

STATE OF CONNECTICUT

**AUDITORS' REPORT
DEPARTMENT OF VETERANS' AFFAIRS
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2002**

**AUDITORS OF PUBLIC ACCOUNTS
KEVIN P. JOHNSTON ♦ ROBERT G. JAEKLE**

Table of Contents

INTRODUCTION	1
COMMENTS	1
Foreword	1
Résumé of Operations	3
General Fund Revenues and Receipts	3
General Fund Expenditures	3
Per Capita Costs	4
Daily Census	4
Soldiers', Sailors' and Marines' Fund	5
Institutional General Welfare Fund	5
Activity Fund	6
Fitch and Posthumous Funds	6
Program Evaluation	7
CONDITION OF RECORDS	14
Net Accounts Receivable and Poorly Designed Accounts Receivable System.....	14
Excess Cash Balances in the Institutional General Welfare Fund Bank Account.....	16
Failure to Comply with Section 4-36 of the General Statutes	16
Few Board of Trustee Meetings Held.....	17
Improper Charges to Capital Equipment Purchase Fund.....	18
Veterans' Improvement Programs not Covered by Departmental Regulations ...	19
An Invoice for \$5,054 Remains Unpaid after More than One Year	21
Hospital Services Eligible for Reimbursement have not been Submitted	22
Other Matters	24
RECOMMENDATIONS	25
CERTIFICATION	29
CONCLUSION	32

May 14, 2004

**AUDITORS' REPORT
DEPARTMENT OF VETERANS' AFFAIRS
FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND 2002**

We have examined the financial records of the Department of Veterans' Affairs for the fiscal years ended June 30, 2001 and 2002. 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 (DVA, or the Department) operates under the provisions of Title 27, Chapter 506, Parts I and Ia, Sections 27-1021 through 27-137 of the General Statutes and provides comprehensive health, social and rehabilitative services to veterans in the State of Connecticut. The Department of Veterans' Affairs operates the Veterans' Home and Hospital (VHH, or the Hospital) in Rocky Hill that includes a 350-bed hospital and a 519-bed domicile for eligible veterans. Occupancy in the hospital and domicile has been declining for several years. Because of this declining occupancy, the hospital is budgeted for 200 beds while the domicile is budgeted for 350 beds. The Hospital had been accredited by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO) until May 20, 2002. The Department decided not to seek JCAHO accreditation after that date, citing the cost and other considerations. The Hospital (actually a chronic care facility) will continue to receive inspections by the Department of Public Health every two years, instead of every three years when it was accredited by the JCAHO. The Department also operates the Office of Advocacy and Assistance that maintains offices throughout the State and

Auditors of Public Accounts

provides advice, assistance, and formal representation to veterans and their dependents.

Eugene A. Migliaro, Jr., served as Commissioner throughout the audited period and until his retirement on March 31, 2003.

Linda S. Schwartz was appointed Commissioner on May 27, 2003.

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 nine members appointed by the governor. The Deputy Commissioner serves as a non-voting member of the Board. 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, 2002, the following persons served on the Board:

Santi N. Ranno
John G. Chiarella, Sr.
Clifford R. Wiltshire
William J. Pomfret
Angelo Fusco
Linda S. Schwartz
Judith A. Torpey
Stanley F. Zebzda
Robert Wamester

John N. Roberto and General David D. Boland also served during the audited period.

Persian Gulf War Information and Relief Commission:

The Commission was created by Public Act 97-144 and codified at Title 27, Chapter 507, Part V of the General Statutes. The Commission advises the Department on (1) medical and social assistance for Gulf War veterans exposed to toxic substances (2) recommendations for legislation and (3) information that should be provided to Gulf War veterans. As of June 30, 2002, the Commission members were:

Maurice L. Collin, Chairman
Dr. Zygmunt F. Dembek
Michael Donnelly
Allen Wilcoxson
Dr. John Pierce Wise

RÉSUMÉ OF OPERATIONS:**General Fund Revenues and Receipts:**

A comparative summary of General Fund revenues and receipts during the audited period with the prior year presented for comparative purposes is presented below:

	<u>1999-2000</u>	<u>2000-2001</u>	<u>2001-2002</u>
Medicare reimbursements	\$1,998,698	526,700	23,970
Federal aid for disabled veterans	5,204,574	5,349,784	6,453,653
Federal aid-miscellaneous	40,950	36,150	54,476
Rents for cottages or residences	51,478	44,735	44,673
Refunds of expenditures-other than budgeted appropriations (applied to expenditures)	2,786,369	3,399,084	2,956,708
All other revenues and receipts	<u>135,297</u>	<u>128,578</u>	<u>28,774</u>
Total Revenues and Receipts	<u>\$10,217,366</u>	<u>\$9,485,031</u>	<u>\$9,562,254</u>

The Department receives reimbursement from the Federal Government for both domiciled veterans and for veterans residing in the hospital. Currently, such reimbursement is about \$27 per day for the domicile and \$56 per day for the hospital.

Medicare reimbursements have been declining steadily since fiscal year 1998-1999. This is due to a variety of factors. One of the factors is that Medicare rules changed and now no longer allow certain charges to be billed. See the "Conditions of Records" section for a finding on Medicare reimbursements. The "Refunds of expenditures-other than budgeted appropriations" category consists in large part of transfers from the Institutional General Welfare Fund. These transfers are discussed in the next section.

General Fund Expenditures:

A summary of expenditures for the fiscal years ended June 30, 2001 and 2002, as compared to the preceding fiscal year, is presented below:

	<u>1999-2000</u>	<u>2000-2001</u>	<u>2001-2002</u>
Personal services	\$20,993,192	\$20,096,728	\$21,750,242
Contractual services	4,944,261	4,614,880	5,456,034
Commodities	3,542,029	3,949,460	3,841,724
All other	<u>346,154</u>	<u>262,646</u>	<u>88,717</u>
Total Expenditures	<u>29,825,636</u>	<u>28,923,714</u>	<u>31,136,717</u>
Less: Transfers from other accounts	<u>2,770,850</u>	<u>3,371,200</u>	<u>2,951,400</u>
Net Expenditures per Comptroller	<u>\$27,054,786</u>	<u>\$25,552,514</u>	<u>\$28,185,317</u>

As shown above, total expenditures showed gradual growth throughout the audited period. The

Auditors of Public Accounts

2.4 percent increase in personal services expenditures during the audited period was due to cost of living increases. Paid positions decreased from 451 as of June 30, 2000 to 440 at June 30, 2002. Also of significance was the fluctuation in transfers from the Institutional General Welfare and Activity Funds, which is explained below. Not included in the 440 paid positions above are approximately 140 patient worker positions, filled by veterans who are paid minimum wage. Expenditures for Patient Worker payroll totaled \$1,388,637 and \$1,480,523 in fiscal years 2000-2001 and 2001-2002, respectively.

Under Section 27-108 of the General Statutes, recoveries for the care and treatment of patients are deposited in the Institutional General Welfare Fund. The Department then transfers the moneys to a restricted contribution account (Institutional General Welfare Fund, SID 301) within the General Fund. These moneys, categorized as "refunds of expenditures" are used to finance part of the Department's operating costs. Similar transfers were made from the Activity Fund to the Activity Fund restricted account within the General Fund (SID 303). Cost of Care payments is the subject of a performance review in this report. These transfers are summarized in the following tabulation.

	<u>2000-2001</u>	<u>2002-2002</u>
Institutional General Welfare Fund (SID 301)	\$3,350,000	\$2,930,000
Activity Fund (SID 303)	21,200	21,400
Total Transfers from Other Accounts	<u>\$3,371,200</u>	<u>\$2,951,400</u>

Per Capita Costs:

Annually, the State Comptroller computes the daily per capita cost of maintaining the residents and patients at the Veterans' Home and Hospital. 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 and hospital are shown below:

	<u>2000-2001</u>	<u>2001-2002</u>
Domicile (barracks)	\$84	\$89
Hospital (inpatient)	458	462

Daily Census:

A daily census is produced of the veterans residing at the Veterans Home and Hospital. As of April 23, 2003, there were 469 veterans at the Veterans Home and Hospital, 303 in the domicile and 166 in the hospital. Of the 469 veterans, 102 (86 in the hospital, 16 in the domicile) are veterans of World War II, 61 (37, 24) of the Korean Conflict, 287 (40, 247) of the Vietnam Conflict, 15 (1, 14) of Operation Desert Storm and four (2, 2) of the Lebanon Conflict.

Soldiers', Sailors' and Marines' Fund:

Section 27-118 of the General Statutes authorizes the Department to pay \$150 toward burial expenses when any veteran dies not having sufficient estate to pay the necessary expenses of his or her last sickness or burial. In addition, Section 27-119 of the General Statutes provides for payment of expenses related to the transportation and erection of headstones provided by the Federal Government. Funds for headstones and burial expenses of eligible veterans were budgeted through the Soldiers', Sailors' and Marines' Fund (#1115). We address the operations of the Soldiers', Sailors' and Marines' Fund in a separate report.

Only expenditures from appropriations budgeted to the Department of Veterans' Affairs were examined in the course of this audit. A summary of such expenditures follows:

	<u>2000-2001</u>	<u>2001-2002</u>
Burial expenses (SID 604)	\$ 1,350	\$ 1,650
Headstones (SID 605)	<u>151,625</u>	<u>242,350</u>
Total DVA Expenditures	<u>\$152,975</u>	<u>\$244,000</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 and Hospital. The Department has been using this Fund to supplement its General Fund appropriations.

Under the provisions of Section 27-108, subsection (c) of the General Statutes, veterans who are able to pay, in whole or in part, for the Department of Veterans' Affairs' services shall receive a monthly bill for such services. The Department has a patient billing system to collect such moneys categorized below as "Patient billings". A finding relating to the patient billing system is presented in the "Condition of Records" section of this report.

As shown below, another significant source of revenue is 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. Estate collections have been declining steadily; such collections peaked during the 1993-1994 fiscal year, amounting to \$835,962.

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

	<u>2000-2001</u>	<u>2001-2002</u>
Revenues and Interfund Transfers		

Auditors of Public Accounts

Patient billings	\$2,804,960	\$2,946,168
Estate collections	103,634	119,126
Transfers from other funds	-	
All other	<u>169,161</u>	<u>62,509</u>
Total Revenues and Transfers	<u>\$3,077,755</u>	<u>\$3,127,803</u>

For comparative purposes, revenues and transfers during the 1999-2000 fiscal year amounted to \$2,737,251.

Expenditures for the 2000-2001 fiscal year amounted to \$3,070,586 and \$3,257,220 for the 2001-2002 fiscal year. For comparative purposes, expenditures during the 1999-2000 fiscal year amounted to \$2,769,547. These expenditures were made for the general operations of the Veterans' Home and Hospital, primarily out of this Fund restricted appropriation (SID 301) in the General Fund. The "detail payroll" is paid through this Fund; residents are paid an allowance of \$30 per week in return for performing chores. The Department increased the detail payroll rate from \$2.10 an hour to \$3.00 an hour effective April 4, 2003. Most veterans in the detail program work 20 hours a pay period. This money is generally used for personal needs and tobacco products.

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 at the Winners Circle canteen and vending machine commissions. Revenues for the Activity Fund totaled \$18,452 and \$18,497 for the fiscal years ended June 30, 2001 and June 30, 2002, respectively.

As previously noted, moneys from the Activity Fund are transferred and disbursed to a General Fund restricted account (SID 303). 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 Activity Fund's cash and cash equivalents balance was \$2,436 as of June 30, 2002.

Fitch and Posthumous Funds:

The Fitch and Posthumous Funds are long-standing permanent trust funds whose assets are in the custody of the State Treasurer. The principal balances of these two funds amounted to \$11,970 and \$23,748, respectively, as of June 30, 2002. Interest earned on these funds is transferred to the Institutional General Welfare Fund and used for the benefit of the Department's clients. The Posthumous Fund is governed by Section 3-38 of the General Statutes.

PROGRAM EVALUATION:

Cost of Care Billings, Collections, and Accounts Receivable System:

Under Section 2-90 of the Connecticut General Statutes, the Auditors of Public Accounts are authorized to perform audits of programs and activities. We selected the cost of care collections and the accounts receivable function at the Department. Cost of care collections were authorized by Public Act 88-285 and codified in various statutes and regulations (see below). A veteran's cost of care is equal to the daily per capita cost less federal reimbursement and is discussed in more detail below. Briefly, we found that enforcement of the cost of care statutes and regulations has not been effective, resulting in many veterans whose accounts are not in good standing. This has resulted in substantial lost revenue to the Department that is critical to its operations. We found the Department has no definitive policy for dealing with this issue.

Background:

The Veterans' "home" or "domicile" is for those veterans who are capable and desire to perform their own activities of daily living and who can manage their own personal affairs. Each domiciled veteran is assigned to one of several "veterans improvement programs" which are rehabilitation programs, based on the desire of the veteran to either remain in residence or to return to the community. Except for the "Extended Veterans' Improvement Program", a discharge plan is developed for each veteran with a length of stay and a targeted discharge date of between six months to two years and six months. Each veteran is allowed to keep a portion of his income each month. Such portion is called a "Personal Needs Allowance". The personal needs allowance is based on the veterans improvement program the veteran has been assigned to and is guided by regulation. The "Hospital" (actually a Chronic Disease facility) is for non-ambulatory veterans with chronic health problems. The Hospital also provides outpatient services to the domiciled veterans. Because collections from patients in the Hospital are covered by separate rules (i.e., Medicare and Medicaid), this review will focus on collection of the cost of care payments from veterans who are housed in the domicile.

Each veteran is required, by General Statute and by Department Regulations, to pay each month, an amount known as the "ability to pay". "Ability to pay" is defined by statute and regulations as the difference between the veteran's income and his personal needs allowance. For each day in the domicile a veteran is charged a daily rate of \$89 (less federal reimbursement), which is billed monthly in arrears. The difference between the daily rate, and the cost of care payments, and payments from other sources, becomes a receivable to the Department. Each veteran's receivable balance is made up of a current balance and a lifetime balance (the "lifetime liability"). The current balance is due from the veteran each month. If a veteran's account is in "good standing", as Department regulations require, then the veteran's current balance should only be for one month's charge. The lifetime liability is kept on the books until the estate of the veteran has been settled.

Applicable Statutes and Regulations:

Many applicable General Statutes and Department regulations govern this area. The most

Auditors of Public Accounts

pertinent are as follows:

Section 27-108, subsection (c), of the General Statutes: *“Such veterans who are able to pay in whole or in part for such program or services, as deemed by the applicable fee schedule adopted pursuant to subsection (c) of Section 27-102l, shall receive a monthly bill for such services rendered.”*

Section 27-108, subsection (d), of the General Statutes: *“In the event that a bill of a veteran remains unpaid and past due, the chief fiscal officer with the approval of the commissioner shall require the veteran to assign his or her right to receive payment of income from whatever source to the commissioner until such account is made current and the veteran demonstrates to the satisfaction of the commissioner a reasonable likelihood of more prudent financial management for the future. Any veteran shall be provided an opportunity for a hearing when an order of assignment is issued.”*

Section 27-102l(d)-130, subsection (b) (2), of the Department regulations: *“A veteran’s request for voluntary discharge shall be considered involuntary if one of more of the conditions in this subsection exist: (1) “The veteran is subject to an investigation of a major rule offense as defined in section 27-102l(d)-200 of the regulations of Connecticut state agencies, unless and until such matters shall be dismissed or: (2) The veteran’s account is not in good standing, unless and until the veteran makes payment to bring the account into good standing.”*

Section 27-102l(d)-250, subsection (d), of the Regulations: *“As a condition of residence and program participation, each veteran shall pay for services rendered to him in an amount based on his ability to pay as determined by the Commissioner or his designee.”*

Section 27-102l(d)-251, subsection (b), of the Regulations defines *“ability to pay”* as *“...an amount determined by the Commissioner that the veteran has available or can make available for the purpose of paying for services received from the Department and which sets the minimum payment due when the Department presents its monthly billing statement.”*

Section 27-102l(d)-252, subsection (b), of the Regulations: *“Each veteran participating in any program administered by the Department of Veterans’ Affairs shall be legally liable for payment of services rendered to him and shall be obligated to keep his account in good standing.”*

Section 27-102l(d)-273 of the Regulations: *“A veteran may assign income or assets to the Department and may do so voluntarily under an agreement with the Commissioner or involuntarily under an order by the Department.”*

Section 27-102l(d)-274 of the Regulations: *“The Chief Fiscal Officer, with the approval of the Commissioner, may order a veteran to involuntarily assign income from whatever source to the Department pursuant to Section 27-108 of the Connecticut General Statutes.”*

Conditions Noted:

Many veterans' accounts, both for current and past residents of the domicile, are not in "good standing". This is depriving the Department of budgeted resources needed to make improvements to the Veterans' Home and Hospital. Contributing to the condition has been a Departmental concern about having to involuntarily discharge veterans for accounts that are not in good standing. Once a veteran is discharged, while still having an outstanding current balance, the potential for collection is extremely low. The best time to collect is immediately after the veteran has received his monthly income, whether it is from social security benefits, veterans' benefits or other sources. Yet, the Department has not stayed on top of this situation, permitting many veterans' balances to grow so large that repayment becomes highly unlikely. It should be emphasized that, because of the personal needs allowance, every veteran who has income will have something left over each month after making his cost of care payment. In addition to the personal needs allowance, most veterans work either on the detail pay or patient payroll, providing them additional spending cash.

As of June 30, 2002, the Department reported on GAAP Form No. 2, 2,662 accounts receivable balances totaling \$240,545,638, of which \$238,380,727 was estimated to be uncollectible. This uncollectible amount essentially corresponds to the "lifetime liability" portion of the receivable. Thus, the difference between these two numbers, \$2,164,911, at the low end roughly represents the current billings not collected over the past several years. Included in this figure, however, are numerous credit balances and other inaccuracies. Removing them increases the receivable total to about \$2,804,713, which approximates the high end of the cost of care payments that have not been collected, as of June 30, 2002.

For a more current understanding of this condition, we reviewed the invoices produced for the month of March 2003. Only invoices for veterans currently residing at the Veterans' Home and Hospital are produced. Invoices for veterans who have left the Veterans' Home and Hospital with a current balance are not produced. For March 2003, three hundred sixty eight patient billing statements were produced. (Invoices for approximately 100 veterans are not sent because the Department has "power of attorney" over these accounts and automatically collects the amount due.) We found of these 368 invoices, 142 were for veterans whose "ability to pay" is greater than zero. Of these 142 accounts, 44 accounts, or 31 percent, were current (in "good standing"), but 98 veterans' accounts, or 69 percent, were in arrears (not in "good standing"). The total current liability for these 98 accounts was \$1,011,338. Of these 98 accounts, 22 accounts, totaling \$441,596, were for veterans in the hospital, and 76 accounts, totaling \$596,742, were for veterans in the domicile.

As noted earlier, in addition to the veterans' social security and other income, all veterans in the domicile earn additional spending money working on either the "detail" or "patient" payroll. Veterans earning detail pay currently earn three dollars an hour, for a total of \$60 per pay period. Veterans on the patient payroll earn minimum wage, currently \$6.90 an hour, for up to 80 hours a pay period. Detail and patient payrolls are included in the calculation of the ability to pay. We found that many veterans whose accounts are not in good standing nonetheless continue to earn several thousand dollars a year in wages from these programs.

We were informed that around January 2000, an effort to start each delinquent account with a “clean slate” was undertaken by the Department by which veterans, who agreed to keep their accounts in good order prospectively, would have their current liabilities transferred to their lifelong liabilities. We requested the number of accounts and total dollar value that were transferred but this information was not provided, due to the inability of the accounts receivable system to readily produce such data. We were able, however, to review ten individual accounts and found almost \$38,000 had been transferred in this manner. We understand the total amount transferred to be much higher, representing many more accounts. We can find no regulation that permits such an action. It was not effective, either, as many accounts became delinquent just a few months later.

We also found veterans are being “voluntarily” discharged while still owing outstanding balances, contrary to regulation and departmental procedures. One veteran owed \$25,079.57 at the time of his discharge. Another owed \$8,258.92 at the date of his discharge. Both accounts were given “voluntary discharge” status, as were nine more accounts we reviewed, with balances ranging from \$523.22 to \$4,708.79. Veterans who are voluntarily discharged are eligible for re-admittance to the Veterans’ Home and Hospital after one month. Those involuntarily discharged must wait six months for re-admittance.

One of the Department’s requirements for participation in the Extended Living Veterans Improvement Program is that the veteran must be current on his cost of care payments. The Extended Living Veterans’ Improvement Program allows the veteran to keep two-thirds of his income as his personal needs allowance as opposed to lesser amounts in other extended programs, so assignment to this program is a financial benefit to the veteran. Our review found the requirement to keep accounts in good standing, while in the program, was not being enforced as a way to keep at least some accounts current. We found several veterans who, as of March 31, 2003, owed several thousand dollars who were still in the Extended Living Veterans’ Improvement Program. One veteran owed \$24,673.79. The Department is not monitoring this area closely to ensure that all Extended Living Veterans’ Improvement Program participants’ balances were current. If not current, then they should have been re-assigned to another extended program. This program is the subject of a recommendation in the “Condition of Records” section of this report.

We also found, as of May 23, 2003, 31 veterans with accounts not in good standing that are being allowed to keep vehicles parked on the grounds of the Veterans’ Home and Hospital. Parking is a privilege, not a right, and Departmental policy states that such privileges may be lost if the veteran is non-compliant with the rules and regulations. Eight of the 31 veterans owe over \$15,000 each, as of March 31, 2003. To our knowledge no veteran with a delinquent account has ever lost parking privileges.

Conclusion and Finding:

As shown above, Department efforts to deal with this condition have not been effective, a fact

well known to the Department. The Department has struggled with this issue for some time, and has discussed various options, but has not found an approach that is comprehensive and effective. The effort to start each overdue account with a “clean slate” is but one example of a “solution” that was neither comprehensive nor effective. A proposal to replace the ability to pay with a flat fee schedule also represents an attempt to make collections easier. However, any “flat fee” plan should not be implemented without being subjected to the regulatory review process. In a memo dated August 27, 2001, a Departmental official wrote: “As we know, there are many residents paying little or nothing at all towards their bill. Nothing happens to those who don’t pay in the Hospital and the same is basically true for those in the Domicile.” That was true two years ago and is still true today. The cost of care statutes and regulations are inherently difficult to administer, because they are based on the ability to pay, and on self-reporting of income by the veteran. This adds several layers of complexity to the process. What is needed, however, is a Departmental policy that approaches each overdue account in a timely and systematic way. Accordingly, we are making the following recommendation:

Criteria: Section 27-108 (c) of the General Statutes states that “Such veterans who are able to pay in whole or in part for such program or services, as deemed by the applicable fee schedule adopted pursuant to subsection (c) of section 27-1021, shall receive a monthly bill for such services rendered.” Section 27-108 (d) of the General Statutes states: “In the event that a bill of a veteran remains unpaid and past due, the chief fiscal officer with the approval of the commissioner shall require the veteran to assign his or her right to receive payment of income from whatever source to the commissioner until such account is made current and the veteran demonstrates to the satisfaction of the commissioner a reasonable likelihood of more prudent financial management for the future. Any veteran shall be provided an opportunity for a hearing when an order of assignment is issued.”

Numerous Department Regulations require the veteran to pay based on his ability to pay and provide for administrative action, including dismissal from the Veterans’ Home and Hospital, when accounts are not kept in good standing.

Condition: Many veterans’ accounts, both for current and former residents of the home are not in good standing. The exact amount of overdue amounts is difficult to determine, due to a poorly designed accounts receivable system, but we estimate the total between \$2.2 to \$2.8 million, as of June 30, 2002.

In February 2000, overdue current balances in amounts that cannot be readily determined were transferred from certain veterans’ current liability to their lifelong liability despite the lack of regulation or departmental policy permitting such an action. We were able to identify at least \$38,000

transferred in this manner, but we believe the actual total to be much higher.

Cause: The Department does not want to discharge domiciled veterans solely because their accounts are overdue because such action ceases their rehabilitation. Discharging veterans for nonpayment also reduces the daily census, which must be maintained at a certain level to ensure the facility is economical to keep open. Department personnel also cite limited ability to enforce the cost of care regulations short of involuntary discharge and a lack of staff.

Effect: The intent of the General Statutes and Regulations are not being strictly adhered to. Critical financial resources, needed to run the Department, are not being collected. Wide scale noncompliance makes administration of the Department's poorly designed accounts receivable system that much more inefficient.

Lastly, as veterans hear of other veterans whose accounts are not in good standing for which no sanctions have been imposed, they too may reconsider making their monthly payments, so the rate of collection may suffer.

Recommendation: The Department of Veterans Affairs should develop a comprehensive policy, incorporating all of its administrative, statutory, and regulatory powers, to ensure that all veterans' accounts are brought into good standing, and kept in good standing, as required by the General Statutes and Department regulations. (See Recommendation 1.)

Agency Response: "While many accounts are in fact "not in good standing" there remains several fundamental reasons that account for the current situation: the programmatic goals of the agency, outside unanticipated restrictions, and the lack of staff and IT resources to effectively manage the complex billing and collection regulations.

First, the primary goal of the agency's administration in the period of audit was the rehabilitation and return to the community of as many veterans as possible. Consequently, these goals took precedence to the strict interpretations and enforcement of the billing regulations. The administration's general policy of not involuntarily discharging veterans who were not fully compliant with the billing policies coupled with the complex formulaic methods in determining the net amount due for each veteran led to the confusion and dissatisfaction within the client population and in many cases a refusal to comply.

Additionally, the State's inability to involuntarily assign the veterans' income and/or assets due to a Federal Court ruling that accounts with the proceeds of federal benefits payments (i.e. Social Security and/or Veterans benefits-nearly 100% of the clients are receiving one or both forms of benefit) are not assignable by lower Court order.

Finally, and most significant, are the agency's lack of staffing and IT resources to effectively manage a broad-based billing and collection effort. Downsizing of staffing and the great difficulty in which to acquire and/or develop new IT systems (or upgrade existing systems) have begun to have wide-range effects on the Department's ability to perform beyond the basic day to day operational aspects of the business functions. The tendency is to fall behind on those functions that are less important to the core functioning of the agency. Bills are paid, purchase orders and contracts are written, but collections and other labor-intensive functions suffer.

To correct this situation, the agency has begun taking steps to fully outline the effort to correct the deficiencies and request the appropriate resources to accomplish the task. We estimate that, when provided the level of resources required, the agency should be able to bring the accounts in question into some level of compliance within 18-24 months. Without the level of required resources, it is unlikely that the situation will effectively change."

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.

Net Accounts Receivable Misstated and Poorly Designed Accounts Receivable System:

Background: Accounts receivable balances as of June 30th of each year are required to be reported on GAAP Form No. 2. Net accounts receivable at the Department of Veterans' Affairs result from charges for room, board and care less those charges estimated to be uncollectible. Net receivable amounts reported should be valid.

As of March 31, 2003, the Department reported accounts receivable of \$246,988,292 representing 2,774 accounts. The daily census at the VHH as of March 2003 was 467 veterans, so the majority of these accounts are for veterans who no longer reside at the Veterans' Home and Hospital and in some cases are deceased.

Criteria: An accounts receivable system should reflect account balances that are valid and collectible. Such accounts receivable system should have a control account showing the total debits and credits posted and allowing for an audit trail for all activity affecting the accounts receivable balance.

Conditions:

1. The accounts receivable report as of March 31, 2003, contained 161 accounts with credit balances, totaling \$1,799,571.
2. The report also contained over 148 accounts of veterans who have died since the year 2000.
3. The accounts receivable system put into place in 1999 does not incorporate the necessary control and subsidiary accounts to permit a valid audit trail. There is no user manual and nor are there monthly reports produced for management's review.

Effect: Including receivable balances with credit receivable balances or receivables of deceased veterans that are not expected to be collected, misstates the true receivable balance. Internal control over accounts receivable is lessened due to the poor design of the system and the lack of a proper audit trail.

Cause: The Department does not have a system in place to evaluate whether reported

net receivables are valid. Reasons for credit receivable balances varied.

Recommendation: The Department's accounts receivable balances should reflect valid collectible receivable accounts. The accounts receivable system should be modified (or replaced) to provide for proper control and subsidiary accounts and to provide an audit trail, monthly reports and user's manual. (See Recommendation 2.)

Agency Response: "The current accounts receivable system is cumbersome and difficult to maintain due to its age, design and the increasing more complex billing requirements of third party payers.

Again, the lack of internal resources and/or state support in the replacement or upgrading of financial systems is the primary cause for the difficulties in this area. While staffing resources are reduced, especially in the IT area in this case, the agency's ability to maintain or improve IT systems is greatly affected.

In addition the reviewer's somewhat overly-simplistic view of a "true receivables" balance does not fully recognize the nuances of the collections potential through the probate process, the discovery of hidden assets and other unique factors identified by the agency in its 10 years of experience in these matters. There has been more than one occasion when moneys are collected long after a normal collections potential would have expired.

The agency is fully capable of correcting the deficiencies in the system, both procedurally and systematically with the proper level of resources and outside IT support. Again the development of a plan is underway and, properly equipped, the agency estimates that it can correct the receivables issues, including commencing the process of writing truly uncollectible balances within 12-14 months."

Auditors' Concluding Comment:

Our use of the phrase "true receivable balance" refers primarily to the existence of many negative individual account balances, which technically are not receivables and thus misstate the actual accounts receivable total. We are well aware that lifetime liabilities can be collected through the probate system and are not recommending any account be written off for veterans who are still alive or for deceased veterans whose estates have not yet been settled.

Excess Cash Balances in the Institutional General Welfare Fund Bank Account:

Criteria: The State of Connecticut's *Activity and Welfare Fund Manual* states that any excess moneys not needed for the on-going operations should be placed in the State Treasurer's Short Term Investment Fund (STIF). Bank account balances are insured by the FDIC only up to \$100,000.

Condition: During our review of the Department's Institutional General Welfare Fund savings account, we noted that the ending monthly balance was over \$100,000 for 19 of the 24 months of the audited period, reaching a high of \$712,186 at the end of November 2000. The average daily balance during the audit period was \$288,769. The amount needed for on-going operations appears to be considerably less than \$100,000, perhaps as low as \$5,000.

Effect: Cash balances kept at levels considerably over that which is need for on-going operations reduces interest income as returns are better in the STIF. Bank balances above \$100,000 are not FDIC insured.

Cause: It appears monitoring of this balance was not performed routinely.

Recommendation: The Department should closely monitor the bank account balance of the Institutional General Welfare Fund to ensure that it does not routinely exceed an amount needed for on-going operations. (See Recommendation 3.)

Agency Response: "The agency acknowledges this oversight and has taken steps to ensure that its current policy is maintained and that the "excess" cash balances are expeditiously transferred to the appropriate STIF account."

Failure to Comply with Section 4-36 of the General Statutes:

Criteria: Each State agency or department is required to establish and maintain an inventory account in accordance with Section 4-36 of the Connecticut General Statutes. A detailed annual inventory of all real or personal property owned by the State and in the custody of the department as of June thirtieth is to be reported on or before August first to the State Comptroller's Office. The State of Connecticut's *Property Control Manual* requires that these reports must be supported by detailed records and that State agencies have policies and procedures in place to ensure that all assets over \$1,000 owned or leased will be properly recorded and accounted for in an annual physical inventory.

Conditions: 1. The Department does not maintain a Software Inventory List.

2. The Department does not maintain a Controllable Inventory List.
3. We found four out of 15 items tested, totaling \$6,198, could not be located.
4. Five of ten items physically on hand were not on the inventory listing.
5. The Department could not provide support documentation for stores and supplies additions and deletions for the fiscal years audited. Balances were not reconciled to actual expenditures for stores and supplies.
6. A 1946 American LaFrance fire truck was donated to a non-profit organization without approval from the Department of Administrative Services Property Distribution Center.
7. Internal controls over inventory are weak.

Effect: The Department is not in compliance with the State Property Control Manual. There is a higher risk of loss and theft of State property due to poor internal controls.

Cause: The reasons for these conditions could not be determined.

Recommendation: The Department should comply with all requirements of Section 4-36 of the General Statutes and the State of Connecticut's *Property Control Manual*, including a controllable inventory list, software inventory list and the filing of loss reports for missing items. All unneeded items should be surplus in accordance with established procedures. The Department should improve its property control records and conduct physical inventories periodically. (See Recommendation 4.)

Agency Response: "The Agency acknowledges ongoing deficiencies within its accounting for true equipment items and those other "controllable assets". We believe that most of the problems with (Section) 4-36 compliance revolve around dwindling staff resources and we are actively seeking additional staff specifically for this area. When additional staff is hired, we anticipate smooth, steady progress in resolving these issues."

Few Board of Trustee Meetings Held:

Criteria: Section 27-102n of the General Statutes states: "There shall be a board of trustees for the department of veterans affairs." The board shall meet at least monthly and upon the call of the commissioner. A majority of the members shall constitute a quorum. The Board shall review and approve any regulations prior to adoption by the commissioner concerning (1) procedures relating to admission and discharge or transfer of veterans in the home and in the hospital, (2) a per diem fee schedule for programs, services and benefits,

etc. Public Act 01-58 amended this statute to require quarterly meetings, effective October 1, 2001.

Condition: During the period July 1, 2000 through March 2003, a total of 20 monthly and quarterly board meeting were scheduled, of which only five were held. Included in the twenty meetings are the five quarterly meetings that have been scheduled since Public Act 01-58 went into effect. Of these five quarterly meetings, only two have been held as of March 2003.

During the audited period, changes in the per diem fee schedule and other changes to programs, including the introduction of new residential programs were implemented without the Board's due consideration.

Effect: The General Statute is not being adhered to with respect to the number of meetings being held. Additionally, the advice and assistance provided by the nine members, who by statute must possess education or expertise in the areas of health care, business management, social services, or law, are not being fully utilized. Such advice and assistance is especially needed in times of limited resources and operational challenges, which the Department is currently facing.

Cause: A variety of reasons were cited for the cancellation of board meetings, including sickness, vacations, and the lack of a quorum.

Recommendation: The Board of Trustees should comply with the quarterly meeting provision contained in Public Act 01-58 and should exercise the required oversight over the operations of the Department as permitted by the General Statute. (See Recommendation 5.)

Agency Response: "The newly appointed Commissioner has addressed this issue by scheduling more meetings and requesting a large contingent of Trustees to ensure that quorums can be established at as many meetings as possible."

Improper Charges to Capital Equipment Purchase Fund:

Criteria: According to Section 4a-9 of the General Statutes, the Capital Equipment Purchase Fund (CEPF, #1872) shall be used for the purpose of acquiring capital equipment with an anticipated useful life of not less than three years from the date of purchase. The *State Accounting Manual* defines Capital Outlays-Equipment as all items of equipment (machinery, tools, furniture, vehicles, apparatus, etc.) with a value of \$1,000 or more and a useful life of one year or more. By directive of the State Comptroller, the only equipment

under \$1,000 that can be financed from this Fund is data processing equipment having a useful life of not less than five years.

Condition: For fiscal year 2001, we found six invoices totaling \$41,104 were charged to the 1872 Fund that are not allowed. For fiscal year 2002, we found that invoices totaling \$8,797 were charged to this Fund incorrectly. A similar condition was found in the previous audit. Items purchased and incorrectly charged to this Fund included carpeting, furniture, repair items, and non-data processing equipment under \$1,000.

Effect: Section 4a-9 of the General Statutes is not being complied with.

Cause: The Department did not exercise the proper degree of caution when making expenditures from this Fund.

Recommendation: The Department should use the Capital Equipment Purchase Fund only for the purposes permitted under Section 4a-9 of the General Statutes and State Comptroller directives. (See Recommendation 6.)

Agency Response: “The agency can neither acknowledge nor dispute this finding without a detail review of each invoice in question. We can provide that in similar findings from previous audits, the agency maintained that, in its opinion, some legitimate and non-legitimate CEPF purchases were classified as “improper.”

Veterans’ Improvement Programs not Covered by Departmental Regulations:

Criteria: Section 4-168, subsection (e) of the General Statutes states that “except as provided in subsection (f) of this section, no regulation may be adopted amended or repealed by any Department until it is (1) approved by the Attorney General as to legal sufficiency, as provided in section 4-169, (2) approved by the standing legislative regulation review committee, as provided in Section 4-170 and (3) filed in the office of the Secretary of State, as provided in section 4-172.”

Condition: The Department has implemented or revised residential programs without first amending the regulations. The new program implemented is the “Extended Living Veterans’ Improvement Program” which allows the veteran to keep two-thirds of his income as his personal needs allowance and is modeled, evidently, after the Federal Section 8 Senior Housing Program. The Extended Living Veterans’ Improvement Program is for veterans who

ostensibly qualify for senior housing in the community but have expressed a preference to remain in the domicile. The Department has changed the monthly personal needs allowance for veterans in the Extended Detail Veterans' Improvement Program due to increases in detail pay without amending the regulations. The current personal needs allowance for this program is \$380, while the regulations require a \$315 personal needs allowance. The Department also changed the personal needs allowance for the Standard Veterans' Improvement Program from \$750 to \$1,000 without amending the regulations.

Cause: A Department official stated that the regulations could be amended after the programs were instituted due to the lengthy period associated with amending regulations.

Effect: The statutory process for amending regulations has not been followed. A Veterans' Improvement Program is being offered that is not covered by Departmental regulation. As a result, the necessary legal and fiscal reviews have not been performed. For example, the "Ability to Pay" calculations are affected with the introduction of new programs or changes to existing programs' personal needs allowances. This in turn has a financial impact on the budget. Additionally, any potential legal issues associated with introducing new programs have not been formally addressed.

Recommendation: The Department should introduce new residential programs or changes to existing residential programs only after the Departmental regulations have been amended in accordance with the General Statutes. The Department should begin the process of amending the regulations with respect to the programs already implemented or revised. (See Recommendation 7.)

Agency Response: "The previous administration had made necessary changes to address program issues. While it is true that these programs are not technically described in the regulations, the Agency felt that the need to make changes was primary and we are making plans to update these regulations to properly reflect programmatic structures as soon as possible. It should be noted that the Agency's Director of Planning, who coordinated the initial Agency regulatory update, became unexpectedly ill and passed away in the timeframe of these program changes."

An Invoice for \$5,054 Remains Unpaid After More Than One Year:

Criteria: Section 4a-71 of the General Statutes governs the prompt payment of State

expenditures. Generally, amounts not paid within 45 days are subject to interest at a rate of one percent per month whenever a Department fails to make prompt payment. Section 4a-72 provides for exceptions to Section 4a-71 for claims subject to a good faith dispute if notice of the dispute is sent by certified mail or personally delivered.

Condition: In April of 2002 the Joint Commission on the Accreditation of Healthcare Organizations (JCAHO) conducted a review of the Hospital's Laboratory, as part of its planned overall accreditation of the Hospital. For the laboratory portion, the JCAHO billed the Department \$5,054. After the review began, the Department decided to drop accreditation by JCAHO for the entire hospital. At the time of our fieldwork, the bill for the laboratory review remained unpaid, some 15 months after the initial billing. The JCHCO was not informed by certified mail that the amount was in dispute.

Cause: A Department official states that payment was not made because there is a disagreement with the amount billed. The JCAHO reportedly rejected an offer of less than \$5,054. This dispute was not documented in written form or sent by certified mail. It should be noted that the then Hospital Administrator and the Assistant Hospital Administrator approved the State invoice (CO-17) for payment.

Effect: By not documenting the disputed amount and properly notifying the vendor of this dispute, the Department is not shielded from paying interest on this amount if it is determined that it is owed. Such interest, if imposed, could be several hundred dollars.

Recommendation: The Department should resolve the outstanding invoice for \$5,054 from the Joint Commission on the Accreditation of Healthcare Organizations in a manner consistent with General Statutes. (See Recommendation 8.)

Agency Response: "The Agency has been fully aware of this issue since its inception. This invoice is for JCAHO certification for our Clinical Laboratory which was separately accredited from our Hospital program. Shortly after the Lab was surveyed and a three year period of accreditation was granted, the decision was made not to seek re-certification of the Hospital program. Since the Laboratory certification was invalid without the overall Hospital program certification, the Agency requested a pro-rating adjustment of the invoice to reflect the period of the "subscription" not being used. The JCAHO has been unresponsive to this request. The CFO believes he is obligated not to pay for services that were not received by the Agency and has refused to pay the invoice without this pro-rating. A full detailed disclosure of this situation

was made to the auditor.”

Auditors’ Concluding

Comments:

We have taken no position as to the validity of the invoice, but have noted that both the then Hospital Administrator and Assistant Hospital Administrator approved the invoice in the full amount of \$5,054. Our recommendation addresses the manner in which the dispute was handled, which was not in accordance with the General Statutes as they pertain to prompt payment and claims subject to a good faith dispute.

Hospital Services Eligible for Medicare Reimbursement Have Not Been Submitted:

Criteria:

There are time limits for submission of claims for Medicare reimbursement. The Medicare fiscal year runs from October 1 through September 30. For services provided between October 1, 2002 through September 30, 2003, claims must be submitted by December 31, 2004.

Condition:

We were informed that over 3,800 invoices for hospital services provided to veterans are eligible for Medicare reimbursement but have not been billed, for services provided from January 2003 through May 22, 2003. In addition, other services including speech, occupational and physical therapy have not been submitted for reimbursement. The total amount of reimbursement due cannot be determined until the invoices are submitted but we are informed by Hospital Administration that this amount is substantial.

Cause:

The layoff of personnel required to properly review the billings for Medicare reimbursement appears to be the primary cause of this condition.

Effect:

Services that are Medicare eligible have not been submitted for reimbursement, resulting in uncollected revenue, in an amount that cannot be determined until the services have been submitted for reimbursement but are believed to be substantial.

Recommendation:

The Department should develop a policy to ensure that all Medicare eligible services are billed in a timely manner. (See Recommendation 9.)

Agency Response:

“Layoffs at the Agency and at the Department of Administrative Services (the DVA’s billing agent) coupled with changes in Medicare reimbursement methodologies and rates have rendered the accumulation of the data required to submit these claims a negative benefit to the State (i.e. expenses exceed revenues). It was explained to the auditor that these “unbilled” expenses were not “substantial” as reported and that these amounts would

automatically roll towards total cost data and be recouped within Medicare's settlement process."

*Auditors' Concluding
Comments:*

It is the position of the Department's Administration that these amounts are not substantial and would represent a "negative benefit" to the State if billed. However, we were told by Hospital Administration personnel that these amounts are substantial in nature and should be billed. There appears to be uncertainty within the agency with respect to this issue. A policy on this issue, as recommended, would serve to eliminate this uncertainty.

Other Matters:

Subsequent to June 30, 2003, we became aware of the theft of a tractor, valued at \$7,000, and certain other equipment from the grounds of the Veterans' Home and Hospital. One current employee, and a former employee were arrested in connection with the investigation, which was conducted by the Office of Chief State's Attorney.

RECOMMENDATIONS

In our prior report, we presented 5 recommendations. All five are being repeated as current audit recommendations. Nine recommendations are being presented as a result of our current audit.

Status of Prior Audit Recommendations:

- The Department should develop and implement an integrated patient billing system that reflects valid collectible receivable balances. This recommendation has been repeated in revised form.
- The Department should develop a system to ensure that bank account balances of the Institutional General Welfare Fund do not exceed \$100,000 and invest any excess amount in the Short Term Investment Fund. This recommendation has been repeated.
- Management should comply with the requirements of Section 4-36 of the General Statutes and State of Connecticut's *Property Control Manual*. This recommendation has been repeated.
- Management should update the software data files and maintain its software inventory in accordance with the State of Connecticut's *Property Control Manual*. This recommendation has been repeated.
- The Department should use the Capital Equipment Purchases Fund only for the acquisition of permitted equipment. This recommendation has been repeated.

Current Audit Recommendations:

- 1. The Department of Veterans Affairs should develop a comprehensive policy, incorporating all of its administrative, statutory, and regulatory powers, to ensure that all veterans' accounts are brought into good standing, and kept in good standing as required by General Statutes and Department regulations.**

Comment:

Many veterans' accounts, both for current and former residents of the home are not in good standing as required by Department regulations. The exact amount of overdue amounts is difficult to determine, due to a poorly designed accounts receivable system, but we estimated it at between \$2.2 to \$2.8 million, as of June 30, 2002. In February 2000, overdue current balances in amounts that cannot be readily determined were transferred from certain veterans' current liability balances to their lifelong liability balances despite the lack of regulation or departmental policy permitting such an action. We were able to identify at

least \$38,000 transferred in this manner but we believe the actual total to be much higher.

- 2. The Department's accounts receivable balances should reflect valid collectible receivable accounts. The accounts receivable system should be modified (or replaced) to provide for proper control and subsidiary accounts and to provide an audit trail, monthly reports and user's manual.**

Comment:

The accounts receivable report as of March 31, 2003 contained 161 accounts with credit balances, totaling \$1,799,571. The report also contained over 148 accounts of veterans who have died since the year 2000. The accounts receivable system put into place in 1999 does not incorporate the necessary control and subsidiary accounts to permit a valid audit trail. There is no user manual nor are there monthly reports produced for management's review.

- 3. The Department should closely monitor the bank account balance of the Institutional General Welfare Fund to ensure that it does not routinely exceed an amount needed for on-going operations.**

Comment:

In our review of the Department's Institutional General Welfare Fund savings account, we noted that the ending monthly balance was over \$100,000 for 19 of the 24 months of the audited period, reaching a high of \$712,186 at the end of November 2000. The average daily balance during the audit period was \$288,769. The amount needed for on-going operations appears to be considerably less than \$100,000, perhaps as low as \$5,000.

- 4. The Department should comply with all requirements of Section 4-36 of the General Statutes and State of Connecticut's *Property Control Manual*, including a controllable inventory list, software inventory list and the filing of loss reports for missing items. All unneeded items should be surplused in accordance with established procedures. The Department should improve their property control records and conduct physical inventories periodically.**

Comment:

The Department does not maintain a software inventory list or controllable inventory list. We found four out of 15 items tested, totaling \$6,198, could not be located. Five of ten items physically on hand were not on the inventory listing. The Department could not provide support documentation for stores and supplies additions and deletions for the fiscal years audited. Balances were not reconciled to actual expenditures for stores and supplies. A 1946 American LaFrance fire truck was donated to a non-profit organization without the approval

of the Department of Administrative Services Property Distribution Center. Internal controls over inventory are weak.

- 5. The Board of Trustees should comply with Public Act 01-58 which requires, at a minimum, quarterly meetings of the Board. Whenever such meetings are held, the Board should exercise oversight over the operations of the Department as permitted by the General Statute.**

Comment:

During the period July 1, 2000 through March 2003, a total of 20 monthly and quarterly board meetings were scheduled, of which only five were held. Included in the twenty meetings are the five quarterly meetings that have been scheduled since the Public Act 01-58 went into effect. Of these five quarterly meetings, only two have been held as of March 2003. During the audited period, changes in the per diem fee schedule and other changes to programs, including the introduction of new residential programs were implemented without the Board's due consideration.

- 6. The Department should use the Capital Equipment Purchase Fund only for the purposes permitted under Section 4a-9 of the General Statutes and State Comptroller directives.**

Comment:

For fiscal year 2001, we found that six invoices totaling \$41,104 were charged to the 1872 Fund that are not allowed. For fiscal year 2002, we found that invoices totaling \$8,797 were charged to this Fund incorrectly. A similar condition was found in the previous audit. Items purchased and incorrectly charged to this Fund included carpeting, furniture, repair items, and non-data processing equipment under \$1,000.

- 7. The Department should introduce new residential programs or changes to existing residential programs only after the Departmental regulations have been amended in accordance with the General Statutes. The Department should begin the process of amending the regulations with respect to the programs already implemented or revised.**

Comment:

The Department has implemented or revised residential programs without first amending the regulations. The program implemented is the "Extended Living Veterans Improvement Program" which allows the veteran to keep two-thirds of his income as his personal needs allowance and is modeled, evidently, after the Federal Section 8 Senior Housing Program. The Extended Living Veterans Improvement program is for veterans who ostensibly qualify for senior housing in the community but have expressed a preference to remain in the

Veterans' Home and Hospital. The Department has changed the monthly personal needs allowance for veterans in the Extended Detail Veterans Improvement Program due to increases in detail pay without amending the regulations. The current personal needs allowance for this program is \$380, while the regulations require a \$315 personal needs allowance. The Department also changed the personal needs allowance for the Standard Veterans Improvement Program from \$750 to \$1,000 without amending the regulations.

- 8. The Department should resolve the outstanding invoice for \$5,054 from the Joint Commission on the Accreditation of Healthcare Organizations in a manner consistent with the General Statutes.**

Comment:

In April 2002 the Joint Commission on the Accreditation of Healthcare Organizations (JCAHO) conducted a review of the Hospital's Laboratory, as part of its planned overall accreditation of the Hospital. For the laboratory portion, the JCAHO billed the Department \$5,054. After the review began, the Department decided to drop accreditation by JCAHO for the entire hospital. At the time of our fieldwork, the bill for the laboratory review remained unpaid, some 15 months after the initial billing. The JCHCO was not informed by certified mail that the amount was in dispute.

- 9. The Department should develop a policy to ensure that all Medicare eligible services are billed in a timely manner.**

Comment:

We were informed that over 3,800 invoices for hospital services provided to veterans are eligible for Medicare reimbursement but have not been billed, as of May 22, 2003. In addition, other services including speech, occupational and physical therapy have been provided which also have not been submitted for reimbursement. The total amount of reimbursement due cannot be determined until the bills are actually submitted but we were informed by Hospital Administration that this amount is substantial.

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, 2001 and 2002. This audit was primarily limited to performing tests of the Department's compliance with certain provisions of laws, regulations, contracts and grants, 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 grants applicable to the Department are complied with, (2) the financial transactions of the Department are properly recorded, processed, summarized and reported on consistent with management's authorization, 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, 2001 and 2002, 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 generally accepted auditing standards and the standards applicable to financial-related 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 grants and to obtain a sufficient understanding of the internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

Compliance:

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Department of Veterans' Affairs is the responsibility of the Department of Veterans' Affairs management. As part of obtaining reasonable assurance about whether the Department complied with laws, regulations, contracts, and grants, 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 for the fiscal years ended June 30, 2001 and 2002, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with these 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 that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial or less than significant instances of noncompliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

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

The management of the Department of Veterans' Affairs is responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the Department. In planning and performing our audit, we considered the Department's internal control over its financial operations, safeguarding of assets, and compliance with requirements that could have a material or significant effect on the Department's financial operations in order to determine 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 grants, and not to provide assurance on the internal control over those control objectives.

However, we noted certain matters involving the internal control over the Department's financial operations, safeguarding of assets, and/or compliance that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over the Department's financial operations, safeguarding of assets, and/or compliance that, in our judgment, could adversely affect the Department's ability to properly record, process, summarize and report financial data consistent with management's authorization, safeguard assets, and/or comply with certain provisions of laws, regulations, contracts, and grants. We believe the following findings represent reportable conditions: cost of care payments are not being collected in accordance with state statutes and regulations, net accounts receivable were misstated and the accounts receivable system is poorly designed; there were excess cash balances in the Welfare Fund checking account; the Department did not comply with the property inventory requirements, there were charges to the Capital Equipment Purchase Fund that did not represent the purchase of equipment and disputed invoice was not processed in accordance with the prompt payment statutes.

A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or the requirements to safeguard assets that would be material in relation to the Department's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Department being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the Department's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material or significant weaknesses. We believe the accounts receivable system to be a material or significant weakness.

We also noted other matters involving internal control over the Department's financial operations and over compliance that are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

This report is intended for the information of 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.

Gary P. Kriscenski
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

13120-02.rpt