



# MICHIGAN

OFFICE OF THE AUDITOR GENERAL

## AUDIT REPORT



THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

– Article IV, Section 53 of the Michigan Constitution

Audit report information can be accessed at:

*<http://audgen.michigan.gov>*



Michigan  
Office of the Auditor General  
**REPORT SUMMARY**

*Performance Audit*

Report Number:  
511-0170-12L

*Grand Rapids Home for Veterans*

*Department of Military and Veterans Affairs*

Released:  
April 2013

*The Grand Rapids Home for Veterans provides nursing care and domiciliary services to military veterans and widows, widowers, spouses, former spouses, and parents of State veterans. As of September 30, 2012, the Home had 434 members receiving nursing care, 68 members residing in the domiciliary units, and 582 State and contract employees. The Home expended \$50.3 million for the fiscal year ended September 30, 2012.*

**Audit Objective:**

To assess the effectiveness of the Home's efforts to deliver selected member care services.

**Audit Conclusion:**

We concluded that the Home's efforts to deliver selected member care services were moderately effective. Our assessment did not disclose any reportable conditions regarding the nursing, nutritional, social, and activities therapy services provided to members. However, we noted one material condition regarding psychiatric services (Finding 1) and one reportable condition related to comprehensive care plans (Finding 2).

**Material Condition:**

The Home did not provide an on-site, board-certified psychiatrist for members with mental health disorders (Finding 1).

**Reportable Condition:**

The Home did not ensure that it effectively developed, executed, and monitored all comprehensive care plans in accordance

with federal regulations and Home policies (Finding 2).

~ ~ ~ ~ ~

**Audit Objective:**

To assess the effectiveness of the Home's efforts to control and safeguard supplies and pharmaceutical inventories.

**Audit Conclusion:**

We concluded that the Home's efforts to control and safeguard food, maintenance supplies, and medical supplies were not effective, whereas the Home's efforts to control and safeguard pharmaceutical inventories were moderately effective. We noted two material conditions (Findings 3 and 4).

**Material Conditions:**

The Home had not implemented controls over its food, maintenance supplies, and medical supplies inventories (Finding 3).

The Home had not fully established controls over its pharmaceutical inventory (Finding 4).

~ ~ ~ ~ ~

**Audit Objective:**

To assess the effectiveness of the Home's efforts to account for donations to the Home for the benefit of its members.

**Audit Conclusion:**

We concluded that the Home's efforts to account for donations to the Home for the benefit of its members were moderately effective. We noted two reportable conditions (Findings 5 and 6).

**Reportable Conditions:**

The Home had not established sufficient controls over monetary donations received from outside parties (Finding 5).

The Home had not established sufficient controls over the receipt and disposition of donated goods (Finding 6).

~ ~ ~ ~ ~ ~ ~ ~ ~ ~

**Audit Objective:**

To assess the effectiveness of the Home's efforts to administer member assessments and account for member funds.

**Audit Conclusion:**

We concluded that the Home's efforts to administer member assessments were moderately effective, whereas the Home's efforts to account for member funds were effective. We noted three reportable conditions (Findings 7 through 9) and one observation (Observation 1).

**Reportable Conditions:**

The Home had not established sufficient controls to ensure that it addressed all past due member assessments in a timely manner (Finding 7).

The Home had not established sufficient controls for calculating member maintenance assessments (Finding 8).

The Home had not implemented sufficient controls over the handling of member funds (Finding 9).

**Observation:**

Our analysis of the Home's monthly fee assessments resulted in an observation related to the excess of monthly costs over monthly fee assessments (Observation 1).

~ ~ ~ ~ ~ ~ ~ ~ ~ ~

**Audit Objective:**

To assess the effectiveness of the Home's efforts to address complaints.

**Audit Conclusion:**

We concluded that the Home's efforts to address complaints were effective. Our audit report does not include any reportable conditions related to this audit objective.

~ ~ ~ ~ ~ ~ ~ ~ ~ ~

**Agency Response:**

Our audit report contains 9 findings and 9 corresponding recommendations. The Department of Military and Veterans Affairs' preliminary response indicates that it agrees with 8 recommendations and partially agrees with 1 recommendation.

~ ~ ~ ~ ~ ~ ~ ~ ~ ~

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



Michigan Office of the Auditor General  
201 N. Washington Square  
Lansing, Michigan 48913

**Thomas H. McTavish, C.P.A.**  
Auditor General

**Scott M. Strong, C.P.A., C.I.A.**  
Deputy Auditor General



STATE OF MICHIGAN  
OFFICE OF THE AUDITOR GENERAL  
201 N. WASHINGTON SQUARE  
LANSING, MICHIGAN 48913  
(517) 334-8050  
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

April 30, 2013

Major General Gregory J. Vadnais, Director  
Department of Military and Veterans Affairs  
3411 North Martin Luther King Jr. Boulevard  
Lansing, Michigan  
and  
Mr. Ernest E. Meyers, Sr., Chairman  
Board of Managers of the Michigan Homes for Veterans  
Grand Rapids Home for Veterans  
Grand Rapids, Michigan  
and  
Ms. Sara Dunne, Administrator  
Grand Rapids Home for Veterans  
3000 Monroe Avenue N.E.  
Grand Rapids, Michigan

Dear General Vadnais, Mr. Meyers, and Ms. Dunne:

This is our report on the performance audit of the Grand Rapids Home for Veterans, Department of Military and Veterans Affairs.

This report contains our report summary; description of agency; audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, findings, recommendations, agency preliminary responses, and observation; and a glossary of acronyms and terms.

Our comments, findings, recommendations, and observation are organized by audit objective. The agency preliminary responses were taken from the agency's response subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a plan to comply with the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

A handwritten signature in black ink that reads "Thomas H. McTavish".

Thomas H. McTavish, C.P.A.  
Auditor General



## TABLE OF CONTENTS

### GRAND RAPIDS HOME FOR VETERANS DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

	<u>Page</u>
INTRODUCTION	
Report Summary	1
Report Letter	3
Description of Agency	7
Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up	9
COMMENTS, FINDINGS, RECOMMENDATIONS, AGENCY PRELIMINARY RESPONSES, AND OBSERVATION	
Efforts to Deliver Selected Member Care Services	14
Findings:	
1. Psychiatric Services	15
2. Comprehensive Care Plans	17
Efforts to Control and Safeguard Supplies and Pharmaceutical Inventories	20
Findings:	
3. Controls Over Food, Maintenance Supplies, and Medical Supplies	20
4. Controls Over Pharmaceutical Inventory	22
Efforts to Account for Donations to the Home for the Benefit of Its Members	25
Findings:	
5. Monetary Donations	26
6. Donated Goods	28

Efforts to Administer Member Assessments and Account for Member Funds	29
Findings:	
7. Past Due Member Assessments	30
8. Member Maintenance Assessments	32
9. Controls Over Member Funds	35
Observation:	
1. Monthly Fee Assessments	37
Efforts to Address Complaints	38

## GLOSSARY

Glossary of Acronyms and Terms	40
--------------------------------	----

## Description of Agency

The Grand Rapids Home for Veterans was established in 1885 and operates under Sections 36.1 - 36.71 of the *Michigan Compiled Laws*. It provides nursing care and domiciliary services to aged and disabled military veterans of the State and to widows, widowers, spouses, former spouses, and parents of State veterans. The Home has a health facility license that was issued in 2004.

The Home is operated by the Department of Military and Veterans Affairs under the direct supervision of the Veterans Affairs Directorate. The Board of Managers of the Michigan Homes for Veterans plays a general advisory role, establishes some operating policies for the Home, and consists of seven members appointed by the Governor for a term of three years.

The Home's mission\* is to provide compassionate, quality interdisciplinary care for the members to achieve their highest potential of independence, self-worth, wellness, and dignity. To help meet its mission, the Home performs a comprehensive needs assessment of each member. The assessment process includes evaluation of the members by a physician, a social worker, a nurse, an activities aide, a dietitian, and a physical therapist to determine the members' abilities and disabilities. The Home uses information obtained from the assessment process to develop comprehensive care plans to meet the members' needs.

The Home provides the following services to accomplish the comprehensive care plans:

- Skilled nursing care for members with disabilities requiring continuous nursing care and supervision.
- Special needs units for members with Alzheimer's disease or other diseases of aging.
- Domiciliary units for members who do not need nursing care but have some limitations that require a structured environment.

\* See glossary at end of report for definition.

- Professional services for members who need rehabilitation therapy, pharmacy, social interventions, physician, dental, and vision services.

The Home maintains 450 nursing care beds and 140 domiciliary beds. As of September 30, 2012, the Home had 434 members receiving nursing care, 68 members residing in the domiciliary units, 401 State employees, and 181 contract employees. The Home expended \$50.3 million for the fiscal year ended September 30, 2012. Major funding sources included the U.S. Department of Veterans Affairs (VA), the State's General Fund, and member payments. The Home expended \$19.1 million, \$15.5 million, and \$12.4 million from those funding sources, respectively.

## Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

### Audit Objectives

Our performance audit\* of the Grand Rapids Home for Veterans, Department of Military and Veterans Affairs (DMVA), had the following objectives:

1. To assess the effectiveness\* of the Home's efforts to deliver selected member care services.
2. To assess the effectiveness of the Home's efforts to control and safeguard supplies and pharmaceutical inventories.
3. To assess the effectiveness of the Home's efforts to account for donations to the Home for the benefit of its members.
4. To assess the effectiveness of the Home's efforts to administer member assessments and account for member funds.
5. To assess the effectiveness of the Home's efforts to address complaints.

### Audit Scope

Our audit scope was to examine the program and other records related to the Grand Rapids Home for Veterans. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit procedures, conducted from March through September 2012, generally covered the period October 1, 2009 through September 30, 2012.

\* See glossary at end of report for definition.

## Audit Methodology

We conducted a preliminary review of the Home's operations to formulate a basis for establishing our audit objectives and defining our audit scope and methodology. Our preliminary review included interviewing the Home's personnel; observing processes; reviewing applicable State laws, federal regulations, and the Home's policies and procedures; and analyzing available data. We reviewed reports from prior Office of the Auditor General audits, other states that have operations similar to the Home, and the U.S. Department of Veterans Affairs (VA) inspections of the Home. We obtained records used to document and record the Home's operations and member services.

To accomplish our first objective, we interviewed nursing, nutritional service, social service, and activities therapy staff involved in the initial assessment of members and the establishment of the comprehensive care plans. We reviewed reports, along with other documentation, related to member assessments and comprehensive care plans. We also reviewed status reports, meeting minutes, and corrective action plans related to the Home's continuous quality improvement\* program. We analyzed the results of criminal history background checks for volunteers and for State and contract employees. We also analyzed pharmaceutical data related to members with psychiatric needs and discussed available psychiatric services with appropriate staff. We verified the credentials for a sample of State and contract employees. In addition, we conducted a survey of current members residing at the Home to assess the members' level of satisfaction regarding the care provided.

To accomplish our second objective, we interviewed pharmacy and materials management staff. We observed the delivery of pharmaceuticals from the pharmacy to the nursing units and from the nursing units to the members. We also observed the delivery of supplies to the various storage rooms at the Home. We inspected requisition forms completed and used to identify stock needs in the various units of the Home. We reviewed pharmacy inventory reports and supply requisition forms. We analyzed data generated from the computer system that the Home uses to track dispensed pharmaceuticals and reimbursed prescriptions. We counted pharmaceuticals that staff discarded to determine the amount of discarded medication that the Home generated.

To accomplish our third objective, we interviewed staff responsible for donated goods and monetary donations received by the Home. We reviewed donation guidelines and

\* See glossary at end of report for definition.

the donation allocation form to determine what the Home generally receives for donations and how the Home records these donations. We tested revenue and expenditure transactions related to donations.

To accomplish our fourth objective, we interviewed business office staff responsible for member maintenance assessments and member funds. We observed the mail distribution and mail opening processes along with the cashier's office daily closing process. We obtained cost reports that the Home submitted to the VA to identify costs related to members who received nursing care and domiciliary services. We compared these costs with the approved monthly fee assessments. We reviewed the Home's member discharges, financial reports, and bank statements. We tested member maintenance assessments to determine that the Home correctly calculated and properly supported the assessments. We also tested member accounts that had past due assessments to determine that the Home followed up in a timely manner.

To accomplish our fifth objective, we interviewed staff responsible for tracking and reporting complaints. We reviewed the Home's complaint policies to identify the Home's formal process for receiving and resolving complaints. We obtained complaint forms and quarterly complaint summaries to identify the types of complaints received and corresponding resolution by the Home. We reviewed member council meeting minutes to identify informal complaints and how the Home addressed those complaints. We also reviewed meeting minutes and other correspondence of the Board of Managers of the Michigan Homes for Veterans to verify that the Home had communicated complaints to DMVA and the Board of Managers.

#### Agency Responses and Prior Audit Follow-Up

Our audit report contains 9 findings and 9 corresponding recommendations. DMVA's preliminary response indicates that it agrees with 8 recommendations and partially agrees with 1 recommendation.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require DMVA to develop a plan to comply with the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget

Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We released our prior performance audit of the Grand Rapids Home for Veterans, Department of Military and Veterans Affairs (51-170-99), in June 2000. Within the scope of this audit, we followed up 7 of the 9 prior audit recommendations. The Home complied with 1 prior audit recommendation, and we determined that 2 prior audit recommendations were no longer applicable. We repeated 1 prior audit recommendation in Finding 8 of this audit report, and we rewrote 3 prior audit recommendations for inclusion in Findings 3 and 9.

COMMENTS, FINDINGS, RECOMMENDATIONS,  
AGENCY PRELIMINARY RESPONSES,  
AND OBSERVATION

## EFFORTS TO DELIVER SELECTED MEMBER CARE SERVICES

### COMMENT

**Background:** The Grand Rapids Home for Veterans provides member care services to members residing in nursing care and domiciliary units. Member care services primarily include nursing, nutritional, social, activities therapy, rehabilitation therapy, pharmacy, social interventions, physician, psychiatric, dental, and vision services. In the member satisfaction survey that we conducted during our audit fieldwork, we interviewed 44 randomly selected members. The results of our survey indicated that 84.1% of the members interviewed were satisfied to very satisfied with the member care services provided.

To enhance the quality of life for members and for room occupancy to become more in line with nursing facilities throughout the Grand Rapids community, the Home has established a goal to reduce the number of members residing in each of the rooms within the nursing care units from 4 to 2 members per room. To accomplish this goal, the Home tightened its admission policy and plans to use capital outlay funding to renovate rooms within the nursing care units on the fourth floor into 2-person rooms.

**Audit Objective:** To assess the effectiveness of the Home's efforts to deliver selected member care services.

**Audit Conclusion:** **We concluded that the Home's efforts to deliver selected member care services were moderately effective.** Our assessment did not disclose any reportable conditions\* regarding the nursing, nutritional, social, and activities therapy services provided to members. However, our assessment did disclose one material condition\* regarding psychiatric services. The Home did not provide an on-site, board-certified psychiatrist for members with mental health disorders (Finding 1).

Our assessment also disclosed one reportable condition\* related to comprehensive care plans (Finding 2).

\* See glossary at end of report for definition.

## **FINDING**

### 1. Psychiatric Services

The Home did not provide an on-site, board-certified psychiatrist for members with mental health disorders. As a result, the Home could not ensure that such members received needed services in a professional and timely manner and that all members and staff were provided a safe and secure environment.

Title 38, Part 51, section 120 of the *Code of Federal Regulations*\* (*CFR*) requires that, based on the comprehensive assessment of a member, the Home must ensure that a member who displays mental adjustment difficulty receives appropriate treatment and services to correct the assessed problem. Federal regulation 38 *CFR* 51.120 also requires that, unless there is a condition that serves as a reason to withhold a certain intervention, the Home must ensure that members who use antipsychotic drugs receive gradual dose reductions and behavioral interventions in an effort to discontinue these drugs. According to the Home's medical director, antipsychotic medications, with proper monitoring and periodic adjusting of dosages, help prevent members from becoming unstable. Also, the medical director stated that a psychiatrist would be more qualified to monitor dosages of members receiving antipsychotic medications. Members who are unstable may pose a physical threat to themselves and others and may create crisis situations at the Home. A staff psychiatrist could not only assist in crisis situations but also, more importantly, help to prevent crisis situations from occurring by consistently monitoring and periodically adjusting dosages of antipsychotic medications.

The Home has not provided an on-site psychiatrist for its members since August 2011. Rather, the Home's physicians have been charged with the responsibility of administering, monitoring, and appropriately adjusting the medications used to treat members diagnosed with mental health disorders. As a result, the Home has denied admission to individuals with mental health disorders that are not stabilized by prescribed medication. Also, as of September 6, 2012, the Home provided medications that are commonly used to treat Axis I and Axis II mental health disorders\* to 428 (84.1%) of its 509 members. Based on discussions with the Home's staff, members diagnosed with Axis I or Axis II mental health disorders require a psychiatrist.

\* See glossary at end of report for definition.

We conducted an analysis of the Home's members who were prescribed antipsychotic medications. Our analysis determined that the Home provided 208 (40.9%) of its 509 members with antipsychotic medications. In comparison, only 17.8% of nursing facility residents in Michigan received antipsychotic medications, according to information provided in 2011 by nursing facilities to a reporting database facilitated by the Centers for Medicare and Medicaid Services, U.S. Department of Health and Human Services.

### **RECOMMENDATION**

We recommend that the Home provide an on-site, board-certified psychiatrist for members with mental health disorders.

### **AGENCY PRELIMINARY RESPONSE**

The Department of Military and Veterans Affairs (DMVA) agrees. DMVA informed us that it and the Home have attempted to provide professional psychiatric care to the members. DMVA stated that these attempts included the following:

- In August 2010, the Home entered into a five-year State contract with a local mental health services provider. The contractor provided regular psychiatric services to the Home, and DMVA was satisfied with this arrangement. Unfortunately, the contractor decided to end its services to the Home in August 2011 due specifically to its obligations to its own established client base.
- In the spring 2012, DMVA attempted to hire a psychiatrist through the State civil service process but was unsuccessful in recruiting qualified candidates. DMVA believes that this is due, in large part, to the fact that State civil service wage rates are set far below the prevailing market rate for board-certified professional psychiatrists.
- In June 2012, the contract manager for DMVA was requested to assist the Home with establishing a contract for psychiatric services for the Home. As of April 2013, it had not yet gone out for bid.

DMVA informed us that the Home has subsequently signed a memorandum of understanding with the U.S. Department of Veterans Affairs (VA) to provide consultant psychiatric services for four hours a week using Telehealth, which is a nationally recognized Web cam system used by VA-certified facilities to connect psychiatric care to veterans when on-site psychiatric resources are unavailable. DMVA also informed us that, in addition to the memorandum of understanding, the Home will continue to explore utilizing a State contract for the provision of psychiatric services.

In addition, DMVA informed us that the Home is annually surveyed by the VA Office of Geriatrics and Extended Care to ensure compliance with VA regulations for state veterans homes. DMVA also informed us that member mental health needs are monitored on a daily basis by four full-time physicians to ensure that changes in medications are effective and that, as a result, the VA survey team indicated that the Home is meeting the needs of the members with respect to psychiatric care through its current staffing structure. However, the VA indicated that it would make great clinical sense to have psychiatric capacity available.

## **FINDING**

### **2. Comprehensive Care Plans**

The Home did not ensure that it effectively developed, executed, and monitored all comprehensive care plans in accordance with federal regulations and Home policies. As a result, the Home could not ensure that it effectively identified members' medical needs in a timely manner, provided the appropriate services to its members, and evaluated the impact those services had on the members' quality of care.

Upon members' admission and each year thereafter, the Home conducts comprehensive assessments that identify members' physical, mental, and psychosocial needs using the Minimal Data Set (MDS) assessment tool. During the completion of the MDS assessment tool, care area assessments (CAAs) are triggered and help to identify members who are at risk of developing specific functional problems and require further assessment. The Home evaluates the CAA and, based on the significance of the underlying issue(s), determines whether the issue(s) should be included in the care plan. The Home uses this assessment,

along with the recommended CAAs, to develop individualized comprehensive care plans for members who receive nursing care. The Home must develop a care plan that consists of the functional problems identified during the initial comprehensive assessment, an associated goal for improving the problems, and the planned interventions that are designed to achieve the care plan goal through a series of interdisciplinary tasks.

Our review of a random sample of 36 MDS assessments and associated comprehensive care plans for members in the Home's nursing care units disclosed:

- a. The Home did not complete 2 (10.5%) of 19 applicable comprehensive MDS assessments within 14 days after admission. Also, the Home did not document the completion date for one other assessment. As a result, the Home could not ensure that it met the immediate medical needs of all members who received nursing care. Federal regulation 38 *CFR* 51.110(b)(2)(i) requires that a comprehensive MDS assessment be completed within the first 14 days after admission.
- b. The Home did not incorporate all CAAs recommended for inclusion in 5 (13.9%) of 36 applicable comprehensive care plans. As a result, the Home could not ensure that care plans adequately addressed all member care needs. According to the Home's practice, all recommended CAAs must be included in the care plans.
- c. The Home did not complete all the required periodic narratives necessary for consistent monitoring of care plan goals and interventions in 11 (30.6%) of 36 applicable comprehensive care plans. As a result, the Home could not ensure that it updated care plans to coincide with changes in members' health. The Home's policies require that staff complete quarterly and, in some cases, monthly summaries of a member's progress toward care plan goals. These narratives include an assessment of the ongoing appropriateness of such goals and any recommendations for changes to the care plan.

During our review of comprehensive care plans, we also noted that the Home was very thorough in designing a series of planned interventions to achieve care plan goals. However, staff were not required to document the execution of most

interventions. The Home did not document the execution of all interventions required to be documented in 5 (13.9%) of 36 applicable comprehensive care plans reviewed. Without documentation evidencing the completion of planned interventions, the Home cannot be assured that such interventions occurred.

### **RECOMMENDATION**

We recommend that the Home ensure that it effectively develop, execute, and monitor all comprehensive care plans in accordance with federal regulations and Home policies.

### **AGENCY PRELIMINARY RESPONSE**

DMVA agrees. DMVA informed us that the development of comprehensive care plans is a multi-disciplinary responsibility that is predominantly developed, executed, and monitored by the nursing department, with additional support from the dietary, social services, and activities departments.

Also, DMVA informed us that, approximately 10 years ago, the VA required state veterans homes to implement the MDS. DMVA also informed us that, to comply with this requirement, 12 registered nurse supervisor positions became full-time MDS nurse positions without supervisory responsibilities. According to DMVA, since this VA action, the Home has not been able to replace the supervisors lost due to a lack of funding. DMVA stated that the leadership of the Home, in cooperation with the Board of Managers of the Michigan Homes for Veterans, is presently working to identify the proper staffing levels necessary to comply with the audit finding.

In addition, DMVA informed us that it has implemented a monitoring system by the dietary, social services, and activities departments to improve compliance with the regulations and policies for comprehensive care plans. DMVA stated that the managers will report quarterly at the Home's Continuous Quality Improvement Committee meeting regarding the compliance of their staff and that the administrator will do random monitoring to ensure that care plans are being developed, executed, and monitored in accordance with regulations and policies. DMVA informed us that the electronic medical records (EMR), scheduled to be implemented within the next two years, will improve the monitoring system by allowing all supervisors concerned to be alerted when care plans are not being completed properly.

Further, DMVA informed us that the VA annually inspects the Home and has concluded that the Home is proficient in completing the comprehensive care plans.

## **EFFORTS TO CONTROL AND SAFEGUARD SUPPLIES AND PHARMACEUTICAL INVENTORIES**

### **COMMENT**

**Background:** The Home operated a pharmacy to support the daily pharmaceutical needs of its members. The Home maintained pharmaceuticals in the pharmacy and at the nurses' stations within each nursing care unit. When nurses and pharmacy staff were not dispensing pharmaceuticals to members, the Home locked the pharmaceuticals within the pharmacy and the nurses' stations. The Home also maintained medical supplies for the care of members in locked storage areas. In addition, the Home had an approval process for the acquisition of pharmaceuticals and medical supplies.

**Audit Objective:** To assess the effectiveness of the Home's efforts to control and safeguard supplies and pharmaceutical inventories.

**Audit Conclusion:** **We concluded that the Home's efforts to control and safeguard food, maintenance supplies, and medical supplies were not effective, whereas the Home's efforts to control and safeguard pharmaceutical inventories were moderately effective.** Our assessment disclosed two material conditions. The Home had not implemented controls over its food, maintenance supplies, and medical supplies inventory (Finding 3). Also, the Home had not fully established controls over its pharmaceutical inventory (Finding 4).

### **FINDING**

3. **Controls Over Food, Maintenance Supplies, and Medical Supplies**

The Home had not implemented controls over its food, maintenance supplies, and medical supplies inventories. As a result, the Home could not ensure that it properly controlled and safeguarded all inventories.

Part II, Chapter 12, Section 100 of the State of Michigan Financial Management Guide requires agencies to implement and maintain an inventory system that provides adequate internal control over the inventory. Adequate internal control over the inventory includes segregation of duties among those responsible for ordering, receipting, maintaining, and accounting for the inventory. Adequate internal control also includes performing physical inventory counts. Physical inventories are essential for subsequently reconciling purchases, disbursements, and disposals with the inventory actually on hand.

For the period October 1, 2009 through May 31, 2012, the Home expended \$7.5 million on food, maintenance supplies, and medical supplies. Our review of the Home's controls over inventories disclosed:

- a. The Home had not implemented an inventory system for its food, maintenance supplies, and medical supplies. Also, the Home had not conducted annual physical inventories of these items. Therefore, the Home could not reconcile the inventory on hand with purchases, disbursements, and disposals of these items.
- b. The Home did not ensure adequate segregation of duties among employees responsible for food and medical supplies received at the Home's loading dock. These employees received orders and delivered the food and medical supplies to various storage areas within the Home. These employees also monitored inventory levels in the storage rooms and determined stock order quantities.
- c. Numerous employees had unsupervised access to all areas where the Home received and maintained food, maintenance supplies, and medical supplies. Security cameras in these areas could help reduce the risk of loss or theft.
- d. The Home had not developed written inventory policies and procedures to help ensure that employees had detailed knowledge of their responsibilities related to inventory operations.

### **RECOMMENDATION**

We recommend that the Home implement controls over its food, maintenance supplies, and medical supplies inventories.

## **AGENCY PRELIMINARY RESPONSE**

DMVA agrees and informed us that the Board of Managers has approved a process for the Home to work with the Department of Technology, Management, and Budget's (DTMB's) Office of Infrastructure Protection to assess security. DMVA also informed us that the Home is going forward with a plan to install a new security system that will include proxy-card access control over rooms where supplies are stored and are vulnerable to theft. DMVA stated that more security cameras will be installed in the Home to monitor those areas where supplies are stored. In addition, DMVA informed us that the Home is working with DTMB to evaluate inventory control software and anticipates implementing a UPC (Universal Product Code) inventory control system that will ensure proper use and ordering of inventory and allow for the Home to perform monthly inventories.

## **FINDING**

### **4. Controls Over Pharmaceutical Inventory**

The Home had not fully established controls over its pharmaceutical inventory. As a result, the Home could not ensure that its pharmaceutical inventory was properly accounted for and protected against waste, loss, and misuse. Also, the Home could not ensure that it effectively and efficiently used State and federal funds for its pharmaceutical inventory.

Part II, Chapter 12, Section 100 of the State of Michigan Financial Management Guide requires agencies to implement and maintain an inventory system that provides adequate internal control over the inventory. Adequate internal control over the inventory includes the segregation of duties among those responsible for ordering, receipting, maintaining, and accounting for the inventory. Adequate internal control also includes performing physical inventory counts. Accurate physical inventories are essential for subsequently reconciling pharmaceuticals received, dispensed, and disposed of with the pharmaceuticals actually on hand.

For the period October 1, 2009 through May 31, 2012, the Home expended \$3.0 million on pharmaceuticals. Also, the Home received \$1.9 million in additional

pharmaceuticals paid for by the VA. Our review of the Home's controls over pharmaceuticals disclosed:

- a. The Home did not reconcile its annual inventory counts of nonnarcotic pharmaceuticals with its records of the pharmaceuticals received, dispensed, or disposed of to ensure that all pharmaceuticals were properly accounted for. Based on the inventory count in October 2010 by pharmacy staff, the Home maintained over 1,200 nonnarcotic pharmaceuticals in differing strengths valued at approximately \$186,000.
- b. The Home had not established a segregation of duties to ensure that pharmacy staff who ordered pharmaceuticals did not also receipt in pharmaceuticals.
- c. The Home did not implement a tracking system to evaluate lost and discarded prescriptions. As a result, the Home could not determine the causes for all lost and discarded prescriptions, including proper disposals as well as improper disposals, which result from waste, theft, or misuse. Also, the Home could not evaluate whether it effectively or efficiently used State and federal funds for pharmaceuticals.

Pharmacy staff stated that the medication nurses often requested the pharmacy to refill prescriptions before the scheduled refill date because they could not locate a member's prescription. From the pharmaceutical data provided by the Home for the period November 1, 2011 through June 5, 2012, we noted that the pharmacy refilled 3,384 (55.3%) of 6,123 original prescriptions within 25 days or less after filling the original prescription. Early refills cannot be billed to a member's insurance company. Without the Home evaluating the causes for the lost prescriptions, the Home will likely be unable to reduce the number of early refills and subsequently increase its revenue from billable prescriptions.

We counted the nonnarcotic pharmaceuticals discarded and returned to the pharmacy from June 26, 2012 through July 2, 2012 and from August 14, 2012 through August 20, 2012. From these counts, we calculated the values of discarded nonnarcotic pharmaceuticals for these two weeks to be \$2,827 and

\$1,166, respectively. By averaging the two weeks and multiplying by the number of weeks in a year, we estimate the annual value of discarded nonnarcotic pharmaceuticals to be \$103,800. Without an evaluation of the causes for the discarded prescriptions, the Home could not determine that it effectively or efficiently used pharmaceuticals purchased with State and federal funds.

### **RECOMMENDATION**

We recommend that the Home fully establish controls over its pharmaceutical inventory.

### **AGENCY PRELIMINARY RESPONSE**

DMVA agrees and informed us that the Home has developed and implemented a new pharmacy policy on the inventory and tracking of wasted pharmaceuticals in February 2013. DMVA stated that the policy requires the following:

- Pharmacy staff will maintain an ongoing or perpetual inventory of nonnarcotic pharmaceuticals through the QS/1 pharmaceutical software by maintaining a log and entering all receipts and dispensed medications.
- The pharmacy will maintain a waste log for medications returned to the pharmacy at the discharge or death of a member or discontinuation of an order by the physician.
- The pharmacy will perform an inventory assessment at least monthly, and the assessments will be reviewed at least quarterly in the Pharmacy and Therapeutics Committee.
- The pharmacy employees who perform the electronic ordering of medications from wholesale suppliers are separate from those employees receiving supplies. Such segregation of duties is the responsibility of the pharmacy manager.
- Refill requests more than five days early will need to be accompanied by a form indicating the reason for the waste and the number of pills missing. The form will be signed by the medication nurse, the director of nursing, the medical director, and the pharmacist.

- Early refill requests will be tallied and reviewed quarterly in the Pharmacy and Therapeutics Committee and in the Continuous Quality Improvement Committee.

Also, DMVA informed us that a unit dose packaging machine has been requested and funded and will be employed this year, which will significantly improve pharmaceutical control. In addition, DMVA informed us that each unit's medication cart will soon be outfitted with a locked Pyxis Medstation® system, which allows the Home to continuously monitor by computer all pharmaceutical inventories.

Further, DMVA informed us that, with the addition of a new pharmacy director, the pharmacy has increased its efforts to bill insurance companies for prescriptions filled for members who had eligible insurance, including member prescriptions filled within the last 90 days. These activities significantly reduced the backlog of Medicare Part D unbilled prescriptions, thus increasing the revenue received from the Home's pharmacy operations. DMVA informed us that these efforts increased revenue received from \$64,700 in April 2013 to \$151,500 in May 2013 due, in part, to the elimination of the backlog.

## **EFFORTS TO ACCOUNT FOR DONATIONS TO THE HOME FOR THE BENEFIT OF ITS MEMBERS**

### **COMMENT**

**Audit Objective:** To assess the effectiveness of the Home's efforts to account for donations to the Home for the benefit of its members.

**Audit Conclusion:** We concluded that the Home's efforts to account for donations to the Home for the benefit of its members were moderately effective. Our assessment disclosed two reportable conditions related to monetary donations and donated goods (Findings 5 and 6).

## **FINDING**

### **5. Monetary Donations**

The Home had not established sufficient controls over monetary donations received from outside parties. As a result, the Home was unable to consistently ensure that it properly accounted for all monetary donations and subsequently expended all donations in full accordance with donor restrictions and designations.

The Home recorded the receipt and expenditure of monetary donations totaling \$527,218 and \$481,115, respectively, during the period October 1, 2009 through May 31, 2012. The Home received these monetary donations from family members, businesses, charitable veterans' organizations, and the general public. Our review did not identify any inappropriate use of these monetary donations to the Home. However, we did note the following:

- a. The Home did not ensure that more than one employee opened all mail that could include monetary donations. Although two employees open the majority of the monetary donations in the mailroom or the cashier's office, some monetary donations were addressed and routed to the Volunteer Services Office where only one individual was responsible for opening and appropriately recording the donation.

Part II, Chapter 9, Section 100 of the State of Michigan Financial Management Guide provides that two persons should open mail under controlled conditions and that a cash log should be prepared for all cash received.

- b. The Home did not ensure that it expended all monetary donations related to member services in accordance with donor restrictions and designations. Donations for member services represented \$301,886 (57.3%) of the total monetary donations received and \$220,201 (45.8%) of the total monetary donations expended for the period October 1, 2009 through May 31, 2012.

Donations for member services include special event tickets, media center supplies, clothing, ice cream socials, picnics, etc. Because member services represent several different purposes, the Home utilized a tracking spreadsheet to record donations for member services and the related restrictions. However, our review of monetary donations disclosed that the Home did not

record the amount and source of the donation on its spreadsheet for 3 (25.0%) of 12 sample items related to member services. Our review of the tracking spreadsheet disclosed that the Home did not record any expenditures that corresponded to the member services donations on the spreadsheet.

### **RECOMMENDATION**

We recommend that the Home establish sufficient controls over monetary donations received from outside parties.

### **AGENCY PRELIMINARY RESPONSE**

DMVA agrees. DMVA informed us that, although the Home utilizes a system to track donations, the Home does not track expenditures by donor restriction. However, DMVA stated that going forward the Home will utilize the same system to track expenditures relative to specific donations.

Also, DMVA informed us that all monetary donations received by the Home are received into the Post & Posthumous Fund, an appropriated fund, and that all revenues and expenditures associated with the fund are clearly and publicly recorded and accounted for within the Michigan Administrative Information Network (MAIN), the State's financial database. DMVA also informed us that this database supplies full and clear financial accounting for all revenues and expenditures recorded in this fund and that the receipt of and the expenditure of donated funds conform to generally accepted accounting principles and State procedures regarding the use of appropriated funds. DMVA stated that every two weeks the donations within the Home's donation database are reconciled with the donations recorded in MAIN and presented in a report to the Board of Managers.

In addition, DMVA informed us that, frequently, monetary donors do not specify precisely how their donations are to be used and, therefore, the Home cannot match a donation with a specific expenditure. DMVA stated that these nonspecified donations tend to go toward funding member services activities. DMVA also stated that monetary donations can be received months in advance of the event for which it was intended and, therefore, an expenditure is not recorded against that donation for an extended period of time.

## **FINDING**

### **6. Donated Goods**

The Home had not established sufficient controls over the receipt and disposition of donated goods. As a result, the Home could not fully track the receipt and subsequent disposition of all donated goods, thus placing some donated goods at risk of loss, theft, and misuse.

The Home regularly received a wide variety of donated goods, including large quantities of clothing, books, DVDs, and toiletries. The Home also received other less frequent donations of video games, bicycles, and fishing equipment.

According to Home policy (09-03-D1), a volunteer receives the donated goods, provides the donor with a materials donation form, and retains a copy of the form for the Home's record. Although not addressed in the Home's policy, the goods are sorted and distributed to the Home's library, clothing store, and convenience store in order to make the goods available to its members. Also, for goods that have no value to members, the Home either disposes of the goods or donates the goods to a different veterans' charitable organization.

Our review of the Home's handling of donated goods disclosed:

- a. The Home did not maintain a perpetual inventory of donated goods that would have allowed the Home to subsequently conduct a physical inventory for verifying the accuracy of items on hand.
- b. The Home had not established an adequate segregation of duties for receiving, sorting, and distributing donated goods. As a result, one volunteer frequently received, sorted, and distributed the goods to the various areas within the Home.
- c. The Home had not installed security cameras in all areas where it maintained donated goods. Because many individuals, including employees, members, and volunteers, have unsupervised access to the donated goods inventory, a security camera would help deter theft and misuse.

## **RECOMMENDATION**

We recommend that the Home establish sufficient controls over the receipt and disposition of donated goods.

## **AGENCY PRELIMINARY RESPONSE**

DMVA partially agrees. DMVA informed us that the Home is moving toward implementing a more secure donation center with posted hours that will indicate acceptable times to receive donations. DMVA stated that, as part of the aforementioned new security system, the Home will install security cameras in the donation center and clothing room to monitor these areas to help ensure accountability. DMVA informed us that the Home will examine, as funding permits, partnering with local donation centers to assist with accountability and control.

However, according to DMVA, the volume and diverse amounts of donations received by the Home, in combination with the turnover and age of some of the items, preclude the routine physical inventory referenced in this finding.

## **EFFORTS TO ADMINISTER MEMBER ASSESSMENTS AND ACCOUNT FOR MEMBER FUNDS**

### **COMMENT**

**Background:** Annually, the Board of Managers establishes a monthly fee assessment\* rate for the Home's nursing care and domiciliary services. The amount that members actually pay for services is based on the Home's assessment of each member's ability to pay. From fiscal year 2008-09 through fiscal year 2011-12, the amounts collected from members' monthly assessments have steadily decreased as shown in the following chart:

<u>Fiscal Year</u>	<u>Member Assessments Collected</u>	<u>Percentage Decrease From the Prior Year</u>
2008-09	\$15.0 million	
2009-10	\$14.3 million	4.6%
2010-11	\$13.6 million	5.1%
2011-12	\$12.4 million	8.7%

\* See glossary at end of report for definition.

Corresponding with the decrease in the amount of member assessments collected is a decrease in the number of members at the Home as shown in the following chart:

As of September 30	Members at the Home		
	Nursing Care Unit	Domiciliary Unit	Total
2009	597	96	693
2010	573	82	655
2011	499	84	583
2012	434	68	502

The Home informed us that the primary reason for the Home's decreased number of members is the Home's emphasis to improve the members' quality of care by reducing the number of members per room within its nursing care units. The Home is achieving such reduction via attrition from deaths and departures and from limitations on the number of admissions.

**Audit Objective:** To assess the effectiveness of the Home's efforts to administer member assessments and account for member funds.

**Audit Conclusion:** We concluded that the Home's efforts to administer member assessments were moderately effective, whereas the Home's efforts to account for member funds were effective. Our assessment disclosed three reportable conditions related to past due member assessments, member maintenance assessments, and controls over member funds (Findings 7 through 9). Also, our assessment resulted in one observation\* related to monthly fee assessments (Observation 1).

## **FINDING**

### **7. Past Due Member Assessments**

The Home had not established sufficient controls to ensure that it addressed all past due member assessments in a timely manner. As a result, the Home's probability of collecting the full amount of member assessments and of subsequently maximizing payments to the State was diminished.

\* See glossary at end of report for definition.

Section 36.11(1) of the *Michigan Compiled Laws* requires members, once admitted to the Home, to pay the monthly member assessments according to their determined abilities to pay. According to Board of Managers policy (BP-005), when a member or other responsible party does not pay the monthly assessment, the Home is required to send a past due notice to the responsible party or contact the responsible party directly. Also, the Home is required to reduce the member's \$100 personal spending allowance, if applicable, or discharge the member and refer the member to the Department of Attorney General for collection.

After each month-end, the Home identified which members had not paid the full amount of their assessments and recorded the past due amounts on a spreadsheet. Using this spreadsheet, an employee reviewed each member's situation and documented what action was taken on the spreadsheet, in the member's assessment file, or in the collection log within the computer system used to track member assessments.

We reviewed 13 members who were identified with past due assessments. Of the 13 members, 10 members were judgmentally selected from the Home's April 2012 past due spreadsheet and 3 members were identified in our statistical sample of member maintenance assessments in Finding 8. The past due assessments for the 13 members totaled approximately \$98,100 when the first documented collection efforts occurred. Our review of the 13 members disclosed:

- a. The Home had not documented any collection efforts for an average of 148 days after the date the assessment became past due.
- b. The Home had not resolved 9 (69.2%) of the 13 past due assessments that still totaled approximately \$65,200 at the time of our review in August 2012.

Also, the Home could not provide a report from its computer system that specifically identified the number of members with past due assessments, the total amount of the past due assessments, or the length of time past due. Therefore, the Home had to manually identify members with past due assessments and record the members on a past due spreadsheet. We noted one member who, although listed on the past due spreadsheet, did not have a past due assessment. We also noted another member who had a past due assessment but was not included on the past due spreadsheet for at least seven months.

## **RECOMMENDATION**

We recommend that the Home establish sufficient controls to ensure that it addresses all past due member assessments in a timely manner.

## **AGENCY PRELIMINARY RESPONSE**

DMVA agrees and informed us that the current financial software system in use by the Home has a very limited ability to identify past due accounts and is in need of replacement. Also, DMVA stated that, in July 2012, it began the process, with the assistance of a State-contracted consultant and DTMB, to identify business practices related to clinical care and nonclinical processes with the goal of implementing an EMR system at the State veterans homes. In addition, DMVA informed us that this EMR system will include a financial software component and have the ability to identify and automatically bill past due accounts. DMVA further informed us that, if funding permits, EMR will be in place during fiscal year 2013-14.

DMVA informed us that, until an EMR system is implemented, the Home will document all attempts to collect past due and unpaid balances from responsible parties and has redistributed personnel work loads to ensure a more thorough follow-up. DMVA also informed us that the Home's finance office will determine which outstanding debts are uncollectible and will write them off according to generally accepted accounting principles.

## **FINDING**

### **8. Member Maintenance Assessments**

The Home had not established sufficient controls for calculating member maintenance assessments. As a result, the Home could have inaccurately calculated member maintenance assessments.

Within the application for admission, the Home requires members to disclose information on their dependents and financial resources, such as total assets, pension and social security benefits, and other sources of income. The Home used this information, along with the number of dependents that the member may have, placement within the Home's nursing care or domiciliary units, and whether the member is a veteran or nonveteran, to compute the members' monthly

maintenance assessments\*. The monthly maintenance assessment is the portion of the monthly fee assessment that the Home determines a member can pay to the State based on available financial resources. On an annual basis, members must submit current financial information in order for the Home to perform a reassessment.

Our review of 20 randomly selected members and 5 judgmentally selected members admitted during our audit period disclosed:

- a. The Home did not document that it requested, received, and used all financial information, such as tax returns, bank account statements, social security award letters, or other information, to determine the member maintenance assessments in 7 (28.0%) files.
- b. The Home did not correctly calculate the original assessments based on the financial information within the assessment file for 4 (16.0%) members. Also, the Home did not maintain supporting documentation within the assessment file that verified the accuracy of the original assessment for 4 (16.0%) other members.
- c. The Home did not correctly calculate the maintenance reassessments based on the financial information within the assessment file for 4 (20.0%) of 20 applicable members. Also, the Home did not provide supporting documentation within the assessment file to verify the accuracy of the maintenance reassessment for 4 (20.0%) other members.

Although a separate individual reviewed and signed a printout of the original assessment and reassessment spreadsheet, this individual did not verify the accuracy of the assessments by reviewing the supporting documentation within the assessment files.

Our review of the member maintenance assessment process also disclosed a lack of segregation of duties. One staff person had the responsibility to review, and periodically calculate, the original assessments and to calculate all reassessments. This staff person then entered all original assessments and reassessments into the

\* See glossary at end of report for definition.

computer system that the Home used to track the assessment balances. Also, this staff person followed up assessments that were past due and periodically made adjustments to the members' assessments without those adjustments being reviewed.

We noted a similar situation in our prior audit. In response to that audit report, the Home stated that it agreed and would further strengthen the controls over member maintenance assessments. Although we noted some improvement since our prior audit, the Home still needs to improve its process for calculating member maintenance assessments.

### **RECOMMENDATION**

We again recommend that the Home establish sufficient controls for calculating member maintenance assessments.

### **AGENCY PRELIMINARY RESPONSE**

DMVA agrees. DMVA informed us that the Home has developed and implemented a procedure for determining that the initial assessment has been calculated correctly and that supporting documentation is included in the file. DMVA also informed us that the procedure designates that the initial assessment is calculated by administrative support staff; requires both the member finance departmental analyst and the accounting manager to sign off on the assessment amount after performing a complete review and ensuring that all supporting documentation is present in the file; and, then, requires an accounting assistant to enter the original assessment into the computer system.

In addition, DMVA informed us that staff will ensure that proper documentation is included in the member file for all changes in income when determining reassessments; that reassessments will be computed by the member finance departmental analyst and reviewed by the accounting manager to ensure that all documentation is present; and that finance office staff request income tax forms or proof from the Internal Revenue Service (IRS) that forms are not available.

Further, DMVA informed us that the aforementioned new EMR financial package should be able to automate this process and provide additional necessary controls.

## **FINDING**

### **9. Controls Over Member Funds**

The Home had not implemented sufficient controls over the handling of member funds. As a result, the Home could not ensure that it adequately safeguarded all member funds.

When the Home received members' income from their pension and social security benefits or other sources, it deposited the members' personal spending allowance and any income in excess of the members' monthly maintenance assessment into an account at a local bank. Also, the Home maintained a portion of the member funds in a checking account at the local bank. On a weekly basis, the Home withdrew \$12,000 to \$15,000 from the checking account to provide members with personal spending money at the cashier's office. The members then had an opportunity to deposit and withdraw their personal funds during each weekday from the cashier's office. Prior to the weekend, the Home returned any of the remaining personal spending money to the local bank. The Home maintained an individual record of each member's banking activity and personal account balance and provided each member with a quarterly account balance statement. Our review of the Home's processes related to member funds disclosed:

- a. The Home did not provide for adequate segregation of duties in the cashier's office. All cashiers had access to the cash drawers, the safe, and computerized member accounts. The Home issues quarterly financial statements of members' personal use accounts to conservators, durable power of attorneys, and members to compensate for this risk. However, a risk still exists because durable power of attorneys and members may not review or inquire about discrepancies in the financial statements. A proper segregation of duties would help to prevent or detect any irregularities.
- b. The Home had not installed security cameras where member funds are received and maintained. Because the cashiers have unsupervised access to the cashier's office, security cameras would help mitigate the risks associated with part a. of this finding.

- c. The Home did not ensure that it discharged funds as required by Home policy. According to the policy, the Home should return any funds to the member within 3 business days upon leaving the Home and provide a full accounting of member funds to the responsible parties within 10 business days of death.

We reviewed accounts for members who were discharged from the Home during February and March 2012. We noted that the Home did not return funds to one of the three members until 12 business days after leaving the Home. We also noted that the Home did not provide a full accounting of member funds to the responsible parties until 17 to 53 business days after the members' death in 8 of 11 instances and, as of August 21, 2012, had not provided any accounting of member funds to the responsible parties from 102 to 144 business days of the members' death in 7 other instances.

### **RECOMMENDATION**

We recommend that the Home implement sufficient controls over the handling of member funds.

### **AGENCY PRELIMINARY RESPONSE**

DMVA agrees. DMVA informed us that the accounting manager has implemented a policy (process) for executing random monthly reviews of cash financial transactions to determine the appropriateness of transactions. DMVA also informed us that the Home regularly responds to inquiries regarding the resident trust financial statements to the satisfaction of the concerned party. Although the Home provides the members with quarterly statements on the activity in their accounts, according to DMVA, it is the responsibility of the members or their designees to review or make inquiries about information contained in or lacking from the bank statements.

Also, DMVA informed us that the Home has purchased and installed three security cameras to monitor actions in the bank and that these cameras will interact with the aforementioned new security system when it is installed.

Further, DMVA informed us that the Home is reviewing the nursing home and VA guidelines with respect to required time frames for closed accounts and will extend

those time frames to match the required guidelines. DMVA stated that the Home has changed its policy on expired members to a 30-day standard, which is the same as VA nursing home standards.

## **OBSERVATION**

### 1. Monthly Fee Assessments

Prior to the start of each fiscal year, the Board of Managers of the Michigan Homes for Veterans establishes monthly fee assessments for the Home's nursing care and domiciliary services. These monthly fee assessments usually represent only small increases from the prior year. Although Section 36.11(1) of the *Michigan Compiled Laws* requires that any member who has adequate financial resources pay the full monthly fee assessment, the Board of Managers has set in policy that the State has a shared obligation to provide affordable long-term care to veterans who live in the State. To that effect, the Board of Managers has determined that, in accordance with Section 36.11(1), the lower monthly fee assessments were proper.

We compared the Board of Manager's full monthly fee assessments for fiscal year 2011-12 with the average daily cost of care for nursing care and domiciliary services as reported in the Home's September 2012 cost report to the VA. Based on an estimated monthly cost of care, we calculated the following variances:

Type of Member	Board-Approved Monthly Fee Assessment	Estimated Monthly Costs	Excess of Estimated Monthly Costs Over Monthly Fee Assessment	Percentage of Excess Estimated Monthly Costs Over Monthly Fee Assessment
Nursing Care - Veteran	\$3,950	\$5,401	\$1,451	(36.7%)
Nursing Care - Nonveteran	\$6,300	\$8,324	\$2,024	(32.1%)
Domiciliary - Veteran	\$2,150	\$4,720	\$2,570	(119.5%)
Domiciliary - Nonveteran	\$3,220	\$5,936	\$2,716	(84.4%)

As of September 30, 2012, the Home had 38 members receiving nursing care and 5 members residing in the domiciliary units who paid the full monthly fee assessment. Assuming that these members could pay for an increased monthly

fee assessment that represented the estimated cost of care, the Home could collect up to \$816,000 annually in additional member payments. However, it is unlikely that the entire assessment increase would be realized because members currently having the ability to pay the full monthly fee assessment may not have sufficient additional funds available to pay an increased assessment.

## **EFFORTS TO ADDRESS COMPLAINTS**

### **COMMENT**

**Audit Objective:** To assess the effectiveness of the Home's efforts to address complaints.

**Audit Conclusion:** **We concluded that the Home's efforts to address complaints were effective.** Our audit report does not include any reportable conditions related to this audit objective.

# GLOSSARY

## Glossary of Acronyms and Terms

Axis I and Axis II mental health disorders	Mental health disorders categorized by the American Psychiatric Association. Axis I mental health disorders include depression, schizophrenia, and social phobias, and Axis II disorders include developmental and personality disorders.
CAA	care area assessment.
<i>Code of Federal Regulations (CFR)</i>	The codification of the general and permanent rules published by the departments and agencies of the federal government.
continuous quality improvement	A process that aligns the vision and mission of an organization with the needs and expectations of internal and external customers. It normally includes a process to improve program effectiveness and efficiency by assessing performance indicators that measure outputs and outcomes related to the program vision, mission, goals, and objectives.
DMVA	Department of Military and Veterans Affairs.
DTMB	Department of Technology, Management, and Budget.
effectiveness	Success in achieving mission and goals.
EMR	electronic medical records.
MAIN	Michigan Administrative Information Network.
material condition	A reportable condition that could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.

MDS	Minimal Data Set.
mission	The main purpose of a program or an entity or the reason that the program or the entity was established.
monthly fee assessment	A rate the Board of Managers of the Michigan Homes for Veterans establishes, annually, for each type of member to cover a portion of the Home's cost of services provided to its members. The Board of Managers establishes a separate rate for each type of member, including veterans and nonveterans who receive nursing care and veterans and nonveterans who reside in the domiciliary units.
monthly maintenance assessment	The portion of the monthly fee assessment that the Home charges on a monthly basis. The Home calculates the maintenance assessment based on the member's financial circumstances, along with the number of dependents that the member may have, placement within the Home's nursing care or domiciliary units, and whether the member is a veteran or nonveteran. Based on the Home's calculation, the member may pay none of, a portion of, or the entire amount of the monthly fee assessment.
observation	A commentary that highlights certain details or events that may be of interest to users of the report. An observation differs from an audit finding in that it may not include the attributes (condition, effect, criteria, cause, and recommendation) that are presented in an audit finding.
performance audit	An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.

reportable condition

A matter that, in the auditor's judgment, is less severe than a material condition and falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the audit objectives; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.

VA

U.S. Department of Veterans Affairs.







