic, efficient, and effective operation of State government; the relevance and reliability of records and reports; and the safeguarding of assets.
- To evaluate management’s performance in achieving compliance with controlling laws, administrative rules, and other guidelines; the economic, efficient, and effective operation of State government; the relevance and reliability of records and reports; and the safeguarding of assets.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

Our audit also included steps to determine whether management had corrected, or was in the process of correcting, all applicable deficiencies disclosed in report Nos. 2007-049 and 2009-197.

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:

- Evaluated internal controls over the resident contribution Medicaid and Medicare billings and collections at the Department's Central Office as well as at the Domiciliary and all five nursing homes.
- Performed an analysis of occupancy rates and resident care reimbursements to evaluate the reasonableness of cost-of-care revenues compared to occupancy rates and to verify that Department management was provided with timely occupancy rates and revenue reports.
- Evaluated internal controls over resident account write-offs.
- Tested the contribution amounts recorded as due from 60 residents (10 at each of the five nursing homes and 10 at the Domiciliary) to determine whether facility staff properly calculated the amounts.
- Tested a total of 60 resident cost-of-care collections (10 at each of the five nursing homes and 10 at the Domiciliary) 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.
- Evaluated internal controls over the Resident's Deposits Trust Funds at all five nursing homes and the Domiciliary to determine the facilities' compliance with State law.
- Tested 60 Resident's Deposits Trust Fund deposits (10 at each of the five nursing homes and 10 at the Domiciliary) to determine whether the deposits were accurately recorded to the appropriate resident account.
- Tested a total of 60 cash disbursements (10 at each of the five nursing homes and 10 at the Domiciliary) and 60 disbursements made by check (10 at each of the five nursing homes and 10 at the Domiciliary) from the Residents' Deposits Trust Fund to determine whether the disbursements were adequately supported and properly authorized.
- Tested the Resident's Deposits Trust Fund accounts for 90 residents (15 discharged or deceased residents at each of the five nursing homes and 15 discharged or deceased residents at the Domiciliary) to determine whether the accounts were timely and properly closed-out and that Department close-out procedures were followed.
- Evaluated whether selected general and application IT controls were in place and tested key processes and procedures related to UltraCare. Specifically, we:
 - Observed, documented, and evaluated the effectiveness of key processes and procedures for selected IT general controls relating to separation of duties, physical and environmental safeguards, systems development and maintenance, access controls, and password controls.
 - Tested the user account access for 10 employees who terminated during the period July 2008 through February 2010 to determine whether the employees' access to UltraCare and the Department network had been timely canceled.
 - Observed, documented, and evaluated the effectiveness of key processes and procedures for selected IT application controls relating to data input, data processing, and data output controls.
- 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 biennial 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 letter dated September 28, 2010, the Interim Executive Director provided responses to our preliminary and tentative audit findings. The Interim Executive Director's response is included as **EXHIBIT A**.

**EXHIBIT A
MANAGEMENT'S RESPONSE**



Robert F. Milligan
Interim Executive Director

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Charlie Crist
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Charles Bronson
Commissioner of Agriculture

September 28, 2010

Mr. David W. Martin, Auditor General
111 W. Madison Street
Tallahassee, FL 32399-1450

Dear Mr. Martin,

The report of preliminary and tentative audit findings and recommendations for the Auditor General's Operational Audit conducted February to July 2010, identified six areas as having deficiencies. The report has been reviewed with emphasis on documentation, procedures, and practices. Each specific area of concern will be reviewed in light of these findings.

The department's response follows Auditor General format, and responds to each finding individually. FDVA considers this review as an opportunity to focus, or refocus as needed, on areas that deserve additional attention in the agency.

Finding One: At some nursing homes, controls were not sufficient to effectively safeguard moneys collected.

Recommendation 1: We recommend that the Department review and monitor the collection procedures implemented at the Sims, Bennett, and Nininger nursing homes. Proper collection controls should ensure that all checks are restrictively endorsed and logged at time of receipt and that all transfers of collections between employees are documented. In addition, to ensure the completeness of nursing home accounting records, UltraCare records should be periodically reconciled to records of initial collection. To serve as an additional safeguard and facilitate the reconciliation of UltraCare records to records of initial collection, lists of checks that are not immediately deposited due to lack of required endorsement should be maintained.

Response: FDVA Standards/Procedures 2200.7-A, Business Office Procedures for Funds Received, was revised September 14, 2010 to include controls to ensure that all transfers of collections between employees are documented and a list of checks that are not endorsed is maintained. An In-Service training on the revised Funds Received procedure was provided to the facility Business Office Managers via a conference call on September 22, 2010.

Finding Two: 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.

Recommendation 2: The Department should ensure that UltraCare resident account ledger procedures at the Nininger Home be enhanced to ensure that resident account ledgers are charged the correct prices for services and supplies. Such procedures should include independent verification that the amounts charged agree with the applicable Resident Margin Report and require that documentation of the accuracy and approval of any pricing adjustments be maintained. Additionally, Nininger Nursing Home staff should take appropriate actions to correct errors noted.

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EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

Response: FDVA Standards/Procedures 2200.7-C, Nursing Home Monthly Billing Procedure Checklist Prior to Statements, was revised September 16, 2010 to ensure that controls are in place to capture all supplies dispensed to residents per the Resident Margin Reports from V-Tracs and are correctly recorded in UltraCare on the residents accounts. An In Service training on the monthly down loading of V-Tracs into UltraCare was provided to the facility Business Office Managers via a conference call on September 22, 2010.

Based upon review of the errors, there was no under billing of the residents due to the pay status of these residents. The items would have been charged and memo billed off as the residents were in an all inclusive payor type, the facility absorbs the cost of these items.

Finding Three: The nursing homes did not effectively implement Department standards and procedures for the administration of Resident's Deposit Trust Funds.

Recommendation 3: To ensure the proper administration of the Resident's Deposits Trust Funds, we recommend that Department management monitor Domiciliary Home and Nursing Home staff implementation of and adherence to established Resident's Deposit Trust Funds standards and procedures. In addition, we recommend that the Department continue its efforts to reperform the bank reconciliations for the Sims Nursing Home and take appropriate action to resolve any reconciling items and stop payment on any outstanding checks.

Response: An In-Service training on the established Residents' Deposits Trust Funds standards and procedures was provided to the facility Business Office Managers via a conference call on September 22, 2010. The Regional Business Office Manager will monitor the domiciliary home and nursing home implementation and adherence of the Residents' Deposits Trust Funds procedures via monthly reports and visits to the facilities.

As of September 22, 2010 all reconciling items and outstanding checks for the domiciliary home and all the nursing homes except Sims has been cleared.

As of September 21, 2010 a review of the Resident's Trust Fund signature cards for the domiciliary home and the nursing homes was performed and all facilities have up to date sign cards on file.

The department is continuing its efforts to re-perform the bank reconciliations for the Sims Nursing Home and will take appropriate action to resolve any reconciling items and outstanding checks.

Finding Four: Resident accounts were not properly and timely closed out upon a resident's discharge or death.

Recommendation 4: The Department should monitor the nursing homes' adherence to Department resident trust fund account close-out procedures to ensure that the nursing homes can demonstrate that the accounts are timely closed out and that amounts are paid in the correct amounts and only to authorized persons. In addition, the Department should retain evidence of all final account reviews performed.

Response: FDVA Standards/Procedures 5040.6-A, Residents' Trust Fund, was revised September 22, 2010 to add the procedure of maintaining a copy of the refund authorization in the resident's Trust Fund folder. An In-Service training on the revised Residents' Deposits Trust Funds procedure was provided to the facility Business Office Managers via a conference call on September 22, 2010.

The Finance and Accounting Director monitors the closing of the Resident Trust Fund Accounts on a monthly basis. As of September 22, 2010 all resident trust fund accounts on residents expired or discharged greater than 30 days old are closed and refunds have been issued as required.

EXHIBIT A
MANAGEMENT’S RESPONSE (CONTINUED)

Finding Five: The Department had not implemented procedures to ensure that activities and balances of Resident’s Deposit Trust Funds were reported as required by generally accepted accounting principles.

Recommendation 5: To promote the accurate financial reporting of the Resident’s Deposit Trust Funds balances and activities in accordance with generally accepted accounting principles, we recommend that the Department properly record Trust Fund activities and balances in FLAIR and implement effective accounting controls, including supervisory review of required fiscal year-end accounting entries.

Response: The department is in the process of implementing policies and procedures to record the Residents’ Deposit Trust Fund activities in the Florida Accounting Information Resource (FLAIR) at fiscal year-end.

At fiscal year-end each Business Manager in the state veterans’ homes will submit the “Resident Trust Fund Summary” report that is maintained in UltraCare to the Accounting Service Administrator at the Headquarters Office. The “Resident Trust Fund Summary” report shows the beginning balance, deposits, withdrawals and ending balance in each account at fiscal year-end. The Accounting Services Administrator will be responsible for recording these activities for each Home in FLAIR at fiscal year-end.

The added procedure will be implemented to ensure accurate financial recording of the Residents’ Deposit Trust Fund balances and activities in FLAIR in accordance with generally accepted accounting principles. We anticipate recording the balances for the next fiscal year end, June 30, 2011.

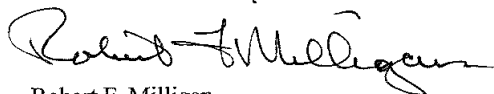
Finding Six: The Department did not ensure that, prior to hire, appropriate security background investigations of individuals in positions of special trust had been performed.

Recommendation 6: The Department should ensure that security background investigations, including Level 2 screenings, are conducted for all IT staff in accordance with Department policy.

Response: All members of the FDVA IT Program have accomplished the electronic fingerprinting requirements for a Level II Employee Background Check. This measure fully satisfies Finding No. 6 regarding Positions of Special Trust and the department will ensure this step is taken with any new hires in the IT Program.

I wish to thank the audit team for a job well done. Their efforts have identified areas where focused attention will improve performance and efficiency, which will provide more effective support of the veterans programs in the state of Florida.

Sincerely,



Robert F. Milligan
Lieutenant General, USMC (Ret)
Interim Executive Director