



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



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

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

– Article IV, Section 53 of the Michigan Constitution

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Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit

Report Number:
 511-0160-10

D.J. Jacobetti Home for Veterans

Department of Military and Veterans Affairs

Released:
 January 2011

The D.J. Jacobetti Home for Veterans provides nursing care and domiciliary care services to military veterans and widows, widowers, spouses, former spouses, and parents of veterans. As of June 25, 2010, the Home had 178 members receiving nursing care, 9 members residing in the domiciliary unit, and 159 employees. The Home expended \$15.8 million for the fiscal year ended September 30, 2009.

Audit Objective:

To assess the effectiveness of the Home's efforts to deliver required patient care services.

Audit Conclusion:

We concluded that the Home's efforts to deliver required patient care services were effective. However, we noted three reportable conditions (Findings 1 through 3).

Reportable Conditions:

The Home should conduct criminal history background checks on all of its volunteers and contract service employees working at the facility with direct access to members (Finding 1).

The Home should continue its efforts to hire a qualified activities therapy manager (Finding 2).

The Home should continue to pursue potential increases in efficiency and

effectiveness to be gained from implementing an electronic medical records system (Finding 3).

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Audit Objective:

To assess the effectiveness of the Home's efforts to control member medications.

Audit Conclusion:

We concluded that the Home's efforts to control member medications were moderately effective. We noted one reportable condition (Finding 4).

Reportable Condition:

The Home did not have proper separation of responsibilities for ordering, receiving, and recording medications and performing a physical inventory of the controlled medications (Finding 4).

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Audit Objective:

To assess the effectiveness of the Home's efforts in managing member admissions, financial assessments, and donated funds.

Audit Conclusion:

We concluded that the Home's efforts in managing member admissions, financial assessments, and donated funds were effective. However, we noted four reportable conditions (Findings 5 through 8).

Reportable Conditions:

The Home improperly retained an applicant in 2001 who did not qualify for admittance based on statutory criteria (Finding 5).

The Home did not have a sufficient process for obtaining and verifying all financial information to determine an applicant's ability to pay for the cost of his or her care (Finding 6).

The Home had not established sufficient controls over its handling of members' personal funds (Finding 7).

The Home should continue to consider other appropriate uses for its unoccupied domiciliary bed space (Finding 8).

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Agency Response:

Our audit report contains 8 findings and 8 corresponding recommendations. The Department of Military and Veterans Affairs' preliminary response indicates that the Home agrees with all of the recommendations.

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



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January 28, 2011

Major General Gregory J. Vadnais, Director
Department of Military and Veterans Affairs
3411 North Martin Luther King Jr. Boulevard
Lansing, Michigan
and

Mr. Ernest E. Meyers, Sr., Chairman
Board of Managers of the Michigan Veterans Homes
Grand Rapids Home for Veterans
Grand Rapids, Michigan

Dear General Vadnais and Mr. Meyers:

This is our report on the performance audit of the D.J. Jacobetti Home for Veterans, Department of Military and Veterans Affairs.

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

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

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

AUDITOR GENERAL

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Description of Agency

The D.J. Jacobetti Home for Veterans, located in Marquette, was established in 1981 to care for Michigan's military veterans. The Home was established and operates under Sections 36.1 - 36.12 of the *Michigan Compiled Laws*. Later amendments to the enabling statute extended admission eligibility to widows, widowers, spouses, former spouses, and parents of veterans. The Home received its nursing home license in 1995.

The Home is operated by the Michigan Department of Military and Veterans Affairs. The Board of Managers of the Michigan Veterans Homes provides general supervision for the Home and is composed of seven members appointed by the Governor, with the advice and consent of the Senate, and each member serves a 6-year term. The Board consists of two members from the Veterans of Foreign Wars, two from the American Legion, one from the Disabled Veterans of America, one from the American Veterans of World War II-Korea-Vietnam (AMVETS), and one at-large veteran who is not a representative of the four organizations specified.

The Home provides nursing care* and domiciliary care* services to its members. In addition, the Home provides spiritual, social, recreational, and educational services.

The Home's primary mission* is to restore members' health and maintain their existing functions, enabling the members the opportunity to enjoy their remaining years to the fullest. In order to help meet its mission, the Home performs a comprehensive needs assessment of each member. The assessment process includes the members' evaluation by a physician, social worker, nurse, activities director, dietitian, and physical therapist to determine members' abilities and disabilities. The Home uses information obtained from the assessment process to develop a comprehensive plan to meet the members' needs.

The Home maintains 182 nursing care beds and 59 domiciliary beds. As of June 25, 2010, the Home had 178 members receiving nursing care, 9 members residing in the domiciliary unit, and 159 employees. The Home expended \$15.8 million for the fiscal year ended September 30, 2009.

* See glossary at end of report for definition.

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

Audit Objectives

Our performance audit* of the D.J. Jacobetti Home for Veterans, Department of Military and Veterans Affairs, had the following objectives:

1. To assess the effectiveness* of the Home's efforts to deliver required patient care services.
2. To assess the effectiveness of the Home's efforts to control member medications.
3. To assess the effectiveness of the Home's efforts in managing member admissions, financial assessments, and donated funds.

Audit Scope

Our audit scope was to examine the program and other records of the D.J. Jacobetti Home for Veterans. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit procedures, conducted from May through August 2010, generally covered the period October 1, 2007 through June 30, 2010.

As part of our audit, we prepared supplemental information related to our audit objectives. Our audit was not directed toward expressing a conclusion on this information and, accordingly, we express no conclusion on it.

Audit Methodology

To establish our audit objectives and to gain an understanding of the Home's activities, we conducted a preliminary review of the Home's operations. This included discussions with various Home staff regarding their functions and responsibilities, limited testing of program records, a review of the Home's policy directives and operating procedures, and analysis of available data and statistics.

* See glossary at end of report for definition.

To assess the effectiveness of the Home's efforts to deliver required patient care services, we interviewed the Home's staff, reviewed federal and State laws, and examined the Home's policies to gain an understanding of the patient care service requirements. We reviewed the Home's Member Council meeting minutes, member and family complaint files, Board of Manager meeting minutes, Quality Assurance Committee meeting minutes, member satisfaction surveys, and documentation pertaining to sentinel events*. Also, we examined member files to verify that the Home assessed the members' medical care needs, prepared care plans, and ensured that members were reviewed by a physician and received services noted in the care plans. Further, we examined the Home's documentation related to nurse staffing, employee background checks, employee licensing and certifications, delivery of member medications, and food service operations.

To assess the effectiveness of the Home's efforts to control member medications, we reviewed the Home's procedures pertaining to the control and inventory of its controlled medications*. Also, we obtained the listing of medications purchased from the drug suppliers and tested the accuracy of the controlled medications purchased to the Home's inventory records. In addition, we reviewed the Home's annual controlled medications physical inventory records and traced a sample of controlled medications in the Home's pharmacy to its inventory records. Further, we observed the Home's control of medications stored in its pharmacy, the units, and the medication carts.

To assess the effectiveness of the Home's efforts in managing member admissions, financial assessments, and donated funds, we interviewed the Home's staff to obtain an understanding of the member admission process, the determination and calculation of member assessments and ability to pay, and the control and use of donated funds and member contributions. We examined the Home's member admission files and denied admission reports to verify the Home's effort to ensure that only applicants meeting statutory requirements were admitted for services. We tested the completeness of the Home's member financial assessment determinations. Also, we reviewed the Home's controls over the handling and processing of donated funds and member contributions. In addition, we tested a sample of expenditures from the donated funds and member contribution accounts to verify that the expenditures were made in accordance with statutory requirements. Further, we examined the Home's process for assessing its utilization of unused bed space.

* See glossary at end of report for definition.

When selecting activities or programs for audit, we use an approach based on assessment of risk and opportunity for improvement. Accordingly, we focus our audit efforts on activities or programs having the greatest probability for needing improvement as identified through a preliminary review. Our limited audit resources are used, by design, to identify where and how improvements can be made. Consequently, we prepare our performance audit reports on an exception basis.

Agency Responses and Prior Audit Follow-Up

Our audit report contains 8 findings and 8 corresponding recommendations. The Department of Military and Veterans Affairs' preliminary response indicates that the Home agrees with all of the recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require the Department of Military and Veterans Affairs to develop a plan to address the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services will review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

Within the scope of this audit, we followed up 2 of the 7 prior audit recommendations from our October 1999 performance audit of the D.J. Jacobetti Home for Veterans, Department of Military and Veterans Affairs (51-160-99). We also followed up 1 of the 6 prior audit recommendations from our April 2005 performance audit of the Veterans Affairs Directorate, Department of Military and Veterans Affairs (51-105-04). The Home and the Department complied with 2 of the 3 prior audit recommendations included within the scope of our current audit. The other recommendation was repeated in this report.

COMMENTS, FINDINGS, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSES

EFFORTS TO DELIVER REQUIRED PATIENT CARE SERVICES

COMMENT

Audit Objective: To assess the effectiveness of the D.J. Jacobetti Home for Veterans' efforts to deliver required patient care services.

Audit Conclusion: We concluded that the Home's efforts to deliver required patient care services were effective. However, our assessment noted three reportable conditions* related to criminal history background checks, activities therapy manager, and electronic medical records (Findings 1 through 3).

FINDING

1. Criminal History Background Checks

The Home should conduct criminal history background checks on all of its volunteers and contract service employees working at the facility with direct access to members. Conducting criminal history background checks on all volunteers and employees working at the facility with direct access to members helps the Home ensure that these individuals will not subject members to abuse, neglect, or mistreatment.

The Home's policy (Section 14, Policy 14) requires that the Home comply with State and federal requirements regarding background checks. The policy states that the Home shall perform a background check before employing any person, including independent contractors and those seeking clinical privileges, and on those individuals who regularly have direct access to or provide direct services to members.

Our review of the Home's compliance with its policy related to criminal history background checks disclosed:

- a. The Home had not conducted criminal history background checks on all of its volunteers in accordance with its policy.

* See glossary at end of report for definition.

The Home's policy was to perform background checks on all individuals who had regular direct access to or provided direct services to members, including volunteers. However, the Home had not conducted background checks on 321 (93%) of 344 volunteers working at the facility. In addition, the Home had not identified volunteers who had direct access or who provided direct services to its members. Without identifying those volunteers with direct access or who provided direct services to the members, we could not verify which of the 344 volunteers needed a background check. We did not obtain criminal history background checks on the Home's volunteers because the Home did not maintain volunteers' social security numbers and birth dates necessary to obtain the checks.

- b. The Home did not verify that criminal history background checks were completed on contract service employees who worked in the Home and who had direct access to its members.

The Home contracted with service providers to provide medical services, food services, and janitorial services. The Home's management stated that it relied on the contract service providers to perform the background checks of its employees to ensure that none of its employees had criminal records that would prohibit them from working at the Home. After our request, the Home obtained the criminal history background checks from the janitorial contract service provider. The food service contractor had not completed criminal history background checks of its employees. After our request, the food service contractor provider performed the background checks and provided them to us for our review. Our review of the criminal history background checks did not disclose any employees with a criminal history that would prohibit them from working at the facility.

Performing background checks would help the Home identify individuals with a history of criminal activity or abuse and prevent those people from working at the Home.

RECOMMENDATION

We recommend that the Home conduct criminal history background checks on all of its volunteers and contract service employees working at the facility with direct access to members.

AGENCY PRELIMINARY RESPONSE

The Home agrees with the recommendation and stated that it has criminal history background checks on file for all contract service employees and has implemented quality assurance reviews to ensure ongoing compliance. The Home informed us that it has conducted criminal background checks on all new volunteers since October 2009 when the policy was revised to include volunteers and has monitors in place to ensure ongoing compliance.

FINDING

2. Activities Therapy Manager

The Home should continue its efforts to hire a qualified activities therapy manager. Without a qualified activities therapy manager, the Home cannot ensure that its members are receiving appropriate services.

Title 38, Part 51, section 100 of the *Code of Federal Regulations (CFR)* requires that the Home's activities therapy manager be either a qualified therapeutic recreation specialist or an activities professional who is certified as a therapeutic recreation specialist. Certification is obtained by meeting various academic and work experience requirements and passing the certification examination.

The Home's activities therapy manager is responsible for establishing and directing a varied program of activities for members, which can include activity in occupational, music, art, and recreational therapy programs, and for determining and reviewing member treatment goals in relation to activity therapy programs. In addition, the manager is responsible for maintaining progress notes and member records and confers with other therapists and physicians regarding member needs. At the time of our audit, the Home's activities therapy manager was neither a qualified nor a certified therapeutic recreation specialist.

The Home's management stated that it was unable to attract a qualified candidate to fill the position who met the *CFR* requirements because of its remote location. Since hiring the current activities therapy manager in 2002, the Home has not required its manager to obtain the necessary qualification or certification.

RECOMMENDATION

We recommend that the Home continue its efforts to hire a qualified activities therapy manager.

AGENCY PRELIMINARY RESPONSE

The Home agrees with the recommendation.

FINDING

3. Electronic Medical Records

The Home should continue to pursue potential increases in efficiency and effectiveness to be gained from implementing an electronic medical records system (EMRS). An EMRS could help increase the efficiency and effectiveness of providing medical care services and help to reduce the risk of medical-related errors.

The Home's current medical records system is a paper-based system that requires that each medical team member obtain and update each member's medical file. Accessibility to the records is limited when another medical team member has access to or is updating a member's record. EMRS patient records provide for immediately available information to all practitioners. In addition, an EMRS's on-screen or printed text could help reduce errors that occur because of illegible handwritten medical notes, medication prescriptions, or medical orders. Also, an EMRS can continuously check and filter member medical data for errors and issue alerts and/or reminders with the detection of potential medical or medication discrepancies that could lead to a life-threatening situation. A 2008 study completed by the U.S. Congressional Budget Office noted that, although difficult to estimate the actual savings pertaining to the use of an EMRS, there was increased efficiency through the reduction in staff time in the handling of medical records, avoiding duplicated diagnostic tests, and improved nurse productivity through decreased time required to document the medical care services provided. Also, the study noted that providers using an EMRS experienced a reduction in drug error rates between 50% and 90%.

Each of the Home's members receives medical care from a team of professionals, including physicians, nurses, social workers, physical therapists, pharmacists, and

a dietitian. The medical team reviews and records clinical information to each member's medical record.

The Home's management informed us that in 2007 it participated in a Statewide evaluation of an EMRS proposal for implementation by multiple State agencies. The Home's management stated that it agrees that an EMRS would increase the efficiency and effectiveness of providing medical care services; however, an EMRS was not implemented due to a lack of funding at the time. The Home did not have available documentation of the potential increases in efficiency and effectiveness that an EMRS would provide.

The Home's management should continue to work with the Department of Technology, Management & Budget to develop options for implementing an EMRS, such as adapting the Department of Corrections' EMRS for use at the Home.

RECOMMENDATION

We recommend that the Home continue to pursue potential increases in efficiency and effectiveness to be gained from implementing an EMRS.

AGENCY PRELIMINARY RESPONSE

The Home agrees with the recommendation and noted that implementation of an EMRS is contingent upon funding.

EFFORTS TO CONTROL MEMBER MEDICATIONS

COMMENT

Audit Objective: To assess the effectiveness of the Home's efforts to control member medications.

Audit Conclusion: We concluded that the Home's efforts to control member medications were moderately effective. Our assessment disclosed one reportable condition related to proper separation of responsibilities for ordering, receiving, and recording medications and performing a physical inventory of the controlled medications (Finding 4).

FINDING

4. Medication Controls

The Home did not have proper separation of responsibilities for ordering, receiving, and recording medications and performing a physical inventory of the controlled medications. As a result, the Home did not have the ability to detect controlled medication inventory errors and irregularities and initiate corrective measures in a timely manner.

To accommodate members' medication needs, the Home operates an on-site pharmacy that orders, receives, and stocks approximately 600 different prescription and over-the-counter medications, including both controlled and noncontrolled medications. During 2009, the Home purchased approximately 58,000 doses of controlled medications.

Our review of the Home's recordkeeping procedures for its controlled medications disclosed that one employee had the ability to order, receive, record, and inventory controlled medications.

Proper controls require that an employee who is separate from the medication ordering and inventorying functions conduct or periodically review the annual physical inventory count.

As part of our audit procedures, we tested the validity of a sample of controlled medication inventory balances. Our audit procedures did not disclose any discrepancies in the controlled medication inventory balances. However, our procedures cannot be relied upon to detect all potential medication misappropriations.

RECOMMENDATION

We recommend that the Home establish proper separation of responsibilities for ordering, receiving, and recording medications and performing a physical inventory of the controlled medications.

AGENCY PRELIMINARY RESPONSE

The Home agrees with the recommendation and stated that it has modified the duties of its contractual quality assurance pharmacist to include performing the annual physical inventory of controlled medications.

EFFORTS IN MANAGING MEMBER ADMISSIONS, FINANCIAL ASSESSMENTS, AND DONATED FUNDS

COMMENT

Background: Annually, the Board of Managers establishes a monthly fee assessment for its nursing care and domiciliary care services. The actual amount that members pay for services is based on the Home's assessment of each member's ability to pay. As of June 25, 2010, the Home's 176 military veteran members receiving nursing care services made an average monthly payment of \$2,323 (60%) for services compared to the Home's monthly assessment of \$3,900. Also, the Home's 9 military veteran members receiving domiciliary care services paid an average monthly payment of \$1,231 (54%) for services compared to the Home's monthly assessment of \$2,300. For fiscal year 2009-10, the Home's appropriated source of funding consisted of \$5.7 million from member payments, \$5.2 million from federal revenues, and \$4.7 million from the State's General Fund. The Home receives federal revenues based upon a daily per diem paid for each member of the Home receiving nursing care services. In order to receive the daily per diem, the Home must meet standards established by federal regulation 38 *CFR* 51(d).

Audit Objective: To assess the effectiveness of the Home's efforts in managing member admissions, financial assessments, and donated funds.

Audit Conclusion: **We concluded that the Home's efforts in managing member admissions, financial assessments, and donated funds were effective.** However, our assessment disclosed four reportable conditions related to member admissions, financial disclosure and applicant assessments, controls over members' personal funds, and space utilization (Findings 5 through 8).

FINDING

5. Member Admissions

The Home improperly retained an applicant in 2001 who did not qualify for admittance based on statutory criteria. Retaining an ineligible applicant and providing nursing care services may reduce the Home's ability to serve the needs of other eligible applicants and result in an unauthorized use of State General Fund appropriations.

Sections 36.11 and 36.31 of the *Michigan Compiled Laws* restrict admittance to the Home to former members of the U.S. armed forces and their widows, widowers, spouses, former spouses, and parents.

As of May 28, 2010, the Home had expended approximately \$277,000 of State General Fund appropriations, and continues to expend approximately \$40,000 annually, to provide for the cost of care for this ineligible member. The Home accepted the applicant pending a determination of the applicant meeting the eligibility criteria. The Home later determined that the applicant did not meet the active military duty service time requirement necessary for admittance. In addition, the U.S. Department of Veterans Affairs (VA) informed the Home that the applicant did not meet requirements of active duty service time to qualify for VA funding. Although the Home determined that the applicant was ineligible, the Home's director at that time decided that the applicant could remain in the Home.

RECOMMENDATION

We recommend that the Home comply with statutory criteria in restricting admission to eligible applicants.

AGENCY PRELIMINARY RESPONSE

The Home agrees with the recommendation and stated that (as of December 28, 2010) the Home has admitted 838 applicants without error since this admission in 2001.

FINDING

6. Financial Disclosure and Applicant Assessments

The Home did not have a sufficient process for obtaining and verifying all financial information to determine an applicant's ability to pay for the cost of his or her care. An insufficient process for obtaining and verifying all financial information could result in the State's General Fund paying for the cost of care when the applicants have sufficient ability to pay.

The Home needs accurate financial information to determine applicants' ability to pay for their cost of care as required by Section 36.11 of the *Michigan Compiled Laws*. *Michigan Administrative Code* R 32.76, effective May 24, 2007, requires that applicants for admission to the Home who have insufficient financial resources

to cover the full cost of care, must make full disclosure of all assets held within three years prior to the date of the application to determine the applicants' ability to pay. In addition, applicants must authorize the release of financial information as requested by the Home. *Michigan Administrative Code R 32.80* states that assets restricted* or divested* during the 36 months prior to the date of application to the Home could result in an admission disqualification or a requirement that the applicants pay the cost of care in an amount equal to the value of the restricted or divested assets.

The Home's admission application identifies the information needed from the applicants. The Home's staff use the application information to determine the applicants' admissibility and ability to pay.

Our review of the Home's process for obtaining applicants' financial information and determining their ability to pay disclosed:

- a. The Home did not have sufficient procedures to guide staff in determining the applicants' ability to pay for their cost of care. Establishing additional procedures could assist staff in ensuring that the determination of the applicants' ability to pay is in accordance with the *Michigan Administrative Code* requirements. For example, our review disclosed an applicant who had restricted approximately \$37,000 of his personal assets. The Home admitted the applicant pending its completion of the applicant's financial assessment. Upon completing the financial assessment, the Home identified that the applicant had restricted his assets. The Home did not disqualify the applicant for admission as required by the *Michigan Administrative Code* or require that the applicant pay for his cost of care until the value of the applicant's payment equaled the amount of the restricted assets.
- b. The Home did not require that applicants who have insufficient financial resources to cover the full cost of care comply with *Michigan Administrative Code R 32.76*, which requires full disclosure of all assets within three years of applying to the Home. The Home's admission application required that applicants submit only the most recent federal personal income tax return. As a result, the Home did not have sufficient information from which to determine the applicants' ability to pay and to identify the applicants' divestment of

* See glossary at end of report for definition.

assets. Our review of the admission files for a sample of 26 members admitted to the facility during our audit period disclosed that none of the member files contained information necessary for the Home to verify the applicants' income or assets for the three years prior to the application. Of the files reviewed, only 3 (12%) contained the applicants' tax return for the year prior to admission and 17 (65%) had only the most recent bank statement. In an effort to help identify the applicants' financial activity and to obtain full disclosure of assets, the Home should require that members submit financial information for the three years prior to the date of admission.

- c. The Home did not verify with the U.S. Internal Revenue Service or the Michigan Department of Treasury that applicants did not file personal income tax returns. As a result, the Home may not have had complete information from which to determine the applicants' ability to pay. The Home should consider requiring that applicants authorize the Home to request copies of applicants' federal and/or State personal income tax returns.

We noted a similar condition in our audit of the Veterans Affairs Directorate, Department of Military and Veterans Affairs (51-105-04). In response to that audit, the Directorate concurred with the finding and stated that a review of Board of Managers' policies had begun and the likely result would be a revised admission application/contract requiring submission of individual tax returns for the previous three years. In addition, the Directorate indicated that it would work with the Department of Treasury to determine if the Home could have access to income tax returns filed with the State of Michigan.

The Home stated that it had revised its procedures to require members to submit the previous three years of income tax returns upon admission; however, the Home stated that this requirement was not strictly enforced. In addition, the Home stated that it had met with the Department of Treasury but was unable to reach an agreement for obtaining access to income tax returns filed with the State of Michigan.

RECOMMENDATION

WE AGAIN RECOMMEND THAT THE HOME ESTABLISH A SUFFICIENT PROCESS FOR OBTAINING AND VERIFYING ALL FINANCIAL INFORMATION

TO DETERMINE AN APPLICANT'S ABILITY TO PAY FOR THE COST OF HIS OR HER CARE.

AGENCY PRELIMINARY RESPONSE

The Home agrees with the recommendation and stated that it has implemented a process requiring all applicants to submit three years of bank statements and tax returns or to sign a release allowing the Home to request this information directly from the Internal Revenue Service and their banks. In addition, the Home stated that it is pursuing the establishment of electronic data requests with the Internal Revenue Service. The Home also noted that full cost of care is now paid for the applicant referred to in part a. and he is making monthly additional payments toward the back amount owed.

FINDING

7. Controls Over Members' Personal Funds

The Home had not established sufficient controls over its handling of members' personal funds. As a result, the Home could not ensure that it adequately safeguarded members' personal funds.

Each member's monthly social security, pension, or other income are either electronically deposited into the Home's checking account held at a local bank or mailed to the Home for deposit into the account. The Home maintains an individual record of each member's banking activity and personal account balance and provides each member with a monthly account balance statement. The Home accesses the checking account to transfer funds necessary to cover members' monthly assessments and to provide members with personal spending money.

Our review of the Home's controls disclosed that the same Home employee was responsible for maintaining the checking account, updating the member's individual account activity records, and reconciling the member's account balances to the bank records. Proper controls require that an employee who is independent of maintaining the checking account and member account records be responsible for conducting the reconciliations. The Home should consider assigning an employee independent of maintaining the checking account to oversee and periodically test the account reconciliations.

As part of our audit procedures, we tested the validity of a sample of the Home's checking account transactions. Our audit procedures did not disclose any discrepancies related to the checking account transactions or member account balances. However, because of the lack of separation of duties, our procedures cannot be relied upon to detect all potential checking account or member account misappropriations.

RECOMMENDATION

We recommend that the Home establish sufficient controls over its handling of members' personal funds.

AGENCY PRELIMINARY RESPONSE

The Home agrees with the recommendation and stated that it has assigned an employee independent of maintaining the checking account to oversee and periodically test the account reconciliations.

FINDING

8. Space Utilization

The Home should continue to consider other appropriate uses for its unoccupied domiciliary bed space. Effectively utilizing its unused space to serve other veterans or to identify other potential occupants could help the Home further its mission or potentially generate additional revenues.

During fiscal year 2008-09, the Home had 182 beds dedicated for nursing care for which it had a member occupancy rate of approximately 98%. In addition, the Home maintained 59 beds for domiciliary care. However, during fiscal year 2008-09, the Home filled an average of only 12 (20%) of the domiciliary beds. The Home's management stated that there was limited demand for the domiciliary bed space so one floor of the facility remained virtually unused.

The Home's management had developed a plan to reconfigure its nursing care operations and move some of its nursing care beds to the unoccupied domiciliary area; however, this plan would not have increased the number of nursing care beds. The Home should work with the Department of Technology, Management & Budget, local units of government, and other veterans' groups to consider options for the unused space. Such options conducive to a nursing home environment

could include other medical services, nursing care, rehabilitation related services, or other private business office usage.

RECOMMENDATION

We recommend that the Home continue to consider other appropriate uses for its unoccupied domiciliary bed space.

AGENCY PRELIMINARY RESPONSE

The Home agrees with the recommendation.

SUPPLEMENTAL INFORMATION

D.J. JACOBETTI HOME FOR VETERANS
Department of Military and Veterans Affairs
Members' Demographic Data
As of June 25, 2010

<u>Year of Admission to Home</u>	<u>Number of Members</u>	<u>Percentage of Total</u>	<u>Gender</u>		<u>Type of Care</u>	
			<u>Men</u>	<u>Women</u>	<u>Nursing</u>	<u>Domiciliary</u>
1984 - 1985	2	1%	2	0	2	0
1986 - 1990	2	1%	2	0	2	0
1991 - 1995	5	3%	5	0	2	3
1996 - 2000	13	7%	10	3	13	0
2001 - 2005	41	22%	39	2	39	2
2006 - 2010	124	66%	122	2	120	4
Total	187	100%	180	7	178	9

Source: The Office of the Auditor General prepared this exhibit based on data provided by the D.J. Jacobetti Home for Veterans.

D.J. JACOBETTI HOME FOR VETERANS
Department of Military and Veterans Affairs
Member Admissions, Member Discharges, and Average Monthly Census
For Fiscal Years 2004-05 through 2008-09

Fiscal Year	Member Admissions	Member Discharges	Average Monthly Census*
2008-09	77	75	192
2007-08	99	105	187
2006-07	99	90	191
2005-06	94	98	193
2004-05	111	101	188
5-Year Average	96	94	190

* The average monthly census is based on the number of members in the Home on the first day of each month during the fiscal year.

Source: The Office of the Auditor General prepared this exhibit based on data provided by the D.J. Jacobetti Home for Veterans.

D.J. JACOBETTI HOME FOR VETERANS
Department of Military and Veterans Affairs
Selected Financial and Member Information
For the Fiscal Years Ended September 30

	<u>2008</u>	<u>2009</u>
D.J. Jacobetti Home for Veterans		
Sources of financing:		
Member payments	\$ 5,300,100	\$ 5,515,700
Federal revenues	4,987,500	5,014,900
State General Fund	5,311,400	5,028,800
Other special revenue funds	275,000	275,000
Total sources of financing	<u>\$ 15,874,000</u>	<u>\$ 15,834,400</u>
Total expenditures	<u>\$ 15,765,390</u>	<u>\$ 15,838,402</u>
Average number of members in the Home receiving:		
Nursing care services	\$ 174	\$ 179
Domiciliary care services	13	12
Average number of members in the Home	<u>\$ 187</u>	<u>\$ 191</u>
Grand Rapids Home for Veterans		
Sources of financing:		
Member payments	\$ 14,806,400	\$ 14,703,900
Federal revenues	17,208,900	17,232,200
State General Fund	16,386,300	15,953,400
Other special revenue funds	677,200	677,200
Total sources of financing	<u>\$ 49,078,800</u>	<u>\$ 48,566,700</u>
Total expenditures	<u>\$ 49,914,703</u>	<u>\$ 49,262,114</u>
Average number of members in the Home receiving:		
Nursing care services	\$ 609	\$ 583
Domiciliary care services	95	102
Average number of members in the Home	<u>\$ 704</u>	<u>\$ 685</u>
Cost Comparisons (1):		
D.J. Jacobetti Home for Veterans		
Average expenditures per member	\$ 84,307	\$ 82,924
Grand Rapids Home for Veterans		
Average expenditures per member	\$ 70,902	\$ 71,915
Average Cost of Private Nursing Home (2)	\$ 71,175	\$ 73,365

(1) Our review disclosed that the majority of the variance in costs between the Homes was attributed to higher average employee costs at the D.J. Jacobetti Home for Veterans. The D.J. Jacobetti Home's average employee payroll costs (including contracted nursing care services) were 17% and 13% higher than those of the Grand Rapids Home for Veterans for fiscal years 2007-08 and 2008-09, respectively. Reasons for the variances include the D.J. Jacobetti Home's higher percentage of nursing care members who require more nursing care staffing and greater reliance on State employee nursing care staff as compared to the Grand Rapids Home's greater reliance on lower cost contracted nursing care staff.

(2) Source: <http://www.gilico.com/LTCcosts2008.html> and
<http://www.metlife.com/assets/cao/mmi/publications/studies/mmi-market-survey-nursing-home-assisted-living.pdf>

Source: The Office of the Auditor General prepared this exhibit. Total expenditures data was obtained from State of Michigan accounting records. The average number of members in the Home was obtained from the monthly Board of Managers' reports.

GLOSSARY

Glossary of Acronyms and Terms

assets divested	The disposing, transfer, gifting, conversion, or giving away of assets for less than fair market value.
assets restricted	The moving or transferring of assets, thereby making them unavailable to pay the cost of care.
<i>CFR</i>	<i>Code of Federal Regulations.</i>
controlled medications	A drug or substance that has a high potential for misuse.
domiciliary care	Serves members who need very little nursing care but have needs that require a structured environment.
effectiveness	Success in achieving mission and goals.
EMRS	electronic medical records system.
mission	The main purpose of a program or an agency or the reason that the program or the agency was established.
nursing care	Serves members with moderate to severe disabilities who require continuous nursing care and supervision.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve program operations, to facilitate decision making by parties responsible for overseeing or initiating corrective action, and to improve public accountability.
reportable condition	A matter that, in the auditor's judgment, falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal

control that is significant within the context of the objectives of the audit; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.

sentinel event

An unanticipated event in a healthcare setting resulting in death or serious physical or psychological injury to a patient or patients, not related to the natural course of the patient's illness.

