

STATE OF CONNECTICUT



*AUDITORS' REPORT
DEPARTMENT OF VETERANS' AFFAIRS
FOR THE FISCAL YEARS ENDED JUNE 30, 2009 and 2010*

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

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AUDITORS OF PUBLIC ACCOUNTS

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January 12, 2012

**AUDITORS' REPORT
DEPARTMENT OF VETERANS' AFFAIRS
FOR THE FISCAL YEARS ENDED JUNE 30, 2009 and 2010**

We have examined the financial records of the Department of Veterans' Affairs for the fiscal years ended June 30, 2009 and 2010. This report on that examination consists of the Comments, Recommendations and Certification which follow.

Financial statement presentation and auditing have been done on a Statewide Single Audit basis to include all state agencies. This audit examination has been limited to assessing compliance with certain provisions of financial related laws, regulations, contracts and grants and evaluating internal control structure policies and procedures established to ensure such compliance.

COMMENTS

FOREWORD:

The Department of Veterans' Affairs (Department) operates under the provisions of Title 27, Chapter 506, Parts I and Ia, Sections 27-102l through 27-137 of the General Statutes and provides comprehensive health, social and rehabilitative services to veterans in the State of Connecticut. The Department operates the Veterans' Home in Rocky Hill that includes a 125-bed hospital and a 454-bed domicile for eligible veterans. The Veterans' Home receives annual inspections by the United States Department of Veterans' Affairs and inspections by the State Department of Public Health every two years. The Department also operates the Office of Advocacy and Assistance that maintains offices throughout the state and provides advice, assistance, and formal representation to veterans and their dependents.

Linda S. Schwartz continued to serve as commissioner during the audited period.

Auditors of Public Accounts

Under the provisions of Section 27-102n of the General Statutes, there is a board of trustees established to advise and assist the commissioner in operating the Department. The board consists of the commissioner and sixteen members appointed by the governor. The board members are not compensated for their services but may receive reimbursement for reasonable expenses in the performance of their duties. As of June 30, 2010, the following persons served on the board:

William Benson	Shane Matthews
John G. Casey	William F. L. Rodgers
Col. John G. Chiarella, Sr.	Thomas R. Stough
Angelo Fusco	Judith A. Torpey
Anthony Gaunichaux, Sr	Richard Twilley
Lenell Kittlitz	Sherri Vogt
Frederick P. Leaf	Robert A. Wamester
John P. March Jr.	

There was one vacancy as of June 30, 2010. James W. Clynych, James M. Hoover and Stanley Zebzda also served during the audited period.

RÉSUMÉ OF OPERATIONS:

The Department's operations are accounted for within the General Fund and a special revenue fund. Under Section 27-108, subsection (e), of the General Statutes, recoveries for the care and treatment of patients are initially deposited in the Institutional General Welfare Fund, a local account administered by the Department. The Department then transfers the monies to a corresponding Special Revenue Fund restricted account known as the Institutional General Welfare Fund account. These moneys are used to finance part of the Department's operating costs. Similar transfers may be made from the Activity Fund, another local account administered by the Department, when excess cash is available in the account. The excess funds would be transferred to a corresponding special revenue fund restricted account known as the Activity Fund account.

General Fund Revenues and Receipts:

A summary of General Fund revenues and receipts during the audited period and the preceding year is presented below:

	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>
Medicare Reimbursements	\$148,388	\$254,444	\$77,823
Federal Aid for Veterans	6,535,017	8,191,918	7,995,329
Federal Aid-Miscellaneous	45,000	165,300	108,300
All Other Revenues and Receipts	<u>17,761</u>	<u>3,209</u>	<u>(1,759)</u>

Total Revenues and Receipts **\$6,746,166** **\$8,614,871** **\$8,179,693**

The category Federal Aid for Veterans represents reimbursements from the federal government for both domiciled veterans and veterans residing in the hospital. The reimbursement rates for the federal fiscal years ended September 30, 2009 and 2010 were \$34 and \$36, per day, respectively, for domicile care and \$74 and \$78 per day, respectively for hospital care.

General Fund Expenditures:

A summary of expenditures for the fiscal years under review and the preceding year follows:

	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>
Personal Services and Employee Benefits:			
Salaries and Wages	22,187,617	22,368,459	20,318,922
All Other	<u>51,218</u>	<u>42,605</u>	<u>39,327</u>
Total Personal Services and Employee Benefits	<u>22,238,835</u>	<u>22,411,064</u>	<u>20,358,249</u>
Purchases and Contracted Services:			
Premises and Property Expenses	3,143,819	3,583,331	2,579,797
Purchased Commodities	3,142,539	2,784,440	2,538,892
Payments to Clients	1,636,620	1,844,735	1,687,485
All Other	<u>2,208,834</u>	<u>1,599,462</u>	<u>1,588,025</u>
Total Purchases and Contractual Services	<u>10,131,812</u>	<u>9,811,968</u>	<u>8,394,199</u>
Total Expenditures	<u>32,370,647</u>	<u>32,223,032</u>	<u>28,752,448</u>

The Department's General Fund expenditures decreased by nearly \$3,500,000 or ten percent for the 2009-2010 fiscal year as compared to the preceding fiscal year. This was mainly due to decreases in personal services and a general decrease in operating expenditures due to budget reductions enacted due to the economic downturn. The number of full-time department employees was reduced from 288 as of June 30, 2009 to 256 as of June 30, 2010. The decrease was mainly due to 25 employees retiring due to the retirement incentive program offer in July of 2009.

Special Revenue Fund- Federal and Other Restricted Accounts:

Special revenue fund receipts totaled \$9,575,792, \$4,985,313 and \$2,765,462 for the fiscal years ended June 30, 2008, 2009, and 2010, respectively. The significant decrease in receipts during the audited period was due to the completion of two federal grant projects at the state Veterans' Home in Rocky Hill involving a new health care facility and water loop. The funding decreased as the projects were completed during the audited period.

Auditors of Public Accounts

A summary of the Department's special revenue fund expenditures during the audited period as compared with the preceding year follows:

	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>
New Health Care Facility	\$9,144,671	\$1,094,909	\$704,203
Water Loop	490,234	348,536	
ARRA Projects			316,882
Institutional General Welfare Fund	1,571,444	1,971,771	1,560,825
Activity Fund	<u>38,578</u>	<u>37,249</u>	<u>33,751</u>
Total Expenditures	<u>\$11,244,927</u>	<u>\$3,452,465</u>	<u>\$2,615,661</u>

As noted above, the winding down of the new health care facility project resulted in a significant decrease in special revenue expenditures for the audited period. The Sergeant John L. Levitow Veterans Health Center officially opened on October 23, 2008.

The Institutional General Welfare Fund restricted account is used for departmental operating expenditures. The increase during the 2008-2009 fiscal year reflects an increased need to supplement the Department's operating costs if such funds are not available in the General Fund.

Per Capita Costs:

Annually, the State Comptroller computes the daily per capita cost of maintaining the residents and patients at the Veterans' Home. Included in these computations are expenditures of the Institutional General Welfare Fund, which are considered proper costs of maintaining the institution. Per capita daily costs, not including federal reimbursement, for the domicile (outpatients) and hospital (inpatients) were \$107 and \$803, respectively for the 2009-2010 fiscal year.

Daily Census:

A daily census is produced of the veterans residing at the Veterans Home. The census as of June 30, 2010 was as follows:

	<u>Total</u>	<u>Domicile</u>	<u>Hospital</u>
World War II	29	3	26
Korean War	41	10	31
Vietnam	264	216	48
Operation Earnest Will	5	4	1
Operation Desert Storm	16	14	2
Invasion of Grenada	2	2	0
Lebanon Conflict	5	4	1
Peace Keeping Mission in Lebanon	64	62	2
Operation Freedom	<u>6</u>	<u>5</u>	<u>1</u>
Total	<u>432</u>	<u>320</u>	<u>112</u>

Institutional General Welfare Fund:

The Institutional General Welfare Fund (IGWF) operates under the provisions of subsections (b) and (c) of Section 27-106 and subsection (e) of Section 27-108 of the General Statutes and is available to finance operations of the Veterans' Home. The Department has been using this fund to supplement its General Fund appropriations.

As shown below, most of the revenue for the IGWF comes from patient billings. Under Section 27-108, subsection (d), of the General Statutes, veterans who are able to pay for their care, in whole or in part, shall receive a monthly bill for services rendered by the Department. The Department has a patient billing system to collect payments for services.

The IGWF also receives funds from estate collections. This is permitted under subsection (f) of Section 27-108 of the General Statutes, which states that, in the event a veteran dies still owing money for services rendered by the Department of Veterans' Affairs, the Department may submit a claim against such veteran's estate.

A summary of the Institutional General Welfare Fund's revenue and receipts transactions follows:

	<u>2008-2009</u>	<u>2009-2010</u>
Patient Billings	\$2,381,972	\$2,517,401
Estate Collections	44,224	43,693
All Other	<u>248,686</u>	<u>180,039</u>
Total Revenues and Transfers	<u>\$2,674,882</u>	<u>\$2,741,133</u>

Expenditures amounted to \$2,131,419 and \$1,650,693 for the 2008-2009 and 2009-2010 fiscal years, respectively. These expenditures were mainly for the general operations of the Department out of the Special Revenue Fund.

Activity Fund:

The Activity Fund operates under the provisions of Sections 4-52 through 4-55 of the General Statutes for the benefit of residents and patients of the Department of Veterans' Affairs. The major sources of fund receipts were sales of sodas and ice cream at the Winners Circle canteen. Revenues for the Activity Fund totaled \$27,810 and \$28,453 for the fiscal years ended June 30, 2009 and 2010, respectively.

As previously noted, monies from the Activity Fund were transferred to the Special Revenue Fund. Section 4-53 of the General Statutes permits transfers of excess cash to the Welfare Fund;

however, there were no such transfers during the audited period. According to the Department's financial statements, the fund's cash and cash equivalents balance was \$45,458 as of June 30, 2010.

Fitch Fund:

The Fitch Fund, governed by Section 3-38 of the General Statutes, is a long-standing permanent trust fund whose assets are in the custody of the State Treasurer. The balance of the fund was \$41,095 as of June 30, 2010. Interest earned by the fund is to be used for the benefit of the Department's clients through transfers to the Institutional General Welfare Fund. During the audited period, there were no transfers and interest earned totaled \$735.

CONDITION OF RECORDS

Our review of the financial records of the Department of Veterans' Affairs revealed certain areas warranting attention that are discussed in the following findings.

Patient Billing System:

Background: The Department maintains a patient billing system for veterans receiving services at its health care and residential facilities. Patients are billed based on the level of care program they are enrolled in.

Criteria: The State Comptroller's Accounting Manual recommends that accounts receivable records should be accurate, complete, and maintained in a manner to indicate the length of time the debt has been outstanding. Accounts receivable balances as of June 30th of each year are reported to the State Comptroller on GAAP Form No. 2.

Sound internal control dictates monthly billing statements should be assigned individual identification numbers and provide clear and sufficient information on account activity.

Condition: Our current review showed that, although the Department has made substantial improvements to the patient billing system, further improvement is necessary.

1. Aging schedule - The billing system is unable to generate a reliable aging schedule of receivables for veterans in the Department's health care facility.

2. Inactive accounts receivable - The patient billing system does not accurately reflect the number of patient accounts. The patient billing system should only include accounts that are actively billed or collected. There are approximately 3,000 accounts on the system with only an estimated 900, or 30 percent, that appear to be active. The remaining estimated 2,100, or 70 percent, either carry zero balances or have been inactive for more than ten years. The inclusion of inactive accounts appears unnecessary and increases the risk for posting errors.

3. Monthly billing statements - The patient billing system produces inadequately designed monthly billing statements. The statements are not assigned individual identification numbers, which would improve control

over invoicing and cash collections. There is insufficient information on account activity to allow for the verification of account balances and amounts due. For example, there was no information of the length of stay in the health care facility, billing rate or details on credit and debit adjustments.

Effect: The lack of an aging schedule prevents the Department from conducting analytical reviews of its accounts receivable such as identifying cash flow problems and estimating uncollectible receivables. The maintenance of a large number of inactive accounts on the Department's accounts receivable records creates unnecessary work and increases the risk of posting errors. The lack of adequate monthly billing statements increases the risk of incorrect or untimely payments.

Cause: As disclosed in prior audits, the patient billing system was poorly designed and, despite the Department's recent efforts, is still in need of improvement.

Recommendation: The Department's patient billing system should be modified to generate essential reports, maintain accurate billing records, and produce adequate monthly billing statements. (See Recommendation 1.)

Agency Response: "(1) We agree the system is aging and needs to be replaced. However, lack of funding necessitates the procedures and process we have instituted. Within existing resources, we believe we meet the spirit, intent and rigor of accepted accounting procedures. The Department has many mechanisms to monitor and address active accounts on a monthly basis. The monthly master delinquency list identifies all outstanding accounts receivables and outstanding uncollectible receivables which are addressed on a monthly basis. Each month on the day the bills are run, a master domicile delinquency list on excel is extracted from patient billing system which lists all delinquency letters generated and the date 30, 60 and 90 day letters were sent. This list is updated daily and right after the due date of payments, a meeting is held with the residential and rehabilitation director to discuss all delinquent accounts so that proper action and/or sanctions are imposed. The inactive accounts are addressed via probate. The agency addresses the inactive accounts on a yearly basis. Once a year, a letter with supporting data is sent to OPM requesting write-off for the deceased probated uncollectible accounts – after OPM approval, our IT department purges the accounts from the system. We would also note that the delinquency report for hospital patient accounts is accurate. The

discrepancy is when patient's Medicaid application is pending due to system constraints. Reconciling the billing is not real time which causes a lapse.

(2) The patient billing system has a "Monthly Patient Billing Statements – non Agency Power of Attorney (APOA)" report that only includes accounts that are actively billed and collected. This report is generated once a month on the day the bills are run. It is a master list of all the statements generated; broken down by the domicile and health care facility. It has the case number, patient name, billing period, prior balance, current month charges; payments and current balance due. The totals are broken down to how many domicile statements were printed and how many health care facility statements were printed. For active APOA accounts, there are different billing procedures in place and this report can be generated for all active APOA accounts as well.

Accounts with zero balances - It is also feasible to maintain active accounts with zero balances because the veteran's applied income (AI) is "\$0.00". These would be the accounts for which DSS determines that the community spouse needs all the income to live; in which case the Department of Veterans' Affairs would get reimbursed by Medicaid in full. Also, the veterans qualify for the VA service connected disability get billed "zero" as the Department accepts the federal per diem P-1 rate as payment in full for that the qualified veterans.

Inactive accounts - There are times that discharged veterans from DVA ten years ago will return either to the Domicile or to the Health Care Facility; or someone who received Respite Care five years ago to return as a permanent resident.

(3) The agency believes that the identification number is the uniquely assigned account case number which is printed on every monthly billing statement. Per agency regulations regarding the billing statement, there is no requirement listed that states terms of payments need account activity to allow for verification of account balances and amounts due to be stated. However, domicile billing is a flat monthly rate for which the terms of payments are that the total amount due is by the due date listed on the bill (usually the 15th of the month). For health care facility billing the DSS determined applied income is due by the due date listed on the bill (usually the 15th of the month). There are no terms such as minimum amount due; or late payment fee; or interest charges assessed; therefore,

there are no terms of payments applicable to agency patient billing -- the amount billed is due by the due date listed on the statement. Account Activity on the left side of the bill are payment calculations which lists past due balance, the new charges and debits or if it is a diversion charge; and then has payments and credits and recent updates to show if the payment is going towards a diversion payment. The remainder is the new balance and is listed as payment now due. The bottom of the bill has in a red box stating please pay this amount and in another red box it states the payment due date: Therefore, all monthly activity debits and credits are listed on the bill. The Department's billing statements meet agency regulations regarding necessary information and there is sufficient information on the account activity to allow for verification of account balances and amounts due."

*Auditors Concluding
Comments:*

We agree that the Department's monthly statements are in accordance with agency regulations. Our recommendation seeks to improve internal control over accounts receivable and provide a clearer, more understandable statement for the patients.

Property Control:

Criteria:

The State Property Control Manual requires that inventory records be properly maintained, with new acquisitions promptly recorded. In addition, property control records should be maintained for software and licenses not owned by the state. The records should include a minimum of 12 data items including a software identification number, acquisition type, installation date, location, tag number and cost.

Condition:

1. Equipment inventory - Our review found that a truck purchased during December 2008 for \$69,742 was not added to the Department's property control records until May 2009, approximately five months later. In addition, our review of equipment purchases found that three out of 15 purchases totaling \$100,259 were not reflected in the Department's property control records.

2. Software and licenses - The Department's software and licenses property control records do not include certain required categories of data such as identification numbers, initial installation dates and cost. In addition, a software license purchased annually was not included in the property control records while service software no longer used by the

Department was included.

Effect: The lack of accurate property control records increases the risk of loss and theft of state property.

Cause: In general, there was a lack of oversight in ensuring complete compliance with state property control guidelines for software.

Recommendation: The Department should improve its property control records. (See Recommendation 2.)

Agency Response: “(1) The Department takes its responsibility of controlling State property seriously and appreciates the Auditors bringing these isolated exceptions to our attention. The truck purchase was a special order placed in summer of 2008, fabricated during the fall and delivered in December 08. In speaking with the asset management staff member, they believed they had properly consolidated and loaded the truck to the agency’s inventory; however, during the annual physical inventory it was discovered that the truck was not captured in the agency’s property control records. At that time, it was promptly added to the agency inventory. The issue of reviewing and insuring successful loading of asset transactions has been addressed with current personnel to prevent future occurrence of this type of oversight.

The additional three purchases have been reviewed and corrective measures taken to add these assets to the agency’s property control records. To prevent future occurrences new processes have been established including: Enhanced communication between purchase order creator/buyer and asset management staff as well as the creation of a shared excel spreadsheet to track identified asset purchases from inception, receipt, payment and successful posting to the agency’s property control records on Core-CT.

(2) In the interim, the agency has acquired software package known as Numara Footprints that would track all this information. We are in the process of installing and configuring it for the agency use. All software\licensing information that is installed on each specific computer can currently be found in the asset management software Numara Footprints. The agency has since updated and corrected software licenses inventory to include all active software licenses. The server software Windows SMS with SQL are server software licensing, they may not be

installed at this time but may be used at a later date. The IT department keeps track of all computers and licensing in an Excel spreadsheet and asset management software, Numara Footprints.”

Expenditures:

Criteria:

Section 4a-57 of the General Statutes requires purchases of goods and services to be based, when possible, on competitive bids or competitive negotiation. The Department of Administrative Services (DAS) is responsible for contracting for all supplies, materials, equipment, and services required by any state agency. DAS General Letter 71 permits minor nonrecurring purchases of goods and services costing less than \$50,000 to be made without prior approval from DAS.

The untimely receipt and payment of billings increases the likelihood that funds may not be available at time of payment and increases the risk that errors may occur during the payment process.

Condition:

Our review noted that the Department cited DAS General Letter 71 to authorize the recurring purchase of services from two vendors that should have been obtained through competitive bidding. Over the two year audited period, a total of \$54,138 was paid for optometry services and \$433,623 for non-emergency medical transportation services. The number of individual transactions during the audited period was 52 for optometry services and 2,479 for non-emergency medical transportation services.

In reviewing six transactions totaling \$13,005 we noted that one vendor providing optometry services continuously submitted invoices in an untimely manner; invoices were submitted to the Department between seven and 16 months after services were rendered. This negatively impacted the Department in that purchase orders were created between one to 16 months after obligations were incurred and the Department reviewed invoices and verified that services were received between seven and 16 months after services were rendered. Payments to the vendor totaled \$54,138 during the audited period.

Effect:

The lack of competitive procurement may result in overpaying for services. The submission of invoices in an untimely manner weakens the Department’s ability to assure that sufficient funding will be available to meet its obligations. It also inhibits the tracking of services, thereby increasing the risk of undetected errors.

Cause: It appears the Department has not considered it necessary to seek competitive bids for the optometry and non-emergency medical transportation services. The late billings have been an ongoing problem with the vendor.

Recommendation: The Department should seek competitive bids for goods and services whenever possible and seek alternative sources for services when a provider fails to bill in a timely manner. (See Recommendation 3.)

Agency Response: “The medical transportation services are authorized through GL71-d, non-competitive purchases, which require no bidding and are not subject to annual limits or restrictions. The frequencies of the transportation calls are determined and authorized by the health care facility based upon levels of care, patient needs and are not a fiscal function. Additionally, the Department of Public Health, Office of Emergency Medical Services, regulates ambulance certifications and sets ambulance rates. The Commissioner of Public Health approves on a yearly basis the statewide rate schedule for maximum allowable rates for emergency or non-emergency services. Based on that information, the agency believes that we are unable to competitively bid the service.

The submission of timely invoices for optometry services is something that we have addressed with the doctor/ service provider on numerous occasions. The doctor/ service provider in question has provided in-house optometry services for agency patients for more than 20 years at excellent rates that are comparable to Medicare rates without traveling charges. He is a veteran himself and is very accommodating to the DVA patients’ needs while providing great in-house services to our veterans at the Department campus. The agency believes that this current setup with in-house optometrist services actually saves money for the agency in transportation costs when compared to other community optometrist; the saving actually pays for the services. The agency will continue to work with the doctor in establishing corrective measures such as phone/ mail reminders regarding the submission of timely invoices.”

*Auditors Concluding
Comments:*

While we acknowledge that transportation of persons is exempt from bidding requirements under GL-71D, we believe that there can be potential savings and cost control by contracting for such services. The Department has an established need for medical transportation. Bidding

for such services would have saved the Department from paying the maximum emergency and non-emergency rates while ensuring availability of services. We note that, during the audited period, other state agencies such as the Department of Social Services had contracts for non-emergency medical transportation services.

Cell Phone Monitoring:

- Criteria:* The Department of Administrative Services, Bureau of Enterprise Systems and Technology (BEST), formerly the Department of Information Technology, provides each agency with a detailed monthly agency report and an individual usage report. BEST telecommunication policies and procedures require that both the individual and the agency verify the accuracy of the bill and confirm the usage to be appropriate. Discrepancies should be promptly reported to BEST.
- Condition:* Our test of agency cell phone statements showed a continuous lack of monitoring. The five monthly statements tested were neither reviewed nor signed by an agency official. We also found that numerous statements tested for August and December 2008 were signed by the cell phone users approximately two to three months late. For November 2009 and April 2010, eight and five statements, respectively, were signed without being dated. In addition, 22 statements for April 2010 were signed approximately five months after the reports were generated.
- Effect:* The Department did not adequately review all statements to ensure that charges were appropriate and for business-related purposes.
- Cause:* The conditions noted appear to be a result of the lack of managerial oversight of cell phone monitoring.
- Recommendation:* The Department should consistently review all agency and individual statements to ensure that charges are appropriate and for business-related purposes. (See Recommendation 4.)
- Agency Response:* “There is generally a two to three months lag time from the actual cell phone month end to the report/ bill available for the agency to download. For example, as of October 31, 2011, the month of August 2011 cell phone bill is still not available for the agency to download. The agency now has a full-time IT Manager overseeing this area to ensure that all cell phone users and managers are held accountable for the reviewing and

signing off on the cell phone bills on a timely basis.”

Payroll/Personnel:

Criteria:

1. Accrual of leave for part-time employees - According to Sections 5-247-2 and 5-250-2(b) of the DAS Personnel Regulations, an eligible employee employed on less than a full-time workweek basis shall earn leave for continuous service. Leave shall be prorated in proportion to the amount of time actually worked, as recorded in attendance and leave records, in comparison with the full-time workweek.
2. Excess overtime - Sound business practice would provide for policies and procedures to monitor whether employees are working excessive overtime hours to ensure the quality of patient care.
3. Use of sick leave - It is a sound business practice that supervisors review and promptly discuss with employees any patterns of potential sick leave abuse.

Condition:

1. Accrual of leave for part-time employees - We noted discrepancies in the calculation of monthly leave accruals for three part-time employees. As of June 30, 2010, their sick and vacation accruals were overstated by 29, 18 and 21 hours, respectively. At the time of our review, the Department had not performed any periodic reviews of the leave balances of its 82 part-time employees whose weekend work schedules may have affected their monthly leave accruals.
2. Excess overtime - Our review of the five employees earning the most overtime in the 2009-2010 fiscal year showed that all five often worked from 10 to 22 consecutive days for several successive months. The employees often took less than four days off during these months and, at times, such days off would be charged to sick leave creating an additional need for coverage.
3. Use of sick leave - During the audited period, we noted that five employees frequently took sick leave on days immediately before or after a holiday, weekend or scheduled day off. Four employees demonstrated such a pattern from 14 to 18 times during the audited period and one other employee nine times in one year before leaving state service. In addition, we noted another employee had 22 incidents of tardiness. The six employees’ annual evaluation reports and personnel files did not

contain any evidence that the Department addressed the questionable attendance patterns with the employees.

Effect:

1. Accrual of leave for part-time employees - Leave accruals for part-time employees are not accurate.
2. Excess overtime - Excessive work hours can adversely affect the quality of patient care as the possibility of employee fatigue increases.
3. Use of sick leave - Attendance patterns such as abuse of sick leave benefits and tardiness could increase operational costs by increasing the need for overtime.

Cause:

1. Accrual of leave for part-time employees - It was initially anticipated that the implementation of Core-CT would accurately account for part-time leave accruals. However, flaws in the system resulted in errors that required additional Department procedures to ensure that accruals were correct. It does not appear that the Department ever implemented such procedures.
2. Excess overtime - It appears that there has been an informal policy of letting employees determine how much and how often they would work. The Department does not have any agreement with the District 1199 union to limit overtime hours. We were informed that the Department has developed a procedure to prevent employees from working more than three consecutive days of double shifts. However, such procedure was not approved by the union.
3. Use of sick leave - There was an apparent lack of supervisory oversight.

Recommendation:

The Department should periodically review part-time employee accruals to ensure their accuracy, reach an agreement with the District 1199 union to prevent excessive overtime and have monitoring procedures in place to address the potential abuse of sick leave. (See Recommendation 5.)

Agency Response:

“1) The agency acknowledges that there are some system flaws in the Core-CT calculation of part-time accruals. Also, the adjusted hours would not match because accruals are four places after the decimal point on the audit and Core-CT accruals, but we can only post two places after the decimal point on time sheets where the adjustments to leave balances

are made.

The agency does use the Core-CT job aid accrual audit worksheet when a part-time employee has already received accruals on Core-CT and a change to that employee's time sheet has been processed retroactively (i.e. If an employee worked extra shifts in September that wasn't posted on the time sheet and we were informed on October 12th the employee's October 1st accruals have already been given by Core-CT. We would use the accrual audit worksheet for this employee in order to correct the sick and vacation accruals which should be a greater amount. A worksheet would be done if the case was reversed and an employee's time sheet was changed to lesser hours.

The problem noted by the Auditors is a statewide Core-CT system flaw and should be addressed with the Core-CT HRMS team. At the agency level, it is very difficult for a two staff payroll team to conduct manual periodical accrual audit. However, periodic accrual audits will be performed with assistance from other areas to ensure that the part time accruals are accurate on a quarterly basis.

(2) The agency has implemented an updated attendance policy signed by the Commissioner. Managers are given a quarterly staff attendance report. This report is used as a tool to look for patterns of abuse etc. If an attendance problem is discovered it will be handled accordingly. Also, a meeting has been scheduled with the District 1199 Union to discuss overtime and have monitoring procedures in place to address the potential abuse of sick leave on November 16, 2011."

Medicaid Cost Recovery Claims:

Criteria: OMB 2 CFR Part 225 (formerly Circular A-87) sets the cost standards for reimbursements from federal programs. Appendix B of the standards requires that personnel activity reports, or equivalent documentation, be used to support the distribution of salaries for employees working on multiple activities. Subsection 8.h. (5) recommends that personnel activity reports be prepared on a monthly basis and include the distribution of each employee's actual activity as well as employee signatures.

Condition: During the audited period, the Department's Office of Advocacy and Assistance claimed 528 hours, or approximately \$12,000, per quarter of

Medicaid reimbursement for two office assistants. There were no personnel activity reports on file to support the claims.

Effect: The Medicaid reimbursement claims for activities of the Office of Advocacy and Assistance were not in compliance with OMB 2 CFR part 225.

Cause: It appears there was a continuing lack of oversight to ensure adequate documentation was on file to support the claims. Staff reductions and retirements contributed to the problem. We note that the Department developed claims procedures in September 2011 to document Medicaid reimbursement claims.

Recommendation: The Department should exercise due diligence in monitoring and approving Medicaid reimbursement claims. (See Recommendation 6.)

Agency Response: “A new policy and procedures has been implemented in September 2011 to record both the veteran services officer and office assistant’s times dedicated to assist veterans with Medicaid claims. Please note that all Medicaid reimbursement claims are sent to Connecticut Department of Social Services and are booked as revenue to the Department of Social Services. It should be noted that after further internal review and the lack of staffing resources, the Commissioner of the Department is exploring the option of no longer processing Medicaid reimbursement claims effective January 1, 2012.”

Reporting Systems:

Criteria: 1. Restricted donations - Proper recordkeeping requires the segregation of restricted accounts to ensure they are properly accounted for. Pursuant to the definition of restricted in paragraph 34 of GASB Statement Number 34, donations restricted to specific purposes should be reported as a restricted fund balance.

2. Reconciliation of accounting records - Proper accounting would require ledger reports showing transaction details to support the account balances reported in the financial statements. Any discrepancies should be reconciled at year end and prior to submission of the financial statements.

3. Agency reports - Section 27-102n(e) of the General Statutes requires

that the Department's board of trustees submit an annual report on its activities to the Governor and legislative committee having cognizance of matters relating to public safety. Section 27-102p(b) of the General Statutes requires the Department to submit an annual report of veterans' benefits to the Military Department and legislative committee no later than August 1st of each year.

Condition:

1. Restricted donations - The Department did not segregate the fund balances for restricted donations for the Institutional General Welfare (IGW) Fund. The lack of sufficient detail in the records, which are maintained on the QuickBooks system, did not allow us to test whether expenditures were made for purposes stipulated by donors.

2. Reconciliation of accounting records - Our review of GAAP Form 7-Financial Statements of the Activity Fund and IGW Fund showed that the detail transactions ledger was not reconciled to the profit and loss report included in the financial statements for some revenue and expenditure accounts. The discrepancies in the accounts ranged from \$657 to \$6,593.

3. Agency reports - The Department could not locate the board of trustees' annual reports or the annual report of veterans' benefits required for the 2008-09 and 2009-2010 fiscal years.

Effect:

The lack of segregating fund balances for restricted donations does not allow for an audit trail to verify that such funds were used for their intended purposes. Changes in the detail general ledger balance did not allow for confirming the balances reported in the financial statements. The lack of reports on file prevents any verification as to whether the Department was in compliance with reporting requirements.

Cause:

The lack of segregated balances for restricted donations appears to have been an ongoing practice of the Department. Under the QuickBooks accounting system, the detail general ledger balances often change to a different balance depending on when the reports are generated.

The lack of reports was apparently due to recent staff turnovers with such reports either being misfiled or not prepared.

Recommendation:

The Department should ensure that financial statements accurately reflect the balance of restricted donations, detailed ledgers agree with financial statements, and all reports required by state law are on file. (See

Recommendation 7.)

Agency Response: “The fiscal integrity and accounting for the use of restricted donated funds has been priority number one in maintaining donor confidence at the DVA. To that end, we have worked tirelessly to restore the public trust that had been lost in previous administrations and will continue to work to enhance and improve upon the internal accounting/recordkeeping systems.” Furthermore, (1) The Department of Veterans’ Affairs does have proper record keeping of its Specific Donations Fund by the category instructed by the donor. As stated by the State Accounting Procedures Manual for Trustees Account, the Department is required to provide reporting of the Institutional General Welfare Fund (IGWF) for Generally Accepted Accounting Principles (GAAP) and is not required to report “restricted fund balance.” It states on the Trustee Account Procedural Manual, “These procedures do not apply to the Department of Veterans’ Affairs Institutional General Welfare Fund, which are governed by the Commissioner and the Board of Trustees for the Department as prescribed by Connecticut General Statute Section 27-106.” Subsequently, funds received from donors are properly accounted or and distributions are executed as specified by the donor. We also note that the percentage of total specified donations to the total IGW revenue was 0.825, 2.31, and 0.982 percent in 2008-2009, 2009-2010 and 2010-2011, respectively.

(2) Reconciliation of all donated funds is accounted for showing transaction details to support the account balances and is reported on the financial GAAP report as revenue for IGWF. The GAAP Form does not itemize or breakout any of these accounts but instead reports it as Revenue. DVA has performed journal entries on some accounts but overall the balances had not changed. For accounting purposes, we believe the IGWF should be reviewed as a whole and not individual donation accounts which, we believe, disclosure of individual donor account details would compromise the confidentiality/ trust of our donors. Agency revenue streams to the IGWF consist of donations, patient billing, estate collection and other revenue; Expenditures consists of donations, Core-CT transactions and other/ miscellaneous in QuickBooks.

(3) At this time, we do not have a full complement of the Board of Trustees. Ten members are appointed by the Governor. Names have been submitted, however it is our understanding that no appointments

have been made. Therefore, we believe that our annual report for DAS is more than sufficient to describe the activities at the Department. Initially this Department attempted to comply with the requirements of the statutes. We had staff that spent hours trying to solicit the information from towns, cities and state agencies needed to complete the report. This is a very labor intensive task and many towns, cities and state agencies were unable to comply with the reporting requested. We reported to the Governor's office that it was literally impossible as agencies were not providing the information we needed and questioning how they were to comply with this unfunded mandate. We reported to the Governor's office in 2010 that we no longer had the personnel or the funding required completing this report. It is our intention to seek a legislative remedy for a change in statute.

*Auditors Concluding
Comments:*

We recognize that the Department is not required to abide by the Comptroller's manual for trustee accounts in reporting IGWF restricted balances. However, we restate that the QuickBooks accounting system maintained by the Department provides insufficient information to allow for the audit testing of IGWF expenditures for restricted donations.

RECOMMENDATIONS

Our prior report on the Department of Veterans' Affairs covered the fiscal years ended June 30, 2005, 2006, 2007 and 2008 and contained four recommendations. The following is a summary of those recommendations and the action taken by the Department of Veterans' Affairs.

Status of Prior Audit Recommendations:

- The Department's patient billing system should be modified to improve controls to produce essential monthly reports. This recommendation is repeated with it being reworded to reflect our current findings. (See Recommendation 1.)
- The Department should improve its property control records. This recommendation is repeated. (See Recommendation 2.)
- The Department needs to improve internal control over expenditures. The recommendation in this area has been restated to reflect our current findings. (See Recommendation 3.) We also note that findings on cell phones previously included in the recommendation on expenditures have been repeated as a separate recommendation. (See Recommendation 4.)
- The Department needs to improve its oversight over payroll and personnel operations. A recommendation in this area has been restated to reflect our current findings. (See Recommendation 5.)

Current Audit Recommendations:

- 1. The Department's patient billing system should be modified to generate essential reports, maintain accurate billing records, and improve the design of its monthly statements.**

Comment:

The patient billing system is unable to generate a reliable aging schedule of receivables for veterans in the Department's health care facility, includes a significant number of inactive accounts and produces inadequate monthly billing statements.

2. The Department should improve its property control records.

Comment:

Our test of inventory showed several items that were not recorded in the property control records. Also, the Department's software and licenses property control records do not include all of the required data.

3. The Department should seek competitive bidding for goods and services whenever possible and seek alternative sources for services when a provider fails to bill in a timely manner.

Comment:

Our review found the Department was using DAS General Letter 71 to authorize recurring payments for optometry and non-emergency ambulance services which should have been subject to competitive bidding. In addition, the provider of optometry services was continually late in billing the agency for services.

4. The Department should consistently review all agency and individual cell phone statements to ensure that charges are appropriate and for business purposes.

Comment:

Our test of agency cell phone statements showed a continuous lack of monitoring. Monthly statements tested were neither reviewed nor signed by an agency official and user statements were not consistently signed on a timely basis.

5. The Department should periodically review part-time employee accruals to ensure their accuracy, reach an agreement with the District 1199 union to prevent excessive overtime and have monitoring procedures in place to address the potential abuse of sick leave.

Comment:

The Department was not reviewing the accuracy of leave accruals for part-time employees or monitoring questionable patterns of attendance for some employees and is lacking an agreement with the union to prevent excessive overtime.

6. The Department should exercise due diligence in monitoring and approving Medicaid reimbursement claims.

Comment:

During the audited period, the Department was claiming 528 hours, or approximately \$12,000, per quarter for two office assistants for Medicaid reimbursement. There were no personnel activity reports to support the claimed hours.

7. The Department should ensure that financial statements accurately reflect the balance of restricted donations, detailed ledgers agree with financial statements, and all reports required by state law are on file.

Comment:

The Department was not segregating restricted donations in the fund balance for its financial statements for IGW Fund. There was also a lack of reconciliation of the transactions ledger to the profit and loss statements of the Activity and IGW Funds. In addition, the Department could not locate the Board of Trustees' annual report and the annual report of veteran' benefits required for the 2008-09 and 2009-2010 fiscal years. Both are required by state statute.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Section 2-90 of the General Statutes, we have audited the books and accounts of the Department of Veterans' Affairs for the fiscal years ended June 30, 2009 and 2010. This audit was primarily limited to performing tests of the Department's compliance with certain provisions of laws, regulations, contracts and grant agreements and to understanding and evaluating the effectiveness of the Department's internal control policies and procedures for ensuring that (1) the provisions of certain laws, regulations, contracts and grant agreements applicable to the Department are complied with, (2) the financial transactions of the Department are properly initiated, authorized, recorded, processed, and reported on consistent with management's direction, and (3) the assets of the Department are safeguarded against loss or unauthorized use. The financial statement audits of the Department of Veterans' Affairs for the fiscal years ended June 30, 2009, and 2010, are included as a part of our Statewide Single Audits of the State of Connecticut for those fiscal years.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Department of Veterans' Affairs' complied in all material or significant respects with the provisions of certain laws, regulations, contracts and grant agreements and to obtain a sufficient understanding of the internal controls to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Internal Control over Financial Operations, Safeguarding of Assets and Compliance:

Management of the Department of Veterans' Affairs is responsible for establishing and maintaining effective internal control over financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts, and grants. In planning and performing our audit, we considered the Department's internal control over its financial operations, safeguarding of assets, and compliance with requirements as a basis for designing our auditing procedures for the purpose of evaluating the Department's financial operations, safeguarding of assets, and compliance with certain provisions of laws, regulations, contracts and grant agreements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over those control objectives. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over those control objectives.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent, or detect and correct on a timely basis, unauthorized, illegal or irregular transactions, or breakdowns in the safekeeping of any asset or resource. *A material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that non compliance which

could result in significant unauthorized, illegal, irregular or unsafe transactions and/or material noncompliance with certain provisions of laws, regulations, contracts, and grant agreements that would be material in relation to the Department's financial operations will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial operations, safeguarding of assets, and compliance with requirements was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial operations, safeguarding of assets, and compliance with requirements that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over the Department's financial operations, safeguarding of assets, or compliance with requirements that we consider to be material weaknesses, as defined above. However, we consider the following deficiencies, described in detail in the accompanying Condition of Records and Recommendations sections of this report, to be significant deficiencies: Recommendations 1-Accounts receivable system, 6- Medicaid cost recovery claims and 7- Reporting systems. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the Department complied with laws, regulations, contracts and grant agreements, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Department's financial operations, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters which we reported to Department management in the accompanying Condition of Records and Recommendations sections of this report.

The Department of Veterans' Affairs' response to the findings identified in our audit is described in the accompanying Condition of Records section of this report. We did not audit the Department's response and, accordingly, we express no opinion on it.

The report is intended for the information and use of the Department's management, the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.

CONCLUSION

We wish to express our appreciation for the cooperation and courtesies extended our representatives by the officials and staff of the Department of Veterans' Affairs during the examination.



Donald R Purchla
Principal Auditor

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert M. Ward
Auditor of Public Accounts