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We have completed an audit of the Office of Veterans' Services. This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions. The results of our audit, including findings, conclusions, recommendations, and the Office's response, are presented in this report.

We wish to express our appreciation to the management and staff of the Office of Veterans' Services for their assistance during the audit.

Respectfully presented,

A handwritten signature in black ink, appearing to read "Paul V. Townsend".

Paul V. Townsend, CPA  
Legislative Auditor

January 30, 2004  
Carson City, Nevada

STATE OF NEVADA  
OFFICE OF VETERANS' SERVICES

AUDIT REPORT

**Table of Contents**

	<u>Page</u>
Executive Summary.....	1
Introduction.....	8
Background.....	8
Office Organization .....	8
Budget and Funding.....	10
Scope and Objective.....	11
Findings and Recommendations .....	12
Few Controls Over Guardianship Program.....	12
Fund Not Reconciled to Accounts.....	13
Missing Documentation for Revenue and Disbursements.....	14
Lack of Control Over Cash.....	15
Assessment and Use of Administrative Fees Inconsistent.....	16
Requirements for Disposition of Deceased Ward's Money Not Followed .....	17
Contracting Process Needs Improvement .....	18
Deposit of Revenue Not According to State Law .....	20
Receipts and Logs Not Used .....	20
Revenues Not Deposited Timely.....	21
Better Segregation of Duties Needed.....	21
Revenues Recorded in Wrong Fiscal Year .....	22
System of Internal Control Ineffective .....	23
Expenditure and Bank Account Controls Inadequate.....	24
Noncompliance With Personnel and Payroll Laws .....	24
Control of Fixed Assets Could Be Improved .....	25
Opportunities Exist to Evaluate and Improve Efficiency at Nursing Home .....	26

STATE OF NEVADA  
OFFICE OF VETERANS' SERVICES

AUDIT REPORT

**Table of Contents**  
(continued)

	<u>Page</u>
Staffing Levels Should Be Monitored .....	27
Outsourcing of Services Should Be Periodically Evaluated .....	28
<b>Appendices</b>	
A. Audit Methodology .....	30
B. NRS 218.880 Report.....	34
C. Prior Audit Recommendations.....	35
D. Office of Veterans' Services' Response .....	36

# **EXECUTIVE SUMMARY**

## **OFFICE OF VETERANS' SERVICES**

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### **Background**

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The Office of Veterans' Services was established in 1943 as an advocate for veterans by the State Legislature. The Office's mission is to provide assistance and services to veterans and residents of Nevada serving in the military. The Office is responsible for helping veterans and their families obtain services, compensation, and government benefits to which they are entitled. The Office reported assisting Nevada veterans in receiving about \$26.1 million in federal compensation and benefits in calendar year 2002.

There are five offices throughout the State, including offices in Reno and Las Vegas, cemeteries in Fernley and Boulder City, and the Nevada Veterans' Nursing Home in Boulder City. At the end of fiscal year 2002, the five offices had a total of 222 authorized positions. The Office spent just over \$3 million in fiscal year 2002 from its four General Fund budget accounts. Funding consists of General Fund appropriations, administrative fees, burial reimbursements and fees, Medicare, Medicaid, federal Veterans' Affairs payments, nursing home residents' fees, donations, and proceeds from special license plate sales.

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### **Purpose**

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This audit included the financial activities of the Office of Veterans' Services for fiscal year 2002, and activities through June 2003 for certain audit issues. The purpose of our audit was to evaluate the Office's financial and administrative practices, including whether activities were carried out in accordance with applicable state laws, regulations, policies, and procedures.

## **EXECUTIVE SUMMARY**

### **OFFICE OF VETERANS' SERVICES**

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## **Results in Brief**

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The Office of Veterans' Services frequently did not comply with state laws and regulations, or its policies and procedures related to its financial and administrative practices. For example, the Office did not always properly account for wards' funds nor ensure wards' financial assets were safeguarded. Poor financial management practices also resulted in deposits not being made timely, money not reverting to the General Fund, and contracts not being properly approved.

In some cases, written policies and procedures were lacking. In other cases, supervision was not sufficient to ensure employees complied with established policies and procedures. Although many control weaknesses are longstanding, a contributing factor to problems occurring at the Office was management turnover at the recently opened Nursing Home. Between September 2002 and April 2003, the Nursing Home had four different directors or acting directors. Management sets the tone for internal control in an organization; when excessive turnover occurs, the controls of an organization are weakened.

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## **Principal Findings**

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- The Office has not reconciled the wards' accounts to the state accounting system. As of March 31, 2003, the Guardianship Program's fund balance in the state accounting system was \$71,200 less than the total of the wards' account balances. We identified over \$110,000 in errors posted to either the wards' accounts or the state accounting system during the period from July 1, 2002, through March 31, 2003. If those errors are corrected, the state accounting system balance will be \$38,210 in excess of the total of the wards' account balances. The Office is unsure of the source of the difference and, due to incomplete

## **EXECUTIVE SUMMARY**

### **OFFICE OF VETERANS' SERVICES**

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records, will not be able to determine the origin of the errors. (page 13)

- The Office did not always maintain adequate supporting documentation for wards' transactions. Supporting documentation, such as receipts, invoices, bills, or agreements, was not maintained for over \$734,000 in revenue and almost \$167,000 in expenditures. Since the Office did not maintain a receipt log for checks received for wards, we were unable to determine if the Office complied with state law for the timeliness of deposits or if all money received was properly accounted for in the wards' accounts. (page 14)
- There were few controls over cash and checks related to the Guardianship Program. We found 17 instances where checks were prepared for cash, endorsed by Office staff, and not adequately safeguarded. The checks were held for an average of 9 days prior to being cashed. The cash was then held an average of 9 days before staff wired the money to the ward. In one instance, a check was held unendorsed for 26 days; in another instance, a check was cashed 34 days before the funds were wired to the ward. (page 15)
- The Office has not adopted procedures on how the administrative fee charged to wards is to be assessed or how some administrative expenses are to be paid. The Office did not consistently apply the fee to wards. NRS 417 allows the Office to collect a 5% fee from wards with a monthly income of \$500 or more. Fees assessed to wards during fiscal year 2002 ranged from about \$16 to over \$650 per month per ward. We found 31 instances where wards were not charged a fee even though their monthly income was over \$500; we found five instances where wards were assessed the fee even though their incomes were below \$500. In addition, the Office paid over \$1,800 in expenses related to the administration of the Guardianship

## **EXECUTIVE SUMMARY**

### **OFFICE OF VETERANS' SERVICES**

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Program from the Veterans' Relief Account rather than from the administrative fees. (page 16)

- The Office did not follow state law when terminating the affairs of a deceased ward. The Office deposited the balance of the ward's account, over \$5,000, into the Veterans' Relief Account rather than complying with laws governing intestate succession. (page 17)
- The Office did not comply with state laws and policies governing contracts. Five of the 15 contracts tested either had not received proper approval from the Board of Examiners or the Department of Information Technology, or did not receive approval until after contract work had started. In addition, the Nursing Home did not have evidence of proper solicitation processes for three of the contracts tested. For example, the Nursing Home purchased a software program in June 2001 for nearly \$39,000 without obtaining approvals from the Department of Information Technology or the Board of Examiners. In June 2003, the Nursing Home received approval from the Interim Finance Committee to replace the system at a cost of nearly \$198,000 because the system purchased 2 years before was inadequate. Finally, the Nursing Home did not have evidence of insurance for three contracts. These problems occurred because the Office has not established adequate policies and procedures over the contracting process. (page 18)
- Neither the Office nor Nursing Home used a cash receipt log or pre-numbered receipts to control revenues. Both have policies and procedures requiring the use of pre-numbered receipts and a cash receipt log. Of the 45 revenue transactions tested, 37 were not recorded on a log or on pre-numbered receipts. These transactions were processed by the Reno office and the Nursing Home. As a result, we could not determine if these revenues were deposited timely. In addition, errors or misuse

## **EXECUTIVE SUMMARY**

### **OFFICE OF VETERANS' SERVICES**

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can occur and remain undetected because there is no supporting documentation. (page 20)

- Some receipts were held longer than allowed by state law before being deposited. Our review of the Guardianship Program administrative fees found that checks written by the Office from its outside bank account were held up to 4 months before being deposited in the Office's operating budget account. Five checks totaling almost \$24,000 were deposited from 25 to 118 days after being written. In addition, two of these checks were unendorsed. Furthermore, we found seven of eight deposits tested from the cemeteries contained revenues that were held at least 8 days, in violation of state law. (page 21)
- Duties related to processing revenues were not adequately segregated at the Office or the Nursing Home. The duties of receiving, recording, and depositing revenues were not always performed by different people. In addition, deposits made at the Reno office did not contain evidence of supervisory review. Although the Office and Nursing Home have written procedures that include segregation of duties over revenues, neither the Office nor Nursing Home had fully implemented these procedures. Proper segregation of duties provides greater assurance that all revenues are properly deposited and recorded and reduces the risk that errors will occur and remain undetected. (page 21)
- The Office recorded federal reimbursements for burials and administrative fees from the Guardianship Program in the wrong fiscal year. Had these revenues been properly recorded, the Office should have reverted an additional \$176,000 to the General Fund at the end of fiscal years 2001 and 2002. (page 22)
- Our testing found several problems with controls over expenditures. In addition, three of the Office's outside bank accounts did not have adequate controls to



## **EXECUTIVE SUMMARY**

### **OFFICE OF VETERANS' SERVICES**

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prevent unauthorized access. We found the Office overspent its authority for in-state travel and inappropriately charged about \$500 in employee travel to an incorrect budget category. The Nursing Home recorded 2 of 20 expenditures tested to the wrong fiscal year. Employee access to the Integrated Financial System was not removed promptly when employees resigned positions. Two outside bank accounts were not in the name of the State of Nevada, as required by state law, and three required only one signature on checks. (page 24)

- The Office's control over payroll and personnel functions did not ensure the Office complied with state laws. Seven of 56 timesheets did not have a supervisor's signature; another four did not contain the employee's signature. None of the nine timesheets with overtime had evidence of prior authorization. Of 14 personnel files tested, 9 did not contain all required employee evaluations. In addition, of the seven supervisors performing those evaluations that were completed, the Office did not have evidence that four attended required training on conducting employee evaluations. (page 24)
- The Office did not have proper procedures for controlling fixed assets. Of the 74 items tested, 11 were either not at the proper location or not included on the Office's fixed asset listings. In addition, seven of the items did not have state identification tags attached. State law requires property records be maintained at all times to show the officers entrusted with custody and transfers of property. (page 25)
- Since the Nursing Home hired its first director in fiscal year 2000, the Legislature had questions about the efficiency of the Nursing Home's operations and the number of staff. Staff were hired based on the anticipated opening of the Nursing Home. Because of delays in opening, nearly \$2.1 million in personnel costs occurred before any residents were admitted. During the 2003 Legislative Session, Office and

## **EXECUTIVE SUMMARY**

### **OFFICE OF VETERANS' SERVICES**

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Nursing Home management expressed the desire to outsource certain functions at the Nursing Home, such as medical and janitorial services, laundry, and pest control. As the Nursing Home continues to accept new residents and expand operations, management will have the opportunity to evaluate and improve operational efficiency. This includes evaluating the number of staff needed to provide quality care and service, as well as the value of outsourcing some services. (page 26)

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## **Recommendations**

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This audit report contains 13 recommendations to improve the Office's controls over its Guardianship Program, contracts, revenues, expenditures, and other administrative duties. For the Guardianship Program, the Office should develop and implement policies and procedures to ensure wards' assets are safeguarded and financial information is accurate. In addition, the Office should develop and implement controls over establishing and maintaining contracts, processing revenues, and safeguarding assets such as property and outside bank accounts. Finally, the Office and Nursing Home should develop systems to monitor the efficiency of staffing levels and outsourcing of services. (page 43)

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## **Agency Response**

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This Office, in its response to our report, accepted all 13 recommendations. (page 36)

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# Introduction

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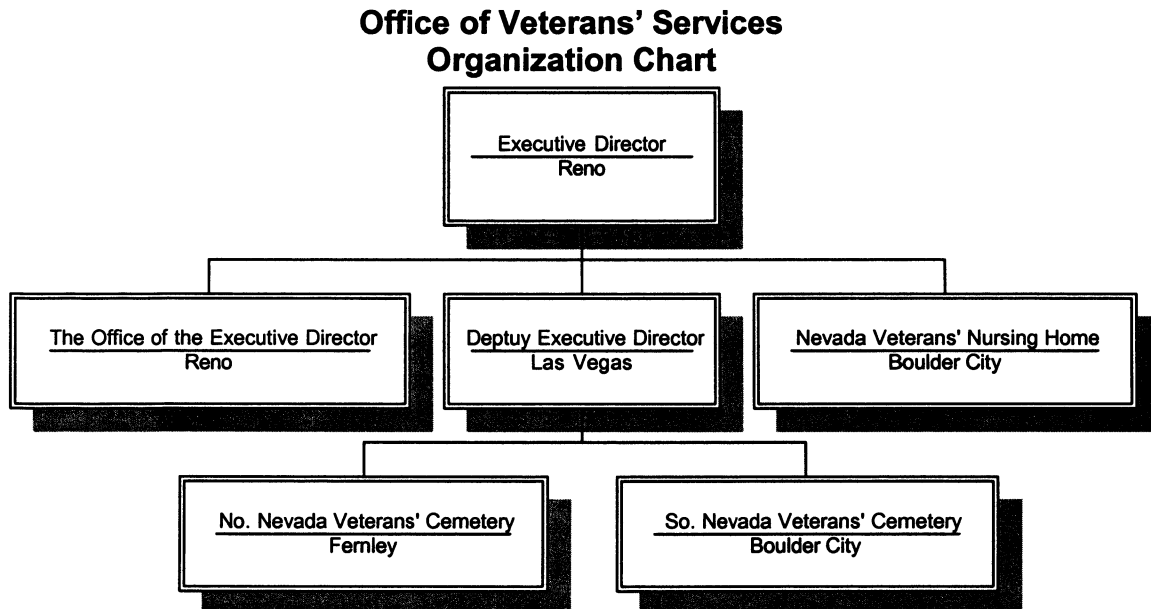
## Background

The Office of Veterans' Services was established in 1943 as an advocate for veterans by the State Legislature. The Office's mission is to provide assistance and services to veterans and residents of Nevada serving in the military. The Office is responsible for helping veterans and their families obtain services, compensation, and government benefits to which they are entitled. The Office reported assisting Nevada veterans in receiving approximately \$26.1 million in federal compensation and benefits in calendar year 2002. The Executive Director and Deputy Executive Director are appointed by the Governor. Additionally, the Veteran Services Commission is a nine member panel appointed by the Governor, the State Legislature, and the two Cemetery Advisory Committees to provide advice and input on all issues pertaining to veterans in Nevada.

### Office Organization

There are five offices throughout the State. Exhibit 1 shows the offices and the related lines of authority.

### Exhibit 1



Source: Office of Veterans' Services

At the end of fiscal year 2002, the Office had a total of 222 authorized full-time equivalent positions; 63 of those positions were filled. Exhibit 2 shows the number of authorized and filled positions for the Office.

**Exhibit 2**

**Office of Veterans' Services  
Full-Time Equivalent Positions  
As of July 1, 2002**

<b>Location</b>	<b>Authorized FTE Positions</b>	<b>Filled FTE Positions</b>
The Office of the Executive Director	4	4
The Office of the Deputy Executive Director	5	5
Veterans' Nursing Home <sup>(1)</sup>	198	41
No. Nevada Veterans' Cemetery	4	4
So. Nevada Veterans' Cemetery	11	9
<b>Total Positions</b>	<b>222</b>	<b>63</b>

Source: Human Resource Data Warehouse, State of Nevada  
<sup>(1)</sup> Nursing home staffing prior to residents being admitted.

The offices in Reno and Las Vegas have support staff and service representatives to assist veterans. Furthermore, the two offices maintain separate bank accounts, the Veterans' Relief Account in Reno and the Veterans' Indigent Account in Las Vegas, to assist veterans with funds for bus passes and other necessities. Additionally, the office in Reno administers the Guardianship Program to assist court appointed veterans and their dependents with their financial affairs.

The Nevada Veterans' Cemeteries were established under NRS 417 to meet the needs of the veteran community. There are cemeteries in Boulder City and Fernley with grounds and administrative staff to maintain and develop a combined 120 acres. At the end of fiscal year 2002, approximately 30 acres had been developed and were under irrigation.

The Veterans' Nursing Home is located in Boulder City and employs clinical and administrative staff. The Nursing Home is a 180 bed skilled nursing facility for the care of Nevada's veteran population.

**Budget and Funding**

The Office had four General Fund budget accounts during fiscal year 2002. Expenditures recorded to these accounts during fiscal year 2002 are shown in Exhibit 3.

**Exhibit 3**

**Office of Veterans' Services  
Expenditures  
Fiscal Year 2002**

<b>Budget Account</b>	<b>Expenditures</b>
Veterans' Affairs	\$1,183,866
Veterans' Nursing Home	1,833,261
Veteran's Gifts and Donations	28,202
Veteran's Home Donations	3,157
<b>Total Expenditures</b>	<b>\$3,048,486</b>

Source: State Accounting System

The Reno and Las Vegas offices are funded by a General Fund appropriation, cemetery fees, and an administrative fee from the Guardianship Program. The Reno office processes all financial transactions for the Office with the exception of the Nursing Home's transactions.

In fiscal year 2002, the cemeteries performed 1,970 burials of veterans and their family members and reported collecting nearly \$331,000 in fees. Funding for the cemeteries includes a General Fund appropriation, burial reimbursements from the federal government, payments for eligible spouse and dependent burials, and donations. Through September 2001, the Federal Government reimbursed the cemeteries \$150 per veteran burial. Beginning in October 2001, the Federal Government increased the reimbursement to \$300 per veteran burial. The cemeteries also assess a \$350 fee for each burial of a veteran's spouse or dependent.

The Nursing Home began admitting residents in August 2002 and reached 46 residents by March 31, 2003. Medicare and Medicaid completed the approval process

in September 2002, and the Nursing Home received Veterans' Affairs certification in June 2003. The Nursing Home is funded by a General Fund appropriation, Medicare and Medicaid reimbursements, federal Veterans' Affairs per diem, resident payments, and license plate charges.

## **Scope and Objective**

This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission, and was made pursuant to the provisions of NRS 218.737 to 218.893. The Legislative Auditor conducts audits as part of the Legislature's oversight responsibility for public programs. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This audit included the financial activities of the Office of Veterans' Services for fiscal year 2002, and activities through June 2003 for certain audit issues. The objective of our audit was to evaluate the Office's financial and administrative practices, including whether activities were carried out in accordance with applicable state laws, regulations, policies, and procedures.

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## **Findings and Recommendations**

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The Office of Veterans' Services frequently did not comply with state laws and regulations, or its policies and procedures related to its financial and administrative practices. For example, the Office did not always properly account for wards' funds nor ensure wards' financial assets were safeguarded. Poor financial management practices also resulted in deposits not being made timely, money not reverting to the General Fund, and contracts not being properly approved.

In some cases, written policies and procedures were lacking. In other cases, supervision was not sufficient to ensure employees complied with established policies and procedures. Although many control weaknesses are longstanding, a contributing factor to problems occurring at the Office was management turnover at the recently opened Nursing Home. Between September 2002 and April 2003, the Nursing Home had four different directors or acting directors. Management sets the tone for internal control in an organization; when excessive turnover occurs, the controls of an organization are weakened.

### **Few Controls Over Guardianship Program**

The Office of Veterans' Services has not developed controls to ensure Guardianship Program (Program) funds are properly accounted for and veterans' assets are safeguarded. For example, the Office has not reconciled the wards' accounts with the fund balance as reported by the state accounting system. Furthermore, the Office did not retain adequate supporting documentation for thousands of dollars in wards' receipts and expenditures. These problems were caused, in part, by poor segregation of duties, the absence of policies and procedures, and lack of supervisory review of Program activities.

The Office was the court-appointed financial guardian for 28 wards with nearly \$1.7 million in trust funds as of June 30, 2002. The number of wards is not fixed and may vary as the courts and the Office's Executive Director decide. The income received by the wards is primarily Veterans' Affairs income, Social Security income, and

State Treasurer interest. Expenditures paid by the Office for the wards include rent, monthly bills, and personal allowances. For fiscal year 2002, Office records show the wards received just over \$1 million in income and had expenses of almost \$1.2 million.

The Office maintains an account ledger for each ward using an in-house accounting system. Expenditures are processed through an outside bank account. As checks clear the account, the money to cover the checks is transferred into the account from the State Treasury, leaving the checking account with a zero balance. Transactions are also recorded in the state accounting system.

### **Fund Not Reconciled to Accounts**

The Office has not reconciled the wards' accounts to the state accounting system. As of March 31, 2003, the fund's balance in the state accounting system was \$71,200 less than the total of the wards' account balances. We identified over \$110,000 in errors posted to either the wards' accounts or the state accounting system during the 9-month period from July 1, 2002, through March 31, 2003. If these errors are corrected, the state accounting system's balance will be \$38,210 in excess of the total of the wards' account balances. Three of the past five legislative audits of the Office, dating back to 1966, report on the lack of reconciliation of the wards' accounts with the bank account. In all three reports, errors were found in the wards' account balances. A fourth report noted wards' accounting records were not detailed enough to provide year-end account balances.

Some of the errors we found during our review included:

- When checks were lost or voided, no adjustments were made to either the state accounting system or the wards' accounts.
- Interest was not properly distributed to the wards. Errors in calculating the distributions were not detected, resulting in a difference between the total amount posted to the wards' accounts and the amount of interest recorded in the state accounting system.

The Office is unsure of the source of the difference and, due to incomplete records, will not be able to determine the origin of the errors. We reviewed every transaction from July 1, 2002, to March 31, 2003, for accurate posting to the state accounting system and individual wards' accounts. We were unable to fully reconcile



the wards' accounts with the state accounting system prior to July 1, 2002, because complete information for all wards was not available. According to Office management, the unreconciled difference could be caused by various factors, including undistributed interest and undistributed funds from closed wards' accounts.

On December 17, 2003, we reported evidence of improper practices of financial administration and inadequacy of fiscal records to the Governor, each member of the Legislature, the Executive Director of the Office, and the Attorney General, in accordance with NRS 218.880. A copy of this report is contained in Appendix B of this report.

The Office has not developed procedures to assist staff with reconciling the accounts. Reconciliation is critical to ensure errors are detected and properly corrected. These errors affect the wards' individual accounts and the state accounting system. In addition, the annual accountings presented to the court may not be accurate. Allowing errors to accumulate increases the liability to the State for misuse or incorrect distribution of wards' funds.

#### **Missing Documentation for Revenue and Disbursements**

The Office did not always maintain adequate supporting documentation for wards' transactions. Supporting documentation, such as receipts, invoices, bills, or agreements, was not maintained for over \$734,000 in revenue and almost \$167,000 in expenditures. Internal control standards require appropriate documentation of transactions. In addition, the prior legislative audit recommended the Office maintain complete supporting documentation for all payments from wards' accounts. That audit reported over \$47,000 in unsupported expenditures.

The Office has adequate policies and procedures over the receipt of funds; however, many of the procedures were not followed. For example, the Office did not maintain a receipt log for checks received for wards. Therefore, we were unable to determine if the Office complied with state law for the timeliness of deposits or if all money received was properly accounted for in the wards' accounts.

Expenditure transactions did not always have adequate supporting documentation. For example, lease or rent agreements were often missing from the

wards' files. Other examples of undocumented expenditure transactions we reviewed include:

- The Office purchased a \$75,000 certificate of deposit for a ward. The ward's account file contained no documentation supporting the certificate, such as where the certificate was physically located, the term of the certificate, the name or account number of the certificate, or a copy of the certificate.
- The Office paid a ward's father over \$31,000 during a 12-month period. The ward's account file showed no documentation of the use of the funds, the request of the ward to pay this money, or any other reason why the father should have been paid this money.

In addition, the Office did not always maintain documentation of the courts' appointment of guardianship. For example, we found the Office received nearly \$24,000 in income and paid about \$23,000 in expenses for a veteran, but had no documentation that the court ever appointed the Office as the veteran's guardian. None of the transactions for this individual had supporting documentation. The Office also sent a total of \$22,000 over a 5-month period to a person other than the ward. This person was later appointed the ward's guardian, but the Office did not receive documentation of the change of guardianship until after the funds had been sent.

Failure to maintain documentation increases the risk of liability to the Office and the State. For example, one ward contested payments of over \$1,400 deducted from his account. According to Office staff, when the Office could not produce the documentation, the court ordered the Office repay the ward. Documentation helps ensure that account balances are accurate and minimizes the opportunity for abuse. In addition, supporting documentation is necessary for proper supervisory review.

### **Lack of Control Over Cash**

The Office did not have controls in place over cash and checks. We identified 17 instances where checks were prepared for cash, endorsed by Office staff, and not adequately safeguarded.

Office staff wrote checks for cash to wire money to a ward. Office staff held the checks for an average of 9 days prior to cashing them at the bank, and then waited an average of another 9 days before wiring the money. In one instance, a check was held unendorsed for 26 days before being cashed at the bank without endorsement. In

another instance, the check was cashed 34 days before the funds were wired to the ward. Furthermore, in at least 6 of the 17 transactions reviewed, the person who had possession of the check or cash was also the person who maintained the records and accounts of the wards.

The ward's file did not always contain adequate support for the use of the cash. On two occasions, the Office did not have documentation from Western Union showing a total of \$1,400 had been sent. In three instances, the amount wired and associated fees were a total of almost \$214 less than the amount of the checks, and the ward's file contained no evidence of what happened to the remaining cash.

Cash and checks are vulnerable to theft or unauthorized use. Internal control standards require agencies establish physical control over vulnerable assets to reduce the risk of misuse or theft. In addition, key duties and responsibilities should be divided or segregated among different people to reduce the risk of error or abuse. A potential liability exists to the Office and the State for funds that are misused, lost, or stolen.

#### **Assessment and Use of Administrative Fees Inconsistent**

During fiscal year 2002, the Office collected over \$39,000 in administrative fees from wards in the Guardianship Program. NRS 417.110 allows the Office to collect a 5% fee from wards if they receive a monthly income of \$500 or more. This fee is to pay for the expense of providing the guardianship services. Fees assessed to wards during fiscal year 2002 ranged from about \$16 to over \$650 per month per ward. These fees are deposited in the Office's operating budget account. However, the Office has not adopted procedures on how the fee is to be assessed or how some administrative expenses are to be paid.

#### **Assessment Not Applied Consistently**

The Office did not consistently apply the fee to all wards in the Program. We reviewed administrative fee assessments for 7 months during fiscal year 2002. We identified 31 instances during this time where wards were not charged the fee but had income over \$500 a month. While the Office is not required to charge all wards the fee, it did not document its reasons for charging the fee to some wards and not to others.

In five instances, wards had income below the \$500 threshold and were assessed the fee. This is not consistent with NRS 417.110, which allows the fee to be charged only to wards with a monthly income of \$500 or more.

#### Administrative and Other Costs Paid From Wrong Fund

We found the Office paid over \$1,800 in Program administrative expenses from the Veterans' Relief Account instead of from the administrative fees assessed. In addition, the Office paid about \$700 from the Relief Account for wards' expenses. The Veterans' Relief Account was established in NRS 417.140 to aid destitute veterans and their dependents.

First, the Office used the Relief Account to make a court-ordered payment of about \$1,400 to a ward. The payment was required because the Office had not maintained supporting documentation of the expenses. An additional \$420 was used to purchase checks for the Program. These expenses are administrative in nature and should have been paid from the Office's operating account. Furthermore, the Office paid almost \$400 in expenses for a ward after the ward's account with the Program had been closed rather than forward the bill to the veteran's new guardian. Finally, almost \$300 was paid to a ward in expectation of the receipt of his check from the Department of Veterans' Affairs; due to an oversight by the Office, this amount was not reimbursed to the Relief Account after the check was received.

#### Requirements for Disposition of Deceased Ward's Money Not Followed

The Office did not follow state law when terminating the affairs of a deceased ward. NRS 159 and NRS 417 provide guidance for termination of guardianship upon the death of a ward.

The ward died in December 2000. The Office performed a limited search for the ward's sister, but was unsuccessful in locating her. In December 2001, the balance of the ward's account, over \$5,000, was deposited into the Veteran's Relief Account. State law requires the Office to settle the ward's affairs within 90 days and deliver all the ward's property to the executor or administrator of the will. If the ward does not have a will, the property will be distributed pursuant to laws governing intestate succession.

In April 2003, a final accounting was prepared and presented to the court. The court did approve the donation of the ward's money to the Veterans' Relief Account.

However, as long as the estate remained in the Relief Account without court approval, there was possible liability to the Office and to the State if the court had ordered the estate be distributed differently or any previously unknown heirs had come forward.

### **Recommendations**

1. Consult with the Attorney General, State Controller's Office, and State Treasurer on the disposition of the funds in excess of the wards' balances as listed in the state accounting system.
2. Process Guardianship Program transactions through the Integrated Financial System and use the outside bank account only for emergencies.
3. Develop policies and procedures over the Guardianship Program, including segregation of duties, monthly reconciliation of the wards' accounts with the state accounting system, retention of supporting documentation for all transactions, maintenance of a receipt log, assessment of the administrative fee, disposition of wards' estates following death, and supervisory review of all transactions.
4. Prohibit Office staff from preparing, endorsing, or presenting checks for cash on behalf of the wards.

### **Contracting Process Needs Improvement**

The Office did not comply with state laws and policies governing contracts. The Office allowed contractors to begin work prior to contracts receiving proper approval, did not have evidence of proper solicitation processes, and did not require all contractors to provide proof of workers' compensation insurance coverage. These problems occurred because the Office has not established adequate policies and procedures for the contracting process.

NRS 284.173 states contracts do not become effective without the approval of the Board of Examiners. In addition, NRS 242.151 and 242.161 require state agencies

to work with and receive approval from the Department of Information Technology (DoIT) when purchasing information technology equipment. The State Administrative Manual requires contractors to provide certification to state agencies that they have complied with state law regarding provision of workers' compensation coverage. Nevada Administrative Code requires state agencies solicit bids for contracts with anticipated values greater than \$25,000, and the State Administrative Manual requires agencies to conduct an informal solicitation for bids for contracts from \$1,999 to \$25,000.

Five of the 15 contracts we tested (33%) either had not received proper approval or did not receive the approval until after contract work had started. Lack of proper review and approval can lead to other problems. For example:

- The Nursing Home purchased a software program for preparing resident billings in June 2001 for nearly \$39,000 without obtaining approvals from DoIT or the Board of Examiners. In June 2003, the Nursing Home received approval from the Interim Finance Committee to replace the system at a cost of nearly \$198,000 because the system purchased 2 years before was inadequate.
- A contract between the Nursing Home and a hospice service was not approved in advance by the Attorney General's Office or the Board of Examiners. The hospice provides care for terminally ill residents at the Nursing Home. The hospice bills Medicare and Medicaid directly, and then is to reimburse the Nursing Home for facility use. However, Nursing Home staff has expressed confusion with the contract, and this may result in additional accounts receivable.

The Nursing Home did not have evidence of requests for proposals or bids for three contracts tested. For example, the Nursing Home entered into a contract for inventory control software and hardware totaling \$69,000 in May 2002. Staff could not provide evidence of bid solicitation or that any other proposals were received and evaluated. In August 2002, the State Purchasing Division notified the Nursing Home that the contract had been entered into prematurely, but the fiscal consequences of reversing the work already completed outweighed any benefit from a competitive bid. As of June 2003, the Nursing Home had not received approval from the Board of Examiners for this contract.

Finally, the Nursing Home did not have evidence of insurance for three of the contracts we tested. One of the contracts is with a company to provide hospice care for residents. The Nursing Home does not have insurance or license information for this company. In addition, this contract was not on the required state contract form and so did not require the company submit certification of compliance with insurance requirements.

The Office has not adopted policies and procedures over contracting that provide adequate guidance to staff. In the past, the Office maintained only a few contracts for leases and cemetery supplies; however, the administration of the Nursing Home has created the need for physician, food service, laboratory, and pharmacy contracts. These types of contracts are more complex and require better guidance. Ensuring compliance with state laws and policies over contracting will provide greater assurance that the Office's needs are met at the least cost to the State.

### **Recommendation**

5. Develop and implement comprehensive policies and procedures that provide staff with the guidance needed to establish and maintain contracts with outside vendors.

### **Deposit of Revenue Not According to State Law**

The Office did not follow internal policies and procedures designed to meet state laws and policies for depositing revenue. For example, the Office and Nursing Home did not always maintain receipt logs or use pre-numbered receipts, deposit revenue timely, adequately segregate revenue handling duties, and promptly endorse checks. As a result, the Office did not comply with state laws and policies for the deposit, control, or recording of revenue, including recording revenue in the proper fiscal year.

#### **Receipts and Logs Not Used**

Neither the Office nor Nursing Home used a cash receipt log or pre-numbered receipts to control revenues. The Office and Nursing Home have policies and procedures requiring the use of pre-numbered receipts and a cash receipt log. In

addition, the State Administrative Manual requires state agencies record all revenues on a cash receipt log or other revenue tracking system as soon as practicable.

Of the 45 revenue transactions tested, 37 (82%) were not recorded on a log or on pre-numbered receipts. Twenty-nine of the transactions were processed by the Reno office and eight were processed by the Nursing Home. The absence of logs or receipts weakens control over revenues. Deposits cannot be reconciled to the logs or receipts to ensure all revenues received were deposited. In addition, we could not determine if these revenues were deposited timely, in accordance with state law. Finally, posting errors can occur and remain undetected because there is no supporting documentation to show the amount and purpose of the revenue.

#### **Revenues Not Deposited Timely**

Even though we were unable to determine the length of time between receipt and deposit of some revenues, we did find several revenues that were held longer than allowed by state law before deposit. Our review of the Guardianship Program administrative fees found that checks written by the Office from its outside bank account were held up to 4 months before being deposited in the Office's operating budget account. Five checks totaling almost \$24,000 were deposited from 25 to 118 days after being written. In addition, two of these checks were unendorsed. Furthermore, we found seven of the eight deposits tested from the cemeteries contained revenues that were held at least 8 days. For example, one deposit included 20 receipts totaling \$3,650 that had been in the possession of a cemetery for at least 8 days.

NRS 353.250 requires deposits be made on Thursday of each week; if more than \$10,000 is accumulated, a deposit must be made the next business day. In addition, holding receipts for extended periods of time increases the likelihood the receipts may be misplaced. Furthermore, failing to promptly endorse checks increases the risk of theft or misuse, and may cause the checks to be returned unpaid by the bank.

#### **Better Segregation of Duties Needed**

Duties related to processing revenues were not adequately segregated at the Office and Nursing Home. For example, the duties of receiving, recording, and depositing revenues were not always performed by different people. In addition, deposits made at the Reno office did not contain evidence of supervisory review.



The Office and Nursing Home have written policies and procedures that include segregation of duties over revenues. However, neither the Office nor Nursing Home has fully implemented these procedures. Key duties related to processing revenues, including preparing logs or receipts, endorsing checks, preparing deposits, reconciling logs or receipts to deposits, recording deposits in the state accounting system, and reconciling deposits with the state accounting system should be segregated as much as practicable. Proper segregation of duties provides greater assurance that all revenues are properly deposited and recorded and reduces the risk that errors will occur and remain undetected.

### **Revenues Recorded in Wrong Fiscal Year**

The Office deposited some revenues received for services performed in one fiscal year into the next fiscal year to avoid reverting the funds to the General Fund. Federal reimbursements for veteran burials and administrative fees from the Guardianship Program were recorded in the wrong fiscal year. Recording transactions in the wrong fiscal year is a violation of the State Accounting Procedures Law, which requires revenues be recognized in the accounting period in which they become available and measurable. In addition, recording transactions in the wrong fiscal year distorts the Office's financial statements which are to present the financial results of operations during a specific time period, such as a fiscal year. Furthermore, the Office would have reverted an additional \$176,000 to the General Fund at the end of fiscal years 2001 and 2002.

Specifically, the state accounting system shows cemetery fee revenue of \$330,730 during fiscal year 2002. However, this amount includes \$89,850 of fiscal year 2001 revenue. In addition, \$161,800 in fiscal year 2002 revenue was recorded as fiscal year 2003 revenue. Had this revenue been properly recorded, the Office would have reverted an additional \$89,850 at the end of fiscal year 2001 and \$71,950 at the end of fiscal year 2002.

In addition, the Office also recorded Guardianship Program administrative fee revenues into the incorrect fiscal year. The state accounting system shows about \$39,000 of administrative fee revenue during fiscal year 2002. However, this amount includes about \$5,600 of fiscal year 2001 revenue and does not include about \$14,300

of revenue incorrectly recorded as fiscal year 2003 revenue. Had this revenue been properly recorded, the Office would have reverted an additional \$5,600 at the end of fiscal year 2001 and nearly \$8,700 at the end of fiscal year 2002.

Office staff reported that, in the past, the practice has been to hold checks received near the end of the fiscal year and record them into the following fiscal year. This practice results in an increased risk of lost or stolen checks and inaccurate financial information.

### **Recommendation**

6. Implement controls that provide reasonable assurance revenues are adequately safeguarded and properly recorded in compliance with state law. Controls should include restrictive endorsement on all checks received, maintenance of a receipt log of all checks and cash received, and deposit of receipts into the proper fiscal year.

### **System of Internal Control Ineffective**

The Office has not established an adequate system of financial and administrative control as required by NRS 353A.020. The lack of control contributed to many problems already discussed in this report. In addition, the Office has not established adequate controls over expenditures, outside bank accounts, access to the Integrated Financial System, personnel and payroll functions, and fixed assets.

In some cases, complete, written policies and procedures were lacking. In other cases, supervision was not sufficient to ensure employees complied with established policies and procedures. In addition, during much of fiscal year 2003, the Nursing Home suffered from turnover in key management positions. Between September 2002 and April 2003, the Nursing Home had four different directors. Management sets the tone for internal control in an organization; when excessive turnover occurs, the controls of an organization are weakened.

### **Expenditure and Bank Account Controls Inadequate**

Our testing at the Office and Nursing Home found several problems with controls over expenditures. In addition, three of the Office's outside bank accounts did not have adequate controls to prevent unauthorized access.

- During fiscal year 2002, the Office overspent its authority for in-state travel. Rather than request a work program change to transfer authority from other expenditure categories, the Office inappropriately charged about \$500 in employee travel to its advisory committee travel category. NRS 353.215 requires all expenditures be made from an appropriation or authorization on the basis of work program categories.
- The Nursing Home recorded 2 of the 20 expenditures we tested to the wrong fiscal year. One expenditure was for training that did not occur until fiscal year 2003 and the other was for an item that was not purchased until fiscal year 2003. Both expenditures were recorded in fiscal year 2002.
- The Office did not adequately safeguard access to the Integrated Financial System. Two employees at the Nursing Home resigned their positions in September and October 2002; however, the employees' access to the system was not removed until April 2003, 6 months after their resignations.
- Two of the Office's outside bank accounts were not in the name of the State of Nevada, as required by NRS 356.011.
- The Office did not timely update signature cards for one of its outside bank accounts. Signature cards for the Resident Trust Account at the Nursing Home were not updated for 2 months after an employee resigned.
- Three of the Office's outside bank accounts required only one signature on checks. Requiring at least two signatures provides greater assurance that funds are safeguarded.

### **Noncompliance With Personnel and Payroll Laws**

The Office did not establish controls over payroll and personnel functions to ensure compliance with state laws. Supervisory review of timesheets was not sufficient to ensure timesheets were completed accurately. Many employees did not receive required evaluations, and not all supervisors had received required training on performing employee evaluations.

- We reviewed 56 employee timesheets and found 7 did not have a supervisor's signature. Another four timesheets were missing the employee's

signature. Supervisory review provides greater assurance that timesheets are accurate.

- None of the nine timesheets with overtime had evidence of prior authorization. NRS 284.180 and Office policy require all overtime be approved in advance. Office policy states that authorization forms are to be attached to the timesheets.
- Employees sometimes submitted timesheets that were not accurate, and supervisors did not require the timesheets be corrected. For example, an employee recorded 40 hours annual leave at the end of calendar year 2001, but did not use the leave according to Office management. Rather than correct the timesheet, the Office reported allowing the employee to use the leave a year later prior to her retirement, but the leave was not reported on the state's payroll system. Per NRS 284.350, the employee would have forfeited the 40 hours of leave at the end of 2001 had it been properly recorded.
- Of the 14 personnel files tested, 9 did not contain all the required employee evaluations. Four of the nine files were missing probationary evaluations. Without employee evaluations, the Office and State lack support for disciplinary actions, if needed. In addition, employees receive automatic merit pay increases regardless of job performance when annual evaluations are not performed.
- Of the seven supervisors performing those completed evaluations we reviewed, the Office did not have evidence that four attended required training on performing employee evaluations. Proper training on administering evaluations would help ensure evaluations are meaningful to employees. In addition, this training is required by NRS 284.338.

### **Control of Fixed Assets Could Be Improved**

The Office has not developed procedures for controlling fixed assets. Procedures would assist staff in conducting annual inventories, removing disposed items from fixed asset listings, and adding new items to fixed asset listings.

Of the 74 items we tested, 11 were either not at the proper location or not included on any of the Office's fixed asset listings. These items included several computers, a dump truck, and a pickup truck. In addition, seven of the items did not have state identification tags attached. Furthermore, even though the Office reported conducting annual inventories, a tractor remained on the Reno office's fixed asset

listing. Office management reported the 1972 tractor had never been located at the Reno office and no one from either cemetery had any memory of the tractor.

Nevada law requires property records be maintained at all times to show the officers entrusted with the custody and transfers of property. Assets not added to the Purchasing Division's assets listing or that do not have identification tags attached are at a greater risk of being lost or misappropriated.

### **Recommendations**

7. Ensure laws over expenditures are followed, including obtaining required approvals from the Budget Division and the Department of Information Technology, and the proper recording of expenditures in the state accounting system.
8. Promptly remove terminated employees' access to the Integrated Financial System and outside bank accounts.
9. Ensure all outside bank accounts are in the name of the State of Nevada and require at least two signatures.
10. Conduct employee evaluations in a timely manner and ensure evaluators have received required training.
11. Implement policies and procedures to ensure timesheets are accurate, signed by the employee, and reviewed and signed by the supervisors.
12. Ensure all fixed assets have state identification tags and that the State Purchasing Division's fixed asset listing is accurate and complete.

### **Opportunities Exist to Evaluate and Improve Efficiency at Nursing Home**

Since the Nursing Home hired its first director in fiscal year 2000, the Legislature had questions about the efficiency of its operations and the number of staff. During the 2001 Legislative Session, the Senate Committee on Finance and the Assembly Ways and Means Committee specifically addressed the staffing of the Nursing Home. In a letter of intent, the committees said that staff at the Nursing Home should be hired only

as needed to care for residents. In addition, throughout fiscal year 2002, legislators expressed concern with the number of employees at the Nursing Home. However, staff were hired based on the anticipated opening of the Nursing Home. Because of delays in opening, nearly \$2.1 million in personnel costs occurred before any residents were admitted.

During the 2003 session, Office and Nursing Home management expressed the desire to outsource certain functions at the Nursing Home, such as medical and janitorial services, laundry, and pest control. Management also reported privatizing food service and conducting a cost study to determine if it should remain privatized.

As the Nursing Home continues to accept new residents and expand operations, management will have the opportunity to evaluate and improve operational efficiency. This includes evaluating the number of staff needed to provide quality care and service, as well as the value of outsourcing some services.

#### **Staffing Levels Should Be Monitored**

During most of fiscal year 2001, the Nursing Home had fewer than eight staff. By the end of fiscal year 2001 and during most of fiscal year 2002, the Nursing Home had over 25 administrative, clinical, facility management, and custodial employees. Nursing Home management reported the need to begin hiring staff in anticipation of a July 2001 opening date. Throughout fiscal year 2002, the date for occupancy changed several times. During an Interim Finance Committee meeting in November 2001, the Manager of the State Public Works Board anticipated a completion date of January or February 2002. However, the Nursing Home did not receive a certificate of occupancy until June 27, 2002.

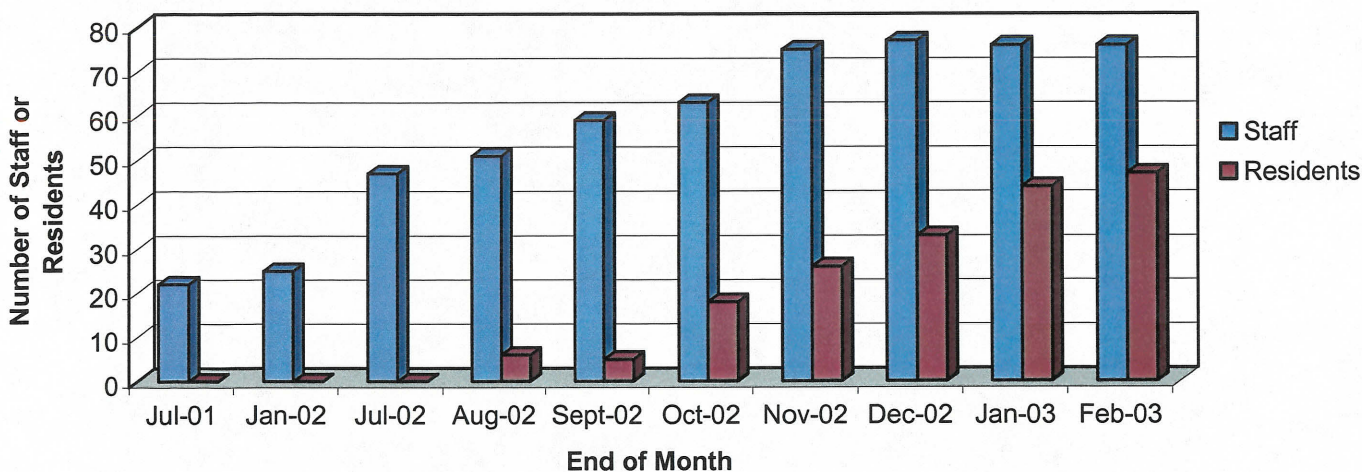
As of June 30, 2002, there were 41 full-time staff positions filled. In total, the Nursing Home expended nearly \$2.1 million for personnel in fiscal years 1999 through 2002. The first residents were admitted to the Nursing Home on August 12, 2002.

At the end of fiscal year 2003, the Nursing Home had 78 full-time staff positions filled and 53 residents, for an employee-to-resident ratio of 1.47. A survey of six other states found the average ratio to be 1.29. At full capacity, the Nursing Home is authorized to have 206 full-time positions and 180 residents, for a ratio of 1.14.

Exhibit 4 compares the number of employees and residents at the Nursing Home between July 2001 and February 2003.

**Exhibit 4**

**Nursing Home Residents and Staff  
July 2001 – February 2003**



Source: Human Resources Data Warehouse and Nevada Veterans' Nursing Home

As the Nursing Home continues to accept new residents and hire new staff, management should continually analyze and evaluate staffing levels. These analyses should consider quality of care and staff workload, as well as economy and efficiency.

**Outsourcing of Services Should Be Periodically Evaluated**

We surveyed nine states about the operation of their veterans' nursing homes, including whether some or all services were outsourced. Two of the states reported using management companies to operate at least one nursing home. In addition, three reported outsourcing some services at one or more of their homes. These services included food, physical therapy and other medically related services, and housekeeping.

As Nevada's Nursing Home begins outsourcing additional areas of its operations, management should periodically evaluate various factors, including the quality of the services and whether similar or better services could be provided at the same cost or less by state employees.

## **Recommendation**

13. Develop and implement procedures to monitor staffing levels and outsourcing of services to help ensure quality of care and economic and efficient operation of the Nursing Home.



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# Appendices

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## Appendix A

### Audit Methodology

To gain an understanding of the Office of Veterans' Services, we interviewed agency staff and reviewed statutes, regulations, policies, and procedures significant to the Office's financial and administrative practices. We also reviewed financial reports and minutes of legislative committee meetings. In addition, we documented and assessed the Office's internal controls. Furthermore, we contacted other states to gain an understanding of how they perform veterans' nursing home oversight.

#### **Guardianship Program--Budget Account 6089**

To accomplish our audit objective, we judgmentally selected and reviewed 15 revenue transactions specific to the Guardianship Program for deposit within statutory requirements and credit to the applicable ward. Additionally, we judgmentally selected and reviewed 25 expenditures from the Program to determine proper recording on the accounts of the wards and reviewed available supporting documentation for the transactions.

We reconciled Program funds per the state accounting system with the wards' accounts to determine the variance between the fund and Office records. Every transaction from July 1, 2002, to March 31, 2003, was reviewed for accurate posting on the Budget Status Report and in the individual accounts of the wards.

We also performed additional testing on the fund to identify possible adjustments in the reconciliation of the account. We judgmentally selected nine wards and tested the individual accounts for at least a 6-month period, reviewing all receipts and disbursements to verify the use of the funds for intended purposes, for supporting documentation, and proper record keeping. In addition, we accounted for the numerical sequence of checks and judgmentally reviewed 29 disbursements for required signatures, supporting documentation, and endorsement.

### **Office and Cemeteries--Budget Account 2560**

We tested 22 revenue transactions from budget account 2560 to determine whether funds had been collected and deposited in accordance with statutory requirements. These transactions were also reviewed to ensure they were recorded in the correct fiscal year.

For expenditures, we judgmentally selected and tested 20 transactions to ensure proper approval and compliance with laws and regulations. These were reviewed for proper recording in the correct fiscal year and supporting documentation. In addition, we selected three contracts to review for required approvals and compliance with laws, regulations, and contract terms.

We tested employee payroll and personnel records for eight employees to determine compliance with regulations governing the accumulation and use of overtime and compensatory time. We also tested whether classified employees had required performance standards and evaluations. We examined records for 14 employees to verify that merit increases received proper approval. Additionally, we tested 14 employees' time records for recording accuracy. Furthermore, we reviewed the personnel files of supervisors performing evaluations for evidence of training in the administration of evaluations.

We selected and tested 45 fixed assets to ensure proper recording of the assets held by the Office. We reviewed agency records to determine if the Office had performed annual inventories of fixed assets. In addition, we reviewed correspondence between the Office and the State Purchasing Division for prompt handling of additions and deletions to the fixed asset listings.

### **Nursing Home--Budget Account 2561**

We tested eight revenue transactions from budget account 2561 to determine whether funds had been collected and deposited in accordance with statutory requirements. In addition, we reviewed the procedures and methods used by the veterans' nursing home for reimbursements from Medicare, Medicaid, Veterans' Affairs, insurance companies, and residents. We also verified when the Nursing Home received certification from the Department of Veterans' Affairs, Medicare, and Medicaid for receiving reimbursements.

For expenditures, we judgmentally selected and tested 20 transactions to ensure proper approval and compliance with laws and regulations. These were reviewed for proper recording in the correct fiscal year and supporting documentation. In addition, we selected 12 contracts to review for required approvals and compliance with laws, regulations, and contract terms.

We tested employee payroll and personnel records for six employees to determine compliance with regulations governing the accumulation and use of overtime and compensatory time. We also tested whether classified employees had required performance standards and evaluations. We examined records for six employees to verify that merit increases received proper approval. Additionally, we tested six employees' time records for recording accuracy. Furthermore, we reviewed the files of supervisors performing evaluations for training in the administration of evaluations.

We selected and tested 29 fixed assets to ensure proper recording of the assets held by the Nursing Home. We reviewed agency records to determine if the Nursing Home had performed annual inventories of fixed assets. In addition, we reviewed correspondence between the Nursing Home and the State Purchasing Division for prompt handling of additions and deletions to the fixed asset listings.

We surveyed 15 other states about their operation and management of veterans' homes. Nine states responded. The survey obtained information on the number of homes, types of homes, number of residents, and number of staff. In addition, we obtained information on agencies charged with the management and oversight of the homes and on the extent and type services provided by outside vendors or contractors. Of the nine states responding, six provided staffing and resident statistics and provided a level of service similar to Nevada's Veterans' Nursing Home.

### **Outside Bank Accounts**

We reviewed and performed a reconciliation of two of the Office's outside bank accounts, the Veterans' Welfare Account and the Veterans' Indigent Account. These accounts were reviewed for authorization by the State Board of Finance or specific statute. Due to the nature and size of the accounts, all of the transactions for each account were reviewed. The numerical sequence of checks and supporting documentation for expenditures were reviewed.

We reviewed the Nursing Home's outside bank account, the Resident Trust Fund. This account was reviewed for authorization by the State Board of Finance or specific statute. Due to the lack of transactions and the nature of the account, policies and procedures were reviewed to ensure they were in compliance with state requirements.

Our work was conducted from August 2002 to July 2003 in accordance with generally accepted government auditing standards.

In accordance with NRS 218.821, we furnished a copy of our preliminary report to the Executive Director of the Office of Veterans' Services. On January 13, 2004, we met with agency officials to discuss the results of the audit and requested a written response to the preliminary report. That response is contained in Appendix D, which begins on page 36.

Contributors to this report include:

Shawn Heusser  
Deputy Legislative Auditor

Jane Bailey  
Audit Supervisor

Kimberly C. Arnett, CPA  
Deputy Legislative Auditor

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Chief Deputy Legislative Auditor

Appendix B  
NRS 218.880 Report

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LEGISLATIVE COUNSEL BUREAU

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RANDOLPH J. TOWNSEND, *Senator, Chairman*  
Lorne J. Malkiewich, *Director, Secretary*

INTERIM FINANCE COMMITTEE (775) 684-6821  
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December 17, 2003

Legislative Commission  
Legislative Building  
Carson City, Nevada 89701

This report is issued in accordance with NRS 218.880(1), which requires the Legislative Auditor to report evidence of improper practices of financial administration or inadequacy of fiscal records to the Governor, each member of the Legislature, and the head of the agency affected.

The Office of Veterans' Services acts as a court-appointed guardian for incompetent veterans, minor children of deceased veterans, and other persons certified as having money due from the Veteran's Administration. The Office was the financial guardian for 28 wards with nearly \$1.7 million in trust funds as of June 30, 2002.

During the course of our audit, we found the Office exercised poor financial administration of the custodial accounts. For example, the Office has not reconciled the wards' accounts with the fund balance as reported in the state accounting system. As a result, the wards' accounts as of March 31, 2003, totaled \$38,210 less than the amount recorded in the state accounting system. In addition, errors in the wards' accounts and the state accounting system were not identified and corrected. We identified over \$110,000 in errors in the wards' accounts or the state accounting system that occurred between July 1, 2002, and March 31, 2003.

We also found the Office did not retain adequate fiscal records for the wards' accounts. The Office could not provide adequate supporting documentation for thousands of dollars of wards' receipts and expenditures. Because of the lack of supporting documentation, we were unable to reconcile the wards' account balances with the balance reported by the state accounting system. Furthermore, the State may be liable for expenditures made without sufficient supporting documentation.

This report is being submitted to the Governor, each member of the Legislature, and the Executive Director of the Office of Veterans' Services. In addition, because of the possible liability to the State, we are providing a copy of this report to the Attorney General.

Respectfully Submitted,

  
Paul V. Townsend, CPA  
Legislative Auditor

PVT:dc

OSRO Rev.

## **Appendix C**

### **Prior Audit Recommendations**

Our 1993 audit of the Office of Veterans' Services contained 10 recommendations. The Office indicated all of these recommendations had been implemented. However, based on the results of the tests and procedures applied during this audit, two of the recommendations have not been implemented. We concluded that the Office did not implement the recommendation to maintain complete documentation for all payments from wards' accounts. In addition, we found that the Office had not fully implemented a recommendation to use pre-numbered receipt forms. These recommendations have been modified and repeated in this report.

**Appendix D**  
**Office of Veterans' Services' Response**

KENNY C. GUINN  
*Governor*



STATE OF NEVADA

**OFFICE OF VETERANS' SERVICES**

*Executive Director*  
1201 Terminal Way, No. 221  
Reno, Nevada 89502  
(775) 688-1653  
Fax (775) 688-1656

Northern Nevada Veterans  
Memorial Cemetery  
P.O. Box 1919  
Fernley, Nevada 89408  
(775) 575-4441  
Fax (775) 575-5713

*Deputy Executive Director*  
% VA Ambulatory Care Center  
1700 Vegas Drive, No. 1719  
Las Vegas, Nevada 89106  
(702) 636-3070  
Fax (702) 636-3079

Southern Nevada Veterans  
Memorial Cemetery  
1900 Buchanan  
Boulder City, Nevada 89005  
(702) 486-5920  
Fax (702) 486-5923

January 23, 2004

Paul V. Townsend, CPA  
Legislative Auditor

Dear Mr. Townsend,

Enclosed please find the Office Of Veterans' Services' response to the audit findings we discussed on January 13, 2004. If you have any questions, please call me at 688-1653.

Sincerely,

A handwritten signature in black ink, appearing to read "Charles Fulkerson", written over a horizontal line.

Charles Fulkerson  
Executive Director  
Office of Veterans' Services

Enc.

01 2206

**Responses To LCB Audit – Nevada Office Of Veterans’ Services (NOVS) - Reno**

**Revised Report by Ace Tan, Management Analyst**

**January 26, 2004**

**PRINCIPAL FINDINGS AND SOLUTIONS\***

**Finding – The wards’ accounts have not been reconciled to the State accounting system**

**Solution**

- Wards’ accounts will be reconciled monthly. We will start with the April 2003 reconciliation as it was the first month after the period covered by the LCB audit. Target date of catching up: June 2004.
- Plan and implement procedure to process all regular routine payments for the wards through the Integrated Financial System. Completion date: December 2004.

**Finding – The office did not always maintain adequate supporting documentation for wards’ transactions**

**Solution**

- Supporting documentation will be kept on file for all payments made to parties other than the wards. Implementation date: February 1, 2004. Contracts and agreements between the wards and other parties will be acquired and kept on file. Completion date June 30, 2004. A log to record all checks received has been maintained since August 2003.

**Finding – There were few controls over cash and checks related to the Guardianship Program**

**Solution**

- Internal control procedures to safeguard cash and checks have been established during the month of January 2004. Documentation of procedures will be completed by October 2004.

**\* Responses to findings regarding payroll and personnel issues are presented separately.**



**Finding – The office has not adopted procedures to charge the administrative fees**

**Solution**

- The Administrative Fee will be charged in accordance to NRS 417. All exceptions as decided by the Executive Director permitted by NRS 417 will be documented. Implementation date: February 2004.

**Finding – The office did not follow state law when terminating the affairs of a deceased ward**

**Solution**

- Procedure to process terminated ward's accounts will be established after consulting the Attorney General's Office. Documentation of procedures will be completed by October 2004.

**Finding – The office did not comply with state laws and policies governing contracts**

**Solution**

- Staff member in charge of all contracts has successfully completed the State Contract Manager Certification Program in October 2003.

**Finding – Neither the office nor the Nursing Home used a cash receipt log or pre-numbered receipts to control revenues**

**Solution**

- A pre-numbered receipt book has been put in use at the office in January 2004
- A pre-numbered receipt book has been in use at the Nursing Home since July 2003

**Finding – Some receipts were held longer than allowed by state law before being deposited**

**Solution**

- Tuesdays and Thursdays are designated deposit days. If either day is a holiday, the following work day will be deposit day. Implementation date: February 2004.

Finding – Duties related to processing revenues were not adequately segregated at the office or the Nursing Home

Solution

- Procedures to have the receiving, recording, and depositing functions for revenues performed by three different staff members at the office have been implemented in January 2004.
- Procedures to have the receiving, recording, authorizing, and depositing functions for revenues performed by four different staff members are being implemented in January 2004 for the Nursing Home.

Finding – Revenues were recorded in the wrong year

Solution

- Office will pay special attention to the timeliness of year-end reporting

Finding – Problems with controls over expenditures were found

Solution

- Procedure to ensure proper authorization for requisitions and purchases will be established. Implementation date: July 2004.

Finding – The office did not have proper procedures for controlling fixed assets

Solution

- Data gathering of fixed assets has been planned and will start in February 2004. Control of fixed assets will be established following the completion of annual inventory reporting for fiscal year 04. Documentation of procedures will be completed by October 2004.

## **LCB AUDIT – PERSONNEL RESPONSE**

**Report by Karen Dodd, Personnel Analyst**

**January 16, 2004**

On July 14, 2003, the recommendation was made to Mr. Chuck Fulkerson, Executive Director, that all Office of Veterans Services personnel and payroll functions and actions be completed by the trained personnel staff at the Nevada Veterans Nursing Home in Boulder City. Mr. Fulkerson agreed to this recommendation and all Office of Veterans Services personnel and payroll files were transferred to the Nursing Home Personnel Office effective August 1, 2003.

Having completed this, the Office of Veterans Services personnel and payroll files are maintained in the Personnel Office at the Nevada Veterans Nursing Home.

Responsibilities include all personnel actions, i.e., new hires, terminations, promotions, status changes; address changes, beneficiary changes, etc. All time sheets are reviewed and entered into the Integrated Financial System, HR by the Nursing Home Personnel/Payroll Office staff. In addition to the above, the Personnel Office is responsible for training, evaluations, classification and compensation actions, employee grievances, disciplinary actions, EEO functions and investigations.

### **PRINCIPAL FINDINGS AND SOLUTIONS**

#### **Finding - Time sheets not signed by team leader and/or team member**

##### **Solution**

- As of August 1, 2003 all time sheets that have not been signed by the team leader have been returned to the team leader for signature. In some cases, if team members are on vacation, etc., the team leader has written, "Unavailable."
- A Timesheet Memo will be distributed January 12, 2004 to all OVS team members, stating; Effective January 19, 2004, "If team members are unavailable a **signed** time sheet copy **must** be forwarded to Payroll as soon as the team member returns." This will be attached to the original timesheet.

**Finding – No prior overtime authorization**

**Solution**

- The Nursing Home has been utilizing an “Overtime Justification Form” since July 22, 2002. This form has been revised to include the Office of Veterans Services and will be distributed with the Timesheet Memo on January 12, 2004. Effective January 19, 2004, any timesheets listing overtime which does not include a completed and signed Overtime Justification Form, will be returned to the team leader.

**Finding – Lack of Required Employee Appraisal and Development Reports**

**Solution**

- Effective February 1, 2004, team leaders and the Appointing Authority will be notified by the Personnel Office of any late employee evaluations. Team leaders who fail to comply with expectations shall be subject to disciplinary action and should expect their failure to be reflected in their personal Employee Appraisal and Development Report. The Office of Veterans Services and the Nevada Veterans Nursing Home policy will be revised by March 1, 2004 to reflect the above changes.

**Finding – Lack of Required Team Leader Employee Appraisal and Development Report Training**

**Solution**

- An audit of personnel files will be conducted by March 1, 2004 to determine if all team leaders have completed the required Employee Appraisal and Development Report training. Those team leaders in need of the above training will be scheduled in accordance with the Department of Personnel Training Calendar.

**Finding - Terminated Employees Not Removed from the Integrated Financial System**

**Solution**

- Effective January 8, 2004 the Nevada Office of Veterans Services Personnel office termination checklist has been revised to include, “Remove from IFS (if applicable). This checklist is utilized by the Personnel Office when an employee terminates from the Office of Veterans Services.

**Finding - Time Sheet Policies and Procedures not Implemented**

**Solution**

- As stated above, a time sheet memo will be distributed to all team members on January 12, 2004 updating the current time sheet procedures.
- A new Office of Veterans Services time sheet policy, which will include the North and South Offices and Cemeteries, and the Nevada Veterans Nursing Home, will be developed by February 1, 2004.
- Compliance of the new policy will be monitored by the Personnel Office and the Compliance Report will be sent to the Executive Director quarterly.

**Office of Veterans' Services' Response  
to Audit Recommendations**

<u>Recommendation Number</u>		<u>Accepted</u>	<u>Rejected</u>
1	Consult with the Attorney General, State Controller's Office, and State Treasurer on the disposition of the funds in excess of the wards' balances as listed in the state accounting system.....	<u>    X    </u>	<u>          </u>
2	Process Guardianship Program transactions through the Integrated Financial System and use the outside bank account only for emergencies.....	<u>    X    </u>	<u>          </u>
3	Develop policies and procedures over the Guardianship Program, including segregation of duties, monthly reconciliation of the wards' accounts with the state accounting system, retention of supporting documentation for all transactions, maintenance of a receipt log, assessment of the administrative fee, disposition of wards' estates following death, and supervisory review of all transactions.....	<u>    X    </u>	<u>          </u>
4	Prohibit Office staff from preparing, endorsing, or presenting checks for cash on behalf of the wards .....	<u>    X    </u>	<u>          </u>
5	Develop and implement comprehensive policies and procedures that provide staff with the guidance needed to establish and maintain contracts with outside vendors .....	<u>    X    </u>	<u>          </u>
6	Implement controls that provide reasonable assurance revenues are adequately safeguarded and properly recorded in compliance with state law. Controls should include restrictive endorsement on all checks received, maintenance of a receipt log of all checks and cash received, and deposit of receipts into the proper fiscal year. ....	<u>    X    </u>	<u>          </u>
7	Ensure laws over expenditures are followed, including obtaining required approvals from the Budget Division and the Department of Information Technology, and the proper recording of expenditures in the state accounting system.....	<u>    X    </u>	<u>          </u>
8	Promptly remove terminated employees' access to the Integrated Financial System and outside bank accounts .....	<u>    X    </u>	<u>          </u>
9	Ensure all outside bank accounts are in the name of the State of Nevada and require at least two signatures....	<u>    X    </u>	<u>          </u>

**Nevada Office of Veterans' Services' Response  
to Audit Recommendations  
(continued)**

<u>Recommendation Number</u>		<u>Accepted</u>	<u>Rejected</u>
10	Conduct employee evaluations in a timely manner and ensure evaluators have received required training .....	<u>  X  </u>	<u>      </u>
11	Implement policies and procedures to ensure timesheets are accurate, signed by the employee, and reviewed and signed by the supervisors.....	<u>  X  </u>	<u>      </u>
12	Ensure all fixed assets have state identification tags and that the State Purchasing Division's fixed asset listing is accurate and complete.....	<u>  X  </u>	<u>      </u>
13	Develop and implement procedures to monitor staffing levels and outsourcing of services to help ensure quality of care and economic and efficient operation of the Nursing Home.....	<u>  X  </u>	<u>      </u>
	<b>TOTALS</b>	<u>  13  </u>	<u>    0    </u>