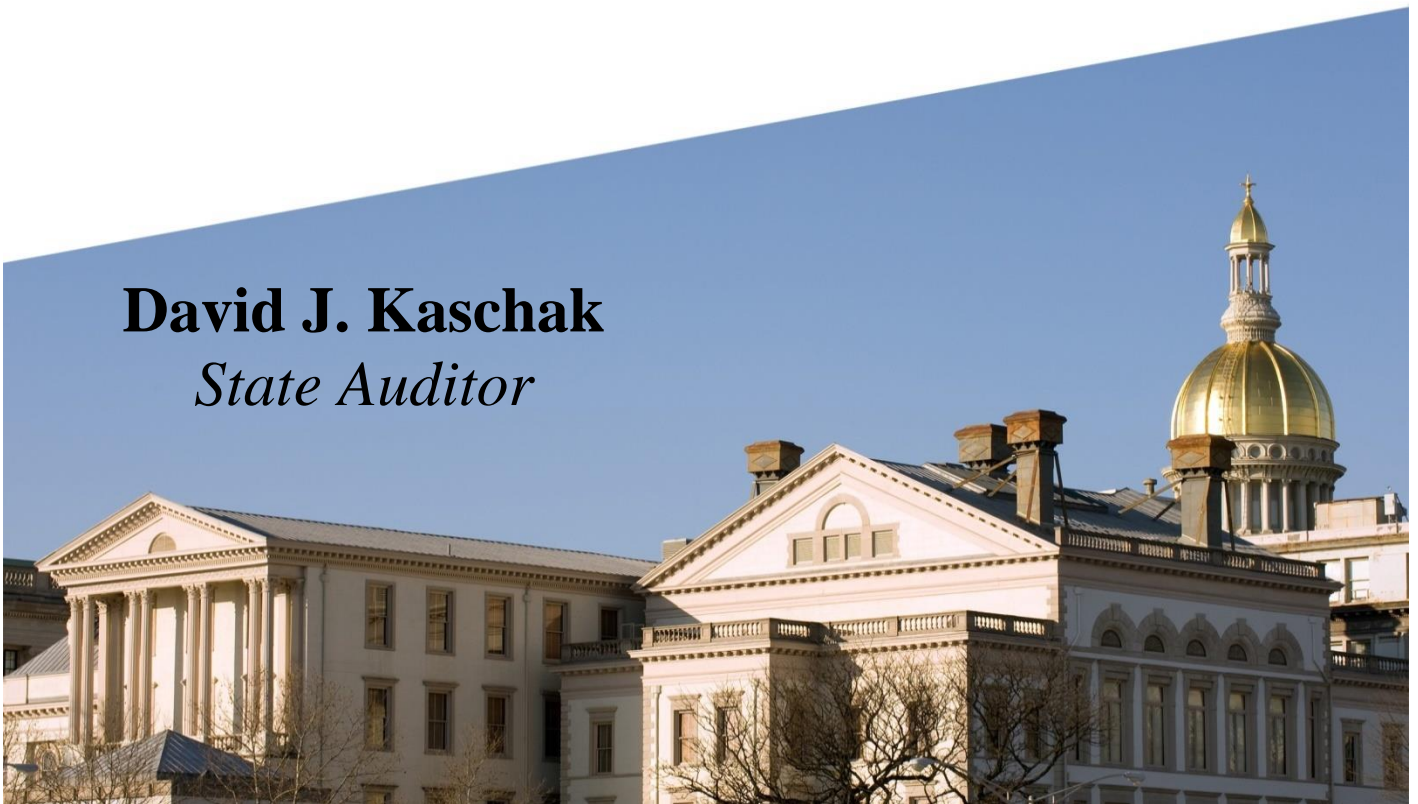


New Jersey Legislature
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OFFICE OF THE STATE AUDITOR

Department of Military and Veterans' Affairs
New Jersey Veterans Memorial Home at Menlo Park

July 1, 2020 to April 30, 2024

David J. Kaschak
State Auditor



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Enclosed is our report on the audit of the Department of Military and Veterans' Affairs, New Jersey Veterans Memorial Home at Menlo Park for the period of July 1, 2020 to April 30, 2024. If you would like a personal briefing, please call me at (609) 847-3470.

A handwritten signature in black ink that reads "David J. Kaschak".

David J. Kaschak
State Auditor
October 23, 2024

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Scope

We have completed an audit of the Department of Military and Veterans' Affairs (department), New Jersey Veterans Memorial Home at Menlo Park (home) for the period of July 1, 2020 to April 30, 2024.

The primary responsibility of the home is to provide directed long-term care to New Jersey veterans and eligible spouses. Our audit included financial activities accounted for in the state's General Fund and the home's non-appropriated (offline) accounts related to the resident accounts, lottery fund, and welfare fund. General Fund revenues for fiscal years 2021 through 2023 were \$19.8 million, \$14.4 million, and \$16.0 million, respectively, and \$11.9 million for fiscal year 2024 through April 30, 2024. Revenues are primarily comprised of a per diem allowance from the United States Department of Veterans Affairs (VA), payments from residents for care and maintenance, reimbursements from Medicare Part A and Part B, and co-insurances. General Fund expenditures during our audit period averaged \$31.2 million, \$23.9 million of which were payroll expenditures and excluded from our scope.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the home's operations, were reasonable, and were recorded properly in the accounting systems.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section I, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In preparation for our testing, we studied legislation, the administrative code, circulars promulgated by the Department of the Treasury, the New Jersey *Statewide Information Security Manual*, and policies of the home and the department. Provisions we considered significant were documented, and compliance with those requirements was verified by interview, observation, and through our testing of financial transactions. We reviewed financial trends and interviewed key personnel to obtain an understanding of the systems and the internal controls. In order to achieve our objectives, we performed various tests and analyses, as we determined necessary. Additional detail regarding our methodology and work performed can be found in the Appendix, as well as in the findings section when testing resulted in a reportable condition.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions on our audit objectives, as well as internal controls and compliance. Sample populations were sorted, and transactions were judgmentally and randomly selected for testing. Because we used a nonstatistical sampling approach for our tests, we cannot project the results to the respective populations.

Data Reliability

For the financial activities accounted for in the state's General Fund, we relied on data from the New Jersey Comprehensive Financial System. Our office assesses the reliability of the system's data annually, and we have determined it to be sufficiently reliable for the purposes of this report. The reliability of the home's NetSolutions System data was assessed by reconciling its data to source documents. We determined that the data was sufficiently reliable for the purposes of this report; however, we noted input errors for Medicare claims that led to incomplete data. Errors are considered acceptable when an audit team has assessed the associated risk and concluded that the errors are not substantial enough to cause a reasonable person, aware of the errors, to doubt a finding, conclusion, or recommendation supported by the data. Certain other data in our report were used to provide background information. Data that we used for this purpose was obtained from the best available sources. *Government Auditing Standards* does not require us to complete a data reliability assessment for data used for this purpose.

Conclusions

We found the financial transactions included in our testing were related to the home; however, they were not always reasonable or always recorded properly in the accounting systems. In making these determinations, we noted internal control weaknesses in several areas meriting management's attention. The employee turnover in the home's business office, lack of cross-training, and lack of documented internal policies and procedures regarding its financial operations have contributed to these weaknesses.

Certain matters were referred to the state's Division of Criminal Justice.

Background

The home is a long-term care facility that serves the state's military veterans. It is one of three such facilities operated by the New Jersey Department of Military and Veterans' Affairs, with the others located in Vineland and Paramus.

Here are some key points about the home:

- **Location and Structure:** The home is a modern skilled-care nursing facility located in Edison, New Jersey, in Middlesex County. It was rebuilt in 1999 on 109 acres of land.

- **Capacity and Design:** The home has a capacity of 312 beds. Its design includes a "Town Square" concept, with services and resident living areas organized around a central hub, creating a sense of community for the residents.
- **Eligibility:** The home is open to U.S. military veterans who were honorably discharged, their spouses, and the spouses and parents of military personnel who died in action during a time of war. A spouse, widow, or widower must be at least 50 years old and must have been married to the veteran for at least 10 years.
- **Care Services:** The home offers 24/7 skilled-care nursing, rehabilitation services, and assistance with activities of daily living.
- **COVID-19 Impact:** Like many healthcare facilities, the home was significantly affected by the COVID-19 pandemic. This led to changes in operations and safety protocols in an effort to protect residents and staff. In March 2020, the home was near capacity with an average of 298 residents. By March 2024, the home's population averaged 159 residents.

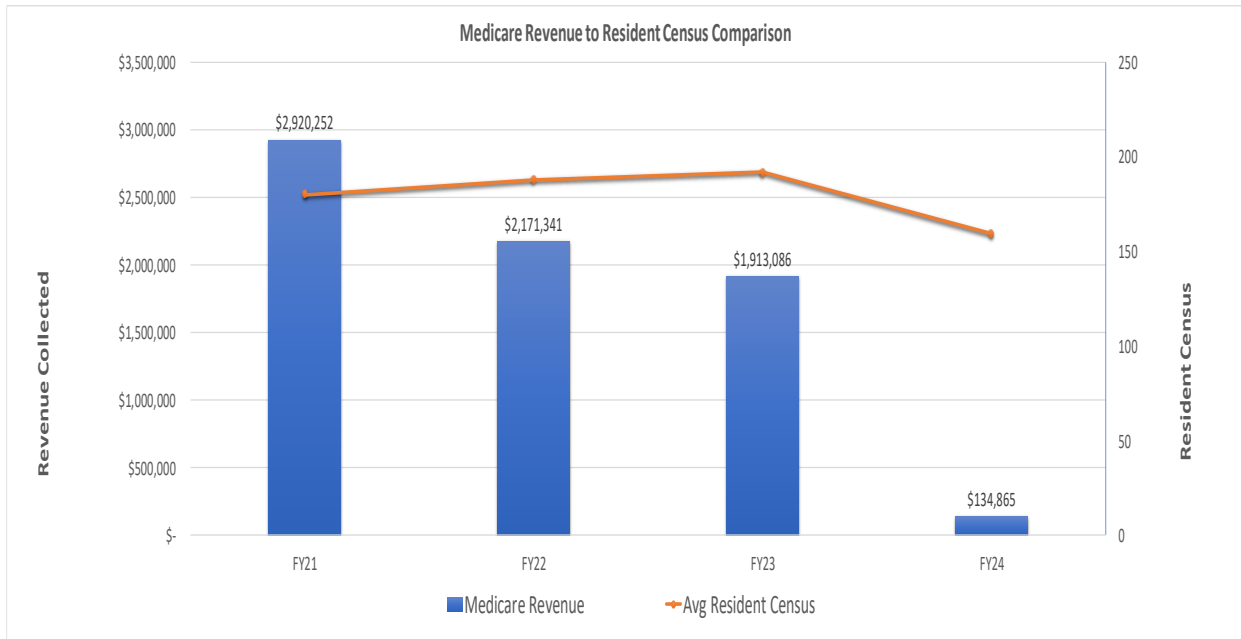
Revenue

Medicare Part A and Part B Revenue Decline

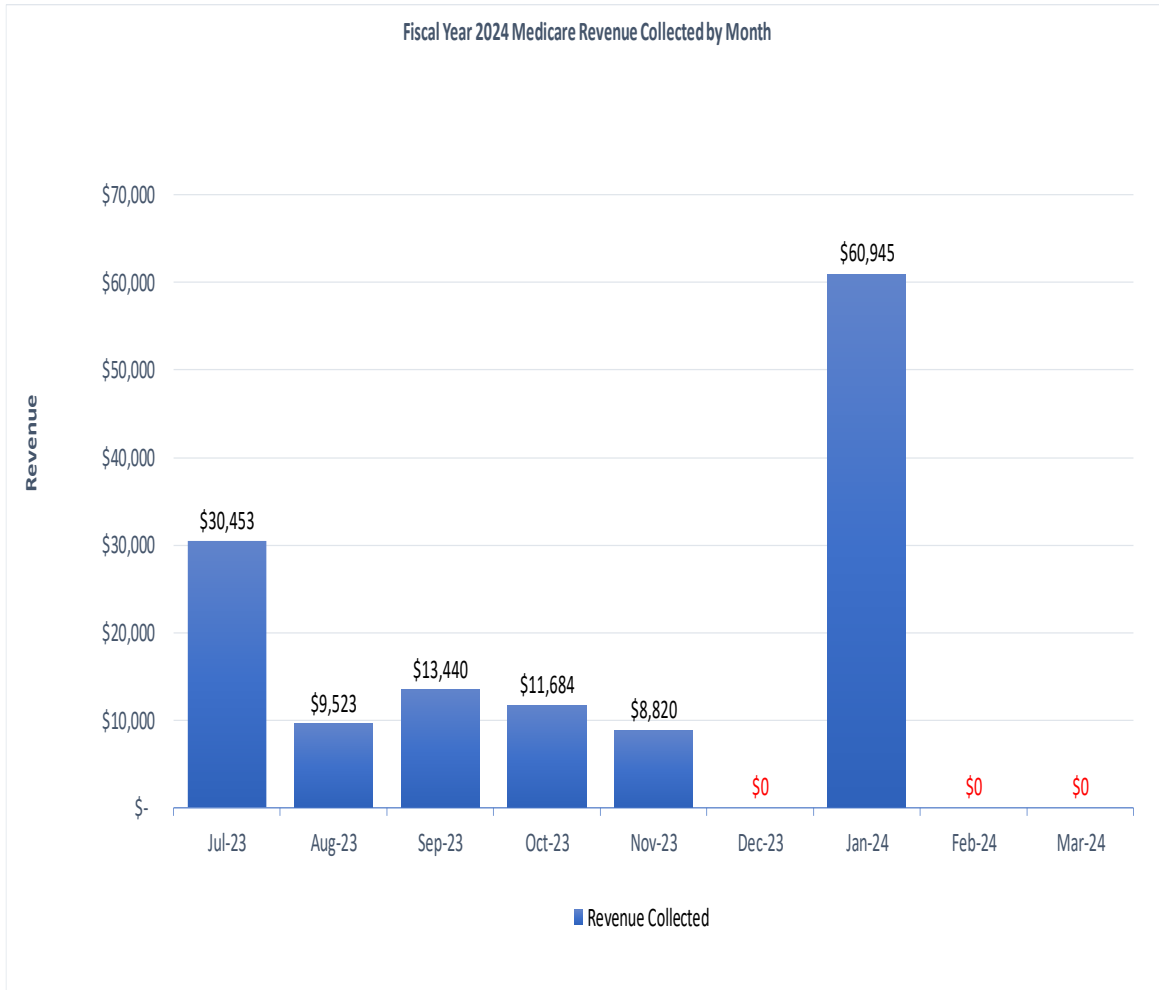
The home's management did not maximize Medicare Part A and Part B revenue and missed out on \$114,000 of additional revenue, as well as potentially another \$1.7 million if errors are not rectified by the home.

We found deficiencies in both the management and accountability of Medicare Part A and Part B revenue (Medicare revenue) claims submissions as substantiated by a drastic decrease in revenue. In fiscal year 2021, the home collected Medicare revenue of approximately \$2.9 million with an average resident count of 180. In fiscal year 2022, the home collected Medicare revenue of approximately \$2.2 million with an average resident count of 188. In fiscal year 2023, the home collected Medicare revenue of approximately \$1.9 million with an average resident count of 192.

As of March 31, 2024, the home had collected a *total* of only \$134,865 in Medicare revenue with an average resident count of 159 during fiscal year 2024. The following chart shows the decline in Medicare revenue by fiscal year along with the average census counts:



The next chart shows Medicare revenue collected per month during fiscal year 2024 through March 31st:



The home had comparable or better revenue collections than the other two veteran homes for fiscal years 2021 through 2023. However, the home had collected significantly less Medicare revenue than the other two veteran homes in fiscal year 2024 through March 31st, as shown in the following chart:

Facility	Medicare Revenue	Avg Resident Census	Avg \$ Per Resident
Menlo	\$134,865	159	\$848
Paramus	\$813,799	198	\$4,110
Vineland	\$1,452,922	215	\$6,758

In March 2023, the department transferred its Medicare billing functions to a contracted third-party vendor. The department's contract with the Medicare billing vendor requires the vendor to maintain books and records. Furthermore, federal regulation 42 CFR 425.314 requires providers to maintain records, documents, and other evidence sufficient to enable an audit, evaluation, investigation, and inspection of the quality of services performed. Additionally, federal

regulations require Medicare claims to be filed no later than 12 months after the date services were provided. Failure to submit Medicare claims within the 12-month period would result in a loss of Medicare revenue. However, the home and the vendor could not provide us with complete accounting records and logs; therefore, we were unable to determine whether all Medicare claims were submitted within the 12-month deadline.

According to Medicare reports reviewed during April 2024, the home submitted 735 Medicare revenue claims amounting to approximately \$1.855 million from July 2023 to December 2023. Upon further review, we discovered the home lost \$114,000 in claims to be paid by Medicare because the home missed the filing submission deadlines. In addition, Medicare is withholding funds of \$621,000 in claims because the home failed to submit the required CMS-838 quarterly reports, which are used to monitor identification and recovery of credit balances owed to Medicare. All or a portion of the withheld funds will be released upon the submission of the quarterly reports. After we brought this to the home's attention, it started submitting the quarterly reports. Of the remaining claims, approximately \$1.12 million contain various errors or have been rejected by Medicare that need to be corrected by the home in order to receive payment.

Overall, there were multiple reasons for the significant decline of Medicare revenue in fiscal year 2024:

- There was a decrease in the resident census that contributed to the revenue decline.
- The combination of no written policies and procedures and a lack of cross-training of business office employees on the proper submission of Medicare claims resulted in no Medicare claims submissions after the employee(s) responsible for submitting claims left state service in December 2023.
- The home experienced turnover among key employees in its business office, especially related to billing functions for Medicare revenue.
- The home and vendor did not maintain completed and updated logs for Medicare billing claims submitted.
- The third-party vendor dedicated only one employee, who lacked experience in the home's process of Medicare claim submissions, resulting in a high error rate of claims submitted.
- The department and the home's management did not adequately monitor claim submissions and did not question the significant drop in Medicare revenue.

Recommendation

We recommend the home continue to address Medicare claims for which payment is being withheld by Medicare for various errors or rejections. We also recommend the home strengthen

internal controls over Medicare billing to ensure the timely processing and submission of Medicare claims. This should include establishing formal policies and detailed procedures for Medicare billing.



Delinquent Debt Accounts

In addition to per diem allowances from the VA and Medicare claims collections, operating expenses of the home are offset through the collection of care and maintenance (C&M) from the residents. Care and maintenance amounts are based on a resident's "ability to pay" taking into consideration funds the resident derives from pensions, social security, or other spend-down assets, with a maximum monthly amount established by the department.

Generally, the family serves as the resident's representative payee, and they are responsible for remitting C&M payments to the home. The administrative code provides that delinquent C&M payment is grounds for involuntary discharge from the facility; however, in practice the home does not take such measures.

Nearly \$1 million in delinquent accounts receivable are not being pursued for collection.

Department of the Treasury Circular No. 13-11-OMB and Department of Military and Veterans' Affairs (department) Internal Policy 44-02-013 establishes that accounts remaining delinquent for 90 days must be transferred to the New Jersey Department of the Treasury, Division of Revenue and Enterprise Services (DORES) for further collection proceedings. N.J.A.C. 5A: 5-5.1 general requirements also establishes that accounts that become delinquent are referred to the Department of the Treasury for lien application proceedings. In addition, the department requires the home's management to maintain records for tracking delinquent accounts. However, the home's management failed to maintain records of member delinquent accounts. After we informed the home, it began maintaining records for delinquent member accounts.

As of May 2, 2023, there was a total of 231 delinquent member accounts amounting to approximately \$948,000 in the home's NetSolutions System (NTT). Those accounts have discharge dates as far back as June 2015. Our review of all delinquent member accounts noted the following:

- There were 196 delinquent member accounts (85 percent) totaling approximately \$778,000 that had been delinquent for more than 90 days but were never sent to the DORES for further collection. The last time a delinquent debt was transferred to the DORES was February 2021.
- Among the 20 highest delinquent member accounts, we found five residents (25 percent) did not have a property lien placed by the home and appeared to still own a property. The delinquent debt accounts for the five residents totaled approximately \$100,000. It is

imperative for the home's management to promptly submit a lien application on these properties.

Recommendation

We recommend the home maintain records of delinquent accounts and transfer delinquent debts after 90 days to the DORES for further collection proceedings.



Lottery Fund

The home's lack of adequate internal controls resulted in \$42,000 of cash missing from the lottery fund.

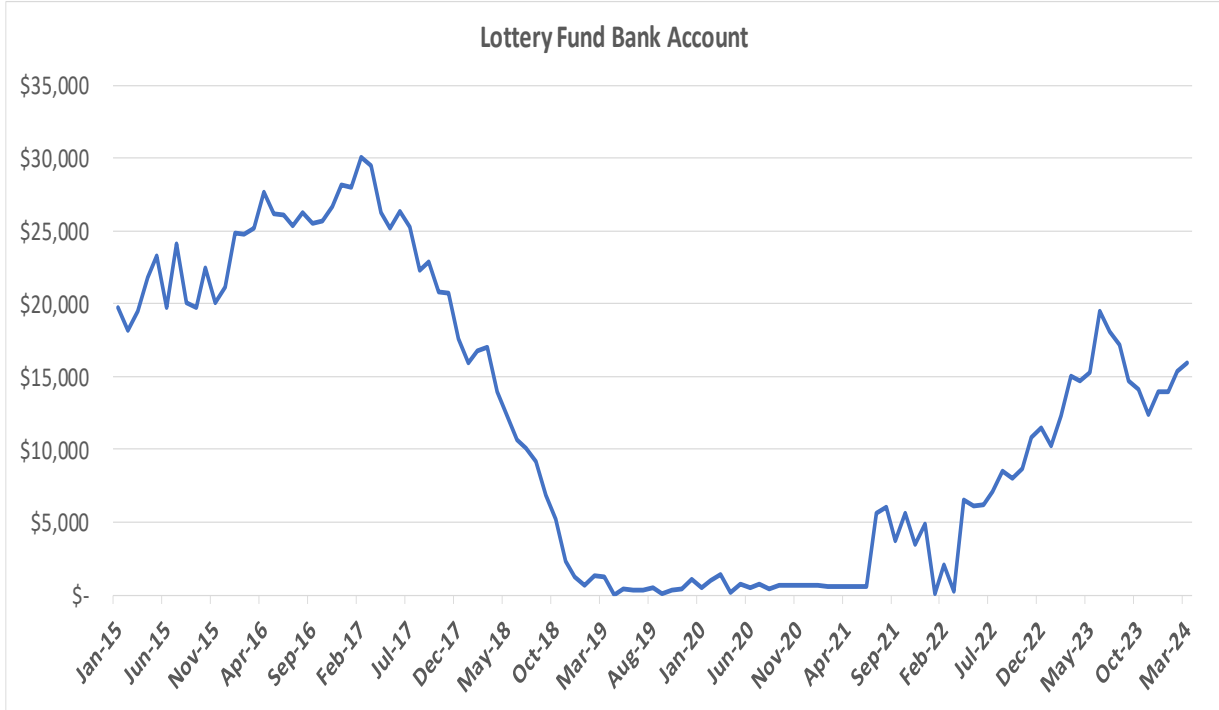
The home maintains a lottery fund comprised of ticket sales of a state lottery commission scratch-off vending machine located within the facility and available to residents, staff, and visitors. At the end of each business day, cash from the vending machine is removed and deposited into either the lottery fund or the lottery cash register to redeem winning tickets. The home receives a 5 percent commission on settled tickets and an additional 1.25 percent commission for any redeemed winning tickets. The home's residents can redeem winning tickets for cash at the home. As illustrated in the following chart, during calendar year 2022, the home has experienced more lottery activity compared to the other two veteran homes.

Home	Winning Tickets Cashed	Ticket Sales
Menlo Park	\$71,852	\$156,200
Vineland	\$62,540	\$98,966
Paramus	\$11,182	\$24,000

Our audit noted the home advanced approximately \$6,600 from the welfare fund to the lottery fund between July 2020 and July 2021 in order to cover a cash deficit. This unusual activity prompted our audit team to review lottery fund activity prior to our audit scope period. Based on this review, we discovered approximately \$42,000 in missing funds from February 2017 through March 2019. This \$42,000 discrepancy consists of a substantial cash balance decrease of approximately \$30,000 and approximately \$12,000 in missing commissions earned during the same period. The home's management was unable to provide a reason for the unexpected decrease in the lottery fund.

We observed that the home lacks internal controls and updated written policies that require staff to perform a daily reconciliation of the machine's local shift report to the cash sales removed from the machine. The local shift report is a report generated from the lottery scratch-off vending machine to reflect all ticket sales and cash removed. Daily reconciliations could have prevented or detected those missing funds. After we brought this issue to the home's attention in October 2022, the home began reconciling lottery funds daily. The following chart illustrates the

beginning cash balance for each month in the home's lottery fund bank account from January 2015 to March 2024.



When the lottery fund is effectively managed and in good standing, the home has the capability to transfer lottery commissions (profits) to the welfare fund to support resident activities. We observed that another of the state's veterans homes has established internal controls and procedures that include the use of the local shift report, daily cash reconciliations, and proper cash handling. This other state home was able to transfer \$35,000 of lottery profits to its welfare fund in May 2017. In contrast, between February 2017 and March 2019, Menlo Park failed to transfer earned lottery profits received totaling approximately \$12,000 into the welfare fund. The missing reconciliation process and poor monitoring increased the risk and opportunity for lottery proceeds to be lost.

After notifying the department's management of the missing lottery funds, the department hired a CPA firm to audit the funds.

Recommendation

We recommend the home update its written policies and procedures to strengthen controls over the lottery fund, including reconciling the machine local shift report daily to the cash drawn from the lottery machine.



Town Square Furniture

The Town Square, centrally located within the home, is used by the residents for lounging, family visits, recreational activities, and entertainment purposes. This area features a variety of furniture items, including couches, lounge chairs, dining tables, coffee tables, and end tables.

Our review of Town Square furniture purchases revealed deficiencies in purchasing procedures and the safeguarding of these fixed assets prior to our audit scope period. In fiscal year 2020, the management of the home purchased new furniture for the Town Square using state-appropriated funds and welfare funds. Because of the level of risk associated with these purchases, we decided to extend our review of the state-appropriated funds and welfare funds prior to our audit scope period. These furniture purchases were made before March 2022, when the department developed a plan for a realignment process to increase oversight in the business office regarding the use of state and offline funds.

Noncompliance with Bidding Requirements

The home purchased more than \$77,000 of furniture without obtaining required quotes, including a \$10,000 shipping fee.

Department of the Treasury Circular No. 21-02-DPP requires at least three telephone quotes to be obtained for all transactions over \$1,000 and up to \$17,500 and three written quotes for purchases greater than \$17,500 and less than \$44,000. These thresholds are established to provide competition and help ensure the state obtains the lowest cost. In addition, the home's Welfare Fund Policy states that "all items to be purchased with the use of an approved welfare fund are to be handled exactly as though they were state funds." The Welfare Fund Manual also states that welfare fund transactions over \$6,500 must be designated as a "special project" requiring additional approval from the department. Furthermore, the Welfare Fund Policy states that purchased items must be approved by the Veterans Advisory Council for amounts over \$500.

During fiscal year 2020, the home acquired 89 items of furniture costing \$77,810 for the Town Square from a single vendor. State-appropriated funds were used for 54 items totaling \$47,420, and welfare funds were used for 35 items totaling \$30,390. Payments to the vendor were issued via checks made out to both the individual's name and the company. These purchases are questionable because the home bought the furniture from a florist vendor from whom it routinely purchased flower arrangements and other services. In addition, our review of the furniture purchases noted the following:

- The purchase was split over 14 separate purchase orders.
- One purchase order included a questionable \$10,000 shipping fee.

- 11 state-appropriated and welfare fund purchase orders for 75 furniture items totaling approximately \$60,000 did not obtain the required minimum of three quotes.
- Two welfare fund purchase orders for three furniture items totaling approximately \$6,000 were not approved by Veterans Advisory Council as required.

By splitting these purchases and not obtaining the required competitive quotes, the home circumvented the state circular and department policy. Had the welfare fund purchases been done properly, the home would have needed the department's approval prior to purchase.

Missing Furniture

The home could not locate more than \$17,000 of furniture or prove it was ever received.

Department of the Treasury Circular No. 19-12-OMB requires both tangible and intangible assets with an original cost of \$250 or more and an expected useful life of greater than one year to be recorded in the unified statewide inventory system called AssetCloud. It also requires all state agencies to manage inventory of property owned by or the responsibility of the agency. The circular provides the minimum requirements for subsidiary records, including the location of the asset and the organization/division unit and employee charged with its custody.

During our walkthrough of the home, the home's management was uncertain about the precise location of the 89 furniture items previously mentioned. After multiple walkthroughs and discussions with the home's management, our review of the purchased furniture items noted the following:

- Of the 89 purchased furniture items, we noted 30 items (34 percent) totaling \$17,400 could not be located or accounted for. The home's management stated the items could be broken, missing, or never received but could not provide supporting evidence for any of these claims.
- Of the 87 furniture items with an original cost of \$250 or more, we noted 64 items (74 percent) totaling \$40,990 were untagged and not properly recorded in AssetCloud.

Overall, the home lacks an updated internal policy for staff to adhere to regarding purchasing and receiving. The home approved payments for the furniture purchases without obtaining any evidence that the furniture items were actually received, such as a receiving report or vendor's packing slip. Furthermore, there were no concerns or questions raised by either the home or the department when the original purchase order was later amended to include an additional \$10,000 unjustified shipping charge.

Recommendation

We recommend the home comply with Department of the Treasury circular requirements by following proper bidding procedures and by recording assets in the AssetCloud inventory system as required. In addition, we recommend the home abide by the home's Welfare Fund Manual and Welfare Fund Policy regarding proper approvals and purchases for the welfare fund. We further recommend the home establish written policies and procedures for the receipt of purchased fixed assets.



Welfare Fund

The home did not always comply with applicable policies and procedures for welfare fund purchases.

Based on the previous findings regarding the Town Square furniture purchases, we expanded our testing of welfare fund purchases to include periods prior to our audit scope. During calendar years 2020 and 2021, the welfare fund had a total of 461 purchases by check amounting to approximately \$258,000. These welfare purchases ranged in value from approximately \$12 to \$15,000. We judgmentally selected a sample of 50 welfare fund purchases totaling approximately \$82,000 for testing based on dollar amounts and purchases unique to the fund. Using the department's internal manual and policy guidelines as a basis, our testing identified the following weaknesses in internal controls:

- All items to be purchased using approved welfare funds must be treated as if they were state funds and adhere to state purchasing circular guidelines. Of the 14 applicable purchases meeting the \$1,000 threshold, we found 12 purchases (86 percent) totaling approximately \$53,000 did not have the required telephone quotes or all required forms for items such as televisions, a sensory system, fleece jackets for residents, etc.
- A Welfare Fund Purchase Form must be completed for all equipment and/or service purchases from the welfare fund. Of the 50 purchases tested, we found 17 (34 percent) totaling approximately \$18,000 did not have the required form.
- A welfare fund purchase must have receipts or invoices attached as support. Without proper receipts or invoices, we cannot verify whether the resident trips occurred or if the home's staff was reimbursed the correct amount. Of the 36 applicable purchases tested, we found 7 purchases (19 percent) totaling approximately \$7,000 that did not have receipts or invoices attached. For example, there were four purchases reimbursed to the home's employees ranging from \$400 to \$500 for resident trips to a restaurant with no receipts attached to support the reimbursement.

- Approval of the Veterans Advisory Council is required for welfare fund purchases over \$500. Of the 37 applicable purchases tested, we found 29 (78 percent) totaling approximately \$36,000 did not have the required approvals.
- An Annual Financial Report must be produced each year for welfare fund purchases. This report is used for budgeting and to summarize revenue, expenditures, and changes in the welfare fund. The home did not produce the report in 2020, 2021, and 2022; therefore, none of the 50 purchases we tested totaling approximately \$82,000 were recorded in an annual financial report as required. After we brought this to the home's attention, the report was produced for calendar year 2023.
- Items over \$6,500 are treated as a "special project" and require three quotes or bids and a special project request form approved by the department. Three of the 50 purchases we tested, totaling approximately \$30,000, were special projects. However, none had the required form or the three required quotes or bids.

Furthermore, Department of the Treasury Circular No. 10-19-OMB requires offline funds to undergo an audit every four years if annual disbursements are less than \$250,000. The last required independent audit was conducted for the fiscal year ended 2018. Upon our notification that the home had exceeded the four-year requirement, the home's management initiated the process for the next required welfare fund audit.

Recommendation

We recommend the home adhere to the department's manual and policy with regard to welfare purchases. We also recommend the adhere to circular requirements by performing timely audits.



Bank Reconciliations

Failure to reconcile offline accounts makes them susceptible to fraudulent activity.

Department of the Treasury Circular No. 10-19-OMB requires each agency to maintain adequate internal controls for each offline fund, including accounting records. However, the home has not performed bank reconciliations for the offline accounts (funds) on a monthly basis, with the majority not being reconciled for over two years. These reconciliations are essential internal controls for the home's management to detect improprieties. The chart on the next page illustrates the last bank reconciliations performed by the home's management for each offline account as of March 2024:

Name of Offline Account	Account Description	Last Bank Reconciliation Date	Bank Balance as of 3/31/24
Member	The account for each resident's personal monies.	9/30/2021	\$200,000
Welfare	The account used as a trust maintained by the home's Facility Advisory Council for the benefit and general welfare of the resident population.	9/30/2021	\$18,675
Lottery	The account used for sales from the scratch-off vending machine and sales of lottery tickets operated by the state's lottery commission.	8/31/2021	\$14,663
Posthumous	The account used for prepaid funeral costs from discharged residents' accounts that become dormant.	8/31/2021	\$1,022
Commissary	The account is used to purchase items for the gift shop.	8/31/2021	\$169
Zero-Balance Account	The account used to provide Medicare claim payments that are transferred directly to this account and subsequently transferred to the state's General Fund.	N/A	\$0

Of all the offline accounts, the home's member and welfare fund accounts have the highest account balances. Because of a lack of bank reconciliations performed by the home, we performed our own review for the welfare and member accounts and noted the following as of March 2024:

- For the welfare account, 759 checks paid totaling approximately \$335,000 and 143 deposits totaling approximately \$338,000 have not undergone monthly reconciliations for over two years. During our testing, we were able to confirm all 754 checks paid on the bank statements were entered into the home's check register for the welfare account. We identified four checks totaling approximately \$1,600 cleared properly by the bank that were not recorded in the home's check register for the welfare fund. Additionally, one check totaling approximately \$230 was erroneously marked as voided in the home's check register even though it had cleared. Furthermore, there were seven other discrepancies totaling \$9,100. Of these seven discrepancies, some deposits to the welfare fund were recorded in the bank statements but not the home's check register.
- For the member accounts, 533 checks paid totaling approximately \$9.2 million and 272 deposits totaling approximately \$9.5 million have not undergone monthly reconciliations for over two years. We were able to confirm all 533 checks paid in the bank statement were entered into the home's check register for the member accounts. However, there were 27 discrepancies totaling approximately \$424,000 where the bank statement deposits did not equal the amounts in the home's check register. We determined that, in most cases, these discrepancies were caused by electronic deposits recorded in the member accounts bank statements but not the home's check register. In other cases, the home entered deposits incorrectly into the check register.

We first notified the home's management of this issue in August 2022; however, the reconciliations were still not being done as of March 2024. The home's management could rectify these errors by implementing monthly reconciliation practices.

Recommendation

We recommend the home perform timely reconciliations each month for the offline accounts.



NJSTART Purchasing

The home split orders to circumvent bidding requirements.

Department of the Treasury Circulars No. 22-04-DPP and 23-09-DPP establish thresholds to provide competition and ensure the state obtains the lowest cost. Purchases should not be divided by vendor, dollar amount, or items to circumvent the dollar limits imposed by the circular. During fiscal years 2021 through 2024 (as of August 2, 2023), there were 6,719 payment vouchers totaling \$11.8 million applied against New Jersey State of the Art Requisition Technology (NJSTART) purchase orders.

We noted 75 instances (240 payment vouchers) where the home processed multiple purchase orders on the same day for the same amount. Of the 75 instances, we noted 17 exceptions (40 payment vouchers) totaling approximately \$37,000 where the purchase orders were divided to circumvent the DPA threshold requiring bids for goods and services. In one example, instead of creating a single purchase order, the home split the intended purchase by paying the vendor \$999.95 on four different purchase orders for the same item on the same day, circumventing the \$1,000 bidding threshold requirement. The practice of circumventing bidding requirements over purchasing was also disclosed in our previous audit report, dated December 3, 2013.

Recommendation

We recommend the home review and strengthen internal controls over the procurement process to ensure adherence with procurement circulars.



Liability

Dormant Member Accounts

Dormant member accounts totaling \$255,000 need to be disbursed to families or transferred to the welfare fund.

Department Policy 44-02-010 *Unclaimed Property at Death by Escheat* states that after a three-year period, if no one comes forth to claim legal right to ownership or proves to be a legal heir, such funds, assets, etc. will be transferred from the posthumous account to the welfare fund and become the property of the home to be used as deemed appropriate. However, the management lacks formal written procedures for staff to follow.

As of April 2023, our review identified 257 member accounts totaling approximately \$400,000 that have been dormant for more than 180 days in the NTT system. These accounts belong to residents who have been discharged (either deceased or left the home's facility) and are due refunds from a credit balance in their member accounts. The highest dormant account amounted to approximately \$48,000, with no activity in the NTT system for over three years since the resident's discharge date. Of the 257 dormant accounts, we tested all 112 accounts with balances exceeding \$500 and noted the following:

- We found 82 dormant accounts, totaling approximately \$255,000, are still present in the home's NTT system and have not been returned to the resident or resident's family or transferred to an interest-bearing account. One of those accounts has been dormant for more than eight years with no follow up.
- We found five dormant accounts, totaling approximately \$52,000, were transferred to the welfare account but not properly closed out. As a result, those accounts were overstated in the home's NTT system.
- We found 25 dormant accounts, totaling approximately \$75,000, were sent to the resident's family but not properly closed out. As a result, those accounts were overstated in the home's NTT system. This poses a risk because without proper updates to the NTT records, there is a possibility of duplicate checks being sent to the family or improper payment.

As of April 2024, after we notified the home about the dormant accounts, the home's management transferred approximately \$101,000 from the member accounts in NTT to the welfare account.

Recommendation

We recommend the home abide by the department's policy regarding the proper handling of

dormant member accounts. We also recommend the home establish official written procedures on how to handle those accounts.



Information Technology

Logical Security – Separated Employees

Former employees retained system access after their separation dates.

The New Jersey *Statewide Information Security Manual (SISM)* states: “to maintain effective controls over user access to information assets, agencies shall implement a formal process to review user access at least every six (6) months”. This review should specifically identify and remove active user-IDs that are no longer needed and those assigned to terminated users with active access. Unauthorized access to systems could lead to data leaks, system breaches, and possible business interruptions. The home does not have written policies and procedures for user access addressing those *SISM* requirements. The lack of formal internal policies and procedures weakens the internal control environment throughout the organization.

We tested all 152 network active users from the home’s full employee access list as of August 10, 2023. Of those 152 users, 12 were found to have been separated from employment but still retained system access. After we notified the home’s management, the 12 separated employees were promptly removed from the home’s employee access list. No further access to the system was detected after their separation dates.

Recommendation

We recommend the home develop and implement written policies and procedures for access removal. Employee access should be removed upon termination.



Appendix

Methodologies to Achieve Audit Objectives

To determine if proper segregation of duties existed within MACSe transactions, we performed a test on all 9,677 MACSe purchasing transactions from July 1, 2020 through August 2, 2023 totaling \$8.3 million.

To determine if expenditures were properly recorded in the accounting systems, mathematically correct, adequately supported, reasonable, and related to the home, we randomly sampled 30 expenditure transactions for testing totaling \$96,000 from 12,859 transactions totaling \$25.2 million.

To determine whether the home complied with circulars promulgated by the Department of the Treasury and internal policies regarding purchasing card usage, we sampled 30 purchasing card transactions totaling \$133,000 from a population of 937 transactions totaling \$305,000 from July 2020 through October 2023.

To determine if all resident personal trust accounts were transferred to family or member accounts after three years from when the resident was discharged, we reviewed all 21 personal trust accounts for discharged residents with amounts exceeding \$10 from the 76 personal trust accounts as of July 5, 2023.

To test for related party transactions, we compared a sample of employee addresses to vendor addresses.





State of New Jersey
DEPARTMENT OF MILITARY AND VETERANS AFFAIRS
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Governor
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TAHESHA L. WAY
Lieutenant Governor

YVONNE L. MAYS
Colonel
Acting Adjutant General

21 October 2024

Mr. David J. Kaschak
State Auditor
125 South Warren Street
P.O. Box 067
Trenton, NJ 08625

Dear Mr. Kaschak:

The New Jersey Department of Military and Veterans Affairs (DMAVA) is in receipt of the Office of the State Auditor's (OSA's) draft audit report titled, "Department of Military and Veterans Affairs New Jersey Veterans Memorial Home at Menlo Park."

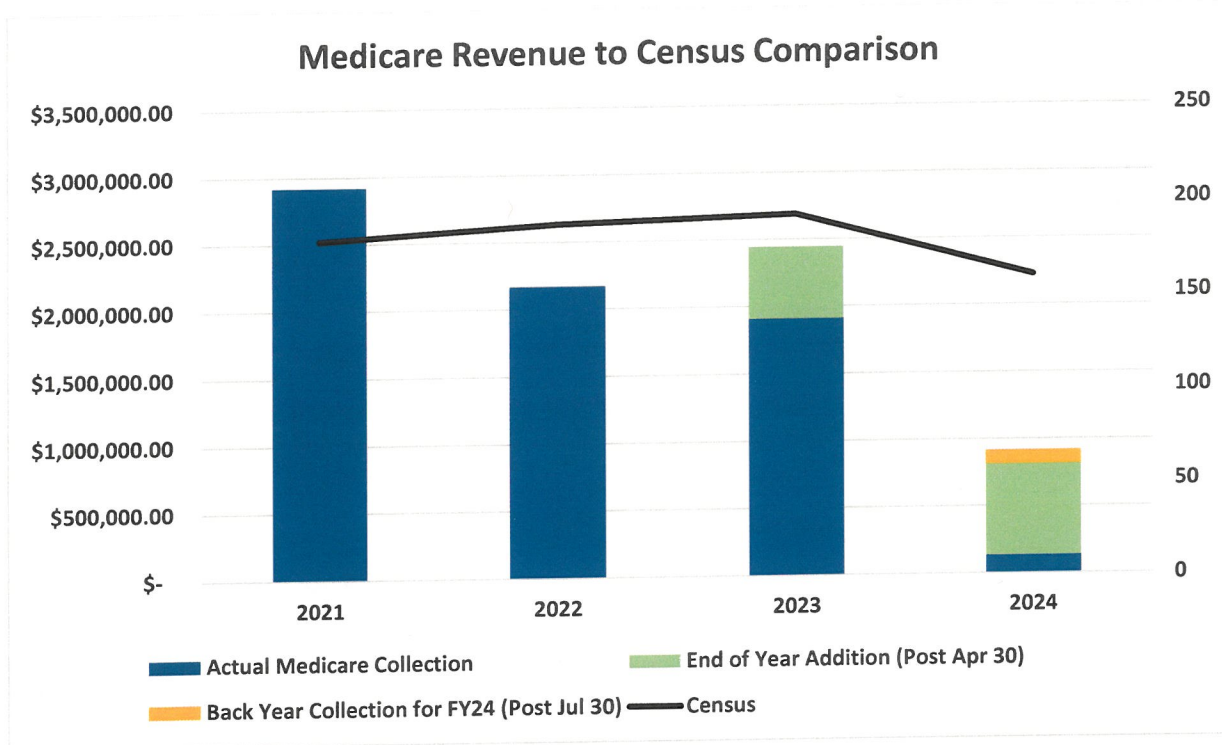
My team and I appreciate OSA's review and thank you for the opportunity to comment on the draft audit report. We would also like to commend your staff for their courtesy, professionalism, and constructive feedback.

Below please find DMAVA's responses to the draft report's recommendations:

OSA Recommendation 1: "We recommend the home continue to address Medicare claims for which payment is being withheld by Medicare for various errors and rejections."

Response: The informal findings of the auditors – communicated in real time to DMAVA leadership – enabled Menlo Park to move aggressively to correct the problem with Medicare claims revenue. Additionally, and worth noting, the FY21 Medicare revenue figures were higher due to the COVID-19 pandemic. In March of 2020, the Centers for Medicare and Medicaid Services issued a waiver that altered the Medicare A requirements, which subsequently increased Medicare A utilization and treatment days.

DMAVA acknowledges there was a decline between FY23 and FY24 billing. When the third-party vendor relationship failed to produce the intended receipts, DMAVA terminated the contract and utilized internal employees to aggressively clear through the backlog of Medicare claims. As a result, over \$1.4 million in claims have been successfully processed and received by DMAVA. These recuperated funds are indicated in the chart below:



OSA Recommendation 1 continued: “We also recommend the home strengthen internal controls over Medicare billing to ensure the timely processing and submission of Medicare claims. This should include establishing formal policies and detailed procedures for Medicare billing.”

Response: DMAVA is currently working on strengthening Medicare billing internal controls as recommended. As part of the recent progress made in revenue collections, DMAVA implemented new, multidisciplinary “triple check” internal controls to review Medicare claims for accuracy, compliance, and proper billing. In addition, DMAVA promoted a new Menlo Park Business Manager to improve operations, added additional staff to process claims, and the Fiscal and Administrative Services Division conducted education for all employees responsible for Medicare billing. This training included procedures and best practices. A formal, facility-level standard operating procedure has also been developed.

OSA Recommendation 2: “We recommend the home maintain records of delinquent accounts and transfer delinquent debts after 90 days to the DORES for further collection proceedings.”

Response: DMAVA acknowledges this recommendation. As noted, DMAVA is currently maintaining records for delinquent member accounts and will continue to take steps to ensure proper maintenance of these accounts.

OSA Recommendation 3: “We recommend the home update its written policies and procedures to strengthen controls over the lottery fund, including reconciling the machine local shift report daily to the cash drawn from the lottery machine.”

Response: DMAVA has been actively strengthening its internal controls over the lottery fund. Upon receipt of the informal findings of the auditors (communicated in real time to DMAVA leadership), DMAVA updated its written policies and procedures in order to strengthen internal

controls. These include daily reconciliations of machine local shift reports with the cash withdrawn from the lottery machine.

OSA Recommendation 4: “We recommend the home comply with treasury [sic] circular requirements by following proper bidding procedures and by recording assets in the AssetCloud inventory system as required. In addition, we recommend the home abide by the home’s Welfare Fund Manual and Welfare Fund Policy regarding proper approvals and purchases for the welfare fund. We further recommend the home establish written policies and procedures for the receipt of purchased fixed assets.”

Response: DMAVA has already taken steps to implement the measures outlined in this recommendation. All Menlo Park furniture has been tagged and properly recorded in AssetCloud. In FY21, Menlo Park business functions (e.g., purchasing, procurement) were transferred from facility level management to DMAVA’s Fiscal and Administrative Services Division to ensure increased oversight and compliance. In addition, a dedicated procurement analyst was hired to ensure future purchases comply with relevant regulatory requirements and proper bidding procedures. The Fiscal and Administrative Services Division conducted education for all employees responsible for procurement on established departmental policies as well as new written facility level procedures for the receipt of purchased fixed assets.

OSA Recommendation 5: “We recommend the home adhere to the department’s manual and policy with regard to welfare purchases and we also recommend they adhere to circular requirements by performing timely audits.”

Response: DMAVA has already taken steps to implement this recommendation. The most recent annual financial report is complete. Audits of offline funds in accordance with Department of Treasury Circular No. 10-19-OMB are complete. In addition, the Fiscal and Administrative Services Division conducted education for employees who make welfare fund purchases.

OSA Recommendation 6: “We recommend the home perform timely reconciliations each month for the offline accounts.”

Response: Upon receipt of this draft audit report, DMAVA completed the bank reconciliations of offline accounts.

OSA Recommendation 7: “We recommend the home review and strengthen internal controls over the procurement process to ensure adherence with procurement circulars.”

Response: Upon receipt of the draft audit report, the Fiscal and Administrative Services Division conducted education for all employees responsible for procurement regulations and established departmental policies.

OSA Recommendation 8: “We recommend the home abide by the department’s policy regarding the proper handling of dormant member accounts. We also recommend the home establish official written procedures on how to handle these accounts.”

Response: DMAVA has already implemented measures included in this recommendation. The member accounts totaling approximately \$400,000 identified in the draft audit report have been transferred to the appropriate account (either the posthumous or welfare fund, depending on how

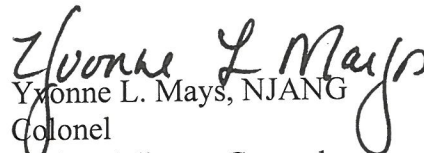
long each is dormant). The Fiscal and Administrative Services Division also disseminated and conducted education on written procedures for the disposition of dormant accounts.

OSA Recommendation 9: “We recommend the home develop and implement written policies and procedures for access removal. Employee access should be removed upon termination.”

Response: DMAVA has already taken steps to implement this recommendation. The Human Resources Division and the Information Services Division are working to establish a formal “off boarding” process to identify and action all employee separations (e.g., termination, retirement, resignation, transfer).

Thank you again for the opportunity to review and comment on the draft audit report. Should you require additional information or clarification, my team and I stand ready to support. Please do not hesitate to contact me.

Very respectfully,


Yvonne L. Mays, NJANG
Colonel
Acting Adjutant General