State of Florida
DEPARTMENT OF VETERANS' AFFAIRS
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Adam Putnam
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31 October 2014

Mike Prendergast
Colonel, US Army, Retired
Executive Director
Florida Department of Veterans' Affairs

Dear Colonel Prendergast,

As required by Section 20.055(5)(g) Florida Statutes, I have prepared the status of the corrective actions taken by the Florida Department of Veterans' Affairs for findings and recommendations contained in Auditor General Report 2014-007 FDVA Operational Audit 2013.

I will schedule a quarterly meeting for you (or your Deputy if you are not available) no later than 31 January 2015 to provide the FDVA Board of Directors an update of current open items. The office of primary responsibility within the agency for each item will brief the current status during this meeting and provide any recommendations to close items for your approval.

If you have any questions, please feel free to contact me at 727-518-3202 extension 5620.

Sincerely,

Nancy Hoang, CPA, CFE
Audit Director

cc: Auditor General
Joint Legislative Auditing Committee
Auditor General Manager
Office of the Chief Inspector General, Director of Auditing
Deputy Director

Report Title: Operational Audit

Audit Source: Auditor General   Report#: 2014-007   Date: August 2013

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

- Receipting and logging of collection. 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 the staff only prepared receipts for incoming checks, but 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.

- 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, 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, the 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.

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

Recommendation: The Department should 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 collection 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.

Management's Initial Response: The Department will revise standards and procedures and will implement monitoring activities, no later than 31 December 2013, to ensure compliance and adherence to standards and procedures.

Six Month Response (10 Feb 14):

- The Billings department revised Standard Operating Procedure #2207 Funds Received, with Homes Director's approval on 1 October 2013. The revised procedures include all checks are restrictively endorsed and logged at the time of receipt. In addition, all transfers of collections between employees are documented.
- The Billings department moved a position to the Regional Business Manager to serve as back-up. The Home Administration hired an accountant on 7 October 2013 and developed a process to audit the Business office two times per year.

Updated Response (25 August 2014): The Department hired an Accountant to perform compliance on Florida Department of Veterans' Affairs policies.

Current Status: Open

Estimated Completion Date: 14 January 2015

Finding #5: Medicaid Asset Limit

Residents in Department facilities may receive assistance from the Medicaid program to pay for services received. Federal regulations 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 also 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, the Department policies and procedures require that when the true spending balance in a Medicaid-participating Resident Trust Fund (RTF) account is 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, the Department policy requires that when a Medicaid-participating RTF account's true spending balance reaches $1,800, the resident or resident's representative is to be notified in writing that the resident is approaching the Medicaid asset limit of $2,000. The Department's notification template indicates that if a Medicaid-participating RTF account's true spending balance exceeded the $2,000 limit, the Medicaid program is to be notified and that Medicaid benefits may stop.

As part of the audit, Medicaid participant RTF account balances were tested at Bennett, Jacobson, Nininger, and Sims nursing homes and noted the following deficiencies:

- 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 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 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 provided 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 the 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 accounts' 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-participant RTF account's true spending balance exceeded $2,000. Although not addressed in Department policies and procedures, the Department's notification template did not indicate that the Medicaid program was to be notified if a resident's balance exceeded $2,000.

<u>Recommendations</u>:

- The Department ensures that applicable residents are timely and properly informed of potential Medicaid program ineligibility in accordance with Department policies and procedures.
- The Department further enhances 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.

Management's Initial Response: The Department will revise standards and procedures and will implement monitoring activities, no later than December 31, 2013, to ensure compliance and adherence to standards and procedures.

Six Month Response (10 Feb 14):

- The Home Administration will revise the standards operating procedures, notify all the Homes on the revisions, and develop monitoring activities to ensure adherence to policies.
- The Home Administration hired an accountant on 7 Oct 13 and developed a process to audit the Business office two times per year.

Updated Response (25 August 2014): The Department hired an Accountant to perform compliance on Florida Department of Veterans' Affairs policies.

Current Status: Open

Estimated Completion Date: 14 January 2015

Finding #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's guidance 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.

As part of the audit, a review of the Department's recording and reporting of capital assets was conducted and 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 has 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 project 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's guidance 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 the audit, $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.

Recommendation: The Department improves 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.

Management's Initial Response: The Department will revise standards and procedures, no later than March 31, 2014 to ensure compliance.

Six Month Response (10 Feb 14): The Standards Operating Procedures are under review.

Updated Response (25 August 2014): The Department will validate depreciation amount on Capital Assets and will provided depreciation processes. The information will be presented to the Executive Director by 30 September 2014.

Current Status: Open

Completion Date: 30 September 2014