



**New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor**

**Department of Military and Veterans' Affairs
New Jersey Veterans Memorial Home at Paramus**

July 1, 2009 to May 31, 2012

**Stephen M. Eells
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 Paramus for the period of July 1, 2009 to May 31, 2012. If you would like a personal briefing, please call me at (609) 847-3470.

A handwritten signature in black ink that reads "Stephen M. Eells".

Stephen M. Eells
State Auditor
July 24, 2013

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Scope

We have completed an audit of the Department of Military and Veterans' Affairs, New Jersey Veterans Memorial Home at Paramus for the period July 1, 2009 to May 31, 2012. Our audit included financial activities accounted for in the state's General Fund and the home's non-appropriated accounts.

The prime responsibility of the home is to provide nursing care for New Jersey veterans and their spouses with chronic disabilities. As of May 31, 2012, the home had 324 residents including 49 spouses or parents of a veteran. Annual general fund revenues and expenditures averaged \$18.6 and \$34.2 million, respectively. Revenues are primarily comprised of a per diem allowance from the United States Department of Veterans Affairs, billings to residents for care and maintenance, reimbursements from Medicare Part A and Part B, and co-insurances.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the home's programs, 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

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, the administrative code, circular letters promulgated by the Department of the Treasury, and policies of the Department of Military and Veterans' Affairs and the home. Provisions we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our testing of financial transactions. We also read the budget messages, reviewed financial trends, and interviewed home personnel to obtain an understanding of the programs and the internal controls.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions, as well as internal control and compliance attributes. Sample populations were sorted and transactions were judgmentally selected for testing.

Conclusions

We found the financial transactions included in our testing were related to the home's programs, were reasonable, and were properly recorded in the accounting systems. In making these determinations we noted opportunities for revenue enhancement and internal control and compliance weaknesses meriting management's attention.

Revenues

Revenues could be enhanced to reduce reliance on appropriations.

New Jersey Administrative Code (NJAC) 5A requires residents to pay for care and maintenance costs based on their monthly income and ability to pay. The daily amount charged for care and maintenance may not exceed the rate established annually by the Adjutant General of the New Jersey Department of Military and Veterans' Affairs. The home can recover a portion of the cost of care for veteran residents through a per diem amount reimbursed by the United States Department of Veterans Affairs. Residents with accountable assets over an established threshold of \$20,000 (single) or \$80,000 (married) must pay the full, unreimbursed amount of care and maintenance. Accountable assets exclude the value of the resident's primary home. There is a three-year look back period prior to admittance and subsequent annual asset evaluations. The ability to pay concept considers the resident's income after allowable expenses, including those incurred by a community spouse. The home charges 80 percent of the remaining income up to the established rate.

We noted the following areas where revenue could be enhanced.

Delinquent Accounts

The home's delinquent accounts receivable as of April 30, 2012 totaled \$1.3 million. Our review disclosed ten of the top twenty receivables, totaling over \$350,000, were for current residents. While the NJAC states this as grounds for involuntary discharge from the home, as a practical measure the home would not subject their veteran clients to such treatment. The home does remit a list of delinquent accounts to the Department of the Treasury's Division of Revenue and Enterprise Services (DORES) as required by Circular Letter 11-20-OMB (superseded by 13-11-OMB) for further collection measures. We found that the primary reason for delinquent account balances is the failure of the responsible parties to honor their obligations.

The primary source of income for the home's residents is Social Security benefits. The Social Security Act allows for payment of an individual's monthly benefit to be sent directly to the qualified individual or to another person/organization as representative payee. The main responsibility of the representative payee is to use the benefits to pay for the current and foreseeable needs of the beneficiary. If the beneficiary lives in an institution, the payee should allot benefits for the institution's customary charges. A payee cannot use the funds for their personal expenses and misuse of benefits by the payee could require repayment of funds, or result in fines and or imprisonment. At admission, the home relies on the representations of the responsible parties that they will provide the calculated care and maintenance from the resident's funds. The home can apply to become the representative payee, but by the time they can take that action the resident's account is several months delinquent.

The prevailing administrative code does not provide the home with any authority to require the incoming resident, particularly those without a community spouse, to name the home as representative payee as a condition of admission.

Aid and Attendance Improved Pensions

The United States Department of Veterans Affairs provides that any veteran with war time service is eligible to apply for an Aid and Attendance Improved Pension. The individual must apply and qualify both medically and financially. Our review disclosed 74 residents not receiving this benefit were potentially eligible. If these residents received the maximum benefit, facility revenues could increase over \$1.2 million annually. In addition, each of those residents could potentially receive an additional \$340 per month for their personal needs. We noted a lack of communication between Resident Accounts and Social Services to identify any changes which would impact eligibility, such as a change in marital status or the exhaustion of excess assets. Additionally, many residents (or their families) are not cooperating with the home in the application process. As part of the home's application agreement, the applicant or their responsible party agrees to allow the home to apply for all benefits to which the resident is entitled.

Health Insurance Receivables

Residents requiring skilled nursing care, physician visits, or therapy (occupational, speech, or physical) have a portion of related expenses paid through the Medicare Part A or Part B plan. The facility requires all residents to maintain a supplemental insurance policy to cover the unreimbursed portion of these expenses. In the absence of such a policy the resident assumes the responsibility for the cost. Premiums associated for these types of policies are fully deductible prior to resident fee calculations. Between May 2010 and February 2012 there were over \$77,000 of Part B coinsurance claims "written-off" by the home's business office. These receivables were not included as part of the amounts remitted to the Department of the Treasury's DORES as required by Circular Letter 11-20-OMB (superseded by 13-11-OMB). In addition, these were not communicated to Resident Accounts to determine if the resident had funds on account and to ensure that the resident has not been receiving credit for insurance premiums not paid.

Resident's Care and Maintenance Fees

At the time of admission and annually thereafter, resident care and maintenance fees are determined. The documentation for 57 resident files was selected for testing. Our testing concluded fees were properly calculated. However, we noted areas where improved documentation could enhance cost recoveries. The financial information gathered as part of the application process does not specify life insurance policies, which may have a cash value and could be easily overlooked. Additionally, we noted there is a lack of documentation regarding the status of the primary residence. Although these residences are excludable assets for care and maintenance calculations, if they were to be utilized as rental property or to receive property tax rebates, any net income realized should be reported to the home. We identified seven residences

that still had the memorial home's resident listed as the owner for property tax purposes. Without sufficient information in the resident's file, the home lacks the ability to test or adequately determine compliance.

Recommendation

We recommend that the home, in conjunction with the Department of Military and Veterans' Affairs, consider policy changes to reduce receivable balances and enhance revenues. New Jersey Administrative Code changes could involve additional conditions prior to admission including naming the home as representative payee and completed applications for all available benefits. As an alternative to becoming the representative payee, the home should consider reporting responsible parties that fail to remit the benefits provided for resident's care to the Social Security Administration and the Department of Veterans' Affairs, if applicable. Other administrative policy changes the home should consider include, requiring annual proof of health insurance policies in force, prompt reporting of unreimbursed Medicare charges to Resident Accounts, and timely communication of changes in the marital or financial status of residents between Resident Accounts and Social Services. Finally, the facility should seek additional financial disclosures to ensure they have all necessary information available to accurately determine resident fees.

Non-appropriated Accounts – Resident Accounts

Reconciliations are needed to ensure residents' accounts are properly maintained.

The Resident Account bank account maintained by the home serves as the depository of all residents' funds. We noted Resident Accounts compares the total balances reflected on the bank statement and the Division of Investment's cash management fund to the residents' total balances on the Health Care Information System. This comparison ensures there are funds available to cover residents' personal deposits. However, there is no formal bank reconciliation completed. Reconciliations enable employees to identify potential errors or fraudulent activity in the normal course of their duties. Our attempt at a reconciliation resulted in an unidentified variance of nearly \$300,000, with cash balances exceeding resident balances.

Recommendation

The home should identify the \$300,000 variance and regularly reconcile residents' funds and financial institution balances.

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Payroll Personnel

Manual supporting documents weaken one of the primary strengths of the timekeeping system.

The home utilizes a computerized fingerprint recognition time clock system (Kronos) to track employee attendance, hours of work, and leave time usage. A comparison of overtime hours paid per the state's accounting system and the overtime hours indicated on Kronos for employees with greater than 100 hours of overtime was completed for calendar year 2011. We noted 84 employees had variances ranging from 72 to -16 hours. A sample of these variances resulted in exceptions for 12 of 17 selected. When employees report a shortage in their paycheck to their supervisors, the payroll clerk would receive requests from unit station supervisors supported by employee sign-in sheets or memorandums. Reliance on manual records circumvents the inherent control of the automated timekeeping system.

Recommendation

We recommend the home's management reinforce to the supervisors' the importance of the Kronos system's controls to provide accurate reporting of additional hours worked.

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Purchasing

Internal controls and compliance to applicable guidelines for purchasing need to be strengthened.

The home did not comply with the Department of the Treasury Circular Letter 11-10-DPP and the Department of Military and Veterans' Affairs' Business Office Policy 44-02-002 when procuring goods and services. Testing of 82 purchases resulted in 24 (29%) compliance exceptions. The home did not seek price competition for 13 purchases of goods and services as required. In addition, five purchases were not approved by the business office prior to submitting orders with vendors. These confirming order purchases are only allowed in emergency situations. Noncompliance with purchasing guidelines may result in not obtaining the best prices for goods and services.

Recommendation

We recommend the home comply with established Department of the Treasury and Department of Military and Veterans' Affairs purchasing guidelines.

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State of New Jersey
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CHRIS CHRISTIE
Governor
Commander-in-Chief

☆
MICHAEL L. CUNIFF
Brigadier General
Acting Adjutant General

July 1, 2013

Stephen M. Eells
State Auditor
New Jersey State Legislature
Office of Legislative Services
125 South Warren Street
P.O. Box 067
Trenton, NJ 08625-0067

Dear Mr. Eells:

Enclosed please find the Action Plan for the New Jersey Veterans Memorial Home at Paramus in response to the New Jersey State Office of Legislative Services Audit findings of the Facility's financial practices.

We welcome and appreciate all the comments and recommendations made by the members of the audit team and assure that we will continue our commitment to provide high quality services to our Residents in a fiscally responsible manner.

Thank you for all of your efforts in helping us achieve that goal.

Yours very truly,

A handwritten signature in cursive script that reads "Meredith Spano".

Meredith Spano, BS, RN, C
Acting Chief Executive Officer

MS/dc
Enc.
cc: K. Perrucci, Business Manager

(201) 634-8200

"Serving Those Who Served"

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**NEW JERSEY VETERANS MEMORIAL HOME
PARAMUS, NEW JERSEY**

**OFFICE OF LEGISLATIVE SERVICES
OFFICE OF THE STATE AUDITOR
JULY 1, 2009 – MAY 31, 2012**

ACTION PLAN

Revenues – Delinquent Accounts

Action Plan:

We have initiated a more proactive process and steps to identify residents' whose accounts are in arrears where the designated POA is not paying the Care and Maintenance fee. If the resident is alert and oriented, the assigned Social Worker and Resident Account Rep meet with the Resident to discuss account delinquency and a solution to bring their balance current. At this point we offer Resident to become the Rep Payee of their account. If Social Worker states Resident is not mentally competent, we have the Medical Director complete and sign the Social Security Medical Evaluation form. Once completed and signed, the Resident Account Rep will fill out the Social Security Representative Payee Form and submit package to Social Security. This step was initiated immediately after the audit, resulting in a 25% increase of Residents whose accounts we are now Rep Payee.

Aid and Attendance Improved Pensions

Action Plan:

Resident Accounts Supervisor will notify Social Services each and any month that a Resident comes off spend down (they are ineligible for Aid & Attendance while on spend down). Social Service 'Entitlement Counselor' will meet with the Resident and family to apply for Aid and Attendance. We have initiated a bi-monthly meeting with Social Services to discuss any changes to marital status of current Resident's marital status (death or admission to VMH of spouse), which will result in a recalculation of Care and Maintenance fees. The Resident or family member is notified and updated of the changes in their monthly fees.

Health Insurance Receivables

Action Plan:

Letters are mailed to Resident/Families within 45 days of receipt of secondary insurance remittance or EOB. This letter, along with the statement, has assisted in clarifying Residents' financial responsibilities to facility. This error was immediately rectified by implementing new processes and communications between Medicare personnel and Resident Accounts. A full audit of all Resident secondary insurance coverage was performed immediately following the audit, and we have made it a monthly random account audit process. If verification shows termination of secondary insurance due to lack of payment, a letter was/is immediately sent to Resident and/or family member alerting them of retro Care and Maintenance Adjustment due to PVMH. The Resident Account Staff perform the calculation based upon the resident's prior month's deduction. This adjustment was/is charged to the resident's account in the next month's statement. At this point, if requested, we reiterate to the family/resident the benefits of secondary insurance. Our Audit Clerk will walk them through the application process and follow up to confirm the insurance and premium has been paid. We have already collected most of the outstanding amounts and we have made this audit a monthly process.

Resident's Care and Maintenance Fees

Action Plan:

See response above to 'Delinquent Accounts' and 'Aid and Attendance' for actions implemented.

In addition, the Resident Accounts team annually requests updated financial information in a formal communication to each resident/family member. Upon receipt of updated information Resident Accounts perform Care and Maintenance adjustments. Out of 330 residents, 75% respond by providing updated information. However, getting the remaining families to provide information remains a difficult task. Note, as part of the financial worksheet completed by applicant or family member, life insurance is listed as a line on the allowable deductions. Life insurance with cash value may be used in place of prepaid burial plan; therefore, life insurance premium may be an allowable deduction.

Non-Appropriated Accounts – Resident Accounts

Action Plan:

There is a formal monthly account reconciliation that includes outstanding balances as a result of disputed charges from Resident/families. Due to ongoing disputes, monthly variances will continue to show up i.e. Laundry bills, Barber/Beauty Parlor charges where the facility has already paid the vendor invoice.

Payroll – Personnel

Action Plan:

We concur with the Auditors' recommendation. The Payroll Department no longer accepts manual timesheets for payment verification.

Purchasing

Action Plan:

Business office staff has been in-serviced as to the procedures on requisitions for goods over \$1000. All purchase orders will have a signature by Management. In compliance with the Department of Treasury and the DMAVA standard operating procedure, an interoffice communication letter was issued to all Department Heads effective June 20, 2013, directing that purchase order form 720 be completed prior to purchase. The purchase order form is forwarded to the Business Office Manager or the Assistant Business Manager for approval (or Management personnel if BOM or ABM not available). Non contract vendor purchase orders over \$1000 require three price quotes, or one price quote in the event of a sole supplier, be submitted to the Business Office Manager/Assistant Business Office Manager for review prior to approval, per circular letter policy 11-10-DPP. Any purchase orders that are processed and not approved by the BOM/ABM will be submitted to Administration for appropriate action.