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December 9, 2019

Kasim Yarn
Director
RI Department of Veterans Affairs
480 Metacom Avenue
Bristol, RI 02809

Dear Director Yarn:

The Office of Internal Audit has completed its audit of Rhode Island Veteran's Home (RIVH) Representative Payee Account. The audit was conducted in conformance with the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing and by the authority given to the unit as stated in accordance with Rhode Island General Laws (RIGL) § 35-7.1-2(a) – Establishment of office of internal audit. The recommendations included herein have been discussed with members of management, and we considered their comments in the preparation of this report.

RIGL § 35-7.1-10(d), entitled Annual and interim reports, states that, "Within twenty (20) calendar days following the date of the issuance of the management-response copy of the draft audit report, the head of the department, agency, public body, or private entity audited shall respond, in writing, to each recommendation made in the audit report." Accordingly, management submitted its response to the audit findings and recommendations on December 5, 2019, and such response is included in this report. Pursuant to this statute, the OIA may follow up regarding recommendations included in this report within one year following the date of issuance.

We would like to express our sincere appreciation to the RIVH staff for the cooperation and courtesy extended to the members of our team during this audit.

Respectfully yours,

Dorothy Z. Pascale, CPA
Chief

c—Honorable William J. Conley Jr., Chairperson, Senate Committee on Finance
Honorable Marvin Abney, Chairperson, House Finance Committee
Internal Audit Advisory Group
Steven Whitney, Senate Fiscal Office
David Trembly, Senate Fiscal Office

Audit Executive Summary

Why the Office of Internal Audit Did This Review?

The Office of Internal Audit conducted an audit of the Veterans Home representative payee account for the period of July 2018 through June 2019 based upon its annual risk assessment. The purpose of the audit was to determine if the operations pertinent to the representative payee account were being administered efficiently and effectively in accordance with applicable laws, rules, and regulations and if adequate controls are in place to ensure safeguarding of assets and accurate reporting.

Background Information

The RI Veterans Home (RIVH) is a 100-acre complex on Mount Hope Bay in Bristol. The home is designed to meet the long-term health care needs by providing quality residential care, social, medical, nursing and rehabilitative services to Rhode Island war veterans.

In accordance with RIGL § 30-24-10, veterans are assessed a maintenance fee based on their income for services received with expenses exceeding income funded by the state. The RIVH manages resident funds through custodial accounts at the Rhode Island Credit Union (RICU) which are opened for each one of its residents. The Social Security Administration (SSA) and Veterans Administration (VA) benefit payments are deposited directly into the respective resident's custodial account. Other income streams and personal resources are also contained in these accounts.

To Strengthen controls, the RI Veterans Home should:

- Document authority to manage resident funds
- Improve documentation over resident disbursements
- Ensure adequate segregation of duties
- Implement reconciliation procedures
- Improve controls over maintenance fee collection
- Establish and adhere to policy regarding closing account

- Develop formal, documented policies and procedures

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Introduction

The Rhode Island Veterans Home (RIVH) provides nursing and domiciliary care to veterans at its facility in Bristol, Rhode Island. The RIVH is a full-service facility which provides services for residents including acute nursing care, rehabilitative services, a chapel, and daily activities. There is an on-site RI Credit Union branch (RICU) which provides financial services to the residents.

For residents with certain cognitive or physical limitations, the Administrator at RIVH assumes responsibility for fiscal management of resident funds. In these cases, the Social Security Administration (SSA) or the Veterans Administration (VA) appoints the RIVH administrator as the representative payee for an individual. As a representative payee, the RIVH administrator has access and control over resident benefits to make payments for basic living expenses including resident housing fees, utilities, basic care, clothing, and entertainment.

The RIVH manages resident funds using a resident's custodial account. SSA and VA benefit payments are deposited directly into the respective resident's custodial account at the RICU. Other income streams and personal resources are also contained in these accounts.

Our review did not identify any instances of misappropriation or improper payments. However, during a comprehensive assessment of the representative payee process, the Office of Internal Audit (OIA) noted opportunities for improved controls.

Recommendations and Management's Responses

Document Authority to Manage Resident Funds

The State of Rhode Island Office of Accounts and Control (A&C) best practices over the distribution of funds dictate that transactional authority must be clearly documented and communicated to staff.

The authority to manage resident funds is derived from a documented designation by the SSA or VA which appoints the Administrator of the RIVH as representative payee.¹ In practice, there is a delegation of authority by the Administrator for disbursement of funds to accounting and administrative staff within the program. This delegation has not been formally documented.

For instances in which residents are declared cognitively incapacitated and do not have living family or friends, the Veteran's Home accepts responsibility for managing resident private funds, if applicable. The administrative staff relies upon SSA or VA representative payee designations as authorization to manage all funds in the resident account, including personal funds and non-governmental income streams. However, the authority to manage personal funds is not clearly articulated in a legally binding

¹ SSA Representative Payee: *designated agent for a recipient of Social Security benefits whom the SSA has determined to be incapable of managing his or her SS or SSI benefits*

document. In the absence of such document, the RIVH Administrator has increased legal liability related to the management of private funds.

Recommendation:

1. Document the delegation of authority to make payments from resident accounts to administrative staff.
2. Obtain a limited power of attorney for management prior to establishing representative payee accounts for residents in cases where residents elect to have RIVH staff administer their personal funds.
3. For individuals with cognitive incapacities without contact family or friends, consider petitioning the probate court for conservatorship in accordance with Title 33 of Rhode Island General Laws.

Management's Response:

The Administrator concurs with recommendation 1. An individual from the administrative staff of the Business Office will be appointed the authority to manage all funds in the resident's account via Delegation of Authority.

The Administrator concurs with recommendation 2 for those residents who are documented to have capacity. If not, see response to recommendation 3.

Recommendations 3. The Office of Veterans Services does not have the legal council on staff to comply with this recommendation.

Responsible Party:

Rick Baccus, Administrator, RI Veterans Home

Anticipated Completion Date:

January 1, 2020

Improve Documentation of Resident Disbursements

Best practices for cash disbursements require individuals approving transactions to have firsthand knowledge or review supporting documentation which validates the appropriateness and authenticity of the transactions. The RIVH utilizes a withdrawal request form along with receipt of a respective invoice or bill.

In a sample of 5 out of total 27 (19%) resident accounts, there were significant weaknesses in the operations and design of internal controls over disbursement of resident funds. Specifically, we noted the following issues:

- No documented evidence of Administrator approval for monthly recurring fees, medical invoices or other general withdrawals

- Significant variation with supporting documentation for disbursements from resident accounts (authorizing signatures, receipts and invoices):
 - \$16,723.82 of disbursements did not have any supporting documentation
 - \$1,925.12 of disbursements did not have accurate invoices
 - \$1,400.85 of disbursements did not have a supporting invoice; of these \$1,189.42 also did not have sufficient authorizing signatures

Management has not documented, nor does it follow a process for the support and approval of resident disbursements. Without effective controls over disbursements, resident funds may be used improperly.

Recommendation:

4. Document and enforce a policy and standard operating procedure for resident disbursements.
5. Ensure adequate supporting documentation and approval is obtained for disbursements.

Management’s Response:

The Administrator concurs with the recommendations. An internal standing operation procedure manual will be initiated and will establish the policy and process needed for documenting disbursements, obtaining adequate supporting documentation, and the proper approvals.

Responsible Party:

Lynn C. Lavalley, CFO

Anticipated Completion Date:

January 1, 2020

Ensure Adequate Segregation of Duties

A fundamental element of internal control is the segregation of certain key duties. The basic idea underlying the concept is that no employee or group of employees should be able to both execute and conceal errors or fraud in the normal course of their duties. In general, incompatible duties to be segregated are custody of assets, authorization or approval of related transactions affecting those assets, and reconciliation of related transactions.

The RIVH reconciliation clerk has full access to resident accounts. The clerk is responsible for

- preparing and submitting the maintenance fee² spreadsheet to Rhode Island Credit Union,
- authorizing resident withdrawals, and
- performing the end of year agency reconciliation of resident accounts.

² A fee equal to eighty percent (80%) of the resident’s net income shall be assessed against each resident who net income provided that such fee shall not exceed the actual cost of care and maintenance for such residents.

From a control perspective, this is inconsistent with appropriate segregation of duties as the reconciliation clerk authorizes the transactions and has reconciliation oversight.

The OIA recognizes that limited staffing impacts management's ability to separate certain duties. Despite segregation of some key functions, reassignment of the reconciliation function would improve the overall control environment and enhance management oversight of resident funds.

Recommendation:

6. Improve segregation of duties to ensure incompatible functions are properly separated.

Management's Response:

The Administrator concurs with the recommendation. Segregation of duties will be improved. An internal standing operation procedure manual will be initiated and will establish the policy and process needed for preparing and submitting the maintenance fee spreadsheet, authorizing resident withdrawals, and performing end of year reconciliations.

Responsible Party:

Lynn C. Lavalley, CFO

Anticipated Completion Date:

January 1, 2020

Implement Reconciliation Procedures

Reconciliation is the process of comparing transactions and activity to supporting documentation. The process ensures the accuracy and validity of financial information and that unauthorized transactional changes have not occurred during processing. Best practices for reconciliations include:

- Comparing transactions to supporting documentation to ensure that they are valid and correct in purpose.
- Ensure that transactions have been properly authorized.
- Establish expectations for timeliness of error correction.

Management indicated each resident account is reconciled on both a monthly and annual basis. For monthly reconciliations, receipts and invoices are retained and attached to the monthly bank account statement for use in the annual agency reconciliation, but transactions are not reviewed for reasonableness or validated against source documentation.

Annual reconciliations are completed for the purpose of reporting representative payee activity to the SSA and VA. These annual reconciliations account solely for the government benefit funds and not for any personal income or assets. In a sample of eight annual reconciliations prepared for the SSA and/or VA, the following exceptions were noted:

- Three reconciliations were not on file
- One reconciliation was not completed for the most recent reporting period³
- One reconciliation did not accurately reflect the benefit amount received
 - The resident received \$3,796 in SSA benefit payments, but the reconciliation accounted for \$3,536.⁴ It appears the reconciliation was prepared based upon estimated benefit amounts rather than confirming amounts to actual deposits in the bank statement.

Inadequate reconciliation processes could result in financial reporting misstatements and failure to maintain appropriate fiduciary control over resident funds.

Recommendation:

7. Establish and implement a detailed policy and standard operating procedures for reconciliations.
 - a. Include a process for comprehensive reconciliation of all managed funds including private income streams and personal assets.
 - b. Maintain source documentation for support of all fund disbursements so that it can be validated during the reconciliation process.
8. Implement routine management review of reconciliations to ensure they are timely and accurate.
9. Establish a process to escalate, research and resolve inaccuracies found during the reconciliation.

Management's Response:

The Administrator concurs with the recommendations. However, it should be noted that the one reconciliation that was found as inaccurate has been corrected. Two of the three reconciliations that were not on file were not required because; (1) the Administrator is not the representative payee for their SSA and; (2) they were not required in accordance with 38 CFR, Part 13 because all of their monthly VA benefit was disbursed towards the resident's monthly maintenance fee. Notwithstanding the note above, reconciliation procedures will be improved. An internal standing operation procedure manual will be initiated and will establish the policy and process needed for a comprehensive reconciliation of all funds and will include the proper process of obtaining the appropriate source documents for all disbursement. It will also include a more routine management review and a process to escalate, research and resolve inaccuracies found during the reconciliations.

Auditor's Note: Documentation to support that reconciliations were not required was requested while on site. The accounts in question contained funds from both the VA and SSA. As noted in Recommendation 14 RIVH does not have a policy dictating the order in which funds are disbursed, therefore, the OIA could

³ April 2018 through March 2019.

⁴ It appears the reconciliation was prepared based upon estimated benefit amounts rather than confirming amounts to actual deposits in the bank statement.

not verify that all VA funds were expended. Evidence to substantiate the two instances noted in Management's Response was not provided.

Responsible Party:

Lynn C. Lavalley, CFO

Anticipated Completion Date:

January 1, 2020

Improve controls over maintenance fee collection

In accordance with Rhode Island General Law §30-24-10, residents are assessed a monthly maintenance fee. The law states in pertinent part:

The director shall, at the end of each fiscal year, determine the net, per-diem expenses of maintenance of residents in the facility and shall assess against each resident who has "net income", as define in this section, a fee equal to eight percent (80%) of the resident's net income, provided that fee shall not exceed the actual cost of care and maintenance for the resident; and provided that an amount equal to twenty percent (20%) of the maintenance fee assessed shall be allocated to, and deposited in, the veterans' restricted account...

Maintenance fees for residents are collected and deposited into the RIVH bank account at RICU using three methods:

- Electronically via an automated maintenance fee transfer processed by RICU
- Manually withdrawn from RICU accounts initiated by reconciliation clerk
- Billed to next of kin

In general, maintenance fees for residents with a Representative Payee designation are withdrawn electronically from their bank accounts at RICU. In some cases, however, the administrator has the representative payee designation over only one of the benefits and the next of kin is billed for the remaining balance due.

Maintenance Fee Reconciliation

There is not an effective reconciliation process for the collection of maintenance fees. Detailed testing identified three out of fifteen maintenance fees collected in June 2019 were not accurate based on the resident income. This resulted in two residents being overcharged a total of \$324 and one resident being undercharged by \$1,027. Without proper reconciliations, the RIVH does not have assurance that maintenance fees are accurately collected.

Maintenance Fee Transfer

Sound business practice requires minimum controls over wire transfers including:

- Segregation of duties- the person(s) who initiate the wire transfer (i.e., the person that originates wire transfer form) is separate from the person(s) who is authorized to execute journal entries in RIFANS
- Authority limits- each person involved in the wire transfer process should have an established authority limit (i.e., the maximum dollar limit to transact business) and authority to originate, approve, and execute a wire as appropriate.

In addition to basic controls over wires, a recurring wire transfer authorization documents key wire details: financial institution account number, and routing number.

At the RIVH, the Assistant Business Management Officer independently calculates the wire amount, originates and executes the wire, and performs the general ledger entries to reflect the deposit. Although this movement of funds is verified during a monthly reconciliation, there is the opportunity for funds to be erroneously or intentionally diverted without detection.

There is no segregation of duties or authority limits established to govern the wire transfer process. Further, the RIVH does not have a repetitive wire agreement on file with RICU documenting wire instructions that are not subject to change.

Without adequate controls over the wire transfer process, RIVH management lacks assurance that funds have been transferred to the appropriate account.

Recommendation:

10. Implement a process to reconcile the maintenance fees due with the maintenance fees collected.
11. Establish and document transaction authority, including maximum dollar thresholds, for each employee who originates, approves and executes wire transfers.
12. Complete a recurring wire transfer authorization with RICU that documents financial institution, account number and routing number.

Management's Response:

The Administrator concurs with the recommendations. However, it should be noted that there were no errors in the collection of maintenance fees. All three of the samples identified are accurate.

- a. There was no undercharge of \$1,027. The resident's monthly maintenance fee is \$2,498.43. His monthly VA benefit of \$1,471 is applied as a payment and recorded as a credit on the ledger when the benefit is received in the RICU. The balance of \$1,027.43 is paid by his family.
- b. There was no overcharge \$324. One resident's monthly maintenance fee is \$1,364 and the family pays \$1,510, which is \$146 more than the monthly fee due to this account being overdue from missed payments in previous months. The other resident's monthly

maintenance fee is \$2,152.96 and the family pays an additional \$177.60 monthly due to this account being overdue from missed payments in previous months.

Notwithstanding the note above, an internal standing operation procedure manual will be initiated and will establish the policy and process needed to reconcile the maintenance fees due with the maintenance fees collected. A delegation of authority memo with an established threshold will be prepared for each employee authorized to originate, approve and execute wire transfers with the RICU. A memorandum of understanding between the RICU and the RIVH will be prepared outlining the financial institution, account number and routing number for all wire transfers.

Auditor's Note: Documentation to support accurate collection of maintenance fees was requested while on site and repeatedly during fieldwork. Evidence to substantiate the three instances noted in Management's Response was not provided.

Responsible Party:

Lynn C. Lavallee

Anticipated Completion Date:

January 1, 2020

Establish and Adhere to Policy Regarding Former Residents Discharge from Facility

In accordance with the Social Security Guide for Organizational Representative Payees, funds conserved prior to discharge must be returned to the Social Security administration so that they can be transferred to the newly assigned representative payee.

Currently, RIVH manages Social Security benefits, Veterans benefits, and personal funds but it does not separately account for resident funds by source. As such, it is unable to identify what portion of remaining resident funds must be returned to the social security administration upon discharge.

Although we did not identify any instances in our test work in which residents were discharged and funds were not remitted, there is not a formal process in place to identify and remit the appropriate funds if a resident is discharged prior to death.

Death of Resident

Social Security guidelines stipulate that funds conserved prior to the resident's death become the property of their estate and must be immediately turned over to the legal representative or the State probate court. All personal funds held by the Veteran's home also become property of the estate and are distributed as directed by a valid will or in accordance with state law. Funds cannot be disbursed until probate is complete.

In some instances, however, residents may not have readily apparent heirs or may pass without a formal will and probate is not initiated. In these instances, state law⁵ dictates that the funds be transferred to the Veterans' Home Restricted account for the care and benefit of the remaining residents.

It is the current practice of the veteran's home to leave the funds in the respective bank accounts until they are contacted by a legal representative or the court system. Balances remain in the resident accounts indefinitely until the RIVH is provided disbursement instructions. There is no documented process for the monitoring and disposition of accounts for deceased residents.

According to RIVH records, there are currently 12 accounts with balances remaining for deceased/discharged residents. The total outstanding balance for monies belonging to discharged residents totals \$233 thousand dollars. The largest of these accounts contains over \$120 thousand dollars, the decedent has no will and no readily apparent heirs, and the account has been dormant since November 2017.

Maintaining balances for discharged and deceased residents increases financial exposure due to risk of funds being misappropriated or allocated inappropriately, as such these accounts should be monitored periodically and disposed of in a timely fashion.

Recommendation:

13. Maintain a subledger of resident funds which separately identifies each fund by source (SSA, VA, private).
14. Establish a policy for the order of disbursement of each type of fund so that they can be identified during resident discharge.
15. Establish and implement controls to periodically review balances remaining in resident accounts to ensure they are transferred to the legal heir in a timely manner or transferred to the Veteran's Home Restricted Receipt account.

Management's Response:

The Administrator concurs with recommendation 13 and 14. Policies regarding the control and disbursement of all funds of former residents will be improved. An internal standing operation procedure manual will be initiated and establish the policy and process needed to implement subledgers

⁵ RIGL 30-24-9 "All goods, chattels, property, money, and effects of a deceased resident of the Rhode Island veterans' home that have not been disposed of by him or her by a completed inter vivos conveyance or gift, or by a valid will, after payment therefrom of the funeral expenses, which shall not exceed ten thousand dollars (\$10,000), and after payment therefrom of the reasonable debts and expenses of the deceased resident to be determined by rules and regulations as shall be adopted by the director, shall upon his or her decease become the property of the state, and shall be applied by the director of human services, or his or her designee, to the uses and purposes of the veterans' restricted account; provided, however, that the director may, in his or her discretion, deliver to any surviving relative of the deceased resident any of the property or effects as may serve as a memento of the deceased resident. For purposes of this section, the provisions of chapter 24 of title 33 shall be applicable.

of resident funds by source, order of disbursement, controls to periodically review balances in resident accounts.

The Administrator concurs with recommendation 15 for those balances remaining in residents accounts that are \$15,000 and below. If not, then the Office of Veterans Services does not have the legal counsel on staff to comply with this recommendation.

Responsible Party:

Lynn C. Lavalley, CFO

Anticipated Completion Date:

January 1, 2020

Document Policy and Standard Operating Procedures for Management of Resident Funds & Collection of Maintenance Fees

Documentation of policies and procedures is critical to daily operations and effective operation of internal controls. These documents set forth fundamental framework and the underlying methods and processes employees rely upon to perform their work. They provide specific direction and help form the basis for decisions made by employees. Without this framework of understanding by employees, conflict may occur, poor decisions may be made, and serious harm may be done to agency reputation. Further, the efficiency and effectiveness of operations can be adversely affected.

The RIVH does not have formal, documented procedures governing the management of resident funds related to:

- Supporting documentation for financial transactions
- Collection of maintenance fees
- Account reconciliations

Deficiencies in documenting and communicating standard operating procedures could result in control weaknesses; and increases the risk of functions being improperly administered by management and employees.

Recommendation:

16. Document policies and procedures governing management of resident funds and collection of maintenance fees

Management's Response:

The Administrator concurs with this recommendation. Documentation for the management of resident funds and collection of maintenance fees will be improved. An internal standing operation procedure manual will be initiated and establish the policy and process needed to implement the management of resident funds and collections of maintenance fees.

Responsible Party:

Lynn C. Lavallee

Anticipated Completion Date:

January 1, 2020

Objective and Scope

The Office of Internal Audit (OIA) conducted a limited scope audit of the Rhode Island Veterans Home (RIVH) representative payee account for Fiscal Year 2019. The purpose of the engagement was to determine if an adequate control structure exists over the management of custodial funds and to ensure safeguarding of these assets.

Methodology

As part of our audit work, we gained an understanding of the existing controls over managing resident funds and collection of maintenance fees. To address our audit objective, we performed the following:

- Interviewed personnel, including management and staff
- Reviewed established policies and procedures
- Reviewed Rhode Island Regulations applicable to the organization's operations
- Developed flowcharts of processes and identified points of inefficiency
- Tested a sample of resident account balances.