

**STATE OF NEW HAMPSHIRE
INTERNAL CONTROL REVIEW
NEW HAMPSHIRE VETERANS' HOME
MEMBERS' ADMINISTRATION ACCOUNT**

OCTOBER 2018



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To The Fiscal Committee Of The General Court:

This report presents the results of our assessment of the internal controls in operation over the New Hampshire Veterans' Home (NHVH) Members' Administration Account (MAA) during the nine months ended March 31, 2018.

We conducted our work in accordance with auditing standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings.

The work performed was for the purpose of meeting the audit objectives described on page 2 of this report and did not constitute an audit of financial statements in accordance with GAGAS. The work performed also was not designed for the purpose of expressing an opinion on the effectiveness of the NHVH's internal controls. Accordingly, we do not express an opinion on the effectiveness of the NHVH's internal controls.

The NHVH provided auditee responses which are included with each finding in this report. We did not audit the NHVH's responses.

Office of Legislative Budget Assistant
Office Of Legislative Budget Assistant

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This report, and all other LBA-issued financial audit reports, can be accessed on-line at:
<http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx>

* No comments suggest legislative action may be required.

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EXECUTIVE SUMMARY

State agency management is responsible for establishing and maintaining effective internal controls, including controls over financial reporting, and controls over compliance with the laws, administrative rules, regulations, contracts, and grant agreements applicable to the entity's activities. The Department of Administrative Services (DAS) has developed an *Internal Control Guide* to help State agency personnel understand the concepts of internal control. The *Internal Control Guide* explains the purpose of internal control and its five components: control environment, risk assessment, control activities, information and communication, and monitoring. In addition, DAS maintains a *Manual of Procedures*, approved by the Governor and Council, for use by all State agencies.

The objective of this audit was to evaluate whether the New Hampshire Veterans' Home (NHVH) has designed, communicated, implemented, and operated suitable internal controls over the Members' Administration Account (MAA). Criteria used in the evaluation included State statutes and administrative rules; policies and procedures, including DAS' *Manual of Procedures (MOP 1625)*, and *Internal Control Guide*; accepted State business practice; NHVH policies and procedures; and federal regulations related to veteran home management of resident monies. The purpose of this audit was not to render an opinion on the State's, NHVH's, or any agency's financial statements, internal control, or compliance.

Our audit was performed using auditing standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings.

SUMMARY OF RESULTS

During the nine months ended March 31, 2018, the NHVH's internal controls were ineffectually designed and operated to provide reasonable assurance the NHVH's control objectives for the operation of the MAA would be achieved. The NHVH's controls for the operation of the MAA, if documented, were largely informal process descriptions, often not evidenced as having been reviewed and approved by management or compiled into a manual or other accessible reference resource. The NHVH's management had not addressed significant comments related to the operation of the MAA contained in prior audit reports, meaningfully involved itself in control processes, or otherwise demonstrated a commitment to the establishment, operation, and maintenance of effective controls over the MAA. As a result, and as noted in the observations contained in this report, significant weaknesses exist in all of the generally accepted components of internal controls including control environment, risk assessment, control activities, communication and information sharing, and monitoring such that the NHVH could not be

certain that intended controls were in place, consistently operating, and relevant to the risks facing the NHVH's changing operation.

While we found weaknesses in the design and operation of the NHVH's controls over the operation of the MAA, as well as concerning errors in the NHVH's recording and reporting of financial transactions, we did not identify evidence of fraud or significant abuse in the transactions tested. However, the weaknesses we did find raise significant concerns as to whether the controls in place over the NHVH's MAA financial operations are sufficient to reasonably ensure that the controls would be effective in detecting and correcting a significant error, fraud, abuse, or instance of noncompliance were it to occur in the NHVH's operation of the MAA.

BACKGROUND

The MAA is a custodial fund maintained by the NHVH to provide residents with the option of an in-NHVH banking service that will receive, hold, and disburse money at the residents' direction. The NHVH pools resident balances in a checking account maintained at the NHVH and in an investment account with the State Treasury. Accountability for resident balances and financial activity is maintained in an accounting software application that the NHVH uses to periodically report account information to the residents or their guardians. Financial activity typically includes deposits of resident income (e.g. pensions, social security benefits); resident-directed payments for room and board and personal purchases of items such as clothing, periodicals, and special foods and beverages; and cash withdrawals by residents.

The MAA is reported as an agency fund in the State of New Hampshire's comprehensive annual financial report. The financial activity in the MAA is not recorded in, or subject to the controls in, the State's central accounting system, NHFirst.

During the nine months ended March 31, 2018, approximately \$3.9 million was deposited into, and \$3.8 million was paid from the MAA. At March 31, 2018, the MAA contained over 260 resident accounts, as well as two administrative accounts, and the balance was \$1.2 million, with individual resident balances ranging from \$0 to \$75,795.

The appendix to this report beginning on page 29 summarizes certain data related to the NHVH's operation of the MAA during the nine months ended March 31, 2018.

OBJECTIVES, SCOPE, AND METHODOLOGY

Audit Objectives

1. Assess the NHVH's internal controls related to the MAA, including control environment, risk assessment, control activities, information and communication, and monitoring by assessing the NHVH's policies and procedures for the establishment and maintenance of an effective control system over the MAA.

2. Assess the adequacy of the design of internal controls over the MAA.
3. Assess establishment/implementation of internal controls as designed.
4. Assess the operation of the internal controls, including:
 - Functional compliance with written policies and procedures, laws, and rules related to the MAA.
 - Functional compliance with stated (but not necessarily documented) policies and procedures related to the MAA.
 - Adequacy of separation of duties and responsibilities for controls for the MAA.

Audit Scope

The scope of our audit included the NHVH's internal controls over the MAA, including the NHVH's internal controls over the receipt, holding, and disbursement of amounts in the MAA.

The audit period was July 1, 2017 through March 31, 2018.

Audit Methodology

1. Interview NHVH personnel.
2. Review control documentation, including the NHVH's:
 - Policies and procedures, and
 - Documentation of systems, applications, forms and instructions, and other relevant information.
3. Review laws, rules, regulations, and policies and procedures related to the MAA, including:
 - State statutes,
 - Federal law and regulation,
 - New Hampshire Administrative rules,
 - State-wide policies and procedures, and
 - NHVH-based general and specific policies and procedures for the MAA.
4. Observe processes.
5. Review the design and operation of internal controls through review of evidence of the application of controls including random and judgmental samples of:
 - MAA transactions,
 - Financial reporting, and
 - Other control activities.

PRIOR AUDIT

The MAA was included in the scope of the financial audit of the New Hampshire Veterans' Home (NHVH) for the fiscal year ended June 30, 2012. A copy of the 2012 audit report can be accessed at, and printed from, the Office of Legislative Budget Assistant website: <http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx>. The appendix on page 31 of this report identifies the status, as of the May 22, 2018 end of fieldwork date, of the comments in the 2012 report that relate to the NHVH's operation of the MAA.

FINDINGS AND RECOMMENDATIONS

Observation No. 1: Policies And Procedures Should Be Established To Support Significant Accounting And Financial Reporting Activities

Observation:

Controls over the NHVH's MAA financial accounting and reporting operations have not been consistently well designed or effectively operated during the nine months ended March 31, 2018. The NHVH's controls over the MAA were supported largely by informal process descriptions that lack evidence of having been reviewed and approved by management. Additionally, the process descriptions have not been compiled into a manual or other comparable document that would serve as an easily accessible reference resource for responsible staff.

Controls supported by policies and procedures are an organization's primary means for ensuring that appropriate operating criteria are regularly met over time. As such, appropriate levels of management should initiate, vet, review, and approve policies and procedures to ensure they are appropriate for the purpose, are in alignment with the entity's goals and objectives, and provide for suitable operational controls. To be most effective, the policies and procedures should be readily accessible and staff should be trained in their application. Management should implement monitoring procedures to ensure continued staff compliance with documented policies and procedures and periodically review the effectiveness of those established policies and procedures to ensure the related control objectives are achieved over time.

The NHVH's informal approach to the establishment of MAA controls, including its minimal documentation of policies and procedures, presents significant risk that appropriate controls will not exist to direct and support the NHVH's MAA operations.

A similar comment was included in our 2012 financial audit of the NHVH.

Recommendation:

The NHVH should establish controls, supported by well-designed and well-documented policies and procedures, to support all significant MAA financial accounting and reporting operations. The policies and procedures should be approved by management and effectively cataloged and communicated to employees to serve as a reference in their performance of significant accounting and financial reporting activities. Employees should be trained in the application of the policies and procedures, and the NHVH should monitor employee compliance and the ongoing effectiveness of the policies and procedures.

Auditee Response:

We concur. We agree that the NH Veterans Home's (NHVH) procedure manual maintained by the Chief Accountant should be updated and improved with upper management review of all procedures and clear designation of responsibility.

Auditee Corrective Action Plan:

The NHVH is actively working with the DAS Division of Personnel to reclass a currently vacant position to allow the addition of a Business Administrator IV position to provide additional direct hands on detail management control over all Business Office operations. This new position will be responsible for insuring ongoing documentation, maintenance, review and compliance of all Business Office procedures and operations which will include management of the Members Administration Account. This new position will be responsible for ongoing risk management assessment, developing, maintaining and managing fiscal controls to insure proper segregation of duties for all accounting functions and ongoing analysis of operations to maintain proper internal and external controls to further reduce the possibility of any future fraud.

Corrective action is anticipated to begin immediately and should be complete by 12/31/18.

Observation No. 2: Establish Formal Risk Assessment Process And Control

Observation:

The NHVH has not established and performed a formal risk assessment related to its MAA operations. While the NHVH acknowledges it does not have a formal risk assessment process in place, the NHVH reports that risks may be identified during its monthly leadership team meetings when supervisors provide updates to the operation of their departments including issues that may be occurring.

An operative risk assessment process is a critical component of an effective internal control system that assists management in assessing the likelihood and magnitude of risks related to its operations and designing and implementing responsive control activities.

Without an effective risk assessment process, the NHVH is placed in a largely reactive mode when facing and responding to risks to its MAA financial operations.

Recommendation:

The NHVH should establish a formal risk assessment process and control for its significant operations, including its operation of the MAA. The risk assessment process and control should be supported by policies and procedures that:

- Define objectives clearly, enable the identification of risks - including consideration of both risk likelihoods and magnitudes, and define the NHVH's risk tolerances,
- Identify, analyze, and respond, where appropriate, to risks that may impact the NHVH's ability to continue to achieve its defined objectives,
- Consider the potential for fraud when identifying, analyzing, and responding to risks, and
- Identify, analyze, and respond to significant changes that could impact the NHVH's internal control system.

Auditee Response:

We concur. The NHVH would benefit from a formal risk assessment related to our MAA operations.

Auditee Corrective Action Plan:

The NHVH will conduct a formal risk assessment on our MAA operations.

Corrective action is anticipated to be complete by 12/31/18.

Observation No. 3: Improve Communication And Information Sharing Controls

Observation:

During the nine months ended March 31, 2018, the effectiveness of the NHVH's internal controls suffered as a result of less than optimal communication and information sharing. Ineffective communication and information sharing contributed to situations where management's intentions for the operation of the NHVH were not fully communicated to, or understood by, employees responsible for the business functions related to those operations.

Effective and efficient communication and information sharing is an integral component of an effective internal control system, and is necessary to ensure an entity's objectives are understood, and controls intended to promote achievement of those objectives operate as designed. The following are examples of where the NHVH's MAA operations were negatively impacted by poor communication and information sharing.

1. At its September 2017 meeting, the NHVH's Board of Managers approved an increase in the full-pay room and board rate from \$300 to \$320 per day. The increase was to become effective January 1, 2018. The business office reportedly was not made aware of the increase until March 2018, three months after the effective date. In March 2018, the NHVH issued a second bill to full-pay residents to retroactively correct the February billing, but chose not to correct the January billing. Room and board payments account for a significant portion of MAA disbursements.
2. A business office policy provides that resident medical bills should be reviewed and approved by the NHVH's medical-records section, prior to charging the bills to the resident's MAA balance. At the time of the audit, the NHVH's management and medical-records section reported they were unaware of the policy and, as a result, not complying with the policy. Upon learning of the policy, the NHVH's management determined the policy was not needed, as it was confident the primary payer, either Medicare or the third party insurance, would adequately review the appropriateness of the charges.
3. The Board of Managers approved a policy change with an effective date of September 2017 to no longer charge residents' MAA accounts for the cost of oxygen services. The business

office reported it only initially learned of the policy change subsequent to an auditor inquiry in March 2018. The NHVH reported no residents were overcharged during this period.

Recommendation:

The NHVH should review its communication and information sharing policies, procedures, and processes to ensure they are well designed to support the achievement of management's objectives, including effective internal controls.

The NHVH should take steps to ensure all changes to billing practices are communicated effectively and timely to responsible staff.

Auditee Response:

We concur. All appropriate information will be effectively communicated and shared with the Business Office staff.

Auditee Corrective Action Plan:

Effective immediately, all future communications regarding changes in policies, procedures, and processes will be communicated to the Business Office either in writing or via email and will require receipt confirmation by the Chief Accountant or Business Administrator.

Corrective action implemented effective 9/6/18.

Observation No. 4: Review Adequacy Of Current Financial Accounting And Reporting System

Observation:

As currently implemented, the NHVH's MAA financial accounting and reporting system and software does not have controls to prevent inadvertent or other unauthorized posting of transactions, or changes to previously posted transactions, including changes to transactions in closed, previously-reported accounting periods. In addition, one key employee uses both an employee-specific user-name account and an anonymous administrative sign-on account interchangeably, unnecessarily obfuscating the accountability for some transactions.

For a number of years, the NHVH has used a common, off-the-shelf financial accounting software package to account for and report MAA financial activity. The NHVH selected and implemented the accounting software, which is typically used by small and very small businesses, based upon its understood needs, without having had prior experience in those critical activities. While a well-designed and properly configured financial accounting and reporting system can provide significant efficiencies and controls, a less well-designed and configured system can prove burdensome and unnecessarily increase risk. While the accounting software as implemented by the NHVH has served a purpose, the NHVH has not taken full advantage of the software's limited, but available, control features. While the software can be

reconfigured to improve its utility and current controls, it is not clear the continued use of the current software is the best option for the NHVH in the long-term.

Examples of concerns regarding the NHVH's current application of the software include excess user authorities; user unfamiliarity with available management reports and reporting; and lack of application of available controls such as effectively closing accounting periods, establishing audit trails sufficient to document and explain all transactions, and accounting for all issued transaction numbers.

The NHVH also uses the software to account for and report the balances and financial activity in the NHVH's Benefit Fund.

A similar comment was included in the report on the 2012 financial audit of the NHVH.

Recommendation:

The NHVH should ensure that it has the appropriate accounting and financial reporting software to securely and efficiently support its operation of the MAA. The NHVH should obtain expert advice from professionals experienced in selecting, configuring, and implementing appropriate accounting software. The software should be configured and operated in a manner that is consistent with best practices for an account similar to the MAA, so that the operation of the account and software is transparent to current and future employees responsible for the account. This should include the establishment and maintenance of controls and audit trails that can prove the secure operation of the account.

Pending any decision and action to replace the software, the NHVH should strengthen the controls in the current software by establishing and implementing policies and procedures that:

- Adequately segregate incompatible duties,
- Establish and maintain accountability for all transactions, including the identity of employees posting that activity,
- Close accounting periods timely, and
- Ensure there is an audit trail that supports the balances and activity reported in the accounts.

Auditee Response:

We concur. After receiving feedback from the auditing staff earlier this year, the NHVH immediately began an active search for an accounting software package to replace the current off the shelf standardized, QuickBooks financial software package. It should be noted that this software is only used for the MAA and Members Benefit Fund activities to insure separation from all other State operations. All State accounting is performed using the required Lawson state systems.

Auditee Corrective Action Plan:

The NHVH has been unable to locate a cost effective accounting software solution to be used with the MAA. We explored purchasing the accounting packages found in our PointClickCare

electronic medical record system but they are cost prohibitive and would require an inordinate amount of effort to use and maintain for the limited purpose of tracking MAA activity. This software solution would provide serious overkill and overly complicated processes to accomplish simple accounting goal. We will continue to search for a cost effective solution. In the meantime, we will mitigate any future risk by making immediate policy changes. The Chief Accountant will only have access to her own user id and not the Master Super User password. The Master system password will be assigned to the NHVH Director of Administrative Services. Policy now prohibits reopening of any prior closed periods to insure maintenance of a proper detail audit trail.

Corrective action plan implemented 9/6/18.

Observation No. 5: Eliminate Current Segregation Of Duties Weakness

Observation:

The NHVH's current assignment of responsibilities for MAA financial operations presents a significant segregation of duties weakness over those operations, as one manager-level employee has the access and authority to direct or perform essentially all activity in the account, with no mitigating review and approval, or other controls, over that employee's activity.

One key employee regularly records activity in the MAA financial information system, has access to undeposited cash and checks received in payment, cuts checks for payment from the account, receives the bank statement and reconciles the checking account, and oversees other employees performing many of the same functions. While senior management has access to, and does utilize, on-line banking data and reporting, that access does not provide sufficient detail to allow for adequate oversight of the financial operations of the MAA, including the key employee's activities within the account.

Recommendation:

The NHVH should review the current delegation of MAA financial accounting and reporting responsibilities. Activities should be reassigned as appropriate to eliminate or mitigate the current segregation of duties weakness. Given the limited number of employees in the business office, it might be necessary for the NHVH's management to become more involved in the business office controls in order to mitigate current segregation of duties weaknesses in MAA operations.

The NHVH should improve controls over all financial activity recorded in the account, including its monitoring of that activity by critically reviewing the reconciliations of the bank statements and the residents' MAA accounts. Specifically, the NHVH should:

- Review and amend policies and procedures to ensure that key activities such as the authorization and recording of transactions, as well as the physical custody of assets, are

adequately segregated to reduce the risk of error and fraud and the potential concealment of error and fraud.

- Create effective communication channels for distributing policies and procedures.
- Implement a formal risk assessment process.
- Monitor employee compliance with established policies and procedures.

Auditee Response:

We concur.

Auditee Corrective Action Plan:

The recommendation for improving policy and procedure communications has been addressed in Auditee Correction Action Plan for Observation No. 3 above.

The recommendation for implementing a formal risk assessment process has been addressed in Auditee Correction Action Plan for Observation No. 2 above.

Effective immediately, now that the Business Office is again fully staffed, Management has provided additional segregation of duties for the MAA financial information system by spreading the responsibilities among several employees to correct the situation where the Chief Accountant had access and authority to perform all activity in the account. Additional review and control will be added as the NHVH fills the new Business Administrator position.

Corrective action plan implemented 9/6/18.

Observation No. 6: Establish Controls For Accurately Invoicing Residents For Room And Board

Observation:

Errors in the NHVH's invoicing of room and board to resident MAA accounts were not detected and corrected by the NHVH, indicating weaknesses in controls over the NHVH's process for calculating and invoicing room and board charges.

A review of room and board charges paid from the MAA indicate a lack of clear policies and procedures and ineffective review and approval controls contributed to the NHVH having difficulty in consistently generating accurate room and board invoices during the nine months ended March 31, 2018.

Resident room and board charges, the largest regular MAA transactions, are based on residents' assets and income. Full-pay residents, whose assets are greater than \$30,000, are charged \$9,600 per month (\$9,000 prior to January 2018). Residents whose assets are equal to or less than \$30,000, are charged according to a calculation where monthly room and board equals 90% of a resident's total monthly income, after a \$100 personal allowance deduction. The NHVH uses the State's accounting system, NHFirst, to generate and track payments on the monthly room and

board invoices. Typical sources of resident income included in the room and board calculation are Department of Veterans' Affairs (VA), Social Security, retirement and other pension-type benefits, and other sources of periodic income received by residents.

1. Auditor inquiry and review of documentation supporting partial-pay resident room and board charges identified what appeared to be incorrect postings of certain VA benefits to resident MAA accounts. The NHVH's practice of including a spousal or other dependent allowance as a component of resident income resulted in some residents being overcharged as much as \$312 per month for room and board. Upon its review, the NHVH estimated that it had overcharged 18 current residents as much as \$18,000 for room and board during the period of their residency, with the total amount of room and board overcharged to current residents estimated to be approximately \$97,000. The NHVH estimated that it had overcharged 18 prior residents approximately \$120,000, for a total of approximately \$217,000.
2. Auditors tested a random sample of 38 monthly room and board transactions paid from resident MAA accounts and identified 11 transactions (29%) in which the documentation of the residents' monthly income did not support the NHVH's calculation of the monthly room and board charge. In five (13%) of those transactions, documentation was sufficient to determine the amounts invoiced were incorrect. In the remaining six transactions (16%), sufficient information was not available to determine if it was an issue of missing documentation or an error in the calculation. The identified errors in the tested monthly-invoiced amounts ranged from an \$8 underbilling to a \$118 overbilling. Because invoices are recurring, invoicing errors may affect more than one month prior to being recalculated. Auditors advised the NHVH of these errors.
3. An auditor's review of full-pay resident transactions identified a resident's account that was incorrectly overcharged \$3,262 for additional room and board in a month when the resident received a one-time \$3,624 revenue item. In this instance, the NHVH charged the resident's income item a 90% room and board fee as if the resident was a partial-pay. Auditors advised the NHVH of this error.

Recommendation:

The NHVH should establish controls, supported by policies and procedures, for accurately invoicing residents for room and board. Invoices for room and board should be subject to review and approval controls to ensure that residents are charged only what is due.

The NHVH should complete its review of the MAA accounts of residents who have been overcharged room and board as a result of including dependent allowances in resident income for room and board purposes. The NHVH should confirm with the VA the reasonableness of the assumptions used in its estimate calculations.

The NHVH should establish a controlled process to ensure the accuracy of its calculations and to refund all current and prior residents, and the estates of deceased residents, whose room and board was incorrectly calculated and paid. The NHVH should review with legal counsel its

proposed process for refunding prior residents and the estates of deceased residents to ensure the process complies with applicable State and federal laws and rules.

The NHVH should further review its room and board invoicing to discover and correct any additional invoicing errors.

In connection with its review of the MAA financial accounting and reporting system, the NHVH should determine whether the calculation of room and board fees can be automated, lessening the administrative burden and potential for clerical errors.

Auditee Response:

We concur.

Auditee Corrective Action Plan:

Management has reviewed, documented, dated and signed the procedure to be followed in calculating and verifying resident billings. Duties have been segregated and assigned to two senior staff members for invoicing review.

In addition, the NHVH has initiated a review of all of the current and deceased resident MAA accounts receiving VA spousal aid and assistance income and will identify any refunds due affected residents and insure reimbursements are made by 12/31/18. Going forward for all new spousal assistance awards, the NHVH will request a formal detailed acknowledgement from the VA precisely identifying amounts due residents and amounts due for their spouses which will be excluded from the resident's income in calculating their share of room and board expenses.

Corrective action plan implemented 10/9/18.

Observation No. 7: Establish Policies And Procedures For Updating Resident Financial Affidavits

Observation:

The NHVH does not have policies and procedures or a process in place to follow up with residents or guardians on annual updates to financial affidavits that are not returned to the NHVH.

According to N.H. Admin. Rules Ve-H 304.05(d), annually, residents are to complete a financial affidavit providing information on the resident's and resident's spouse's finances including information on separate assets, joint assets, resident's alimony and child support obligations, long-term care insurance, and resident's and spouse's income from specified sources. Information from the affidavits is used to determine residents' monthly room and board fees.

The NHVH sends out an annual notification to residents, or their guardians, requesting the submission of an updated financial affidavit. The NHVH reports that it tracks the receipt of the

updated affidavits, but does not take further actions to obtain a financial affidavit from those residents that do not submit the financial affidavit updates by the requested due date.

Of the 35 residents tested for MAA room and board payments, 11, (31%), did not have current financial affidavits on file.

Recommendation:

The NHVH should establish policies and procedures for processing updates to the resident financial affidavits required by N.H. Admin. Rule Ve-H 304.05(d) to ensure that the room and board charged to residents' MAA accounts correctly reflects any change in residents' assets and income since the last update.

The NHVH should establish policies and procedures to follow up with residents, or their guardians, on affidavits that are not filed timely with the NHVH.

Auditee Response:

We concur. The Business Office sends out the annual notification to residents or their guardians, requesting the submission of an updated financial affidavit as required by Ve-H 304.05(d). A check list is maintained of whom has returned the affidavits.

Auditee Corrective Action Plan:

Our procedure has been updated and we have assigned responsibility for monthly follow up to the Resident Accounts Technician with follow up as needed by the Chief Accountant. If no response is received, an automatic calculation will be made to insure billing fairness among all residents.

Corrective action plan implemented 9/6/18.

Observation No. 8: Review Existing Process And Controls For Posting Deposits To Residents' MAA Accounts

Observation:

During the nine months ended March 31, 2018, the NHVH's business office did not receive sufficient information to consistently and accurately identify the resident-owner of funds deposited directly into the MAA bank account by outside parties. The process used by the NHVH to identify and post resident income to the MAA, prior to receiving confirming information from monthly bank statements, was at best inefficient, often requiring the NHVH to subsequently post corrections to resident accounts.

Outside parties, including the Department of Veterans Affairs, Social Security Administration, and some pension plans, directly deposit resident benefit payments into the NHVH's MAA checking account. The NHVH's process for crediting direct deposits to resident MAA accounts

includes obtaining and reviewing a weekly printout of deposit amounts from the bank's online banking system. Because the resident-owners are not listed on the printout, the NHVH tentatively identifies the owners of the deposits by the nature, number, and amount of the deposits. If the NHVH is uncertain as to who the funds belong to, the NHVH posts the deposit to the MAA adjustment account, pending the receipt of the monthly bank statement. The monthly statement generally provides the social security number, or other information, that can be used to specifically identify the resident-owners of the deposited amounts. The NHVH reports that upon the receipt of the monthly bank statement, it reviews the initial postings to the MAA to ensure that direct deposit amounts were posted to the correct residents' accounts and it makes corrections as necessary.

Auditors reviewed three monthly bank statements to test whether direct deposits were posted accurately to residents' accounts.

- In the three months tested, the NHVH detected and corrected five postings, where the NHVH had initially posted a resident's income to an incorrect resident's account. In one of these five instances, auditors identified that a correction was erroneously made twice, understating a resident's account by \$1,830.
- Auditors detected three additional errors, totaling approximately \$3,200, where deposits were posted to the wrong resident's account.
- Auditors detected a \$71 deposit of a resident's social security income that had not been credited to any resident account, or to the adjustment account.

Auditors advised the NHVH of the noted errors.

Additionally, a review of credit memos caused auditors to inquire about \$2,776 posted to the adjustment account on December 31, 2017. Upon inquiry, the NHVH indicated the amount was an aggregation of more than one unidentified deposit amount on the bank statement. The amount remained unidentified in the adjustment account as of March 31, 2018.

Recommendation:

The NHVH should review its process for posting deposits to resident MAA accounts to ensure that controls are in place to reasonably guarantee amounts are accurately posted. The cause of mispostings to resident MAA accounts should be reviewed and, where appropriate, additional controls, supported by policies and procedures, should be implemented to protect residents' MAA balances. All corrections to resident MAA accounts should be subject to a review and approval control.

The NHVH should obtain sufficient and timely information to allow for the efficient and accurate posting of resident income received through direct deposits in the NHVH's MAA checking account. The NHVH should work with the bank to determine an efficient and controlled process to obtain the needed information to enable it to timely and accurately post deposits to the resident MAA accounts.

Auditee Response:

We concur.

Auditee Corrective Action Plan:

Effective immediately, an additional Office Procedure has been established which now requires that all corrections made to resident MAA accounts must be reviewed and approved by the Chief Accountant in advance of any corrective adjustments. All adjustments must be made in the current period with no back dating allowed. Also all entries made into the adjustment account must be separate events with no pooling of unidentified deposits or credits allowed.

Corrective Action Plan implemented 8/16/18.

The bank is now providing a reporting service, for a monthly fee of \$10, to be paid by the NHVH, which now precisely identifies electronic direct deposits for each resident, and notifies the Business Office daily via email, as deposits occur (FEDI report). We requested this service immediately upon the auditor's initial recommendation that improvements were needed. The bank finally produced the Certificate of Authority for Cash Management Services which we signed on 8/9/18 and the service began on 8/14/18.

Corrective Action Plan implemented 8/14/18.

Observation No. 9: Ensure All MAA Disbursements Are Properly Authorized By Residents

Observation:

The NHVH has not consistently ensured that it receives and maintains evidence of resident authorizations prior to disbursing residents' MAA monies.

The NHVH's *Resident Personal Finance Policy* specifies that "any withdrawals from a residents account must be authorized by the resident or his/her Financial Power of Attorney or Guardian."

The NHVH could not locate evidence that the resident or other authorized party had given prior authorization to disburse funds in seven (9%) of a stratified random sample of 78 MAA disbursements tested. Of the seven disbursements without evidence of prior authorization, three were for the payment of medical bills, two were for the payment of room and board charges, one was for the payment after the resident's death for funeral costs (see Observation No. 10), and one was for the return of a discharged resident's balance.

Adhering to NHVH policies and procedures is key in demonstrating the NHVH's commitment to the management of residents' personal funds; particularly its controls to safeguard, manage, and account for residents' personal funds deposited with the NHVH.

Recommendation:

The NHVH should ensure that all disbursements made from resident MAA accounts are properly authorized prior to making the disbursements. The NHVH should review and revise as necessary vague or inconsistent policy language. Once revised, the NHVH should distribute the new policies to appropriate staff to ensure those submitting requests, and those processing requests for disbursements of resident funds, are aware of the policies and procedures.

The NHVH should also develop an effective monitoring control process to ensure consistent application of the policies.

Auditee Response:

We concur. While management feels that current procedures are in place to properly insure resident approvals before disbursements are made from their accounts, improvement will be made.

Auditee Corrective Action Plan:

To further strengthen the current procedures, Management has merged several procedures into a new Resident Expenditure Procedures document, which has been updated, reviewed, dated and signed by the NHVH Director of Administrative Services.

Corrective action plan implemented 9/6/18.

Observation No. 10: Establish Policies And Procedures Related To Disbursements From The MAA Accounts Of Deceased Residents

Observation:

During the nine months ended March 31, 2018, the NHVH did not have policies and procedures in place specifically addressing the NHVH's responsibility and authority for the proper handling of MAA accounts of deceased residents, including ensuring that the NHVH had proper authority prior to disbursing monies from those accounts.

CFR 51.70 (c)(5) states, "Upon the death of a resident with a personal fund deposited with the facility, the facility management must convey within 90 calendar days the resident's funds, and a final accounting of those funds, to the individual or probate jurisdiction administering the resident's estate; or other appropriate individual or entity, if State law allows."

It is the NHVH's regular practice to require residents to authorize or approve all disbursements of funds from their MAA account. Resident authorizations take the form of signed authorizations to regularly pay room and board and/or medical bills from their account, and signed authorization slips for cash withdrawals and other resident-directed disbursements.

Subsequent to a resident's death, the NHVH regularly continues to process payments from the MAA accounts of the deceased resident for final room and board charges, medical bills, and other invoices received by the NHVH for services provided prior to the resident's death. In some instances, the NHVH made these payments more than six months after the death of the resident. It is unclear that the NHVH has the authority to make any payments from the account of a deceased resident without the direction of a court or a court-authorized representative of the deceased resident's estate. It is also unclear whether the NHVH should be retaining the accounts of deceased residents beyond the 90 calendar days stated in the code of federal regulations.

Recommendation:

The NHVH should review with legal counsel its responsibility for handling deceased resident MAA accounts, including whether the NHVH has the authority to make disbursements from the MAA accounts of deceased residents without prior direction from a court or a court-authorized representative of the deceased resident's estate.

The NHVH should establish policies and procedures to guide the business office in handling the accounts of deceased residents, including delineating when and how the NHVH can make disbursements from the MAA accounts of deceased residents. Policies and procedures should promote the timely and secure transfers of account balances to the deceased residents' estates.

Auditee Response:

We concur. The NHVH has been using our current procedures for the past 34 years and has been reviewed by past State and VA audits over that time period. The NHVH only makes limited payments after the death of a resident to cover room (billing in arrears) and board up to the date of death, funeral related expenses and medical bills.

Auditee Corrective Action Plan:

To provide further clarity, the NHVH has updated its procedure covering such disbursements, and has provided management review, dating and signature.

Corrective action plan implemented 9/6/18.

We have also contacted the Attorney General's office for review of 38 CFR 51.70 for counsel on whether the NHVH has authority to make disbursement from the MAA without prior direction from a court or court-authorized representative of the deceased resident's estate and whether the 90 day rule applies.

Corrective action plan: We expect to receive guidance by 12/31/18.

Observation No. 11: Establish Check Signing Controls For MAA Disbursements

Observation:

The NHVH has not established controls to ensure disbursements from the MAA have been reviewed and approved prior to the signing of checks drawn on the MAA. While the chief accountant, by informal process, regularly initials the check stub to indicate a review and approval of a disbursement prior to presenting the checks to be signed, this is not done in all instances and the check signers report that they do not use the presence or absence of initials as a control for their signing of the checks.

The NHVH reports that, generally, signers on the MAA checking account assume the underlying support for a disbursement has been reviewed and approved by the NHVH's chief accountant prior to a check being presented for signature. The lack of evidence of the application of the control presents a significant risk that checks that were not appropriately reviewed and approved could none-the-less be signed. This risk is heightened as several employees have access to the information system used to generate checks and, in some instances, unsigned checks and supporting documentation are left in the signers' inboxes to be signed.

- Of a stratified random sample of 54 check disbursements tested, seven (13%) did not have initials on the check stub or other evidence of the chief accountant's review and approval of the disbursements. While the chief accountant told the auditors these seven disbursements had been reviewed and approved, there was no evidence of that control activity having been performed.

The lack of an effective review and approval control for the signing of MAA checks is a serious weakness in the operation of the MAA increasing the risk of improper disbursements.

Recommendation:

The NHVH should establish controls, supported by policies and procedures, to ensure disbursements from the MAA have been reviewed and approved prior to the signing of checks drawn on the MAA.

Evidence of performance of the control activities, including reviews and approvals, should be documented. Disbursements should not occur without evidence of the control activities having been performed.

Auditee Response:

We concur. The Chief Accountant will now consistently document the review of the support for the disbursement prior to the delivery of the support and prepared check to the Commandant.

Auditee Corrective Action Plan:

To further strengthen the system of checks and balances, the policy has been updated to require that the Chief Accountant to date and initial all requisitions to signify her review.

Corrective action plan implemented 9/6/18.

Observation No. 12: Mitigate Risks Posed By Use Of Adjustment Account

Observation:

The NHVH's use of an MAA "adjustment account" increases the risk of errors and frauds in the NHVH's provision of banking services to its residents. Amounts deposited in the adjustment account are by their nature more susceptible to loss or misdirection. The lack of policies and procedures prescribing the appropriate use of the account, and lack of timely review of the adjustment account balances and activity, further increases the risk that the account could be abused.

The NHVH established an MAA adjustment account to serve as a temporary holding account for the receipt of funds that the NHVH cannot immediately identify. Receipts posted to the adjustment account are predominantly resident revenues that outside parties deposit directly into the MAA checking account with insufficient information available to the NHVH to allow the immediate posting to a resident's account, or amounts that are to be returned to the Department of Veterans Affairs, Social Security Administration, or other payer due to the receipt of benefits subsequent to a resident's death. At March 31, 2018, the balance in the adjustment account was approximately \$35,000. During the nine months ended March 31, 2018, approximately \$60,000 was added to the account and approximately \$45,000 was moved out of the account.

The NHVH reported that while it usually reconciles the adjustment account annually, due to time constraints, the NHVH had not reconciled the account in at least the prior year. According to the NHVH, funds whose owners are not ultimately identified are transferred to the NHVH's Members Benefit Fund. The NHVH did not have information on when the adjustment account was last reconciled or the amount of the last transfer to the Benefit Fund.

Recommendation:

The NHVH should recognize, and reasonably mitigate, the increased risks posed by its use of the adjustment account. The NHVH should:

- Establish policies and procedures to improve controls for the adjustment account, including implementing review and approval control activities for postings to the account and monitoring controls to ensure the account is being used only as intended.
- Review the causes, and implement remedies where possible, for amounts received with insufficient documentation to allow direct posting to resident accounts.
- Where practical, record transactions through postings to resident accounts, including the receipt and return of incorrect benefit payments.
- Ensure that all activity in the adjustment account is fully documented, to allow for research of ownership, and to provide an audit trail.
- Ensure that all controls are in place and operating as designed, including the timely reconciliation of adjustment account activity and balances.

Auditee Response:

We concur.

Auditee Corrective Action Plan:

This concern has been addressed in Observation No. 8 above.

Observation No. 13: Establish Policies And Procedures For The Periodic Reconciliation Of The MAA

Observation:

The NHVH does not have policies and procedures for periodic reconciliations between resident MAA account balances and the sum of MAA cash and investments maintained at the NHVH and with financial institutions. While the NHVH does perform monthly reconciliations between the MAA check register and bank statement, the NHVH does not perform a reconciliation between resident MAA balances and the total of MAA cash and investments.

At March 31, 2018, the sum of the residents' account balances in the MAA was \$1,222,832 (including \$34,957 in the Adjustment Account and \$4,821 of unposted interest). The sum of the MAA cash and investment accounts totaled \$1,218,440, approximately \$4,400 less than the balance owed residents. It is unclear whether the difference reflects errors in posting to resident MAA accounts or missing funds.

Reconciliation of MAA, March 31, 2018 - UNAUDITED

<u>Assets</u>	
Checking Account	\$ 670,027
Petty Cash	1,000
Certificate of Deposits	255,178
Money Market	292,235
Total Assets	<u>1,218,440</u>
<u>MAA Account Balances</u>	
Resident (Including Adjustment Account)	1,218,011
Unposted Interest	4,821
Total MAA Balances	<u>1,222,832</u>
Difference	<u>\$ (4,392)</u>

The NHVH reports that it reviews a daily "balance sheet" to make certain that the accounts are in balance. However, because the cash and investment accounts include interest that has not been posted to resident MAA accounts, the sum of the resident MAA balances will not agree to the total of cash and investments. It is not clear whether the NHVH properly considered the effect of unposted interest in its review of the daily balance sheet.

Recommendation:

The NHVH should establish policies and procedures for the periodic reconciliation of resident account balances and the sum of MAA cash and investments.

The reconciliations should be performed and reviewed by employees otherwise independent of incompatible MAA responsibilities.

The NHVH should determine the source of, and make appropriate corrections to resolve, the difference identified by the periodic reconciliations.

Auditee Response:

We concur.

Auditee Corrective Action Plan:

The MAA account balances and the sum of the MAA cash and investments maintained at the NHVH and financial institutions will be reconciled quarterly by the Accounting Program Specialist or the new Business Administrator insuring an impartial review. Responsibility for the procedure has been assigned and documented.

Corrective action plan implemented 9/6/18.

Observation No. 14: Establish Policies And Procedures For Posting Interest Earnings Equitably And Timely

Observation:

The NHVH does not have policies and procedures to support its process for crediting interest earned on the MAA checking and investment accounts to the individual resident MAA accounts.

Pursuant to 38 CFR 51.70 (c)(3)(i), “the facility management must deposit any residents’ personal funds in excess of \$100 in an interest bearing account (or accounts) that is separate from any of the facility’s operating accounts, and that credits all interest earned on resident’s funds to that account. (In pooled accounts, there must be a separate accounting for each resident’s share.)”

In order to meet the Department of Veterans Affairs’ requirement to credit resident funds in excess of \$100 with interest earnings, the NHVH maintains the resident MAA funds in interest bearing checking and investment accounts and allocates the interest earnings from the accounts to the individual member accounts proportionally to the members’ MAA balances.

1. During the nine months ended March 31, 2018, the NHVH did not regularly post interest earnings to the residents’ MAA balances. While approximately \$5,000 of interest was earned on the MAA checking and investment account balances, less than \$40 of that interest was

credited to the individual member accounts during that period. According to the NHVH, it did not receive timely earnings information from its investment accounts and did not have time to credit the interest to the member accounts during the period.

2. The NHVH only posts interest earnings to the MAA balances of current residents. The NHVH does not credit interest to MAA balances of deceased residents whose funds remain in the MAA prior to disbursement to their estates.

Recommendation:

The NHVH should establish policies and procedures to ensure that it has appropriate information on its investments and processes in place for regularly crediting the resident's MAA accounts with interest earnings. Policies and procedures should address:

- The timely posting of interest earnings to the member accounts. The NHVH should credit interest timely, upon receiving notice from the financial institutions of the earnings.
- The crediting of all account balances for their proportional earnings, including the account balances of deceased residents.
- Establishing a monitoring control to regularly determine that the NHVH's process for crediting interest earnings is in place and operating as intended.

Auditee Response:

We concur.

Auditee Corrective Action Plan:

Procedure has been updated, reviewed, dated and signed by management.

Corrective action plan implemented 9/6/18.

Observation No. 15: Establish Policies And Procedures For Clearing Old Outstanding Checks

Observation:

The NHVH does not have policies and procedures for clearing old, outstanding checks drawn on the MAA checking account. While the table of contents in the NHVH's policy and procedures manual lists a relevant policy and procedure, the NHVH could not locate a copy of the document.

According to the NHVH, annually, and generally around fiscal year-end, the NHVH identifies checks drawn on the MAA account that remain outstanding for more than one year as presumably abandoned by the payee. If the payee is a current resident or a current vendor, the NHVH may attempt to contact the payee prior to cancelling the check. Otherwise, the NHVH will cancel the checks and forward the check amounts to the State Treasury's abandoned

property program. The NHVH has no procedure for, or practice of, following up with payees of other stale dated checks to determine if the check should be cancelled and reissued.

Subsequent to auditor inquiry, the NHVH cancelled two checks drawn on the MAA checking account. One, an \$8,225 check dated August 22, 2016, was payable to the estate of a deceased resident; and the other, a \$500 check dated September 2, 2016, was payable to a family member of a deceased resident. The NHVH reported it would be forwarding the amounts to the State Treasury as abandoned property.

A similar comment was issued in the report of the 2012 financial audit of the NHVH.

Recommendation:

The NHVH should establish policies and procedures addressing the appropriate handling of MAA checks that remain outstanding for extended periods of time.

The NHVH should periodically review the list of outstanding checks and follow up with payees when checks remain on the list for extended periods of time. Checks that are reported as having been lost or misplaced should be cancelled and reissued after appropriate research to ensure the check was not previously paid.

Auditee Response:

We concur.

Auditee Corrective Action Plan:

Procedure has been created, reviewed, dated and signed by management.

Corrective action plan implemented 9/6/18.

Observation No. 16: Establish Policies And Procedures For Maintaining Checking Account At Targeted Balance

Observation:

During the nine months ended March 31, 2018, the NHVH did not have formal policies and procedures in place addressing the optimal balance to be maintained in the MAA checking account. The NHVH did have a process document that directed the MAA checking account balance be maintained at \$50,000 plus an amount representing the monthly room and board payments, with excess amounts transferred to the MAA investment account. The NHVH reported this calculation was intended to keep the checking account balance at a level sufficient for anticipated needs, while maximizing investment returns and minimizing risks.

During the nine months ended March 31, 2018, the NHVH did not maintain the MAA checking account at the amount identified in its process document. During the period, the NHVH

maintained an average daily bank balance of approximately \$537,000, while the process document would have required only a \$425,000 balance (\$50,000 base amount plus \$375,000 to cover monthly room and board). Had the NHVH complied with the process document, the NHVH would have maintained an additional balance of \$112,000 in the investment account at the State Treasury. Had the NHVH considered the actual cash-flow needs of the account, the balance in the checking account could have been maintained at a level significantly lower than the \$425,000, and still have been adequate to cover the activity in the checking account.

Maintaining an excessive balance in the checking account diminishes the account's investment earnings, and also increases the magnitude of any potential errors or frauds that may occur.

A similar comment was issued in the report of the 2012 financial audit of the NHVH.

Recommendation:

The NHVH should establish policies and procedures for determining and maintaining a reasonable MAA checking account balance that meets cash flow needs, maximizes earnings, and minimizes risks in the operation of the account.

The NHVH should ensure policies and procedures clearly assign responsibilities for reviewing account activity and balances in order to monitor and confirm that account balance targets remain appropriate and are met.

Auditee Response:

We concur. We agree that an updated procedure with clear designation of responsibility is needed.

Auditee Corrective Action Plan:

Effective immediately, the NHVH has established a formal procedure identifying the balance criteria to be maintained and assigns clear responsibility for reviewing account balances and activity on a monthly basis to insure account balance targets remain appropriate and are being met.

Corrective Action Implemented 9/6/18.

Observation No. 17: Adopt Required Administrative Rules

Observation:

The NHVH has allowed certain of its administrative rules to expire without apparent consideration of the continued need for the rule. The NHVH reported it was unaware that administrative rules generally expire ten years following their effective date.

Pursuant to RSA 119:5, the NHVH's Board of Managers shall adopt rules under RSA 541-A relative to the management of the NHVH and for the admission and discharge of residents. N.H. Admin. Rules Ve-H 203, 204, 206, and 220 expired on July 21, 2007, and N.H. Admin. Rules Ve-H 300 and Ve-H 400 expired on July 21, 2015. Certain of the expired rules impact MAA financial activity.

Operating with expired administrative rules increases the risk that the NHVH's operations and activities supported by those expired rules will be subject to challenge.

Recommendation:

The NHVH should establish a process, supported by policies and procedures, to periodically review the status of its administrative rules, and to work with the Board of Managers to ensure that all statutorily required administrative rules are in place and remain current, relevant, and in compliance with RSA 541-A.

If the NHVH determines statutorily required rules are no longer necessary, the NHVH should request the statutes be appropriately amended.

Auditee Response:

We concur.

Auditee Corrective Action Plan:

The Commandant and the Board of Managers working with the Office of Legislative Services, Division of Administrative Rules, has prepared Interim Rules which have been adopted and were effective on 6/28/18. Doc. #12563 contains rules #VE-H 203, 204, 206, and 220. Doc. #12564 contains rules #Ve-H 300 and Ve-H 400. The Board of Managers will review the Administrative Rules as necessary as circumstances require their review and changes.

Corrective Action plan Implemented 6/28/18.

Observation No. 18: Coordinate The Financial Reporting Of The MAA To DAS

Observation:

The NHVH did not accurately report the MAA checking account balances and related financial activity to the DAS at the close of fiscal year 2017. The State Treasury properly reported the balances and financial activity in the MAA investment account to DAS in its year-end reporting. As a result, DAS reported only a portion of the MAA account balances and related financial activity in the State's comprehensive annual financial report (CAFR) for the year ended June 30, 2017.

The DAS *Annual Closing Review* (MOP2400) requires custodians of agency funds to report the balances and financial activity in those agency funds on a form Exhibit D and to provide

supporting documentation such as bank statements, reconciliations, investment statements, and worksheets. DAS uses information on the forms Exhibit D to compile and report agency funds in the State's CAFR.

According to the NHVH, it was unaware of the requirement to report the balances and financial activity in the MAA checking account on a form Exhibit D.

Recommendation:

The NHVH should coordinate the financial reporting of the MAA with DAS and State Treasury to ensure that the amounts reported to DAS for inclusion in the State's CAFR are complete, accurate, and properly categorized.

Auditee Response:

We concur. In the past we were advised not to report the NH Veterans Home Members Administration Account funds and the NH Veterans Home Benefit Funds on Exhibit D as Treasury was custodian of these funds. We were reporting the checking account balances for both funds to DAS for inclusion and Treasury was reporting the investment portions on their own forms rather than an Exhibit D.

Auditee Corrective Action Plan:

We now coordinate the annual reporting with the Administrator of the Bureau of Financial Reporting at DAS, insuring that both the checking and investment balances are being reported as of 6/30/18.

Corrective action plan implemented 8/7/18.

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**State of New Hampshire
Internal Control Review
New Hampshire Veterans' Home
Members' Administration Account**

**Statement Of Assets And Liabilities (UNAUDITED)
Nine Months Ended March 31, 2018**

	Balance	Additions	Deletions	Balance
	<u>July 1, 2017</u>	<u> </u>	<u> </u>	<u>March 31, 2018</u>
<u>Assets</u>				
Cash and Cash Equivalents	\$ 1,084,814	\$ 3,902,090	\$ 3,768,893	\$ 1,218,011
Total Assets	<u>\$ 1,084,814</u>	<u>\$ 3,902,090</u>	<u>\$ 3,768,893</u>	<u>\$ 1,218,011</u>
<u>Liabilities</u>				
Custodial Funds Payable	\$ 1,084,814	\$ 3,902,090	\$ 3,768,893	\$ 1,218,011
Total Liabilities	<u>\$ 1,084,814</u>	<u>\$ 3,902,090</u>	<u>\$ 3,768,893</u>	<u>\$ 1,218,011</u>

Source: New Hampshire Veterans' Home MAA accounting software.

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CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary, as of the May 22, 2018 end of audit fieldwork date, of the status of the observations contained in the audit report of the New Hampshire Veterans' Home (NHVH) for the fiscal year ended June 30, 2012 related to the operation of the NHVH's Members' Administration Account. The prior audit report can be accessed on-line at: <http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx>.

<i>Internal Control Comments</i>	STATUS
<i>Significant Deficiencies (Material Weaknesses In Bold)</i>	
1. Policies And Procedures Should Be Established To Support Significant Accounting And Financial Reporting Activities - <i>The NHVH should establish policies and procedures to support its employees in performing significant accounting and financial reporting activities. (See Current Observation No. 1)</i>	○ ○
2. Formal Fraud Prevention, Detection, And Reporting Policies And Procedures Should Be Established - <i>The NHVH should establish formal fraud prevention, detection, and reporting policies and procedures and provide its employees with formal fraud awareness training.</i>	● ●
4. Controls Over Resident Room And Board Determination Should Be Improved - <i>The NHVH should improve its information sharing and communication controls over resident room and board revenues and review criteria in its administrative rules, instructions for the completion of forms, and other information sources for determining and reporting resident financial information, including income. (See Current Observations Nos. 3, 6, and 7)</i>	● ○
5. Review And Approval Controls Should Be Established Over Determining And Recording Room And Board Charges - <i>The NHVH should establish a review and approval control for the completion of the monthly room and board calculation worksheet. (See Current Observation No. 6)</i>	○ ○
6. Risk Of Allowing Employees To Provide Banking Assistance To Residents Should Be Addressed - <i>At least one employee of the NHVH's business office assists residents with their personal banking activity in accounts maintained outside of the NHVH.</i>	● ○
15. Options For Strengthening Controls In The Home's MAA And MBF Accounting And Reporting Software Should Be Explored - <i>As currently implemented, the NHVH's accounting and reporting information system used for its Members' Administration Account (MAA) and Members' Benefit Fund (MBF) does not have strong controls to prevent inadvertent or otherwise unauthorized postings of new transactions or changing of previously posted transactions to closed or previously reported accounting periods. (See Current Observation No. 4)</i>	○ ○

16. **Controls Over Cash And Investment Accounts Should Be Improved** - *The NHVH should establish effective controls, including written policies and procedures, for safeguarding its cash and investments. The establishment of policies and procedures should include effective communication and periodic monitoring to ensure compliance. (See Current Observation No. 5)* ● ○
20. Policies And Procedures For Handling Old Outstanding Checks Should Be Established - *The NHVH should establish policies and procedures for monitoring and timely response to old outstanding checks drawn on its fiduciary accounts. (See Current Observation No. 15)* ○ ○
21. Checking Accounts Should Be Maintained At Target Balances - *During fiscal year 2012, the NHVH did not maintain account balances in its local depository checking accounts at the amounts identified in its policies and procedures. (See Current Observation No. 16)* ○ ○

Status Key

	●	○	<u>Count</u>
Resolved	●	○	1
Remediation In Process (Action beyond meeting and discussion)	●	○	3
Unresolved	○	○	5