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

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

July 1, 1999 to April 12, 2001

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State Auditor
The Honorable Donald T. DiFrancesco  
Acting Governor of New Jersey

The Honorable Donald T. DiFrancesco  
President of the Senate

The Honorable Jack Collins  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of the Department of Military and Veterans Affairs, New Jersey Veterans Memorial Home Menlo Park for the period July 1, 1999 to April 12, 2001.

If you would like a personal briefing, please call me at (609) 292-3700.

Thomas R. Meseroll  
Quality Assurance Administrator

July 3, 2001
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Department of Military and Veterans Affairs
New Jersey Veterans Memorial Home Menlo Park

Scope
We have completed an audit of the Department of Military and Veterans Affairs, New Jersey Memorial Veterans Home Menlo Park for the period July 1, 1999 to April 12, 2001. Our audit included financial activities accounted for in the state’s General Fund and the home’s nonappropriated accounts.

Annual appropriations of the home during the audit period averaged $15.3 million. The prime responsibility of the home is to provide nursing care for New Jersey veterans with chronic disabilities. Revenues of the home averaged $7.3 million during our audit period and the major components of revenue were payments received from the Veterans Administration and care and maintenance fees collected from the residents.

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. We also tested for resolution of significant conditions noted in our prior report.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1, 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, administrative code, circular letters promulgated by the State Comptroller, and policies of the agency. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our samples of financial transactions. We also read...
the budget message, reviewed financial trends, and interviewed agency 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 transactions were judgmentally selected.

To ascertain the status of findings included in our prior report, we identified corrective action, if any, taken by the home and walked through the system to determine if the corrective action was effective.

**Conclusions**

We found that the financial transactions included in our testing were related to the home's programs, were reasonable, and were recorded properly in the accounting systems. In making this determination, we noted certain internal control weaknesses and matters of compliance with laws and regulations meriting management's attention.

We also found that the home has resolved five of eight issues noted in our prior report. The other unresolved issues from that report have been updated.
Undistributed interest accumulations result in additional appropriation to the Home.

Special Interest Account

Residents’ funds on deposit with the home’s members account are invested in the state’s Cash Management Fund. Residents are credited interest monthly based upon a rate determined by the New Jersey Department of Military and Veterans Affairs. The difference between the interest earnings for a particular month and the interest distributed to the residents is recorded in the Special Interest account. This account also serves as the “catch-all” for any other adjusting entries made during the month. The Special Interest account balance was over $80,000 as of December 31, 2000. The home is the fiduciary for these funds and all the interest accumulations are the property of the residents both past and current. The accumulation of funds within this account results in a funding source to the home in excess of that collected through Welfare Fund assessments or available through state appropriations.

Since the prior audit, a new information system is in place which the business office uses to allocate interest based on the established rate. This new system allows much greater accuracy in distributing interest to the residents’ accounts. If the home chooses to utilize the system option of distributing interest based on the actual amount earned in the investment account, then future fluctuations in the Special Interest account should be minimized.

Recommendation

We recommend that the department and the home analyze the unallocated balance within the Special Interest account and determine a proper disposition for those funds. We further recommend that the home utilize the capabilities of the information system and distribute the actual interest earnings on a monthly basis rather than the established rate.

Auditee’s Response

The $80,000 in the Special Interest Account will be transferred to the Welfare Fund Account and/or the Members Account. The interest is to be applied to funds of $100 and above. This interest is to be
calculated at the established rate. The Special Interest Account shall not fall below $10,000 or exceed $25,000 for cash flow purposes. The veterans homes will calculate the monthly interest based on the established rate at the end of each calendar month.

Rent Charges and Monitoring

New Jersey Administrative Code Title 5A, under the authority granted the Adjutant General in Title 38A of the New Jersey Permanent Statutes, establishes the criteria for admission eligibility, admission review, and computation of the care and maintenance fee for New Jersey veterans’ facilities. The New Jersey Department of Military and Veterans Affairs annually determines the maximum daily rate charged for care and maintenance, which should be approved by the Director of Budget and Accounting in the Department of the Treasury. After allowing for federal Veteran Administration’s per diem rate of $51.38, the monthly maximum rate is approximately $2,900. The monthly recovery amount is based upon 80 percent of the resident’s monthly income. Applicants for residency may have allowable assets up to $15,000 (single) or $40,000 (married). An applicant’s home is not part of this asset measurement. Assets exceeding these parameters are spent down by charging the care and maintenance maximum rent. After admission, the resident may accumulate an additional $5,000 in assets. The code requires an annual review of a resident’s fee determination and states, when assets exceed the allowable maximum, residents will be billed at the highest allowable rate until the allowable asset level is reached. The veterans home collects approximately $3 million annually from its residents.

Rate Calculation

Based on our review of the department’s calculation of the resident’s daily care rate, we determined that employee fringe benefits are not incorporated in the
rate. The Department of Military and Veterans Affairs decided not to include the cost of fringe benefits in the rate calculation in fiscal year 1996. If the department includes fringe benefits, annual rent revenues could increase by as much as $360,000. An increase in the daily care rate will only affect residents charged the maximum care and maintenance rate, approximately 30 of 260 residents. In addition, the daily care rate is not being approved annually by Director of the Division of Budget and Accounting in the Department of Treasury.

Asset Review at Admission

As part of the application process, the home obtains financial information from the applicant or their representatives. Documentation of financial activity for the eighteen months prior to application including two years of federal and state tax returns are required. This information is used to determine the care and maintenance (rent) charge. During our testing of fifteen recently admitted residents, we noted additional assets of $43,000 from five residents were omitted as spendable resources. The omission of the assets in the rent calculation process causes a loss of future revenues. The errors stemmed from a failure to compare information on the application with supporting documentation provided. There is a lack of secondary review and written guidance for rent charge determinations. Additionally, there is a lack of procedures to obtain independent verification of amounts reported through the use of bank confirmations or a program like the Income Eligibility Verification System utilized by the Medicaid program.

Annual Rate Reviews

As noted in our prior audit report, the home does not request from residents a list of accountable assets, tax returns, or other pertinent financial documentation when annually updating rent charges. The annual report solicited from the residents or their representatives only requests income and expenditure information. Therefore the home’s business office cannot effectively monitor a resident’s asset status nor the adequacy of rental charges.
Enforcement of Maximum Asset Limitations

The home does not enforce the maximum asset accumulation limitations. After initial asset determinations, the business office does not have any procedures in place to monitor the spendable asset accumulations beyond the $20,000 (single), $45,000 (married) limitations. As of November 30, 2000, five member account balances, averaging $31,500, were greater than the limitation. A sample of six residents that have their finances controlled by representatives outside the home revealed four potential accumulations which would affect the rent charges. The other two were already charged the maximum amount.

Collection Procedures

Annual care and maintenance collections total $3 million. As of December 31, 2000, the outstanding rents totaled $107,000 of which $72,000 related to eight cases. Current home procedures for collecting delinquent rents are limited to written notices and telephone calls. Per State Treasury Circular Letter No. 94-40, each agency shall make every effort to collect all of its accounts receivable. Given the limited number of cases, the home should expend more effort to collect these outstanding amounts through other available means such as the use of the Office of the Attorney General’s collection unit. Additionally, there is no aging of delinquent receivables on a monthly basis which would provide home management with a tool to identify those accounts with a greater risk of becoming uncollectible.

Recommendation

We recommend that the Department of Military and Veterans Affairs, along with the home’s management, improve the internal controls over resident rent charges and enhance revenues available by:

- Including all costs associated with the home’s operation in the rate determinations.
• Developing written guidance for business office employees evaluating financial information from applicants.

• Requiring secondary approvals for determinations of maintenance charges and asset valuations.

• Developing procedures to test for assets not initially reported on the admission application.

• Including assets as part of an annual rate review.

• Enforcing asset limitations as per administrative code.

• Increasing collection efforts for delinquent maintenance fees.

• Preparing an aging schedule of receivables for management’s use.

Auditee’s Response

At the present rate, the Department of Military and Veterans Affairs (DMAVA) is covering the appropriated cost of caring for the veteran. If we increase the cost per day, we will price ourselves out of the long-term care market. At this time, DMAVA chooses not to increase the cost. DMAVA is maintaining a competitive rate inclusive of the fringe benefits and depreciation. DMAVA will ensure that an annual review is conducted on all residents to include total assets of residents and spouses. Revisions to Title 5A:5 will address the recommendation of an annually established daily rate for services by The Adjutant General and forward the recommended daily rate to the Director, Division of Budget and Accounting, and Department of the Treasury. The daily rate will be published no later than 10 November of each year.
Asset Review

We will investigate for implementation the Department of Health and Senior Services’ system (Medicaid) for reviewing accounts/asset determination.

The Director, Division of Veterans Healthcare Services (DVHS) will recommend to the veterans homes that an independent reviewer; i.e. Chief Executive Officer or Assistant Chief Executive Officer, review all accounts/asset calculations. Also, the New Jersey Veterans Memorial homes will request from the veteran and/or responsible party their yearly federal and state income tax reports. This requirement will be effective 1 January 2002 and continue for each year thereafter. Information will be required by 15 May with a return date of no later than 30 June of each year.

Collection Procedures

The DMAVA-DVHS Division is meeting with the Deputy Attorney General’s Collection Unit to address collection procedures. Following this meeting, a standard operating procedure will be sent to all Chief Executive Officers and Business Managers at the veterans memorial homes. A determination has been made to assign one full time Deputy Attorney General to assist DMAVA in all endeavors inclusive of delinquent accounts.

Needy veterans are not given priority on the home’s waiting list.

Waiting List

In accordance with NJAC 5A:5-2.2, a needy veteran has preference on the admission waiting list over veterans having accountable assets that exceed the maximum. The home’s current waiting list, estimated to be eight to nine months, is based on application date and no preference is made for needy veterans. If the home applied the code, veterans with
assets in excess of the maximum would be placed at the bottom of the list and likely not be admitted to the facility for an extended period of time. The home’s management states that the current policy stems from a department level decision.

**Recommendation**

We recommend that the department review their policy and take appropriate action to comply with the Administrative Code.

**Auditee’s Response**

The DMAVA-DVHS Director and Chief Executive Officers are in the process of reviewing and revising NJAC Title 5A:5, Eligibility and Admission Criteria, prior to November 2002.

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**Medical Supplies**

Treasury Circular Letter 00-13DP provides agencies with direct purchase authorization (DPA) to purchase items that are not available under one of four primary contracting methods. These purchases should represent nonrecurring purchases. Additionally, if the anticipated fiscal year volume for the qualifying item exceeds $25,000, the agency should request a state contract from the State Purchase Bureau. In our review of medical supplies purchases of $266,000, we found the home purchased 90 percent through the use of DPAs. Statewide, the purchase of medical supplies averaged 44 percent. Purchases of examination gloves represented the largest commodity of DPA purchases. Additionally, we noted other qualifying items exceeding $25,000 in annual purchases with a single vendor receiving $92,000 in orders for medical supplies through DPAs.

The home awarded a contract for the purchase of examination gloves to a noncontract vendor even though the vendor was not the lowest bid solicited. The home did not document how they arrived at the
final award decision and did not notify the bypassed vendors in writing.

**Recommendation**

We recommend the home purchase examination gloves as well as other medical supplies in compliance with the circular letter.

**Auditee’s Response**

The veterans memorial homes will identify large quantity purchase items such as gloves and diapers, and write a Request for Proposal for the Department’s Fiscal Division to forward for bid.