

**STATE OF NEW HAMPSHIRE
NEW HAMPSHIRE VETERANS' HOME
INTERNAL CONTROLS OVER THE BUDGET**

**PERFORMANCE AUDIT REPORT
FEBRUARY 2014**

To The Fiscal Committee Of The General Court:

We conducted a performance audit of the internal controls over the budget at the New Hampshire Veterans' Home to address the recommendation made to you by the joint Legislative Performance Audit and Oversight Committee. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions. The evidence we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The purpose of the audit was to determine whether internal controls over the New Hampshire Veterans' Home budget development and monitoring processes were efficient and effective. The audit period was the 15 months ended September 30, 2013.

Office of Legislative Budget Assistant

Office of Legislative Budget Assistant

February 2014

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ABBREVIATIONS

Board	Board of Managers
DAS	Department of Administrative Services
DVA	U.S. Department of Veterans Affairs
Home	New Hampshire Veterans' Home
LBA	Office Of Legislative Budget Assistant
SFY	State Fiscal Year

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EXECUTIVE SUMMARY

The New Hampshire Veterans' Home (Home) is a long-term care facility that provides its resident veterans with professional care, including minimal assistance with daily living needs, complete care, and end-of-life care. A nine-member Board of Managers (Board) governs the Home and appoints a Commandant who is responsible for the day-to-day management of the Home. The Home is funded by reimbursements from the U.S. Department of Veterans Affairs, State general funds, and fees charged to residents with an ability to pay.

During State fiscal year 2013, the Home faced an appropriation shortfall of over \$330,000 in its utility class line when expenditures exceeded the amount budgeted. While controls at the Home were adequate to identify the appropriation shortfall in a timely manner, the Commandant at the time did not pursue a supplemental appropriation, bypassing a critical budgetary control. Although the Home uses the Department of Administrative Services *Budget Manual* applicable to all State agencies to develop its budget, the Home lacks its own written policies and procedures for budgeting revenues and expenditures, monitoring results compared to the budget, and budget approval practices.

Internal control is defined as a process, affected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives, reporting and compliance.¹ During the audit period, we found opportunities for improving internal controls over the Home's budget development and monitoring processes. The Board needs to become more engaged in the financial operations of the Home. We found the Board did not approve the operating or capital budgets for the Home prior to submission to the Governor. Instead, Home management has historically prepared the proposed budget for submission directly to the Governor's office. We also found the Board did not require the Home's management to present it with comprehensive financial reports of the Home's operations for ongoing, regular monitoring of results.

The recommendations contained in this report, if implemented, should strengthen the internal controls over the Home's budget development and monitoring processes.

¹ *Internal Control-Integrated Framework*, Committee of Sponsoring Organizations of the Treadway Commission, May 2013, p.1.

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RECOMMENDATION SUMMARY

Observation Number	Page	Legislative Action Required?	Recommendation	Agency Response
1	11	No	Develop and adopt written policies and procedures governing budget development, approval, and monitoring processes.	Concur
2	12	No	The Board of Managers (Board) should review and approve budget requests prior to submission to the Governor's office; management provide detailed and complete supporting budget documents to assist the Board.	Concur
3	13	No	The Board should review comprehensive monthly financial reports prepared by management.	Concur
4	14	No	Seek supplemental appropriations when facing budget deficits which cannot be resolved through transfers from other applicable class lines or through controlling spending.	Concur

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**STATE OF NEW HAMPSHIRE
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BACKGROUND

The New Hampshire Veterans' Home (Home) is a State agency with its operations located in Tilton and is the only long-term care facility in the State dedicated solely to military veterans. The Home provides nursing care, as well as assisted living, domiciliary, day care, dementia, chemical dependency, psychiatric, and other related services to residents. Services and programs are provided by the Home or contracted through other organizations and facilities.

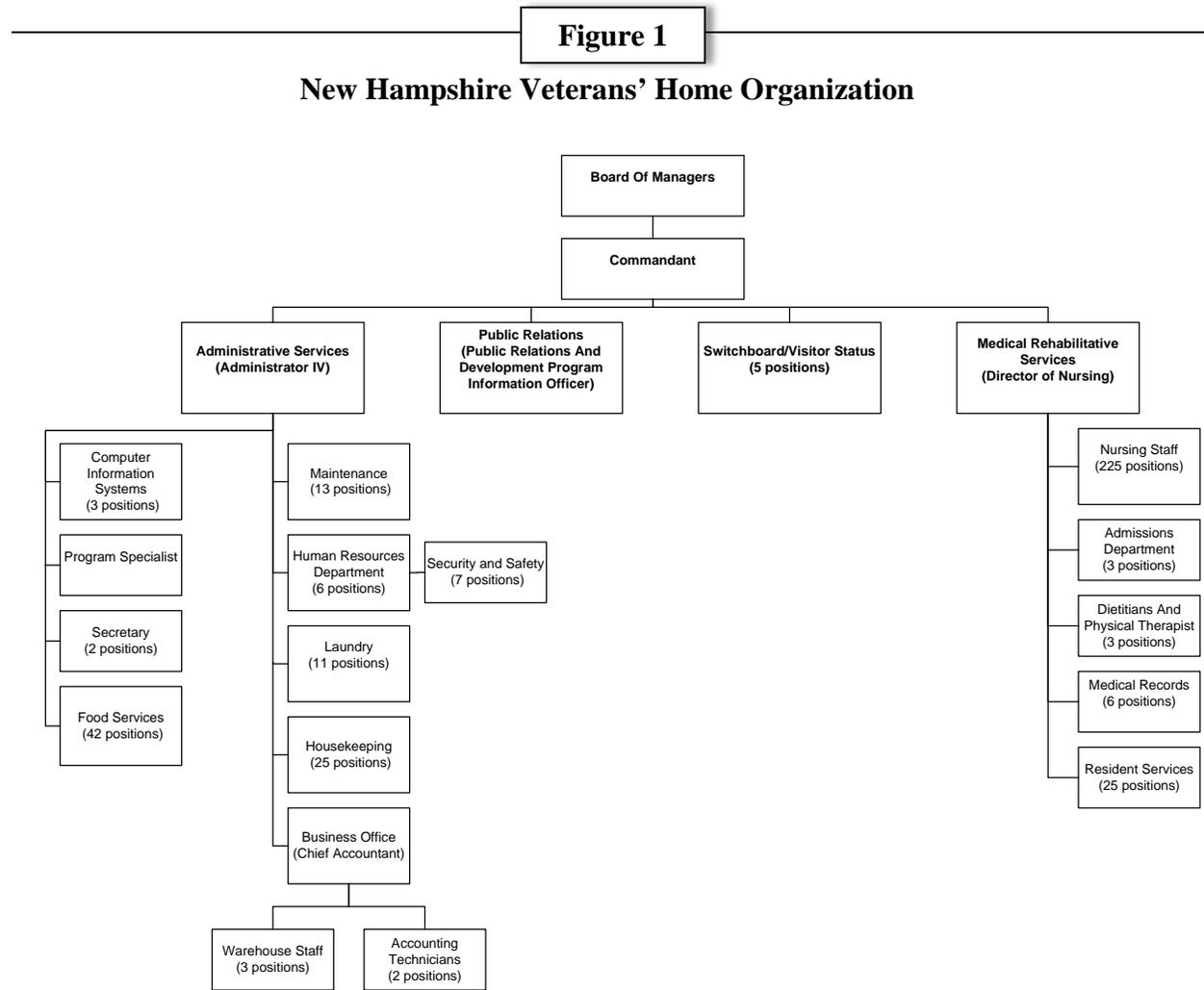
State lawmakers created the Home in 1889 in response to federal legislation granting financial aid to states with facilities housing Civil War veterans. The Legislature established the Home to support, care for, and treat honorably-discharged veterans of active duty service in the United States armed forces and reserve units, and the New Hampshire Army or Air National Guard.

A Board of Managers (Board) oversees the Home. The Board meets quarterly and consists of nine individuals representing various State veterans groups and an emeritus member. The department commanders of the American Legion, the Veterans of Foreign Wars, and the Disabled American Veterans, are permanent appointees. Other members are appointed for terms ranging from two to five years by the Governor and Council. At least five citizen appointees must be honorably discharged, or separated under conditions other than dishonorable, veterans having served in the United States armed forces in any war "in which the United States has been, is, or shall be engaged." The sixth citizen appointee must be a female auxiliary member of the American Legion, Veterans of Foreign Wars, Disabled American Veterans, or Veterans of World War I of the U.S.A, Inc.

Statute gives the Board broad powers to: 1) have custody and care of the property of the institution, 2) make needed bylaws and adopt rules under RSA 541-A relative to the management of the Home and for the admission and discharge of residents, and 3) do all things necessary to carry into effect the purposes for which the Home was established.

Organization

A Board-appointed Commandant is responsible for the day-to-day operations of the Home by directing and overseeing 386 staff members in four divisions. The Director of Nursing heads the largest division, Medical and Rehabilitative Services, directing 262 positions. The Administrative Services Division, which includes 116 positions, is responsible for security, human resources, computer information system management, mechanics and utility workers, laundry, housekeeping and cleaning, food services, and the business office. The remaining divisions are Administration, (consisting of five employees), and Public Relations, with one officer. Figure 1 details the Home’s organization.



Source: LBA analysis of the New Hampshire Veterans’ Home organization.

The Home employs registered nurses and nursing assistants, pharmacists, dietitians, therapeutic recreation staff, and social work staff. Medical, dental, mental health, and speech therapy and occupational and physical therapy services are contracted to external providers who periodically visit the Home. The onsite pharmacy is operated by a private contractor. During the audit period about half of the residents at the Home were afflicted with dementia. The Home opened a specialized unit in 2004 designed specifically to serve patients with dementia.

Eligibility

Statute and Administrative Rules establish eligibility requirements for residency at the Home. First, the individual must have served in the United States armed forces or reserves, or in the New Hampshire Army or National Guard. Second, the individual must have been honorably discharged. Third, the individual must have been a resident of New Hampshire for at least one year immediately preceding the date of application or have documentation showing New Hampshire as his or her state of residence upon discharge from active duty or from a medical facility. Fourth, the applicant's need for care must not exceed the capabilities of the Home's services and residential accommodations. Fifth, the veteran must be incapable of earning a living because of age, disease, or infirmity. Sixth, the individual must not have assets exceeding \$275,000, excepting the veteran's or spouse's home.

Revenues And Expenditures

The Home has three primary revenue streams: agency income, federal funds, and State general funds. Agency income means payments made by the residents. Total agency income is determined by the resident population of the Home, including the total population levels and the wealth of individual residents. Applicants with assets of \$275,000 or less, but greater than \$30,000 after allowable spend-down, may reside in the Home and keep their assets, but must pay full room and board rates net of any per diem reimbursement by the federal government (Ve-H 304.03(b)). Full room and board was \$7,800 per month during 2013. Applicants whose assets are \$30,000 or less, after allowable spend-down, are permitted to retain their assets but must pay 90 percent of their monthly income after a \$100 exemption, provided: 1) the veteran's spouse does not suffer financial hardship as a result, and 2) the payment does not exceed full room and board, including any per diem payable by the federal government. Table 1 shows total revenue from all sources for State fiscal years (SFY) 2010 through 2013.

Although the Home's physical capacity is 250 residents, the Home typically budgets for 200 residents. Between January 2011 and October 2013, the Home's monthly census count varied from a minimum of 178 residents (January 2013 and March 2013) to a maximum of 200 (August 2012). The average monthly census count over this period was 191 residents.

Table 1

**Veterans' Home Revenues
SFY 2010 Through SFY 2013**

Class Name	SFY 2010	SFY 2011	SFY 2012	SFY 2013
Agency Income	\$ 6,652,672	\$ 6,524,463	\$ 7,233,056	\$ 6,465,133
Federal Funds	5,006,822	7,665,684	6,955,246	7,737,862
Subtotal	11,659,494	14,190,147	14,188,302	14,202,995
General Fund Contribution	14,498,134	12,976,516	13,334,580	13,126,203
Total Revenue	\$26,157,628	\$27,166,663	\$27,522,882	\$27,329,198

Source: LBA Analysis of Statements of Appropriation, SFYs 2010-2013.

Note: General Fund Contribution is calculated by subtracting agency income and federal funds from total expenditures.

The second source of revenue for the Home is payments from the U.S. Department of Veterans Affairs (DVA), which makes reimbursements to state veterans' homes on a per diem basis for each veteran present. The DVA reimburses the Home for some types of care provided, such as prescription drug orders; capital improvements; and per-diem payments based on internal census numbers and other information about the Home's residents. Residents who are more than 70 percent disabled because of health issues connected to their service or who are considered disabled with regard to employability result in higher reimbursement rates to the Home. The DVA also pays for 65 percent of applicable long-term capital costs through the federal State Home Construction Grant Program.

The State general fund covers operating costs not offset by resident payments or federal revenue. Notably, the Home had a budgetary footnote during the SFY 2012-2013 biennium designed to prevent it from being underfunded due to a shortfall in projected revenue or expenditures being greater than amounts appropriated. If the Home's revenue fell short of projections, the total appropriation to the Home would not be reduced and would be available for expenditure as budgeted. If expenditures were expected to exceed amounts appropriated, the Commandant could request additional appropriations, with the prior approval of the Fiscal Committee of the General Court and the Governor and Council.

Expenditures for the Home remained stable between SFY 2010 and SFY 2013, as shown in Table 2. Approximately 86 percent of the Home's total expenditures were personnel and benefits each year. In SFY 2013, personnel and benefits accounted for 86.2 percent of expenditures, with the remaining spent on prescription drugs (3.7 percent), food (2.1 percent), utilities (1.9 percent), consultants (0.8 percent), and all other costs (5.2 percent).

Table 2

**Veterans' Home Expenditures
SFY 2010 Through SFY 2013**

Class Name	SFY 2010	SFY 2011	SFY 2012	SFY 2013
Personnel and Benefits	\$22,454,039	\$23,371,616	\$23,768,032	\$23,568,165
Prescription Drugs	1,099,999	1,111,511	1,138,467	1,023,643
Utilities	589,568	593,384	511,726	529,347
Food	517,496	519,465	568,510	565,690
Consultants	290,217	278,381	226,804	211,523
Other	1,206,309	1,292,306	1,309,343	1,430,830
Total	\$26,157,628	\$27,166,663	\$27,522,882	\$27,329,198

Source: LBA Analysis of Statements of Appropriation, SFYs 2010-2013.

State Budget Controls

State law describes the budget process, establishes timelines for various events, and places basic controls on State budget formulation for State agencies such as the Home. Agencies must submit their operating budget request by October 1 and capital budget request by May 1 to the Department of Administrative Services (DAS). Statute also requires the submission of budgets with 10 percent reductions in expenditures (not including current debt service) relative to both the first and second years of the biennium immediately prior to that of the submitted budget requests. The Division of Accounting Services must produce monthly reports on the income and expenditures of each agency and immediately alert the Governor if an agency appears to be spending at a rate that would likely deplete its allocation before the end of the State fiscal year. Transfers within and among all accounting units within a department are permitted, but any transfer of \$75,000 or more must be authorized by both the Fiscal Committee of the General Court and the Governor and Council. Transfers from equipment, out-of-state travel, and permanent personal services appropriations to other purposes are forbidden.

Supplementing State law is the *DAS Budget Manual*, which is updated prior to each budget cycle. The *Budget Manual* includes instructions, required reports, tables, and worksheets to assist agencies in drafting and submitting their agency's operating budget for consideration by the Legislature and the Governor. As a component of their budget requests, agencies must provide an analysis of their "maintenance" requests - expenditures necessary to provide the same level of service as was authorized and funded in the previous fiscal year, accounting for increases in salary, price changes in goods and services, new positions required to provide the same level of service, and operating costs associated with previously authorized capital costs. This analysis should include specific assumptions and citations, if necessary, for the budget as requested. Agencies must also provide analysis of their requests for changes in the budget for new initiatives or other changes in the level of service provided. New initiatives and other requests for changes in the budget should be ranked in order of priority on agency submissions.

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BUDGET CONTROLS

Responsibility for defining assumptions used and internal policies and procedures governing how the budget is formulated, internally approved, and monitored rests with agency management. The New Hampshire Veterans' Home (Home), however, lacked policies and procedures during the audit period governing how revenues and expenditures are estimated, how the Home develops and approves its budget request before submitting it to the Legislature and the Governor, and how the budget is monitored once implemented.

Observation No. 1

Adopt Written Policies And Procedures To Guide Budget Process

The Home lacked written policies and procedures defining and describing its budget formulation, monitoring, and approval practices. Although the Home used the Department of Administrative Services (DAS) *Budget Manual* applicable to all State agencies, the Home lacked written policies and procedures for estimating revenues and expenditures, outlining assumptions used to make projections, setting certain charges and fees, monitoring the budget once enacted, approval requirements and timelines, and requesting supplemental appropriations when needed.

Policies and procedures are standard control activities designed to guide and enforce management's directives. Policies and procedures are also critical tools to help ensure actions are taken to address risks. These tools are integral to an entity's stewardship of government resources and achieving effectiveness.

Without written policies and procedures, budget preparation, approval, and monitoring may become less consistent and more difficult when key personnel leave the Home's employment.

Recommendation:

We recommend the Home develop and adopt written policies and procedures which define and describe the Home's budget development, approval, and monitoring processes.

Auditee Response:

The Home concurs that we should develop and adopt written policies and procedures which define and describe the Home's budget development, approval, and monitoring processes. These policies and procedures will be developed and in place by May 1, 2014.

Observation No. 2

The Board Of Managers Should Approve Operating And Capital Budgets

The Board of Managers (Board) did not approve the operating or capital budgets for the Home prior to submission to the Governor. Board meeting minutes reflected little discussion of the State fiscal year (SFY) 2014-2015 operating and capital budgets. Home management reported submitting the budget directly to the Governor's office without the Board's formal involvement.

State statute provided the Board with broad powers in governing the Home's operations. Additionally, the Board has responsibility for the custody and care of the institution, as well as the power to make needed rules and bylaws governing the Home, and to "do all things necessary to carry into effect the purposes for which the home was established."

The Commandant stated the Board historically had not been provided budget requests for review and approval. The Commandant also stated members were appointed due to their leadership in State veterans' organizations, and often had relatively short tenures on the Board.

The Board loses an opportunity to become fully involved in the Home's financial operations without its involvement in the budget formulation process. Absent this participation and awareness, the Board may be unable to respond to budget constraints through policy changes or advocacy. Participation in the budget process would assist the Board in providing better oversight of the Home's operations.

Recommendations:

We recommend the Board of Managers formally review and approve the Home's budget requests prior to submission to the Governor's office. We also recommend the Home's management provide the Board with detailed and complete budget documents to aid this review and approval process.

Auditee Response:

The Home concurs that the Board of Managers should formally review and approve the Home's budget requests prior to submission to the Governor's office. We also concur that the Home's management will provide the Board with detailed and complete budget documents to aid this review and approval process.

Observation No. 3

The Board Of Managers Should Regularly Review Financial Reports

The Home did not present comprehensive financial reports of the Home's operations for review by the Board. The Home's operating budget consisted of five accounting units (custodial care, professional care, pharmacy services, workers compensation, and unemployment compensation) totaling \$31 million in SFY 2014. Yet, the Board did not review financial reports for those accounts, such as a comparison of budget to actual revenues and expenditures. Instead, the Board historically focused on the quarterly financial activity of two trust funds in the custody of the State Treasurer with an approximate value of \$1 million at September 30, 2013. The Board relied on the Home's Commandant and business office to monitor the Home's operating revenues and expenditures.

As key stakeholders charged with doing "all things necessary to carry into effect the purposes for which the home was established," the Board had an obligation to actively govern the Home in all respects, including financial operations. The Government Finance Officers Association, *Recommended Budget Practices*, states "[r]egular monitoring of budgetary performance provides an early warning of potential problems and gives decision makers time to consider actions that may be needed if major deviations in budget-to-actual results become evident. It is also an essential input in demonstrating accountability."

Financial reports provide basic financial information to management, stakeholders, and the public. Without regular review by the Board, it may not be informed of significant deviations in actual revenues or expenditures when compared to the budget. This may lead to a lack of management accountability and make it more difficult for the Board and Home management to make fully-informed business decisions.

Recommendation:

We recommend the Board regularly review the Home's monthly financial reports, including budget to actual comparisons, for all operating and capital budget accounting units.

Auditee Response:

The Home concurs that the Board of Managers should regularly review the Home's monthly financial reports, including budget to actual comparisons, for all operating and capital budget accounting units.

Observation No. 4

Additional Appropriations Should Be Requested When Needed

During SFY 2013, the Home had unpaid utility bills exceeding \$333,000. As a result, near the end of the 2013 session, the Legislature appropriated an additional \$333,250 to allow the Home to pay its past-due utility bills.

Based on the expected cost savings from the Home's new geothermal heat plant, the Home requested approximately \$267,000 less for utilities in its SFY 2012 budget than in SFY 2011. However, while energy consumption did decrease, fuel costs actually increased and exceeded the amount allocated for utilities in SFY 2012 by approximately \$240,000. To avoid overspending its SFY 2012 utilities budget, the Home transferred \$75,000 from its current expense budget to utilities, and paid the remaining past due amount with SFY 2013 funds, leading to appropriation shortfalls again. The Home planned to pay the past due SFY 2013 utility bills, dating back to January 2013, at the beginning of SFY 2014.

Despite statutory authority (a budget footnote) which allowed it to seek additional appropriations through the Fiscal Committee of the General Court and the Governor and Council, the Home did not request a supplemental appropriation for these utility expenses. This decision was made by the Commandant at that time.

The *DAS Manual of Procedures* requires invoices to be entered into the State's NHFIRST accounting system within three days of receipt and the DAS year-end closing instructions outline a procedure to ensure invoices are recorded in the correct accounting period. However, the overdue invoices at the Home were not entered into the NHFIRST system using these procedures.

Had the invoices been entered into the system on a timely basis, the automated controls within NHFIRST would have notified accounts payable personnel at the DAS and rejected them for payment because they exceeded the remaining spending authority. In this case, however, the automated controls were bypassed when the Home did not enter the invoices into the system.

By not seeking a supplemental appropriation, the Home unnecessarily delayed payment to its vendors and would have experienced an actual appropriations shortfall had the Legislature not appropriated additional funding for the Home's SFY 2013 budget in late June 2013.

Recommendation:

We recommend the Home seek supplemental appropriations through the Legislative process when facing budget deficits which cannot be resolved through transfers from other applicable class lines or through controlling spending.

Auditee Response:

The Home concurs and going forward we will seek supplemental appropriations through the Legislative process when facing budget deficits which cannot be resolved through transfers from other applicable class lines or through controlling spending.

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**APPENDIX A
OBJECTIVE, SCOPE, AND METHODOLOGY**

Objective And Scope

This audit addressed the following question:

Were internal controls over the New Hampshire Veterans' Home (Home) budget process efficient and effective during the 15 months ended September 30, 2013?

To answer this question we sought to determine the following:

1. How revenues and expenditures are estimated.
2. How the Home develops and approves its requested budget.
3. How the budget is monitored and adjusted once implemented.

This audit focused on the Home's internal controls related to the State fiscal year 2014-2015 biennial operating and capital budgets.

Methodology

To gain an understanding of the Home's budget controls, we performed the following steps:

- reviewed statutes, Administrative Rules, policies, and procedures;
- interviewed Home personnel, Department of Administrative Services (DAS) personnel, LBA Budget Division personnel, the Chairman of the Home's Board of Managers, and the Home's former Commandant;
- reviewed and analyzed the DAS *Budget Manual* and the Home's budget submissions for the 2014-2015 biennium, and monitoring reports;
- reviewed audits of veterans' homes in other states;
- reviewed emails between relevant staff and stakeholders regarding the Home's budget;
- reviewed budget-related documents, Fiscal Committee agenda items, and memoranda produced by the Home;
- reviewed best practices for state and local government budgeting; and
- reviewed prior audits of the Home.

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