

# STATE OF NEVADA

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## Audit Report Office of Veterans' Services

2011



Legislative Auditor  
Carson City, Nevada

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# Audit Highlights



Highlights of Legislative Auditor report on the Office of Veterans' Services issued on October 17, 2011. Report # LA12-03.

## Background

The Nevada Office of Veterans' Services (NOVS) was established in 1943 to serve as an advocate for veterans. NOVS is responsible for operating a state veterans' nursing home; supervising the operations and maintenance of two state veterans' cemeteries; assisting veterans and their families in obtaining available federal benefits, services, and compensation to which they are entitled; and obtaining and disseminating information to the veterans of Nevada.

NOVS has offices in Las Vegas, Reno, Elko, and Fallon and cemeteries located in Fernley and Boulder City. Additionally, the Nevada State Veterans' Home, a 180 bed skilled nursing care facility, is located in Boulder City. As of August 2010, NOVS had a total of 231 positions with 186 located at the Veterans' Home. NOVS is funded from a variety of sources including, Medicaid, private pay residents, Veterans' Affairs State Home Per Diem Program, General Fund appropriations, license plate proceeds, federal burial reimbursements, Medicare, and gifts. Expenditures were just over \$18 million for fiscal year 2010 with the majority (over \$15 million) at the Veterans' Home.

## Purpose of Audit

The purpose of this audit was to determine whether internal controls at the Veterans' Home ensure that Medicaid, Medicare, Veterans' Affairs, and residents are billed timely and accurately, and revenues are collected. In addition, we determined whether the Veterans' Home has adequate controls over the resident trust fund. This audit included a review of the revenues and resident trust fund activities for calendar year 2010, and activities through February 2011 for certain areas.

## Audit Recommendations

This audit report includes eight recommendations. Six recommendations were made to improve controls over billing and collecting revenues at the Veterans' Home. Two recommendations were designed to strengthen oversight of the resident trust fund. The Office accepted the eight recommendations.

## Recommendation Status

The Office of Veterans' Services's 60-day plan for corrective action is due on January 18, 2012. In addition, the six-month report on the status of audit recommendations is due on July 18, 2012.

# Office of Veterans' Services

## Summary

The Nevada State Veterans' Home does not have adequate controls to ensure revenues are billed timely or accurately, and that outstanding balances are collected. During our audit, the Veterans' Home did not bill for more than \$600,000 in services timely. Although the delay should not impact the amount of Medicaid and Medicare reimbursements eventually received, it is likely that some losses will occur from private pay residents that were not billed for several months. In addition, accounts receivable balances have not been adequately monitored, and staff have not followed the state's policies for collecting and reporting accounts receivable. Most billing and collection problems stem from a lack of policies and procedures. During our audit, new fiscal staff were taking steps to develop policies and procedures and to improve the accuracy and monitoring of accounts receivable.

The Veterans' Home lacks adequate controls to ensure resident trust funds are properly safeguarded. Monthly bank reconciliations of the trust account were not completed for extended periods of time. In addition, duties have not been adequately segregated to help protect the \$181,000 average monthly balance in the resident trust fund.

## Key Findings

The Veterans' Home did not always bill revenues timely or accurately. We identified billing problems from each of the four major revenue billing sources. For example, during our audit Veterans' Home staff identified \$285,000 in previously missed Medicaid reimbursements from prior months. In addition, staff did not bill Medicare for a 6-month period. We estimate that \$240,000 had not been billed; however, staff have approximately 1 year to request reimbursements from Medicare. Further, three private pay residents were not billed timely, including one resident that was not billed for 10 consecutive months of care. When a bill was finally sent, it had a balance of nearly \$53,000. For each of these revenue sources, accounting staff did not have adequate policies and procedures to guide billing activities. Policies and procedures are important because turnover occurred in key accounting positions and new staff did not have adequate guidance. (page 6)

The Veterans' Home did not maintain accurate accounts receivable reports. Therefore, residents with large receivable balances were not always monitored to ensure payment of outstanding debt. Although a new software program was implemented in 2009, staff have been unable to use the program to generate an accurate accounts receivable aging report. Our review of 16 residents with outstanding balances greater than \$10,000 found that only 1 had an individual statement balance matching the accounts receivable aging report balance. For example, one resident had an aging report balance of \$23,116 and a statement balance of \$12,114 for the same day. According to management, additional software training is needed for staff, and they are working with the software vendor to ensure the program performs as specified in the contract. (page 8)

The Veterans' Home has not actively pursued the collection of delinquent accounts for private pay residents. Delinquent accounts have not been turned over to the State Controller's Office for collection after 60 days as required by state law. As of December 2010, the Veterans' Home accounts receivable aging report showed over \$230,000 in outstanding debt between 1 and 2 years old. However, because the aging report contains inaccurate information, staff were unsure which debts and exact amounts that should be pursued for collection. (page 9)

Monthly bank reconciliations of the resident trust fund were not completed during fiscal year 2010. In addition, reconciliations for July through November 2010 were not completed until January 2011 and included an unexplained overage of about \$2,400. The trust fund holds residents' money and serves as a bank for residents wishing to participate. The trust fund is used by residents to pay for monthly bills, clothing, haircuts, and other services and activities. Therefore, reconciliations are vital to help ensure residents' money is safeguarded and errors are detected and corrected timely. (page 13)

The Veterans' Home has not adequately segregated the duties of accounting staff to help safeguard the resident trust fund. Segregation of duties is needed so that one individual cannot control all aspects of a financial transaction. The resident trust fund included accounts for over 160 residents and had an average monthly balance of \$181,000 for calendar year 2010. Segregation of duties is important to help reduce the risk of error and fraud. (page 14)



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This report contains the findings, conclusions, and recommendations from our completed audit of the Office of Veterans' Services. This audit was conducted pursuant to 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.

This report includes eight recommendations to improve controls over billing and collecting revenues at the Veterans' Home and to strengthen oversight of the resident trust fund. We are available to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other State officials.

Respectfully submitted,

Paul V. Townsend, CPA  
Legislative Auditor

September 7, 2011  
Carson City, Nevada



# Office of Veterans' Services

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# Introduction

## Background

The Nevada Office of Veterans' Services (NOVS) was established in 1943 to serve as an advocate for veterans. The mission of NOVS is to provide a full continuum of quality services to eligible veterans and their families, to provide an environment of growth and opportunity to its employees, and to provide its community and partners the opportunity to contribute in this endeavor. 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 Legislature, and the two Cemetery Advisory Committees to provide advice and input on all issues pertaining to veterans in Nevada.

The Office of Veterans' Services is responsible for operating a state veterans' nursing home; supervising the operations and maintenance of two state veterans' cemeteries; assisting veterans and their families in obtaining available federal benefits, services, and compensation to which they are entitled; and for obtaining and disseminating information to the veterans of Nevada. NOVS officials estimate that 340,000 veterans live in Nevada. Prior to fiscal year 2011, NOVS also served as the court appointed guardian for veterans determined unable to handle their own financial matters.

The Nevada State Veterans' Home is a 180 bed skilled nursing care facility. The Veterans' Home was dedicated in June 2002 and admitted its first residents in August 2002. The Veterans' Home provides 24-hour skilled nursing care to eligible veterans, spouses, and Gold Star parents (parents who had a child who died while in military service). A minimum of 75% of the residents must be veterans. The 180 bed facility consists of three 60 bed wings and is located on 50 acres in Boulder City. One of the



wings offers secured care for residents suffering from Alzheimer's or other dementia related illnesses.

The Veterans' Home is certified by Medicaid, Medicare, and the Department of Veterans' Affairs. A full range of services are provided including: physicians, laboratory, pharmacy, physical, occupational, respiratory and speech therapy, dental, social services, spiritual, medical records, activities, transportation, maintenance, dietary, barber, laundry, housekeeping, and financial services.

### **Staffing and Budgets**

NOVS has offices in Las Vegas, Reno, Elko, and Fallon with cemeteries located in Fernley and Boulder City. As of August 2010, there were a total of 231 positions at NOVS with 214 filled. Of these positions, 186 are allocated to the Veterans' Home in Boulder City.

NOVS has budget accounts for administration and cemetery operations, Veterans' Home operations, and three gift accounts. The gift accounts are used for improvements at the cemeteries, Veterans' Home, and for veteran outreach programs. During fiscal year 2010, NOVS had over \$18 million in expenditures as shown in Exhibit 1.

### **Expenditures Fiscal Year 2010** **Exhibit 1**

<b>Budget Accounts</b>	<b>Expenditures</b>
Administration and Cemetery	\$ 2,489,053
Gift Accounts (3)	314,810
Veterans' Home	15,221,856
<b>Total</b>	<b>\$18,025,719</b>

Source: State accounting system.

During fiscal year 2010, the primary sources of revenue for administration and cemetery operations were approximately \$700,000 in federal burial reimbursements and \$1.9 million in General Fund appropriations. Gift account revenues totaled over

\$515,000 and were received mainly through license plate proceeds and donations made to NOVS or the Veterans' Home.

Revenues for the Veterans' Home are primarily derived from Medicaid, private pay residents, the Veterans' Affairs State Home Per Diem Program, and Medicare. The following provides a brief description of each major funding source:

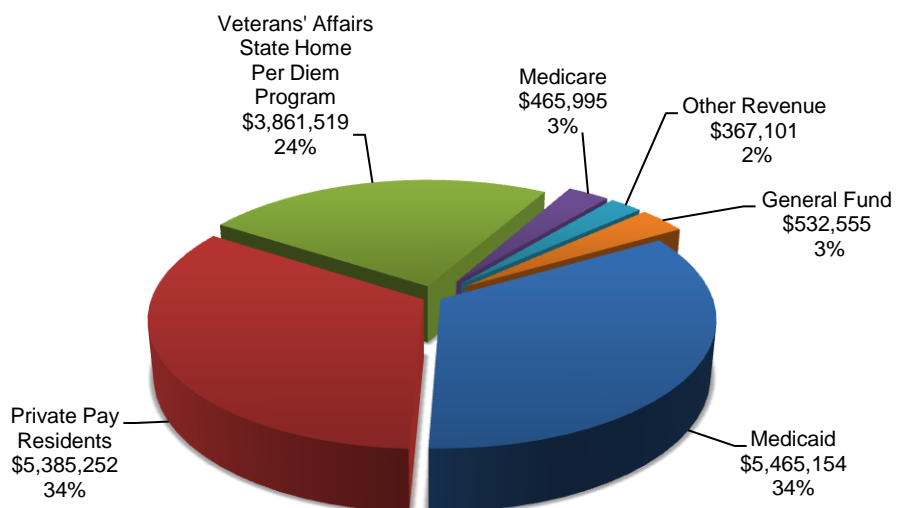
- Medicaid – Eligibility is based on need using the resident's ability to pay for services. Consideration is given to assets and monthly income levels when determining eligibility. Medicaid eligible residents are generally required to pay any social security, pension, or Veterans' Affairs income they receive to cover part of the costs for services provided by the Veterans' Home. Fiscal year 2010 Medicaid revenues were nearly \$5.5 million.
- Private Pay Residents – Residents not eligible for Medicaid and Medicare generally are responsible for paying for the costs of services received. For January through June 2010, the daily room and board rate was \$101 for an eligible veteran and \$173 for a nonveteran. Fiscal year 2010 private pay revenues were nearly \$5.4 million.
- Veterans' Affairs State Home Per Diem Program – The Federal Department of Veterans' Affairs provides a daily per diem for each eligible veteran at the Veterans' Home. For federal fiscal year ending September 30, 2010, the daily rate was \$77.53. In addition, Veterans' Affairs pays 100% of the cost for residents with a service related disability of 70% or more. This rate varies depending on the average daily cost of care for each month. During calendar year 2010, the rate ranged between \$220 and \$300 per day. Fiscal year 2010 Veterans' Affairs per diem revenues were nearly \$3.9 million.
- Medicare – When a resident has a qualifying stay at a hospital, they are generally eligible to receive Medicare benefits for a limited time. Fiscal year 2010 Medicare revenues totaled nearly \$466,000.

In addition to Medicaid, private pay residents, Veterans' Affairs per diem, and Medicare, the Veterans' Home received a General Fund appropriation and revenues from other sources including Clark County. Total fiscal year 2010 Veterans' Home revenues

were \$16,077,576. Exhibit 2 provides a breakdown of fiscal year 2010 revenues by source for the Veterans' Home budget account.

### Veterans' Home Budget Account Fiscal Year 2010 Revenues

### Exhibit 2



Source: State accounting system.

During fiscal year 2010, Veterans' Home revenues exceeded expenditures by \$855,720. The Veterans' Home returned the excess revenue to the General Fund.

## Scope and Objectives

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 218G.010 to 218G.350. 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 a review of the Veterans' Home revenues and resident trust fund activities for calendar year 2010, and activities through February 2011 for certain areas. The objectives of our audit were to determine whether:

- Internal controls at the Veterans' Home ensure that Medicaid, Medicare, Veterans' Affairs, and residents are billed timely and accurately, and revenues are collected.
- The Veterans' Home has adequate controls over the resident trust fund.

# Control Weaknesses Over Revenues and Collections

The Nevada State Veterans' Home does not have adequate controls to ensure revenues are billed timely or accurately, and that outstanding balances are collected. During our audit, the Veterans' Home did not bill for more than \$600,000 in services timely. Although the delay should not impact the amount of Medicaid and Medicare reimbursements eventually received, it is likely that some losses will occur from private pay residents that were not billed for several months. In addition, accounts receivable balances have not been adequately monitored, and staff have not followed the state's policies for collecting and reporting accounts receivable. Most billing and collection problems stem from a lack of policies and procedures. During our audit, new fiscal staff were taking steps to develop policies and procedures and to improve the accuracy and monitoring of accounts receivable.

## **Veterans' Home Revenues Were Not Always Billed Timely or Accurately**

The Veterans' Home did not always bill revenues timely or accurately. In total, more than \$600,000 was not billed timely or accurately from the Home's major revenue billing sources. These revenue sources include Medicaid, Medicare, private pay residents, and Veterans' Affairs per diem. For each of these sources, accounting staff did not have adequate policies and procedures to guide billing activities.

Our review of Veterans' Home billings identified several instances of untimely and inaccurate reimbursement requests. We identified billing problems from each of the four major revenue billing sources. Examples of billing problems include the following:

- Medicaid – During our audit, Veterans' Home staff identified \$285,000 in previously missed Medicaid reimbursements from prior months. These missed

reimbursements were primarily for services provided for August through November 2010. We identified an additional \$23,000 available for a resident that had been discharged from the Veterans' Home in 2009. Requests for Medicaid reimbursements must be completed within 180 days of services being provided or the date of eligibility determination, whichever is later. As eligibility determination may take several months, some services may not be billed for approximately 1 year.

- Medicare – The Veterans' Home did not bill Medicare for a 6-month period. As of February 2011, the last Medicare services billed were for July 2010. Based on fiscal year 2010 reimbursements, we estimate approximately \$240,000 had not been billed. Like Medicaid, the Veterans' Home has approximately 1 year to request reimbursement for provided Medicare services.
- Private Pay Residents – Three private pay residents, deemed to have sufficient resources to pay for services, were not billed timely. This included one resident that was not billed for 10 consecutive months of care. When a bill was finally sent, it had a balance of nearly \$53,000. This resident passed away owing about \$50,000. According to Veterans' Home management they are now seeking payment from the deceased's estate. After we inquired about this resident, staff sent billing statements to two other residents that had not received monthly billing statements. These residents had outstanding balances of approximately \$23,000 and \$24,000 when they received a bill. When residents do not receive timely bills, large balances are incurred making it difficult to pay accumulated debt.
- Veterans' Affairs State Home Per Diem Program – Veterans' Home requests for per diem reimbursements were not accurate for January through November 2010. On average, these requests were off by approximately \$2,200. These inaccuracies resulted in the Veterans' Home staff submitting corrected forms to Veterans' Affairs. Each resubmitted claim represented inefficiencies in the process and a duplication of efforts.

For each of these revenue sources, accounting staff did not have adequate policies and procedures to guide billing activities. As a result, when turnover occurred in key accounting positions new staff did not have adequate guidance to ensure timely and accurate billing.

## **Veterans' Home Collection Efforts Need Improvement**

The Veterans' Home relies on revenues from Medicaid, Medicare, resident private pay, and Veterans' Affairs per diem for providing services to its residents. Untimely or inaccurate billings could create a revenue shortfall. This would result in the Veterans' Home needing money from the State General Fund, or reduce the amount reverted back to the State at the end of the year.

The Veterans' Home did not maintain accurate accounts receivable reports. Therefore, residents with large receivable balances were not always monitored to ensure payment of outstanding debt. In addition, staff have not submitted quarterly and annual accounts receivable reports to the State Controller's Office. Further, the Veterans' Home has not established procedures to ensure the state's debt collection policies are followed.

### **Unreliable Accounts Receivable Reports**

The Veterans' Home did not maintain accurate accounts receivable reports. Therefore, residents with large receivable balances were not always monitored to ensure payment of outstanding debt. Although a new software program was implemented in 2009, staff have been unable to use the program to generate an accurate accounts receivable aging report. Specifically, information on the aging report does not match the information from individual resident's account statements.

Our review of 16 residents with outstanding balances greater than \$10,000 found that only 1 had an individual statement balance matching the accounts receivable aging report balance. For example, one resident had an aging report balance of \$23,116 and a statement balance of \$12,114. Both the aging report and the statements were for the same day.

Although the accounts receivable aging report is not accurate, we found it to be useful in identifying residents with outstanding delinquent balances. For example, we found a resident was not receiving their check from the Department of Veterans' Affairs because Veterans' Affairs staff did not know the resident was at the Veterans' Home. Based on our questions, Veterans' Home staff were able to notify Veterans' Affairs and receive a retroactive

check for over \$13,000 for time the resident had been at the Veterans' Home.

Implementation of a new software program for tracking residents' services contributed to the inaccuracy of the accounts receivable aging report. The Veterans' Home entered a contract for \$196,000, effective May 2008 through May 2012, for the new program. During implementation, accounting staff were not provided sufficient training on how to use the new program. According to management, additional training is needed for staff to effectively use the program. In addition, management indicated they are working with the vendor to ensure the program is performing as specified in the contract.

#### **Accounts Receivable Not Reported to State Controller**

Accounts receivable reports were not submitted to the State Controller as required. NRS 353C.120 and the State Controller's policies and procedures require quarterly and annual reporting of accounts receivable. According to the Controller's Office, they have no record of receivable reports submitted by the Veterans' Home. When this information is not tracked and reported, the Controller and other users are not informed of all debts owed to the State.

The Veterans' Home lacks policies and procedures to ensure the submittal of required reports. Current Veterans' Home management, hired during calendar year 2010, was aware of the requirement to submit the reports, but made the decision to wait until data in the system was reliable. In January and February 2011, management and staff completed a review of resident statements to identify errors in the system and make corrections. Management explained that some of the corrections require the assistance of the software vendor. Therefore, accounts receivable reports will be submitted once data in their system is reliable.

#### **State Debt Collection Policies Not Followed**

The Veterans' Home has not actively pursued the collection of delinquent accounts for private pay residents. Staff did not send collection letters for 11 of 14 residents tested that owed between \$10,000 and \$50,000. In addition, delinquent accounts have not



been turned over to the State Controller's Office for collection after 60 days as required by state law. As of December 2010, the Veterans' Home accounts receivable aging report showed over \$230,000 in outstanding debt between 1 and 2 years old. However, because the aging report contains inaccurate information, staff were unsure which debts and exact amounts that should be pursued for collection.

Both Veterans' Home policies and procedures and state law require quick action on delinquent debts. However, the Veterans' Home needs to revise its procedures to comply with state law for turning debts over to the Controller's Office for collection. These procedures should be sensitive to the needs of veterans and their families, but ensure that individuals with resources pay their appropriate costs.

- Veterans' Home Policies and Procedures – Veterans' Home policies and procedures over delinquent debt collection focus on letters being sent at 30, 45, and 60 days delinquent. The procedures do not specify when to turn the debt over to the State Controller's Office for collection.
- State Requirements – Effective July 1, 2009, NRS 353C.195 was amended to require that unless an agency has an agreement with the State Controller's Office, an agency shall assign the debt to the State Controller not later than 60 days after the debt becomes past due.

As of January 2011, the last time the Veterans' Home turned delinquent debts over to the Controller's Office for collection was November 2009. This included a total of \$263,000 in delinquent private pay debts from as far back as 2003. While Medicare and Medicaid will pay for services up to 1 year after services are provided, private pay residents are less likely to pay the longer the debt is outstanding. The Controller's Office has indicated that when debts are over 90 days past due, the risk of not collecting the debt increases.

## **Revenues Not Properly Recorded**

Veterans' Home staff did not always ensure revenues were recorded to the correct budget category. Staff made at least three deposits totaling over \$1 million to the incorrect budget category.

In each instance, the deposits were made to the Medicare budget category, rather than Medicaid or Veterans' Affairs per diem categories. While Veterans' Home management identified and corrected two of these deposits, the remaining deposit error resulted in overstating Medicare collections by \$314,181 and understating Veterans' Affairs per diem by the same amount during fiscal year 2010.

Because of the recording error, anticipated Medicare revenues were overstated by 67% and Veterans' Affairs per diem revenues were understated by 8% in the Governor's Executive Budget. The budget for fiscal years 2012 and 2013 was created based on Medicare and Veterans' Affairs per diem revenues of \$780,176 and \$3,547,338, rather than actual revenues of \$465,995 and \$3,861,519. Although the errors did not change the total budgeted revenues, it is essential for officials making budget decisions to have accurate information.

The Veterans' Home does not have adequate policies and procedures in place to ensure deposits are posted to the correct budget category. For example, procedures do not include communication between staff responsible for billing and staff responsible for recording revenues. In December 2010, accounting staff began to monitor the amount of anticipated revenues by major revenue source. Monitoring reports will provide greater assurance that revenues are recorded to the correct budget category.

### **Lack of Policies and Procedures Contribute to Inefficient Processes**

Most billing and collection problems identified in this report stem from a lack of policies and procedures to guide accounting activities. Because processes are not in place to bill revenues timely and accurately, the Veterans' Home does not have adequate assurance that all revenue is collected. This was compounded by turnover in several key Veterans' Home accounting positions during calendar year 2010.

NRS 353A.020 requires each agency to develop written procedures to carry out a system of internal accounting and administrative control. These procedures are intended to help agencies safeguard assets, check the accuracy and reliability of

their accounting information, promote efficient operations, and encourage adherence to managerial policies. Written procedures are particularly valuable when turnover occurs in key positions and new employees need training on assigned duties.

During our audit, key accounting staff hired in 2010 were working on developing policies and procedures. These policies and procedures should provide greater assurance that revenues are collected, staffing resources are used efficiently, and accurate information is available for the collection of delinquent debts owed to the State.

### **Recommendations**

1. Develop comprehensive policies and procedures for billing, receiving, and monitoring Veterans' Home revenues.
2. Establish controls to ensure accounts receivable reports are submitted to the State Controller's Office when required.
3. Ensure staff are adequately trained in using the accounting functions of the new software program.
4. Establish policies and procedures to ensure accuracy of the accounts receivable aging report.
5. Revise policies and procedures to ensure the Veterans' Home complies with the state's requirements for the collection of outstanding debts.
6. Monitor reimbursements from Medicaid, Medicare, and Veterans' Affairs State Home Per Diem Program to ensure revenues are deposited to the correct budget category.

## Resident Trust Fund Not Adequately Controlled

The Veterans' Home lacks adequate controls to ensure resident trust funds are properly safeguarded. Monthly bank reconciliations of the trust fund were not completed for extended periods of time. In addition, duties have not been adequately segregated to help protect the \$181,000 average monthly balance in the resident trust fund.

NRS 417.149 authorizes the Veterans' Home to establish a resident trust fund to hold residents' money. The resident trust fund serves as a bank for any resident wishing to participate. Deposits are held in an account at the local credit union, and the Veterans' Home accounts for each resident's money separately. The trust fund is used by residents to pay for monthly bills, clothing, haircuts, and other services and activities.

### **Resident Trust Fund Bank Reconciliations Not Completed**

Monthly bank reconciliations of the resident trust fund were not completed during fiscal year 2010. In addition, reconciliations for July through November 2010 were not completed until January 2011 and included an unexplained overage of about \$2,400. Veterans' Home policies and procedures require monthly bank reconciliations of the resident trust fund. These reconciliations are vital to help ensure residents' money is safeguarded and errors are detected and corrected timely.

Bank reconciliations completed for July through November 2010 included an unexplained overage of about \$2,400. Because bank reconciliations were not completed during fiscal year 2010, the cause of this error was not known. Veterans' Home management believe the overage was caused by not reimbursing the State General Fund for services provided to residents. In addition, management indicated that the State Controller's Office is aware

of the overage and has instructed the Veterans' Home to identify its cause and make the necessary corrections.

Because monthly reconciliations were not completed, the Veterans' Home had not submitted quarterly and annual bank reconciliation reports to the State Controller during calendar year 2010. NRS 356.011 requires bank reconciliations to be sent to the Controller's Office annually. In addition, the Controller's policies and procedures require a quarterly reconciliation be filed. In January 2011, the Veterans' Home began submitting the required quarterly reports.

The Veterans' Home lacks policies and procedures to ensure reconciliations are completed timely and submitted quarterly to the State Controller's Office. Further, turnover experienced in key accounting positions demonstrate the importance of policies and procedures in ensuring an agency's system of internal controls continues to operate.

### **Inadequate Segregation of Duties**

The Veterans' Home has not adequately segregated the duties of accounting staff to help safeguard the resident trust fund. Segregation of duties is needed so that one individual cannot control all aspects of a financial transaction. Although several employees had responsibilities for the resident trust fund, one employee participated in all internal control activities. Segregation of duties is important because the fund included accounts for over 160 residents and had an average monthly balance of \$181,000 for calendar year 2010.

Sound internal controls include procedures that specify the need for key duties and responsibilities to be divided or segregated among different employees. The segregation helps to reduce the risk of error and fraud. Several Veterans' Home employees have responsibilities for the resident trust fund; including receiving and depositing money, writing checks, and entering and approving accounting transactions. However, one employee participated in each of these activities, and was also responsible for completing monthly bank reconciliations.

Current policies and procedures do not ensure adequate segregation of duties for positions with resident trust fund responsibilities. Changes are needed to ensure the employee responsible for monthly bank reconciliations is not participating in all other fund activities.

### **Recommendations**

7. Develop policies and procedures to ensure the resident trust fund bank account is reconciled monthly, and reconciliations are submitted to the State Controller's Office when required.
8. Segregate duties over the resident trust fund, including responsibilities for completing monthly bank reconciliations.

# Appendix A

## Audit Methodology

To gain an understanding of the Nevada Office of Veterans' Services, we interviewed agency staff and reviewed statutes, regulations, policies, and procedures significant to the Office's operations. We also reviewed financial information, prior audit reports, budgets, legislative committee minutes, and other information describing the activities of the agency. Furthermore, we documented and assessed the Office's internal controls over Medicaid, Medicare, Veterans' Affairs, and private pay resident billings and the resident trust fund for the Veterans' Home. Additionally, we assessed the reliability of the accounting software program and monthly census reports used to monitor Veterans' Home activities.

To determine whether the Office billed residents at appropriate rates and revenues were adequately monitored, we documented the status of 40 residents receiving services during calendar year 2010. Our sample selection included residents with Medicaid, Medicare, private pay, or a combination of pay sources. We reviewed the monthly census reports and compared the number of days recorded with the number of days billed. In addition, we compared the amounts billed with the amounts collected and reviewed the accounts receivable reports for any outstanding balances. For residents with significant outstanding balances, greater than 1 month room and board, we reviewed Veterans' Home collection efforts.

We reviewed Medicaid requirements and Veterans' Home instructions on whether Medicaid eligible residents are required to deposit all income received to the resident trust account. For the 18 Medicaid eligible residents included in our sample, we documented whether they were eligible and receiving their entitled Veterans' Affairs benefits. In addition, we documented whether the Veterans' Home had policies and procedures for establishing

Medicaid daily reimbursement rates and whether the approved rates were used for residents included in our sample. We documented efforts by the Veterans' Home to ensure collections for all Medicaid eligible residents during calendar year 2010.

We documented the 2010 Veterans' Affairs State Home Per Diem Program reimbursement rate and verified the accuracy of calendar year 2010 reimbursement requests. In addition, we reviewed the efforts of the Veterans' Home regarding the accuracy of reimbursement requests.

We reviewed 16 Veterans' Home residents with the largest outstanding account balances. We determined whether state law and Veterans' Home policies were followed in collection efforts of the delinquent debts. Finally, we documented Veterans' Home compliance with state laws over the reporting and collection of delinquent debts.

To determine whether the Veterans' Home adequately controlled money in the resident trust account, we reviewed transactions for 1 day from each month of calendar year 2010. We verified checks and other disbursements were properly endorsed, authorized, and used for intended purposes. In addition, we reviewed all transactions over \$1,000 for appropriateness. We reviewed deposits for statutory processing compliance. Finally, we tested reconciliations for completeness and from a sample of four reconciliations we traced outstanding and in-transit items to the next month and traced adjustments to source documents.

We reviewed the positions used to process transactions for the resident trust account. We examined job descriptions and assessed the process for separation of duties. We tested the bank account used for the resident trust accounts and verified its compliance to statutory requirements as well as propriety of signature cards and the numerical sequencing and treatment of void checks.

Our audit work was conducted from August 2010 to March 2011. We conducted this performance audit in accordance with generally accepted government auditing standards. Those



standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In accordance with NRS 218G.230, we furnished a copy of our preliminary report to the Director of the Office of Veterans' Services. On August 10, 2011, we met with Office officials to discuss the results of the audit and requested a written response to the preliminary report. That response is contained in Appendix B which begins on page 19.

Contributors to this report included:


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# Appendix B

## Response From the Office of Veterans' Services

<p>Nevada State Veterans Home 100 Veterans Memorial Drive Boulder City, Nevada 89005 (702) 332-6864 • Fax (702) 332-6762</p>	<p>BRIAN SANDOVAL <i>Governor</i></p>	<p>Office of Veterans Services 950 W. Owens, Rm. 111 Las Vegas, Nevada 89106 (702) 636-3070 • Fax (702) 486-5268</p>
<p>Northern Nevada Veterans Memorial Cemetery P.O. Box 1919 Fernley, Nevada 89408 (775) 575-4441 • Fax (775) 575-5713</p>	 <p>STATE OF NEVADA <b>NEVADA OFFICE OF VETERANS SERVICES</b> 5460 RENO CORPORATE DRIVE, SUITE 131 RENO, NEVADA 89511 (775) 688-1653 • Fax (775) 688-1656</p>	<p>Southern Nevada Veterans Memorial Cemetery 1900 Buchanan Boulevard Boulder City, Nevada 89005 (702) 486-5920 • Fax (702) 486-5923</p>

8/22/2011

Mr. Paul V. Townsend  
Legislative Auditor, LCB Audit Division  
401 S. Carson Street  
Carson City, NV 89701-4747

Dear Mr. Townsend,

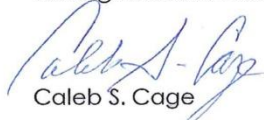
I would like to thank you and your staff for their efforts in dealing with the Nevada Office of Veterans Services during this latest audit cycle.

Although I know we have said it in our meetings to date, allow me to reiterate that the members of your staff who conducted this audit did a remarkable job. Whether they were dealing with private financial information or personal health information, they took extra care to ensure that our clients were well protected. Also, they were courteous and professional with our staff, which made for a very non-adversarial approach during the audit process.

Most importantly, though, I would like to commend you and your staff for finding the shortcomings that you found. We always strive to serve the taxpayers, the State, and our veterans to the fullest extent possible, and your finds and recommendations will go a long way in helping us do so. We look forward to working with you and your staff as we continue to implement the corrections you have suggested.

Again, thank you to you and your staff for making this an informative and courteous event.

Serving America's Heroes,



Caleb S. Cage

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**1. Develop comprehensive Policies and Procedures for billing, receiving, and monitoring Veterans Home revenues.**

Policies and Procedures are being written or rewritten for the billing of each of seven revenue sources. These policies will be submitted to the Facility's Policy and Procedure Committee for approval at the September meeting. The seven revenue sources are Medicare, Medicaid, Veterans Affairs, Clark County, other Private Insurances, Private Pay residents, and the privately paid Resident Liability for Medicaid residents.

Policies and Procedures are also being developed for receiving funds from each revenue source. These seven policies will also be submitted to the September Policy and Procedure Committee for consideration. The seven revenue sources addressed are Medicare, Medicaid, Veterans Affairs, Clark County, other Private Insurances, Private Pay residents, and the privately paid Resident Liability for Medicaid residents.

Additional Policies and Procedures will be written to compliment the procedures used for monitoring Veterans Home revenues. These procedures will require the utilization of a staff member other than the person calculating anticipated revenues and will address each revenue source based on the Home's daily census, Resource Utilization Groups (RUG) scores, therapy, ancillaries, and travel expenses. Anticipated revenue will be compared to revenue received from each source on a monthly basis. These procedures will be a valuable tool for management to monitor revenue billings and collection activities in an ongoing fashion. A monthly report will be sent to the Veterans Home Administrator and the Agency's Administrative Service Officer II (ASOII) by the 15<sup>th</sup> of each month for the previous month.

**2. Establish controls to ensure accounts receivable reports are submitted to the State Controller's Office when required.**

The State Controller's Policies and Procedures, as well as NRS 353C.120, require quarterly and annual reporting of outstanding accounts receivable, with projections of the amounts estimated to be collectible.

The Home's Administrative Service Officer I (ASO 1) will monitor the Home's Accountant to assure residents are being billed on a timely basis and the Home's Policies and Procedures are being followed. Monthly reports will be developed and submitted on a timely basis in accordance with the NRS. Prior to these reports being submitted, a copy will be sent to the Veterans Home Administrator and the Agency's ASO II for their review and approval.

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**3. Ensure staff is adequately trained in using the accounting functions of the new software program.**

Veterans Home Fiscal Management implemented a program, effective December 2010, to cross-train members of our business office team. This will allow business activities to continue during periods of absence or vacancies. This cross-training has been effective in teaching all members of the fiscal department to use the new ADL Data Software System (ADL).

A Veterans Home Facility Software Committee began meeting in March of 2011. While the scope of the Committee is not limited to ADL software, the Committee has been successful in obtaining resolution and fixes to the ADL software program, in both the financial and medical reporting modules.

Webinar User Group Meetings with other Veterans Homes using ADL software is also providing a valuable tool in teaching and learning the ADL system.

**4. Establish Policies and Procedures to ensure accuracy of the accounts receivable aging report.**

Updated Policies and Procedure for billing and receiving Veterans Home revenues, (see recommendation #1 above,) will provide assurance that the aging report is accurate. Previous errors in the aging report were caused by a programming "bug" in the software, which has since been corrected. There have been no errors in the aging report since the program software was repaired.

**5. Revise Policies and Procedure to ensure the Veterans Home complies with the State's requirements for the collection of outstanding debts.**

Policies and Procedures are in place for private pay residents to receive collection letters, discharge notices, and be turned over for collections. Tighter controls are being implemented to assure the existing Policies and Procedures are followed. Concurrently, an aging report of resident balances, collection letters sent, and collection efforts made will be provided to the Veterans Home Administrator by the 10<sup>th</sup> of each month.

Patient Liability is the revenue source for the Medicaid/Clark County residents' responsibility to the Home. The unique circumstances for billing a resident "pending Medicaid" create a timing situation that does not allow compliance with the State's requirement to turn over for collection outstanding debts of 90 days or more. A

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resident could be pending for 120 days and retroactively receive Medicaid benefits back to the day when the resident applied for benefits. When a resident is denied Medicaid after pending for several months, the amount owed the Veterans Home is immediately past due.

During the reconciliation, of anticipated revenue to actual revenue received as described in Recommendation 1, if revenue is not received from private insurance after 120 days, the Policy states the insurance company will be contacted. Follow-up by the Veterans Home ASO I will provide resolution.

In the event Medicare, Medicaid, and/or Clark County reject claims, corrections can be made and the claim may be re-submitted, or the claim may be disallowed at which time the claim must be transferred to another revenue source.

**6. Monitor reimbursements from Medicaid, Medicare, and Veterans Affairs State Home Per Diem Program to ensure revenues are deposited in the correct budget category**

The reconciliation of anticipated revenue to actual revenue received, described in Recommendation 1, will include verification that the revenue is posted to the correct budget category. The procedures for this process will include a report to the Veterans Home Administrator and the Agency ASO II, providing assurance deposits are verified.

**7. Develop Policies and Procedures to ensure the resident trust fund bank account is reconciled monthly, and reconciliations are submitted to the State Controller's Office when required.**

Current Policies and Procedures for maintaining resident trust accounts require the monthly reconciliation of the bank account to the ADL software resident trust accounts. In order to provide assurance that the procedure is followed, the Accountant will have the Veterans Home ASO I sign the documents and submit them to the State Controller's Office as required.

**8. Segregate duties over the resident trust fund, including responsibilities for completing monthly bank reconciliations.**

The duties of the resident trust fund have been re-distributed throughout the business office, and will be properly defined in Agency policies.

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Receive money and pay residents:

Administrative Assistant, Accounting Assistant, 2<sup>nd</sup> Accounting Assistant,  
Management Analyst, Accountant, Administrative Services Officer

Create deposit slip:

Admin Assistant, Accounting Assistant

Make Deposit at bank:

Management Analyst, Administrative Services Officer

Sign checks:

Accountant, Administrative Services Officer, Social Worker Supervisor,  
Administrator

Prepare Bank Reconciliation:

Accountant, Administrative Services Officer

This redistribution of duties will take effect in September 2011, upon approval by the  
Home's Policies and Procedures Committee.

Thank you,



Nancy Jensen, Administrative Service Officer I

Cc:

Caleb Cage, Executive Director

Gary Bermeosolo, Administrator

Joe Palmer, Administrative Service Officer II

## Office of Veterans' Services Response to Audit Recommendations

<u>Recommendations</u>	<u>Accepted</u>	<u>Rejected</u>
1. Develop comprehensive policies and procedures for billing, receiving, and monitoring Veterans' Home revenues.....	<u>    X    </u>	<u>          </u>
2. Establish controls to ensure accounts receivable reports are submitted to the State Controller's Office when required .....	<u>    X    </u>	<u>          </u>
3. Ensure staff are adequately trained in using the accounting functions of the new software program .....	<u>    X    </u>	<u>          </u>
4. Establish policies and procedures to ensure accuracy of the accounts receivable aging report.....	<u>    X    </u>	<u>          </u>
5. Revise policies and procedures to ensure the Veterans' Home complies with the state's requirements for the collection of outstanding debts .....	<u>    X    </u>	<u>          </u>
6. Monitor reimbursements from Medicaid, Medicare, and Veterans' Affairs State Home Per Diem Program to ensure revenues are deposited in the correct budget category .....	<u>    X    </u>	<u>          </u>
7. Develop policies and procedures to ensure the resident trust fund bank account is reconciled monthly, and reconciliations are submitted to the State Controller's Office when required .....	<u>    X    </u>	<u>          </u>
8. Segregate duties over the resident trust fund, including responsibilities for completing monthly bank reconciliations .....	<u>    X    </u>	<u>          </u>
<b>TOTALS</b>	<u>    8    </u>	<u>    0    </u>