Tennessee State Veterans' Homes Board

For the Year Ended
June 30, 2001

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

November 26, 2002

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Board of Directors
Tennessee State Veterans' Homes Board
345 Compton Road
Murfreesboro, Tennessee 37130

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee State Veterans' Homes Board for the year ended June 30, 2001. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The board's management has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Sincerely,

John G. Morgan

John G. Morgan
Comptroller of the Treasury

JGM/th
02/034

State of Tennessee

Audit Highlights

Comptroller of the Treasury — Division of State Audit

Financial and Compliance Audit
Tennessee State Veterans' Homes Board
For the Year Ended June 30, 2001

AUDIT OBJECTIVES

The objectives of the audit were to consider the board's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, and contracts; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

INTERNAL CONTROL FINDINGS

Accounts Receivable Practices Are Not Adequate**

The Tennessee State Veterans' Homes Board's accounts receivable balances do not portray a complete picture of the current receivable activity or the true amount the board must attempt to collect. The board has not promptly refunded Medicaid and other overpayments, and the management company has not properly reduced the rate adjustment for certain Medicaid-eligible veterans. In addition, revenue accounts were not recorded correctly (page 9).

Internal Control for Fixed Assets Is Not Adequate**

Equipment records are inadequate to integrate annual inventory results into the general ledger, the records are inaccurate, and a clear capitalization policy for additions is not in place (page 18).

Management Did Not Monitor the Activities of the Bond Trustee and Subsequent to the Audit Period Did Not Record Cash Entries Correctly

Management did not maintain internal control over cash. As a result, subsequent to the audit period, numerous errors occurred in the trust accounts and in the cash accounts on the general ledger (page 22).

Internal Control for Purchasing Is Not Adequate**

The board facilities do not have an adequate segregation of duties relating to purchasing, the board's policies and procedures over purchasing are not being followed, and service contract approvals required by state law are not being obtained (page 27).

Receipt of Goods and Services Was Not Documented **
The verification of receipt was not consistently documented (page 29).

Petty Cash Policies Are Inadequate and Are Not Being Followed*
The petty cash policy does not address what types of purchases can be made through petty cash funds. The policies and procedures that have been adopted are not being followed (page 29).

COMPLIANCE FINDINGS

Accounts Receivable Practices Are Not Adequate**
The board has not promptly refunded Medicaid overpayments, and the management company has not properly reduced the rate adjustments for certain Medicaid-eligible veterans (page 9).

The Board Did Not Comply With Legally Binding Documents
The board has failed to meet all of the requirements within the Official Statements and other Bond Documents. Control of spending was circumvented when transfers were not made as set forth in the bond documents (page 20).

The Foundation Board Continues to Improperly Use State Resources for Its Operations*
Employees of the board handle cash receipting and financial records for the foundation (page 24).

Travel Claims Were Not in Compliance With Comprehensive Travel Regulations
Board members, employees of the facilities, and employees of the management company acting on behalf of the facilities have not completed travel claims in accordance with Comprehensive Travel Regulations (page 25).

Three of the reportable conditions described above were considered material weaknesses:

- Accounts Receivable Practices Are Not Adequate
- Internal Control for Fixed Assets Is Not Adequate
- Management Did Not Monitor the Activities of the Bond Trustee and Subsequent to the Audit Period Did Not Record Cash Entries Correctly

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. The material weakness regarding accounts receivable practices and the compliance finding regarding noncompliance with bond documents are also considered material noncompliance.

* This finding is repeated from the prior audit.
** This finding is repeated from prior audits.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

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Audit Report
Tennessee State Veterans' Homes Board
For the Year Ended June 30, 2001

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Tennessee State Veterans' Homes Board
For the Year Ended June 30, 2001

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee State Veterans' Homes Board. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to "perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller."

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

The Tennessee State Veterans' Homes Board was established in 1988 under the provisions of Title 58, Chapter 7, *Tennessee Code Annotated.* This statute authorizes the creation of public homes for veterans throughout the state to provide support and care for honorably discharged veterans who served in the United States armed forces. The board operates two facilities — one in Murfreesboro and one in Humboldt — and has plans to build a third facility in East Tennessee. The board has the authority to employ an executive director and other employees; to incur expenses as may be necessary for the proper discharge of the board's duties; to establish policies regarding the rates for patient care in a state veterans' home; and to incur debts, borrow money, issue debt instruments, and provide for the rights of the holders of the debt instruments.

The board consists of ten members. The Commissioner of the Tennessee Department of Veterans Affairs serves *ex officio* as a voting member of the board. The remaining nine members are appointed by the Governor, three from each of the three grand divisions of the state. The Governor appoints a member of the board to serve as chairman. Each board member must be a citizen of the state and an honorably discharged veteran.

ORGANIZATION

As of November 1, 1994, the board contracted with ServiceMaster Diversified Health Services, L.P., (Diversified) to manage both the financial and clinical operations of the Murfreesboro facility as well as those of the Humboldt facility upon its opening. This subsidiary of ServiceMaster was purchased by the Forest Hill Group on September 1, 2000, and was renamed BEP Services. On May 31, 2001, the Forest Hill Group filed for reorganization of the company under Chapter 11 of the Bankruptcy Code. In August 2001, the board was informed that BEP Services would no longer be providing long-term care services. The board contracted with National HealthCare Corporation (NHC) as of December 1, 2001. BEP Services provided no services for either facility after January 31, 2002. This change in management companies is not expected to significantly affect the operations of the veterans' homes.

The management company employs an administrator to oversee daily operations of each facility. The administrator then hires the managerial staff including the Director of Nursing, Business Office Manager, Director of Medical Records, Director of Social Services, Food Services Manager, Activities Coordinator, Housekeeping Superintendent, Maintenance Supervisor, and all other facility employees. Although these employees are hired by the administrator from the management company, they are employees of the board.

An organization chart for the Tennessee State Veterans' Homes Board is on the following page.

AUDIT SCOPE

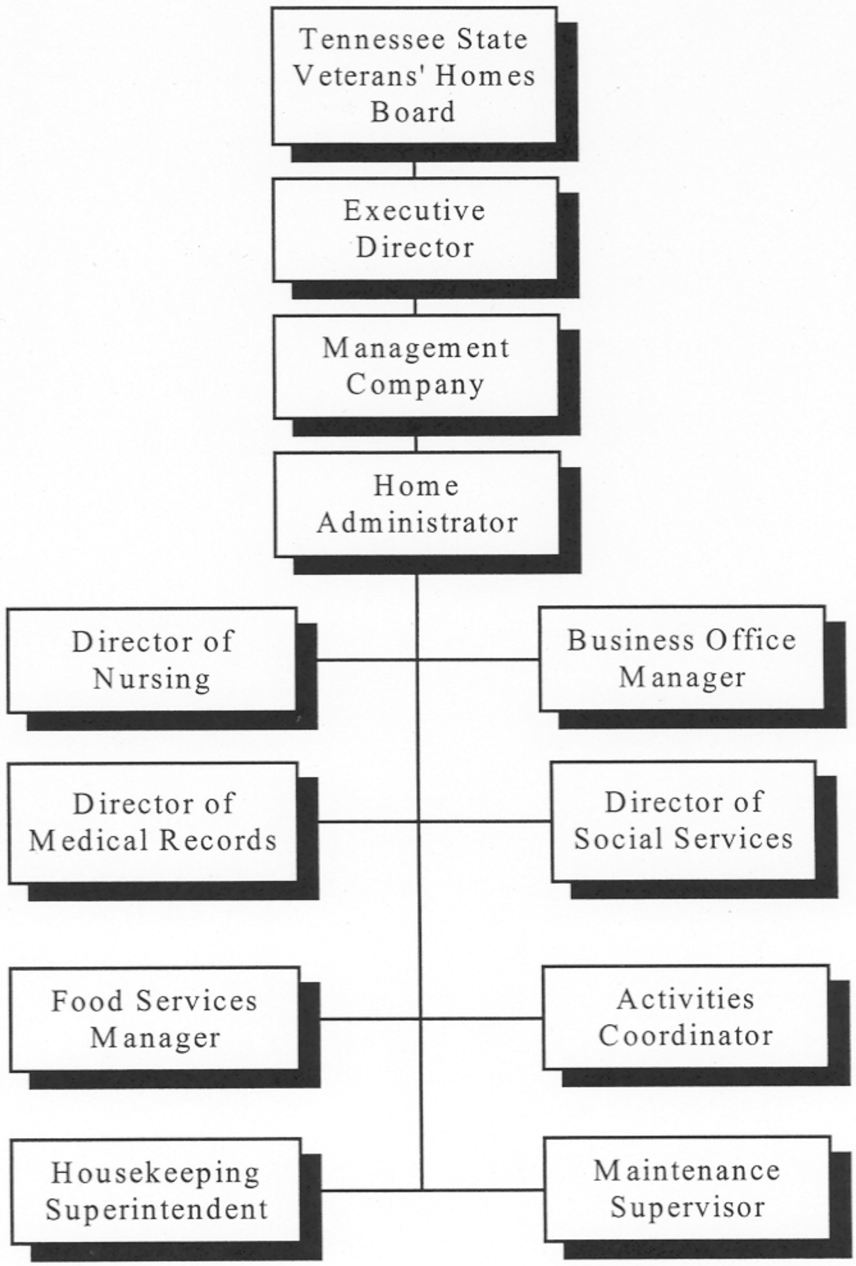
The audit was limited to the period July 1, 2000, through June 30, 2001, and was conducted in accordance with government auditing standards generally accepted in the United States of America. Financial statements are presented for the year ended June 30, 2001, and for comparative purposes, the year ended June 30, 2000. The Tennessee State Veterans' Homes Board has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the board's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;

Tennessee State Veterans' Homes Board



2. to determine compliance with certain provisions of laws, regulations, and contracts;

3. to determine the fairness of the presentation of the financial statements; and

4. to recommend appropriate actions to correct any deficiencies.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The board filed its report with the Department of Audit on March 20, 2002. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the board has corrected previous audit findings concerning internal control for foundation donations, adjustments to the management fee expense, controls over the resident trust funds, commingling of board and management company funds, and the vulnerability of cash receipts to misappropriation.

REPEATED AUDIT FINDINGS

The prior audit report also contained findings concerning accounts receivable practices and controls over equipment, purchasing, petty cash receipting, receipt of goods and services, and the foundation. These findings have not been resolved and are repeated in this report.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the Tennessee State Veterans' Homes Board's financial statements for the year ended June 30, 2001, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by government auditing standards generally accepted in the United States of America. Material weaknesses and reportable conditions, along with recommendations and management's responses, are detailed in the findings and recommendations.

Compliance

The results of our audit tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*. These instances of material noncompliance and other instances of noncompliance, along with recommendations and management's responses, are included in the findings and recommendations.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the Tennessee State Veterans' Homes Board's financial statements.

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COMPTROLLER OF THE TREASURY
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Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

May 31, 2002

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of the Tennessee State Veterans' Homes Board, a component unit of the State of Tennessee, as of and for the year ended June 30, 2001, and have issued our report thereon dated May 31, 2002. As discussed in Note 10 to the financial statements, the board implemented Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions.* We conducted our audit in accordance with government auditing standards generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the board's financial statements are free of material misstatement, we performed tests of the board's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instances of noncompliance that are required to be reported under *Government Auditing Standards*.

- Medicaid overpayments are not refunded promptly, and certain Medicaid rate adjustments have not been properly reduced

- The board did not comply with legally binding documents

These instances of noncompliance are described in finding 1 and finding 3 of the Findings and Recommendations section of this report.

We also noted certain other instances of noncompliance that we have included in the Findings and Recommendations section of this report.

- The foundation board continues to improperly use state resources for its operations
- Travel claims were not in compliance with Comprehensive Travel Regulations

Less significant instances of noncompliance have been reported to the board's management in a separate letter.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the board's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements.

The following reportable conditions were noted:

- Accounts receivable practices are not adequate
- Internal control for fixed assets is not adequate
- Management did not monitor the activities of the bond trustee and subsequent to the audit period did not record cash entries correctly
- Internal control for purchasing is not adequate
- Receipt of goods and services was not documented
- Petty cash policies are inadequate and are not being followed

These conditions are described in the Findings and Recommendations section of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the following to be material weaknesses:

- Accounts receivable practices are not adequate
- Internal control for fixed assets is not adequate
- Management did not monitor the activities of the bond trustee and subsequent to the audit period did not record cash entries correctly

We also noted other matters involving the internal control over financial reporting, which we have reported to the board's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, the board of directors, and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

Arthur A. Hayes, Jr., CPA,
Director

AAH/th

FINDINGS AND RECOMMENDATIONS

1. Accounts receivable practices are not adequate

Finding

As noted in the prior four audits, the Tennessee State Veterans' Homes Board's accounts receivable balance still does not portray a complete picture of the current receivable activity or the true amount the board must attempt to collect. The board has not promptly refunded Medicaid overpayments. The management company has not properly reduced the rate adjustments for certain Medicaid-eligible veterans, and there are several unexplained negative receivable balances not associated with the Medicaid overpayments or rate adjustments for Medicaid-eligible veterans. In addition, collection percentages used to set up the estimate for uncollectible accounts were not supported. The current audit also revealed that revenue was not recorded properly.

The board concurred with the prior findings regarding the timing of refunds, the rate adjustments and overpayments, and the estimate for uncollectible accounts and stated that a policy and tracking procedure was in place to ensure void adjustments were processed timely and that periodic reviews of credit balances would be required. The board also stated that the estimate for uncollectible accounts would be based on the facilities' collection history. Although some improvement occurred at the Murfreesboro facility and with the overall error rates, there was no evidence of any new policies, and each of the problems still exists.

The board did not concur with the prior findings regarding Medicaid overpayments and indicated that it requested the Governor's review of this issue. As discussed later in this finding, the board has implicitly recognized its liability to the Medicaid program through its actions. In addition, at the board's request, the Commissioner of the Department of Health previously researched the issues raised by the board and responded to the board on October 14, 1997, that the $282,062.42 was "due and payable to the TennCare [Medicaid] program." The Governor has taken no action to relieve the board of this liability. If the Governor had chosen to release the board from this obligation, the state would still have been responsible for refunding the federal percentage to the U.S. Department of Health and Human Services.

Background

All residents of a board facility are charged a standard rate for each day that they reside in the facility. To meet these charges, a resident may be eligible for assistance from Medicaid if the resident is both medically and financially eligible. Assistance from the Medicaid program consists of both a contractually established reduction in the standard rate (to the "Medicaid rate") and assistance payments from the U.S. Department of Health and Human Services via the Tennessee Department of Finance and Administration. Formerly these payments came through the Tennessee Department of Health. In assessing a resident's financial eligibility for Medicaid assistance, the resident's ability to contribute to his or her cost of care is evaluated. The resident's calculated contribution to his or her cost of care is referred to as the patient liability amount. Many Medicaid-eligible residents have limited sources of income and may have no patient liability, or the amount may be very minimal.

For example, assume the standard rate is $92 per day, and the Medicaid rate is $80 per day. The resident's account would typically be charged the standard rate of $92, and if the resident were eligible for Medicaid assistance, the account would then be reduced by $12 to equal the Medicaid rate. If the Medicaid-eligible resident has a calculated patient liability amount of $10, this amount would be collected from the resident, and the Medicaid program would pay the difference of $70.

In addition, veterans are eligible for reimbursement from the U.S. Department of Veterans Affairs (VA) for each day they reside in a Tennessee Veterans' Home facility. This per diem amount is used to offset veterans' costs before any other assistance resources are applied. The per diem is not income to the veteran and therefore is appropriately not considered in calculating a veteran's financial eligibility for Medicaid assistance and is not a contribution toward the calculated patient liability amount.

Medicaid overpayments are not refunded promptly

In the example above, if the VA per diem amount was $40, the resident's receivable account would be overcollected by $40 as shown below.

Activity in Receivable Account	Total	Cumulative Total
Standard rate	$92	$92
less the adjustment to reduce the standard rate to the Medicaid rate of $80	12	80
less the patient liability payment	10	70
less the Medicaid assistance payment	70	0
less the VA per diem payment	40	(40)
is equal to a credit balance (or overcollection) in the receivable account	($40)	($40)

If a veteran is eligible for Medicaid assistance, the Medicaid assistance payment to the facility must be reduced by the VA per diem amount. (Medicaid is considered the payer of last resort.) The Tennessee State Veterans' Homes Board has not promptly reduced the veteran's Medicaid assistance payment and refunded the current overpayments to Medicaid (estimated to be $751,973.02 at June 30, 2001) and has not repaid $282,062.42 due to the Medicaid program for overpayments occurring before 1994.

The Division of Medicaid, General Rule 1200-13-1-.04, subsection (2)(a)(1) of *Rules of the Tennessee Department of Health,* states,

> If third party payment is less than the Medicaid allowable, Medicaid will pay the difference between the third party payment and the Medicaid allowable. No

> further claim shall be allowed against the recipient and/or the recipient's responsible party(s) for Medicaid services.

After an audit finding reported by the Comptroller's Office in the June 30, 1992, audit report, the Department of Health established a mechanism for the board to refund the excess Medicaid assistance payments received by filing a "void adjustment" after both the VA per diem and Medicaid assistance payments are collected. Although the mechanism is cumbersome (a separate void adjustment must be filed on every veteran for every month that Medicaid assistance payments are received), it appears to accomplish the objective of returning the excess funds to the Medicaid program.

The Murfreesboro facility began processing void adjustments to return overpayments to the Medicaid program in 1993. When the Humboldt facility opened in February 1996, it was tentatively instructed by the Department of Health not to implement the void adjustment process at that time. Subsequently, the facility received a letter from the Commissioner of the Department of Health dated October 14, 1997, stating

> . . . the procedures currently in place at the Murfreesboro facility should now be used by the Humboldt facility each month in order to minimize an outstanding liability in the future. All documentation for residents at the Humboldt facility since its opening should now be sent to the TennCare Bureau along with the corresponding payments.

The facility did not comply with this instruction until February 1998. At that time, the Executive Director instructed the facility to begin a monthly repayment process by submitting the current month's void adjustments and two to three of the oldest months' void adjustments. This procedure was to continue until the entire amount was repaid. The facility prepared the specified void adjustments in February but subsequently failed to systematically follow up with additional void adjustments. In February 1999, the facility began preparing void adjustments on a monthly basis. However, the adjustments are not timely. Three of 15 residents requiring adjustments (20%) did not receive timely void adjustments. According to Section 1200-13-1-.04, subsection (3), *Rules of the Tennessee Department of Health*, "Providers receiving third party payments following Medicaid payment shall notify and refund Medicaid within 60 days of receipt of the third party payment. The refund to Medicaid shall be the lesser of the third party or Medicaid payment."

In addition, many void adjustments from the previous months were not yet processed. When the VA per diem and the Medicaid assistance payments have both been received and the void adjustments have not been processed, the veteran's receivable account has been overcollected and therefore has a negative or "credit" balance. The estimated credit balances at June 30, 2001, were $581,185.91 and $170,787.11 for the Humboldt and Murfreesboro facilities, respectively. Of these amounts, $528,692.14 and $64,350.95 are over 180 days old.

Before the implementation of the void adjustment process, the Department of Health did not have an established mechanism for the board to return excess Medicaid funds. On December 25, 1992, and April 16, 1993, $178,856.42, and $23,109.57, respectively, were withheld from Medicaid payments to the board. These amounts were deductions from the total amount due to the board and were not attributed to specific residents. Evidently, these amounts were withheld based on communication between the Department of Health and the board's Executive Director at that time. The amount due to the Medicaid program attributable to the dates of service between the opening of the Murfreesboro facility in 1991 and the inception of the void adjustment process in 1993, net of the two repayments mentioned above, is $282,062.42. This amount is recorded on the board's financial statements as a payable to the Department of Health, and the auditors have indicated to management in the past several audits that repayment to the department should be addressed.

Although the board has implicitly recognized its liability to the Medicaid program through its actions, beginning with the two repayments mentioned above, the board has questioned whether these monies are actually due back to the Medicaid program. A meeting was held with Department of Health staff, Veterans Affairs staff, Comptroller's staff, and representatives from the Tennessee State Veterans' Homes Board. Concerns were heard from the board members, and the Department of Health staff agreed to research the possibility of regulations that might eliminate the balance due to the Medicaid program.

After researching the issues raised by the board, the Commissioner of the Department of Health responded to the board on October 14, 1997. The Commissioner cited Section 4055.80 of the *Medicare and Medicaid Guide* as quoted above and requested "payment of the $282,062.42, which has been determined due and payable to the TennCare [Medicaid] program." This repayment has not yet been made.

Certain Medicaid rate adjustments have not been properly reduced

Although most Medicaid-eligible veterans have a minimal patient liability amount, some have a more substantial patient liability amount. When the VA per diem amount is combined with a more substantial patient liability amount, the total may exceed the Medicaid rate. When the Medicaid rate is exceeded, the resident's accounts receivable balance becomes negative, effectively reflecting an overpayment in the resident's account when there is no overpayment due to the resident.

In the example cited previously, if the Medicaid-eligible veteran has a patient liability amount of $48 instead of $10, the activity in his receivable account is as follows:

Activity in Receivable Account	Total	Cumulative Total
Standard rate	$92	$92
less the adjustment to reduce the standard rate to the Medicaid rate of $80	12	80
less the patient liability payment	48	32
less the VA per diem payment	40	(8)
(the Medicaid program is not billed for an assistance payment)	0	0
is equal to a credit balance (or overcollection) in the receivable account	($8)	($8)

The VA per diem amount is a fixed amount for all veterans. The patient liability amount is established in the Medicaid eligibility process and represents an amount that the patient can reasonably be expected to pay. Therefore, the only amount that can be reduced to prevent the "overpayment" is the adjustment that reduces the standard rate to the Medicaid rate. The adjustment should equal the difference between the standard rate, the patient liability amount, and the VA per diem amount, leaving the resident's account with a zero balance. In the example above, the adjustment should be reduced to $4 instead of $12. Because this calculation could be different for each veteran resident with a more substantial patient liability amount, the management company's accounts receivable system cannot automatically perform the calculation and make the reduction to the adjustment amount. At Humboldt, eight of eight residents in this category (100%) did not have the accounts receivable adjustments to reduce the negative balances to the residents' account. In Murfreesboro, two of four residents tested (50%) did not have these receivable adjustments. The management company has not made the necessary manual adjustments to correct these types of overpayments, resulting in estimated credit balances of $71,472.81 and $2,100.67 for the Humboldt and Murfreesboro facilities, respectively.

Numerous other credit balances exist for Medicaid-eligible recipients

There are other credit balances for Medicaid recipients that do not appear to be related to the Medicaid overpayments or the additional revenue for certain Medicaid-eligible recipients when the patient liability plus the VA per diem exceeds the Medicaid rate. These estimated unexplained credit receivable balances are $59,526.68 and $77,850.75 for the Humboldt and Murfreesboro facilities, respectively.

Allowance for doubtful accounts is not based on actual receivables

In the past, the management company did not use an analysis of the facilities' accounts receivable collection history when establishing the amount to be included in the allowance for doubtful accounts. According to the management company in prior years, the allowance is based on the industry standard from several years ago. Although board management stated that the estimate is now based on the facilities' collection history, documentation to support this representation was not available.

Revenue was recorded improperly

As patient daily census information is entered into the system, a receivable is automatically set up in the appropriate resident receivable accounts (Private Pay, Medicare, and Medicaid), and revenue earned is recorded automatically. In August of 2000 for both homes, it appeared this census information was never entered into the system. The receivables were not set up, and the revenue recorded for August equaled the cash received from the different payor sources instead of revenue actually earned based on census information.

Conclusion

Without promptly refunding Medicaid overpayments recorded as payments on behalf of the residents and without properly reducing certain Medicaid rate adjustments to the residents' accounts, the residents' subsidiary accounts have an inappropriate negative or "credit" balance incorrectly reflecting that refunds are due to those residents. As the credit balances grow in number and amount, the total accounts receivable balance becomes more distorted, and financial decision making or monitoring may be affected. Credit balances are included in total accounts receivable, causing the receivable balance on the board's monthly financial statements to appear to be lower than the amount the board actually must attempt to collect. Decision-making may also be affected if the allowance for doubtful accounts is not based on the facilities' actual accounts receivable collection history. The receivable balance may also become overstated or understated when revenues are not recorded based on census information.

The board had contracted with a management company, ServiceMaster Diversified Health Services, L.P., since November 1, 1994. The contract was assigned to BEP Services, L. P., on September 1, 2000, and was taken over by National Healthcare Corporation (NHC) in January of 2002 after BEP's bankruptcy. The management company manages and supervises the day-to-day operations of the facilities; thus, the resolution of these discrepancies will be the new management company's responsibility.

Recommendation

Because of the unique nature of the operations and funding structure within a veterans' facility, a standardized computer accounting system may not be able to accommodate all types of accounts receivable transactions. Additional effort may be necessary to manually process certain accounts receivable transactions. The management company should carefully evaluate the accounts receivable practices. Any necessary policies and procedures should immediately be developed, documented, and implemented. The policies and procedures should ensure that void adjustments are routinely processed to refund overpayments of Medicaid assistance within 60 days of receiving the VA per diem. The policies and procedures should also establish adequate accounting practices to prevent the recording of "overpayments" of accounts receivable from excessive Medicaid rate adjustments for veteran residents with substantial patient liability amounts. The policies should include a periodic review of all credit balances. To ensure compliance with the policies and procedures, the management company should carefully supervise operations.

The Tennessee State Veterans' Homes Board should immediately direct the management company to refund the $282,062.42 due to the Medicaid program for overpayments occurring before the void adjustment process began. In addition, the management company should ensure that outstanding void adjustments for overpayments are processed timely and revenue is recorded appropriately. If additional manual processing of certain transactions is required, the management company should ensure that sufficient staff is available and adequately trained to perform these functions. Also, the management company should analyze the facilities' collection history when establishing the amount to be included in the allowance for doubtful accounts.

The Tennessee State Veterans' Homes Board should take appropriate measures to monitor the actions of the management company, determine whether sufficient attention has been directed toward resolving these discrepancies, and take appropriate action if these conditions do not improve.

Management's Comment

Medicaid overpayments are not refunded promptly

We do not concur. Void adjustments cannot be routinely processed to refund overpayments of Medicaid assistance within 60 days of receiving the VA Per Diem. The VA Subsidy payment (third party payment) is received the month following the month services are provided. However, the Medicaid payment is not received until approximately one month after the VA Subsidy is received. Third party payments for most facilities are received after Medicaid payments are received, allowing more time for processing. Additionally, most facilities process approximately twenty void adjustments per year. Each of the TSVH processes approximately forty void adjustments per month. The Tennessee State Veterans' Homes bill the Veterans Administration for per diem payments by the 10th of the month following dates of service. The Tennessee State Veterans' Homes bill Medicaid via the Turnaround Document for Level I Medicaid residents by the 5th day of the month following dates of service. The Veterans Administration payment is typically received in about two weeks after billing. Medicaid then processes payment via a Remittance Advice. For example, January dates of service are billed February 5th. The Remittance Advice showing the January claims being processed should be received from the Department of Human Services before the end of February. Next, the Tennessee State Veterans' Homes file Adjustment Request Forms (Void Adjustments) within sixty days after receipt of the Medicaid Remittance Advice for each veteran on Medicaid that received a per diem payment from the Veterans Administration. Compliance is measured by comparing the Medicaid Remittance Advice receipt date with the date on the Adjustment Request Form. In the absence of a receipt date on the Remittance Advice, the Remittance Advice date plus two days is used as the receipt date. For Level II, the Tennessee State Veterans' Homes indicate Veterans Adminstration per diem payment on the UB92 Form when it is filed. The old credit balances are processed concurrently with current credit balances. The Tennessee State

Veterans' Homes process current Void Adjustments plus an amount of old credit balances up to the projected Medicaid payment for the following month.

We do not concur with the recommendation that the Board should immediately direct the Management Company to refund the $282,062.42 for overpayments occurring before the void adjustment process began. The board had requested in writing that the Governor review this issue. We have not received a response.

Certain Medicaid rate adjustments have not been properly reduced

We concur. The accounting software described in our last audit response was only in place for six months before BEP was replaced by NHC. Since that time, credit balances have been processed manually and have not eliminated the "overpayments." When the patient's liability amount plus the subsidy amount is greater than the Medicaid per diem, the following is being instituted to correct the situation whereby an overpayment is being reflected incorrectly on a patient's accounts receivable card:

When the patient liability amount plus the subsidy amount is greater than the Medicaid per diem amount, the credit amount reflected is adjusted by means of a "Contractual Adjustment" on the patient's accounts receivable card. This adjustment will be done through the Medicaid Contractual Adjustment accounts on the Income Statement.

Numerous other credit balances exist for Medicaid eligible recipients

We do not concur. While certain credit balances exist for Medicaid Recipients that date as far back as 1993, many of the credits have corresponding debits for the same dates of service that indicate payments or revenue were not recorded correctly. Taking into consideration the debits, which correspond to the credits, the credit balances would be substantially lower. Some balances were created as a result of various accounting systems during the tenure of BEP, and other credit balances at Murfreesboro existed before contracting with BEP. The process of collecting, adjusting, and refunding these credit balances is very complex and will take a substantial amount of time since so much time has passed with limited activity. Business Offices of the Humboldt and Murfreesboro facilities will research the "other" credit balances as time and staff permit. As the nature of the credit balance is identified the appropriate actions will be made to correct the credit balances.

Allowance for doubtful accounts is not based on actual receivables

We concur with this finding during the audit period. The procedure for recording the Allowance for Doubtful Accounts is as follows:

Each month an Allowance for Doubtful Accounts entry is done that is equal to 1% of net income. At the end of each fiscal year, the center Administrator and Bookkeeper are asked to analyze each debit amount in the 180-day column of the Aging. On the Aging, they indicate the percentage of collectability of that account. From this anaylsis, NHC determines the amount needed for the Allowance for Doubtful Accounts and adjusts the balance of this account accordingly.

Revenue was recorded improperly

We concur. The previous Management Company, BEP, was responsible, per their policy, for entering census information into the system. The policy of the current Management Company, NHC, is to enter census information at the facility. The census information has been entered correctly since January of 2002.

Auditor's Rebuttal

As management described, the VA per diem payment is received approximately two weeks after the billing, which would be the 24th of the month subsequent to the service received. Management also stated that the Remittance Advice is received before the end of the month subsequent to the service received, and that the void adjustment is processed within 60 days of receipt of that remittance advice. To say that void adjustments cannot be processed within 60 days of the receipt of the per diem payment which is so close to the date of the receipt of the remittance advice is contradictory. During the year ended June 30, 2002, numerous void adjustments were processed during the 60-day period, thus demonstrating that the time frame is reasonable.

Also, the evidence supporting the finding included over $500,000 in credit balances over 180 days old that were attributed to late void adjustments. These late void adjustments were not just related to old credits. Testwork on the processing of void adjustments during the audit period included void adjustments that were at least five months late. The management company should process void adjustments within the 60-day time frame and should complete the processing of the old void adjustments.

In addition, although the board does not concur that the Medicaid overpayments resulting from the VA per diem payments should be refunded to the Medicaid programs, as discussed in the finding, the board has implicitly recognized this liability since December 25, 1992, when the first funds were withheld from a Medicaid payment to the board. The board has continued to recognize this liability by reporting a payable each year in the financial statements and by routinely processing void adjustments. The request to the Governor to review the issue was made in February 1999. As stated in the finding, the Governor has taken no action to relieve the board of this liability.

Regarding the other credit balances, the board has acknowledged that there have been errors in the recording of the offsets of Medicaid receivables and that there are credit balances that are unknown. The board should proceed with researching, collecting, or adjusting these balances as appropriate.

2. <u>Internal control for fixed assets is not adequate</u>

Finding

Significant deficiencies continue to exist in internal control for fixed assets. These deficiencies include an inability to correlate the results of physical inventories with accounting records; the absence of property tags on the equipment items; inaccurate equipment listings; donated items that are not recorded on equipment listings or accounting records; the failure to remove lost, stolen, cannibalized, or obsolete equipment from the records; and incomplete policies and procedures for capitalizing additions. Also, because unused or obsolete equipment is not sold or otherwise disposed of, an unnecessary expense has been incurred to rent trailers to store this equipment.

Similar deficiencies have been reported in prior findings in the last four audit reports. Management has concurred with the previous findings and recommendations and promised corrective action. In response to the prior audit finding, management stated that "although progress has been made . . . more work needs to be done." However, changes have not been made to eliminate the deficiencies in internal control for equipment.

Fixed asset records continue to be inadequate. The current record keeping system does not allow for a reconciliation between the physical inventories taken at the facilities and the accounting records maintained. In the physical inventory records, the main identifying feature is the property tag number. The accounting records for fixed assets maintained include a description, asset number, cost, acquisition date, and depreciation. The asset number is not the same as the property tag number. The only shared attribute between the inventory records and the fixed asset records is the description. Because of the generic nature of the descriptions, reconciling the two listings would include a great deal of guesswork. In addition, many items do not have property tags. During an auditor observation, 27 of 152 equipment items observed (18%) did not have a property tag attached.

Testwork was performed to observe several equipment items listed on the management company's fixed asset records. Because of the lack of property tag numbers on management company records, it was impossible to positively identify any of the items that were sought; however, items that met the description listed were identified, with the following exceptions. At the Humboldt facility, 13 computers were counted when the listing included 14; 10 wingback chairs were counted when the listing included 15; 20 filing cabinets were counted when the listing included only 19; and 16 printers were counted when the listing included only 2. At the Murfreesboro facility, a 15-gallon vacuum could not be found; a lattice bench with chair could not be found; 8 linen carts were counted when the listing included 14; 33 orthopedic recliners were counted when the listing included 37; 14 printers were counted when the listing included only 10; and 12 computers were counted when the listing included 20.

Also, items totaling $20,968.37 were donated by the foundation to the facilities but not added to the accounting records of the homes. The Humboldt facility received equipment totaling $12,206.37, and the Murfreesboro facility received equipment totaling $8,762.00 from the foundation during the fiscal year.

In addition, it was noted that there had not been any equipment removed from the Humboldt equipment listing in the past four years and from the Murfreesboro equipment listing in the past three years. Therefore, the listings could have equipment listed that is no longer at the facilities due to loss, theft, cannibalization, or other disposition. Additionally, the storage spaces that were viewed at both facilities were full of unused equipment, which had not been sold or surplused. The boiler room even contained a laser printer. Murfreesboro rented trailers prior to and during the audit period in order to store this surplus equipment but has since removed the trailers from the facility.

Finally, the written procedures for building improvements are not adequate. The procedures do not address the process for incorporating additions into the accounting records, the types of items to be capitalized, or method for valuing additions to the listing. In order to create consistency and comparability between years, the policies need to be comprehensive.

Without reconciling the annual physical inventories to the fixed asset records, the misstatement of fixed assets because of loss or theft could go unnoticed. If the description is the only identifying item that is included in the records, specific equipment items cannot be easily located or verified through the inventory. Identification is also difficult if the property tag number is not affixed to the asset. Known losses and additions or donations may not be reported to management, precluding necessary adjustments to the furniture and equipment account and the related depreciation. Without a clear capitalization policy, there will not be consistency between similar items and between the facilities.

Recommendation

The board should work with management to develop a specific plan of action to correct this material weakness. The plan should include a thorough reconciliation between the physical inventory and the management company’s accounting records for fixed assets. The number used in the accounting records to identify equipment items should be replaced with the property tag number. Property tags should be placed, and replaced as necessary, on equipment items. Where the actual attachment of property tags is not practical, the property tag number should otherwise be inscribed on the equipment items.

The property officer should forward the information necessary to record all additions and deletions of equipment in the accounting records to the management company. Donated property items should require official acceptance by the property officer, who would then be responsible for providing the necessary information to the management company for addition to the accounting records.

The board, in conjunction with the management company, should review and clarify the capitalization policy as necessary to establish consistent procedures for capitalization and valuation of property additions. Finally, the administrator should see that unused and unneeded equipment is properly disposed of to prevent unnecessary expenditures for storage space for these items.

Management's Comment

We concur. A physical inventory of assets has been performed. The "reconciliation" will be accomplished by the property tag numbers being entered onto the Management Company's accounting records for fixed assets. The Property Officer will forward a copy of the Purchase Order and Bill of Sale to the Management Company so the item can be included in the fixed asset inventory. The Property Officer will inform the Management Company, in writing, when fixed assets have been lost, destroyed or salvaged through the State. Donated property will be recorded in the same manner. When the donator has not identified a value, the Property Officer will assign an established value.

The TSVHB and the management company will review the capitalization policy to clarify procedures for capitalization and valuation of property additions.

The Administrators will see that unused and unneeded equipment is properly disposed of every 90 days.

3. The board did not comply with legally binding documents

Finding

The Tennessee State Veterans' Homes Board failed to comply with Official Statements and Non-Arbitrage/Arbitrage Certificates. Several provisions within these bond documents were not followed, and as a result, the facilities lost control of cash flow. Noncompliance with the resolutions is defined in the Official Statements as an event of default if the noncompliance continues after 30 days' notice from a certain percentage of bond holders. When an event of default occurs, the board is exposed to certain remedies including acceleration of the due and payable date of the bond principal or the appointment of a receiver to administer the facilities on behalf of the board. If the acceleration option was chosen by the bond holders, and due notice was provided by the bond holders, all principal could be declared due and payable immediately.

In accordance with the Official Statements for Murfreesboro and Humboldt, the money deposited into the Operation and Maintenance Funds account (OMF) each month should be in an amount equal to the amount budgeted by the board. In no event shall the amount disbursed by the trustee to the OMF exceed the amount budgeted plus permitted variances. However, the facilities deposited money into the OMF in excess of the amount budgeted by the board. Expenses were incurred and paid regardless of whether they exceeded the budget. Approval was not obtained for variances from the budgeted amount.

In addition, per the Official Statement and the Arbitrage Certificate for the Humboldt facility, deposits to the OMF shall be made on or before the 25th day of each month to pay current expenses. Per the Official Statement and the Non-Arbitrage Certificate for the Murfreesboro facility, deposits to the OMF shall be made on or before the first day of each month, for the payment of current expenses. Instead of transferring the projected/budgeted amount of current expenses into the OMF from the Revenue Fund during the specified period of time for the facilities, several transfers were made throughout each month to cover the expenses. This is another reason why the facilities lost control over how much was actually being spent. Only one transfer at the beginning of each month or on or before the 25th day of the month for the Murfreesboro and Humboldt facilities, respectively, should have been made, and only the budgeted amount for expenses should have been transferred from the Revenue Fund into the OMF.

Also, deposits to the Bond Fund were not made in compliance with the Official Statements. For the Humboldt facility, deposits should be made from the Revenue Fund on the 25th day of each month as long as any bonds remain outstanding. The deposit amount should be equal to one-sixth of the interest coming due on the outstanding bonds on the next succeeding interest payment date and one-twelfth of the principal coming due on all such bonds on the next succeeding principal payment date. Several months passed in which the required monthly payment into the Bond Fund was not made. The required funds eventually were placed into the fund but not in the manner specified in the bond resolution.

For the Murfreesboro facility, deposits to the Bond Fund should be made on or before the first day of each February, May, August, and November from funds withdrawn from the revenue fund. The deposit should be equal to one-half of the interest coming due on the outstanding bonds on the next succeeding interest payment date and one-fourth of the principal coming due on such bonds on the next succeeding principal payment date. However, the deposits for August 2000 and February 2001 were made after the first day of the month.

According to the Official Statements, earnings for the OMF at both facilities, the Debt Service Fund for Murfreesboro, and the Repair and Replacement Fund for Murfreesboro are to be retained in those specified funds. However, all earnings for these funds were kept in the Revenue Fund.

The Official Statement states that deposits to the Repair and Replacement Fund for Humboldt should be made in an amount of no less than $17,850 on the 25th day of each January and July. It was found that instead of making a single payment on the 25th of the two months, several smaller payments were made during the year. This resulted in the Repair and Replacement Fund account being understated by $5,950 at the end of the year. Also, per the Official Statement, a Subordinate Payment Fund should have been established for the Humboldt facility to pay the management fees.

In addition to the above occurrences of noncompliance, the facilities were not in compliance with IRS arbitrage requirements. The Arbitrage and Non-Arbitrage Certificates state that the board will ensure that the bonds will not be subject to arbitrage. A responsible employee should perform an annual review to determine whether or not an arbitrage calculation was needed. If an arbitrage calculation was to be paid, it should have been paid in a timely manner and according to the specifications established by the IRS. No one performed an annual review to determine if any arbitrage should have been paid or accrued.

Recommendation

The Veterans' Home Board and the management company should be fully aware of and in compliance with the provisions in the Official Statements and Non-Arbitrage/Arbitrage Certificates. The board's management should ensure that the trustee makes the appropriate transfers. Only the amount budgeted by the board should be transferred to the Operation and Maintenance Funds, and the Executive Director should ensure that approval is obtained for any variances. Transfers into the OMF should be once a month and should be limited to budgeted amounts. Transfers into the Bond Funds should be made timely, and the balance should increase monthly as required to cover the principal and interest payments. Transfers should be made as necessary to apply interest earnings to the appropriate funds. Subordinate Payment and Repair and Replacement Funds should be used appropriately.

Management should also ensure that a responsible employee performs an annual review to determine whether or not the bonds issued created an arbitrage situation. Timely payment should be made for any calculated arbitrage liability.

Management's Comment

We concur. This was discovered during a meeting with the Executive Director, the Trustee and the State Division of Bond Finance and was reported by the Board to the auditors. The previous Trustee, Chase Financial, incorrectly transferred funds and did not perform the required Arbitrage. Beginning in August 2002 the new Trustee, US Bank, is now transferring funds correctly and is being monitored and recorded by the Management Company. Arbitrage is being coordinated through the State Division of Bond Finance. Payments will be made for any calculated Arbitrage liability.

4. Management did not monitor the activities of the bond trustee and subsequent to the audit period did not record cash entries correctly

Finding

Management did not maintain internal control over cash. As a result, subsequent to the audit period, numerous errors occurred in the trust accounts and in the cash accounts on the general ledger. The trustee is responsible for managing the cash and funds invested with the Local Government Investment Pool (LGIP) that are restricted by bond covenants. The board deposits revenues into a depository account. The trustee is responsible for transferring depository account revenues into a revenue fund account and from that revenue account into an operating and maintenance fund account, repair and replacement fund account, or a debt service fund account in accordance with the bond covenants. Money is wired out of the various accounts, after authorization from the board, to make bond principal and interest payments and to pay the operating expenses of the board. The trustee is also responsible for allocating the interest earned to the various accounts. The management company is responsible for managing the accounting records of the board. As such, the management company is responsible for reviewing trustee statements and ensuring only authorized transactions occurred and that authorized transfers are recorded correctly in the general ledger.

During the audit period, the trustee made several errors recording the activity in the accounts. Errors included increasing the cash balances for withdrawals from the LGIP but neglecting to decrease the LGIP balances, decreasing the LGIP balance without increasing the cash balance, and recording a transfer out of the revenue fund without recording the corresponding transfers into other funds. At the time, the management company recorded the aforementioned transactions correctly on the general ledger, and therefore the ending balances agreed to the balances in the LGIP. However, the general ledger did not match the trustee statements, and there was no evidence that reconciliations were performed. In addition, the management company did not review the LGIP statements monthly. During June 2001, the trustee sent two Murfreesboro deposits to the Humboldt account and two Humboldt deposits to the Murfreesboro account. These errors were not discovered and corrected until January 2002.

Subsequent to the audit period, the prior management company no longer monitored the trustee transactions and still did not review the LGIP statements. Several entries were made in the general ledger to increase or decrease the restricted cash recorded to equal the trustee statements. This misstated the general ledger as the trustee statements were in error. Several more errors were made by the trustee, and several general ledger entries cannot be supported. A total of $125,375.24 of unsupported management company entries occurred that decreased cash. A total of $294,279.77 of unsupported management company entries occurred that increased cash. The board now has a new trustee and a new management company. As a result of the errors mentioned above, the ending cash on the general ledger on February 28, 2002, was $118,675.99 higher than the amount of cash actually in LGIP or included in trust accounts. Depending on the validity of the unsupported entries, the prior management company or the trustee may owe funds to the board.

Recommendation

Management should review the trustee statements and the general ledger for July 1, 2001, through February 28, 2002, and resolve the transactions that were recorded incorrectly. If it is determined that the prior trustee or the prior management company owes the board money for unresolved errors, the board should seek to recoup such funds. The executive director should instruct the new management company to obtain LGIP statements for monthly reconciliation to the trustee statements and the general ledger. The new management company should record transactions to the restricted accounts based on authorized transactions only. In addition, the trustee statements should only be used as support for the recording of transfers within the funds and the recording of interest earned. Since cash is such a volatile account, management should consider periodic reviews of the cash accounts, and the executive director should approve the trustee and LGIP reconciliations performed by the management company.

Management's Comment

We concur that the deficiency existed during the audit period. Since February of 2002 the management company has been monitoring the activities of the Bond Trustee.

5. <u>The foundation board continues to improperly use state resources for its operations</u>

Finding

As noted in the prior audit, the foundation affairs are not independent from the board, its personnel, or facilities. Currently, foundation operations are performed primarily at the Murfreesboro facility by board personnel. Board employees handle the cash receipting and financial records for the foundation.

Attorney General Opinion No. U94 – 037, dated March 10, 1994, indicates that the foundation

> must operate independently of the Board and its personnel and facilities. . . . State resources such as state personnel and state facilities should not be devoted to the operation of such a [foundation]. . . . The affairs of the Board must remain separate and distinct in all respects from the affairs of the [foundation].

The opinion recognized that private citizens may establish and operate nonprofit corporations for fundraising; however, the board is not authorized by law to create or operate such a corporation. The foundation board has knowledge of this opinion but chooses to use state resources rather than expending funds derived from donations for the administrative expenses. In the prior audit, the board and the foundation board stated that complying with this opinion would not be cost-effective. However, the board does not have the authority to disregard this opinion merely due to financial considerations.

Recommendation

In accordance with the Attorney General Opinion, the board should ensure that the operations of the foundation are separate from the operations of the board, its personnel, and facilities.

Management's Comment

We do not concur. The expense of paying additional personnel from donated funds to carry out administrative duties cannot be justified. The activities of the Executive Director and the Executive Assistant at Murfreesboro in support of the Foundation are insignificant to their normal duty requirements. Employing additional personnel to perform that duty would take resources away from the veterans the Foundation was set up to support.

Auditor's Comment

The board again is using cost-effectiveness as justification for continuing to utilize board employees for the duties of the private foundation. As addressed in the finding, the board does not have the authority to disregard an Attorney General Opinion merely due to financial considerations.

6. Travel claims were not in compliance with Comprehensive Travel Regulations

Finding

It is the Tennessee State Veterans' Homes Board's policy to follow the Comprehensive Travel Regulations approved by the Tennessee Department of Finance and Administration. Regarding travel by board members, Section 58-7-105, *Tennessee Code Annotated,* states, "All reimbursement for travel expenses shall be in accordance with the policies and guidelines approved by the board, but shall not exceed the maximum reimbursement for travel expenses allowed by the provisions of the comprehensive travel regulations as promulgated by the department of finance and administration and approved by the attorney general." The management of the veterans' homes has chosen to adopt the same regulations for all travel by employees of the homes.

All travel claims as well as additional items that were charged to travel expense accounts were reviewed. Most of the travel claims submitted by the staff or board members of the Tennessee State Veterans' Home (TSVH) were incorrect in some aspect. In Murfreesboro, 113 of 136 travel claims (83%) and in Humboldt, 76 of 115 travel claims (66%) were not completed in accordance with state policies. Travel claims were not always signed, dated, or approved. Other problems noted with the travel claims included untimely submission of travel claims; incorrect mileage, hotel, and per diem reimbursements; and improper usage of travel claims.

The appropriate signatures and approvals for travel claims were not always obtained. Numerous travel claims were not approved by the designated individuals and several were not approved at all. In Murfreesboro, 42 of 136 claims (31%) and in Humboldt, 19 of 114 claims (17%) were not properly approved for payment. In addition, in Murfreesboro, 78 of 131 travel claims tested (60%) were not dated and in some cases were not signed by the claimant. In Humboldt, 45 of 111 (41%) were not dated by the claimant.

According to Section 10 of the regulations, employees should submit travel claims for reimbursement of travel expenses no later than 30 days after completion of travel. In Humboldt, 17 of 111 travel claims (15%) were not submitted within 30 days after travel was completed. Of the 17, 8 travel claims were submitted 5 to 13 months after the travel or after the purchase was made.

According to the travel regulations, reimbursement for miles when using personally owned vehicles is at the standard mileage rate of $.32. Seven of 124 travel claims tested (6%) for Murfreesboro included an incorrect reimbursement of mileage. Errors sometimes resulted in overpayments and sometimes resulted in underpayments. The same situation was present in 9 of 97 travel claims (9%) from Humboldt.

In addition to the reimbursement rates for mileage, the travel regulations set guidelines for hotel reimbursements as well as incidental expenses (meals, telephone charges, etc.) on a per diem basis. These rates vary based on the county or city of destination. The Department of Finance and Administration also makes available a listing of hotels in the state that have agreed to charge employees on official state business only the approved rate for reimbursement. In Murfreesboro, 19 of the 69 travel claims with hotel expenses (28%) and in Humboldt, 16 of 36 travel claims with hotel expenses (44%) were not reimbursed for the correct amount. The per diem rates for incidentals were also incorrect in several instances. The Murfreesboro facility had 71 travel claims which included the per diem rate. Of these 71 instances, 35 (49%) had an incorrect per diem rate. The Humboldt facility had 41 instances, 22 of which (54%) were incorrect. Again, some errors resulted in overpayments and some errors resulted in underpayments.

Finally, the travel claims for both facilities reimbursed employees for expenses that were not related to travel. Eight travel claims were noted in Murfreesboro that contained items that were not travel-related. Humboldt's travel claims included 18 that contained non-travel items. These items included a carrying case for a laptop computer, an arrest record, pizza for staff, training supplies, housekeeping supplies, bookshelves, and taking staff to lunch. By using travel claims for items that would normally be bought through the accounts payable system, any controls that are in place for the payables system are circumvented. In addition, in several instances, sales tax was paid on these items. Had these items been purchased through the payables system, this additional charge would not have been added.

As a result of not adhering to the travel regulations, the Murfreesboro facility underpaid its claimants by $66.28. Twenty-two claimants were overpaid by $860.06, and 35 claimants were underpaid by $926.34. The Humboldt facility overpaid its claimants by $621.82. Thirty-seven claimants were overpaid by $1,097.19, and 14 claimants were underpaid by $475.37.

Recommendation

The staff and board members of the veterans' homes should be knowledgeable about the state travel policies that have been adopted. The Executive Director should ensure all travel claims are completed in accordance with these policies by instructing the individuals responsible for accounts payable not to pay any travel claims that are not properly approved or not in accordance with travel regulations. The Executive Director should also provide training related to submission deadlines and allowable charges to the staff, particularly the individuals responsible for approving claims.

Management's Comment

We concur. In-service training will be conducted to ensure all personnel subject to travel will be aware of State Travel Policies and the correct method of completing travel claims. The Accounts Payable Clerk will review all travel claims for completeness, accuracy and timeliness. The Executive Assistants will spot check the Accounts Payable Clerk.

7. <u>Internal control for purchasing is not adequate</u>

Finding

As noted in the prior audit, the Tennessee State Veterans' Homes Board facilities do not have an adequate segregation of duties related to purchasing, the board's policies and procedures over purchasing are not being followed, and service contract approvals required by state law are not being obtained.

In the prior-year audit, management did not agree that a separate purchasing clerk position should be created. As a result, at both facilities, the same individuals order and receive supplies. At Murfreesboro, the department heads order the supplies and also receive and inspect those supplies. At Humboldt, the receptionist orders the office supplies and also receives and inspects these items. The same situation is true for the maintenance supervisor in the maintenance department.

If one individual is responsible for both ordering and receiving goods, the opportunity for fraud is increased. Individuals could order goods and divert them for personal use or could, through collusion with a vendor, order goods which are not delivered but for which payment is made. Fictitious vendors could also be created.

In the prior-year audit, management stated that they would review and revise their policies so that their practices would be consistent with board policy. However, this was not done, and it was found that existing policies and procedures related to purchasing are still not being followed. The board's purchasing policies and procedures require department heads to complete purchase requisitions and to submit them to the central purchasing clerk. The clerk is then to give the requisitions to the administrator for review and approval. After approval is obtained, the clerk is to initiate a purchase order to the vendor. The purchasing policies and procedures also indicate that a purchase requisition and purchase order will be completed for all purchases. Purchase orders between $500 and $1,000 require at least three informal (oral) bids, and purchase orders over $1,000 require formal (written) bids. In addition, the policies indicate that periodically a comparison will be made of the prices in the marketplace for equivalent supplies to ensure that vendors selected are giving the best prices.

These purchasing policies and procedures are not being followed. Twenty of 21 vouchers tested (95%) did not have a purchase requisition. Of the same 21 vouchers tested, 7 (33%) did not have a purchase order. Also, vouchers related to significant vendors were reviewed, and appropriate approval was not always obtained. Ten of 23 vouchers tested (43%) did not have documented approval from the administrator. In addition, 3 of 5 vouchers tested that required bids (60%) did not have bid documentation, and 21 of 21 significant vendors tested (100%) did not have documentation of price comparisons. Failure to follow purchasing policies and procedures could result in fraud, waste, or inefficiencies.

Service contracts are still not being obtained and sent to the Commissioner of the Tennessee Department of Finance and Administration for approval, even though the board stated in response to the prior audit that "service contracts will be established and approved to the extent possible in accordance with state law." For 8 of 15 service vendors tested in Murfreesboro (53%) and one of 9 service vendors tested in Humboldt (11%), a service contract could not be provided. Section 58-7-103, *Tennessee Code Annotated,* states, "Contracts for services must also be approved in advance pursuant to Section 12-4-109." Properly approved contracts for services are necessary to ensure all parties are aware of the duties and responsibilities of each party and to ensure that agreements are in the best interest of the state.

Management did correct other segregation-of-duties problems that were mentioned in the prior audit finding; however, changes in the aforementioned areas are still necessary to establish internal control in the purchasing area.

Recommendation

The administrator at each facility should ensure that purchasing duties are adequately segregated. The individual ordering goods should not also receive and inspect the goods. In addition, the administrators should ensure that board purchasing policies and procedures are followed. Service contracts should be established and approved in accordance with state law.

Management's Comment

We concur that the deficiency existed during the audit period. Currently, Board policies and procedures over purchasing are being followed and have been modified to segregate purchasing duties.

While there are still service contracts that have not been updated, eight of thirty-five at Murfreesboro and fourteen of twenty-eight at Humboldt have been updated. For the remainder, we have existing agreements with providers to continue services at existing rates. We will continue to update contracts as time and staff constraints allow.

8. Receipt of goods and services was not documented

Finding

As noted in the prior two audits, internal control for payables is not adequate. The board concurred with the prior findings, stating, "The Administrators of each facility will ensure that personnel receiving goods or services properly document receipt of goods or services." However, verification of receipt was still not consistently documented.

Eleven of 27 disbursements tested for the year ended June 30, 2001, (41%) did not have an employee's initials or signature and date as evidence of receipt. According to management, receipt will be documented by the department head or other appropriate personnel signing and dating the invoice. If the receipt of goods and services is not documented, the facility may not receive the proper quantity or the proper item, or it may pay for goods or services not received. Also, without record of the date of receipt, the establishment of year-end payables may be erroneous.

Recommendation

The administrator at each facility should ensure that personnel receiving the goods or services document verification of receipt.

Management's Comment

We concur for the time period being audited. While improvements have been made, there are still instances where goods and services are not properly documented. Administrators will review all receipts of goods and services to ensure proper documentation.

9. Petty cash policies are inadequate and are not being followed

Finding

As noted in the prior audit, the petty cash policy does not address what types of purchases can be made through petty cash funds. The policies and procedures that have been adopted are not being followed. In response to the prior audit, the board concurred and indicated that a revised policy was approved in July 2001. However, many of the problems that existed with the former policy continue to occur under the revised policy.

The petty cash policies and procedures still do not provide guidance as to the types of purchases for which petty cash may be used, and there are no guidelines specifying what is an allowable petty cash expense. At Humboldt, petty cash was used to enter a float in the Strawberry Festival, reward the employee of the month with a $25 cash prize, and to purchase pizza for employees. At Murfreesboro, petty cash was used to purchase several meals at a local restaurant, to fund a fishing trip for residents, to purchase supplies for the Nursing Home Olympics, to make an advance to an employee for a hotel stay, and to purchase an office chair from a departing employee. Although board personnel may consider all of these items to be allowable expenses, the use of the petty cash fund allows employees to avoid additional approvals. Without policies identifying allowable expenditures, the petty cash could be used for activities that are outside the mission of the board.

The petty cash policies and procedures that have been adopted were not followed. The policies and procedures for petty cash indicate that petty cash disbursements should not exceed $30. Subsequent to the end of the fiscal year, this limit was increased to $50. Purchases greater than this amount must go through accounts payable. Four of 32 petty cash receipts tested (12.5%) exceeded the petty cash purchase limit of $30.

In addition, the policy states that each disbursement must have a sales receipt to support withdrawals from the petty cash. Four of 32 petty cash receipts tested (12.5%) did not have a sales receipt to support the withdrawal.

These policies were implemented to establish internal control over petty cash. When the policies are not followed, the fund may be used for purposes for which it was not intended.

Recommendation

The board should modify the petty cash policy to include guidance for what types of purchases are appropriate from petty cash. The management company should ensure that existing petty cash policies and procedures are followed. Employees should not use the petty cash fund to avoid obtaining approvals that would otherwise be required for potentially questionable expenditures.

Management's Comment

We concur. Petty cash policies are being revised and will include guidance for what types of purchases are appropriate. Administrators will ensure these policies are followed.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 401-7897
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Independent Auditor's Report

May 31, 2002

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying balance sheets of the Tennessee State Veterans' Homes Board, a component unit of the State of Tennessee, as of June 30, 2001, and June 30, 2000, and the related statements of revenues, expenses, and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the board's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with government auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee State Veterans' Homes Board as of June 30, 2001, and June 30, 2000, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Schedule of Pension Funding Progress on page 47 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As discussed in Note 10 to the financial statements, the board implemented Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions.*

Our audits were conducted for the purpose of forming an opinion on the basic financial statements, taken as a whole. The accompanying financial information on pages 48 through 52 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2002, on our consideration of the board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr., CPA,
Director

AAH/th

Exhibit A

TENNESSEE STATE VETERANS' HOMES BOARD
BALANCE SHEETS
JUNE 30, 2001, AND JUNE 30, 2000

	June 30, 2001	June 30, 2000
ASSETS		
Current assets:		
Cash (Note 2)	$ 578,058.11	$ 513,826.10
Investments (Note 2)	26,362.72	50,076.78
Resident accounts receivable:		
Private	1,933,305.07	1,919,899.08
U.S. Department of Veterans Affairs	481,328.92	429,045.55
Allowance for doubtful accounts	(1,478,668.97)	(1,372,668.97)
Amounts advanced to management company	78,750.39	4,482.86
Medicare cost settlement receivable	292,847.10	317,576.32
Medicaid cost settlement receivable	-	6,270.00
Inventories	61,061.17	42,220.22
Prepaid items	91,539.79	9,108.03
Total current assets	2,064,584.30	1,919,835.97
Restricted assets (Note 4):		
Cash (Note 2)	2,257,209.01	2,544,641.56
Total restricted assets	2,257,209.01	2,544,641.56
Other assets:		
Deposit with management company	10,000.00	10,000.00
Unamortized bond issuance costs	111,431.51	117,748.43
Unamortized preopening expenses	-	19,518.94
Total other assets	121,431.51	147,267.37
Fixed assets:		
Land	194,244.00	194,244.00
Buildings and improvements	11,050,703.40	10,890,645.63
Accumulated depreciation - buildings and improvements	(2,032,407.30)	(1,740,742.59)
Furniture and equipment	1,690,981.90	1,652,226.77
Accumulated depreciation - furniture and equipment	(1,036,290.95)	(892,709.53)
Total fixed assets	9,867,231.05	10,103,664.28
Total assets	$ 14,310,455.87	$ 14,715,409.18

Exhibit A (Cont.)

TENNESSEE STATE VETERANS' HOMES BOARD
BALANCE SHEETS
JUNE 30, 2001, AND JUNE 30, 2000

	June 30, 2001	June 30, 2000
LIABILITIES AND EQUITY		
Liabilities:		
Current liabilities:		
Accounts payable and accruals	$ 875,205.10	$ 812,657.40
Due to primary government (Note 3)	384,574.93	657,763.82
Amounts held in custody for others	137,387.57	101,944.62
Medicaid current financing	125,266.72	241,493.17
Advance from primary government (Note 6)	20,000.00	10,000.00
Total current liabilities	1,542,434.32	1,823,859.01
Current liabilities payable from restricted assets:		
Bonds payable (Note 5)	165,000.00	160,000.00
Total current liabilities payable from restricted assets	165,000.00	160,000.00
Noncurrent liabilities:		
Bonds payable, net of unamortized discount (Note 5)	4,564,874.24	4,727,344.28
Advance from primary government (Note 6)	150,000.00	160,000.00
Total noncurrent liabilities	4,714,874.24	4,887,344.28
Total liabilities	6,422,308.56	6,871,203.29
Equity:		
Contributed capital (Note 7)	9,208,718.84	9,208,718.84
Retained earnings:		
Reserved for foundation	68,502.11	79,994.29
Unreserved	(1,389,073.64)	(1,444,507.24)
Total retained earnings	(1,320,571.53)	(1,364,512.95)
Total equity	7,888,147.31	7,844,205.89
Total liabilities and equity	$ 14,310,455.87	$ 14,715,409.18

The notes to the financial statements are an integral part of this statement.

TENNESSEE STATE VETERANS' HOMES BOARD
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN EQUITY
FOR THE YEARS ENDED JUNE 30, 2001, AND JUNE 30, 2000

	For the Year Ended June 30, 2001	For the Year Ended June 30, 2000
Operating revenue:		
Resident service revenue less contractual adjustments of $703,945.07 for 2001 and $1,006,911.03 for 2000	$ 10,974,476.06	$ 10,290,229.90
Total operating revenue	10,974,476.06	10,290,229.90
Operating expenses:		
Administrative and general	1,957,857.76	1,824,706.03
Nursing services	4,459,961.92	3,865,279.14
Central services	319,229.54	317,794.79
Ancillary departments	1,145,146.34	1,097,191.25
Dietary	869,320.94	866,203.75
Activities	151,188.66	146,358.93
Social services	132,234.77	112,562.15
Housekeeping services	392,807.24	372,452.13
Laundry and linens	193,098.63	186,296.85
Plant operations and maintenance	588,141.96	530,825.89
Depreciation	435,246.13	436,604.33
Amortization of preopening expenses	19,518.94	33,456.00
Bad debt expense	106,000.00	311,996.00
Other operating expenses	4,042.88	3,012.03
Total operating expenses	10,773,795.71	10,104,739.27
Operating income	200,680.35	185,490.63
Nonoperating revenues (expenses):		
Interest revenue	157,671.69	137,580.05
Miscellaneous revenue	33,766.41	43,139.20
Interest expense	(340,460.03)	(348,813.67)
Amortization of bond issuance costs	(6,316.92)	(6,316.92)
Cable television expense	(12,510.15)	(11,178.39)
Miscellaneous expense	(15,589.93)	(5,671.46)
Total nonoperating revenues (expenses)	(183,438.93)	(191,261.19)
Capital grant	26,700.00	-
Net income (loss)	43,941.42	(5,770.56)
Equity, July 1	7,844,205.89	7,849,976.45
Equity, June 30	$ 7,888,147.31	$ 7,844,205.89

The notes to the financial statements are an integral part of this statement.

Exhibit C

TENNESSEE STATE VETERANS' HOMES BOARD
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2001, AND JUNE 30, 2000

	For the Year Ended June 30, 2001	For the Year Ended June 30, 2000
Cash flows from operating activities:		
Receipts from customers and users	$ 10,954,031.08	$ 10,698,139.62
Other miscellaneous receipts	37,781.54	27,072.52
Payments to suppliers	(4,544,100.40)	(4,520,363.94)
Payments to employees	(6,199,366.74)	(5,640,330.92)
Other miscellaneous payments	(2,338.59)	(4,332.37)
Net cash provided by operating activities	246,006.89	560,184.91
Cash flows from noncapital financing activities:		
Principal paid on advance from state	-	(10,000.00)
Foundation donations	33,766.41	43,119.20
Expenses paid by Foundation	(28,100.08)	(15,921.49)
Net cash provided by noncapital financing activities	5,666.33	17,197.71
Cash flows from capital and capital-related financing activities:		
Capital grant received	26,700.00	-
Purchase of fixed assets	(182,469.76)	(49,248.22)
Principal paid on bonds	(160,000.00)	(155,000.00)
Interest paid on bonds	(340,489.75)	(350,337.98)
Net cash used for capital and capital-related financing activities	(656,259.51)	(554,586.20)
Cash flows from investing activities:		
Purchase of certificate of deposit	-	(25,000.00)
Proceeds from sale of investments	25,076.78	-
Interest received	156,308.97	137,580.05
Net cash provided by investing activities	181,385.75	112,580.05
Net increase (decrease) in cash	(223,200.54)	135,376.47
Cash, July 1	3,058,467.66	2,923,091.19
Cash, June 30	$ 2,835,267.12	$ 3,058,467.66

TENNESSEE STATE VETERANS' HOMES BOARD
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2001, AND JUNE 30, 2000

	For the Year Ended June 30, 2001	For the Year Ended June 30, 2000
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 200,680.35	$ 185,490.63
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	454,765.07	470,060.33
Changes in assets and liabilities		
(Increase) decrease in resident accounts receivable - private	(13,405.99)	456,314.86
Increase in resident accounts receivable - U.S. Department of Veterans Affairs	(52,283.37)	(56,221.55)
Increase in allowance for doubtful accounts	106,000.00	310,641.80
Increase in amounts advanced to management company	(74,267.53)	(4,482.86)
(Increase) decrease in Medicare cost settlement receivable	24,729.22	(43,308.76)
Decrease in Medicaid cost settlement receivable	6,270.00	-
(Increase) decrease in inventories	(18,840.95)	5,815.72
(Increase) decrease in prepaid items	(82,431.76)	7,628.12
Increase (decrease) in noncapital accounts payable and accruals	48,764.24	(491,062.28)
Decrease in due to primary government	(273,188.89)	(292,514.81)
Decrease in amounts advanced by management company	-	(103,533.51)
Increase in amounts held in custody for others	35,442.95	22,740.15
Increase (decrease) in Medicaid current financing	(116,226.45)	92,617.07
Total adjustments	45,326.54	374,694.28
Net cash from operating activities	$ 246,006.89	$ 560,184.91

The notes to the financial statements are an integral part of this statement.

Tennessee State Veterans' Homes Board
Notes to the Financial Statements
June 30, 2001, and June 30, 2000

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Tennessee State Veterans' Homes Board was established in 1988 under the provisions of Title 58, Chapter 7, *Tennessee Code Annotated*. This statute authorizes the creation of public homes for veterans throughout the state to provide support and care for honorably discharged veterans who served in the United States armed forces. At June 30, 2001, two facilities, located in Murfreesboro and Humboldt, were operating. The ten-member board has appointed an executive director and contracted with a management company to carry out its operations.

The Tennessee State Veterans' Homes Board is a component unit of the State of Tennessee (the primary government). Although it is a separate legal entity, the board is appointed by the Governor, and its budget is approved by the state. In addition, the issuance of bonds must be approved by the State Funding Board. The board is discretely presented in the *Tennessee Comprehensive Annual Financial Report.*

The Tennessee Veterans Home Foundation, Inc., was established by the Tennessee State Veterans' Homes Board to receive donations for the benefit of the facilities' residents. The foundation Board of Directors has 11 members, 6 of which are appointed by the Tennessee State Veterans' Homes Board. The board was developed solely to benefit the residents of Tennessee State Veterans' Homes. Due to this relationship, the foundation is included in the board's financial statements.

B. Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The Tennessee State Veterans' Homes Board follows applicable GASB pronouncements, as well as applicable private-sector pronouncements issued on or before November 30, 1989.

C. Measurement Focus and Basis of Accounting

The financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under the accrual basis, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred.

D. Investments

The investments are certificates of deposit which are stated at cost.

E. Inventories

Inventories of medical, dietary, and housekeeping supplies are determined by physical count and are valued at replacement cost. This valuation is not materially different from historical cost.

F. Restricted Assets

Certain assets of the Tennessee State Veterans' Homes Board are classified as restricted assets because their use is restricted by applicable bond covenants.

G. Bond Discounts and Issuance Costs

Bond discounts and issuance costs are deferred and amortized over the life of the bonds using the straight-line method. The results of this method are not materially different from those of the effective interest method. Bonds payable are reported net of unamortized bond discount.

H. Fixed Assets and Depreciation

Fixed assets are recorded at cost and are depreciated on a straight-line basis over the estimated useful lives of the assets. Donated fixed assets are stated at fair value at the date of donation. The board's policy is to capitalize interest expense incurred during the construction of assets.

I. Reclassifications

The Statement of Cash Flows has been prepared using the direct method. The direct method presents the cash receipts and cash disbursements of the board for the year, including cash flows from operating activities. Operating activities are generally the cash effects of transactions and other events that enter into the determination of operating income. A reconciliation of the operating income to net cash flow from operating activities is also presented in this statement. In prior years, the Statement of Cash Flows was presented using the indirect method. Under this indirect method, the operating income is reconciled to the net cash flow from operating activities and nonoperating cash receipts and cash disbursements are presented. In addition, certain other amounts have been reclassified for comparative purposes.

NOTE 2. DEPOSITS

Prior to December 10, 2000, the board's bank accounts and investments were insured by the FDIC or were in financial institutions that participate in the bank collateral pool administered by the Treasurer of the State of Tennessee. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure. After December 10, 2000, several accounts and investments were in financial institutions that did not participate in the bank collateral pool.

At June 30, 2001, the carrying amount of the board's deposits was $504,741.47, and the bank balance was $507,150.39. The entire bank balance was considered insured. For 77 days of the year, bank balances exceeded those amounts covered by FDIC. The amounts that were uninsured ranged from $5,600 to $888,388.54.

The board also had $2,328,475.65 deposited in the Local Government Investment Pool (LGIP) administered by the State Treasurer and $2,050 petty cash on hand. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report*.

NOTE 3. DUE TO PRIMARY GOVERNMENT

	June 30, 2001	
Due To:		
Department of Finance and Administration–Medicaid current services less void adjustments	$	62,391.51
Department of Finance and Administration–Medicaid overpayments occurring before 1994		282,062.42

Department of the Treasury–retirement contributions		32,207.47
Department of Labor and Workforce Development–unemployment taxes		7,913.53
Total due to primary government	$	384,574.93

June 30, 2000

Due To:		
Department of Finance and Administration–Medicaid current services less void adjustments	$	316,271.30
Department of Finance and Administration–Medicaid overpayments occurring before 1994		282,062.42
Department of Health– bed tax		26,000.00
Department of the Treasury– retirement contributions		27,189.01
Department of Labor and Workforce Development–unemployment taxes		6,241.09
Total due to primary government	$	657,763.82

The amount Due to Primary Government, Department of Finance and Administration–Medicaid current services less void adjustments, includes both the receivable for amounts collectible from Medicaid for current services, and a payable to Medicaid for void adjustments that may be related to previous services. At June 30, 2001, the receivable from Medicaid is $689,581.51, and the estimated payable to Medicaid for void adjustments is $751,973.02. At June 30, 2000, the receivable from Medicaid is $591,414.88, and the estimated payable to Medicaid for void adjustments is $907,686.18.

The amount Due to Primary Government, Department of Finance and Administration–Medicaid overpayments occurring before 1994, consists of $282,062.42 payable for Medicaid overpayments made prior to the implementation of the void adjustment process.

NOTE 4. RESTRICTED ASSETS

The balances of the board's restricted asset accounts are as follows:

	June 30, 2001	June 30, 2000
Cash in depository account	$ 290,733.36	$ 64,998.77
Revenue bond revenue account	766,034.80	1,349,901.85
Revenue bond debt service account	163,351.90	197,109.39

Revenue bond debt service reserve account	513,228.62	513,228.62
Revenue bond repair and replacement account	492,752.93	419,402.93
Revenue bond working capital	31,107.40	-
	$2,257,209.01	$2,544,641.56

NOTE 5. BONDS PAYABLE

Bonds payable consisted of the following:

	June 30, 2001	June 30, 2000
Revenue bonds, Series 1989, 6.3% to 7.5%, due from 2001 to final maturity in 2014 (net of unamortized discount of $25,922.73 for 2001 and $27,982.77 for 2000)	$1,839,077.27	$1,922,017.23
Revenue bonds, Series 1994, 4.75% to 6.75% due from 2001 to final maturity in 2021 (net of unamortized discount of $9,203.03 for 2001 and $9,672.95 for 2000)	2,890,796.97	2,965,327.05
Total bonds payable	$4,729,874.24	$4,887,344.28

Debt-service requirements to maturity of the bonds payable at June 30, 2001, are as follows:

For the Year(s) Ended June 30	Principal	Interest	Total
2002	$ 165,000.00	$ 330,122.50	$ 495,122.50
2003	170,000.00	319,187.50	489,187.50
2004	180,000.00	307,807.50	487,807.50
2005	210,000.00	295,612.50	505,612.50
2006	220,000.00	281,472.50	501,472.50
2007-2021	3,820,000.00	2,017,315.00	5,837,315.00
	$4,765,000.00	$3,551,517.50	$8,316,517.50

NOTE 6. ADVANCE FROM PRIMARY GOVERNMENT

The board received a $200,000 advance from the primary government to be repaid from excess revenues from the operations of the Murfreesboro facility. No interest is accrued. Payments of $10,000 are made yearly. The $10,000 due for the year ended June 30, 2001, was not paid until July 2001.

NOTE 7. CONTRIBUTED CAPITAL

Contributed capital represents equity acquired prior to June 30, 2000, through capital grants and capital contributions. The U.S. Department of Veteran's Affairs has provided grant assistance for constructing and equipping the Humboldt and Murfreesboro facilities. The State of Tennessee and the City of Humboldt have also provided assistance through appropriations and donations.

Of the contributed capital on the Balance Sheet, the grant contribution from the U.S. Department of Veterans Affairs was $8,099,720.14. In addition, the board received $870,162.70 in appropriations and a $44,592.00 vehicle from the State of Tennessee. The City of Humboldt and U.S. Department of Veterans Affairs donated land valued at $194,244.00.

NOTE 8. DEFINED BENEFIT PENSION PLAN

A. Plan Description

Employees of Tennessee State Veterans' Homes Board are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with 5 years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55 or at any age with 25 years of service. Disability benefits are available to active members with five years of service who became disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979, become vested after five years of service, and members joining prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Tennessee State Veterans' Homes Board participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor, Andrew Jackson Building, Nashville, Tennessee 37243-0230, or can be accessed at www.treasury.state.tn.us.

B. Funding Policy

The Tennessee State Veterans' Homes Board has adopted a noncontributory retirement plan for its employees.

The Tennessee State Veterans' Homes Board is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2001, was 7.98% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the board is established and may be amended by the TCRS' Board of Trustees.

C. Annual Pension Cost

For the year ended June 30, 2001, Tennessee State Veterans' Homes Board's annual pension cost of $253,967 to TCRS was equal to the board's required and actual contributions. The required contribution was determined as part of the June 30, 1999, actuarial valuation using the frozen initial liability actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 5.5% annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 4.5% annual increase in the social security wage base, and (d) projected post retirement benefit increases of 3% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period.

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2001	$253,967	100.00%	-
June 30, 2000	$226,876	100.00%	-
June 30, 1999	$196,711	100.00%	-

NOTE 9. RISK MANAGEMENT

The board is exposed to various risks of loss related to general liability; automobile liability; professional malpractice; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

A. The building and contents are insured by the State of Tennessee. The board has scheduled coverage of $10,494,200 for the buildings and $1,575,600 for the contents.

   The state purchases commercial insurance for real property losses above $5 million per year and surety bond coverage on the state's officials and employees. In the past three fiscal years, the board has not had any claims filed with the commercial insurer. A designation for casualty losses in the amount of $8.731 million has been established in the State of Tennessee general fund to provide for any property losses other than the commercial insurance coverage.

B. The board participates in the State of Tennessee's Claims Award Fund, an internal service fund in which the state has set aside assets for claims settlement. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the participating agencies based on a percentage of each agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of each fiscal year-end to determine the fund liability and premium allocation.

C. The board has elected to provide health coverage for its employees through a health plan for eligible local governments and quasi-governmental agencies in Tennessee. The Local Government Group Insurance Fund provides access to affordable health insurance by pooling risk among the groups. The plan provides for greater stability in controlling premium increases and, through a structured managed-care program, helps contain health care costs of participating members.

   The plan is administered by the State of Tennessee, using a separately established fund. Premiums of participating units are deposited to this fund and used to pay claims for health care costs of participants, as well as the state's administrative costs of the plan. Employees have the option of obtaining insurance through either Blue Cross Blue Shield of Tennessee or Aetna Insurance. Claims are administered by these companies, which are currently under contract to provide these and other services to the state. Insurance premiums are adjusted at the end of the year based on the claims experience of the pool. Individual pool participants are not assessed additional premiums based on individual claims experience. Employees and providers have 13 months to file medical claims under Blue Cross Blue Shield of Tennessee and Aetna.

NOTE 10. CHANGE IN ACCOUNTING PRINCIPLE

As of July 1, 2000, GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, was implemented for the board. Grant contributions from the federal government are considered voluntary nonexchange transactions. Prior to the implementation of GASB 33, these contributions were considered additions to contributed capital on the Statement of Revenues, Expenses, and Changes in Equity. With the implementation of GASB 33, these contributions are reported as capital grants.

Tennessee State Veterans' Homes Board
Required Supplementary Information
Schedule of Pension Funding Progress

(Expressed in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/01/99	$1,134	$1,134	$0	100%	$2,022	0%
6/30/97	$645	$645	$0	100%	$2,191	0%

Information is shown only for the years available. Additional years will be shown as they become available.

<u>Actuarial Assumptions</u>

An actuarial valuation was performed as of July 1, 1999, to establish contribution rates as of July 1, 2000. The actuarial valuation established contribution rates for the years ended June 30, 2002, and June 30, 2001. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 5.5% annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 4.5% annual increase in the social security wage base, and (d) projected post retirement benefit increases of 3% annually.

TENNESSEE STATE VETERANS' HOMES BOARD
SUPPLEMENTARY BALANCE SHEETS
JUNE 30, 2001, AND JUNE 30, 2000

	June 30, 2001				June 30, 2000			
	Murfreesboro	Humboldt	Foundation	Totals	Murfreesboro	Humboldt	Foundation	Totals
ASSETS								
Current assets:								
Cash	$ 409,069.30	$ 117,472.05	$ 51,516.76	$ 578,058.11	$ 426,323.71	$ 57,584.88	$ 29,917.51	$ 513,826.10
Investments	-	-	26,362.72	26,362.72	-	-	50,076.78	50,076.78
Resident accounts receivable:								
Private	993,168.18	940,136.89	-	1,933,305.07	860,331.06	1,059,568.02	-	1,919,899.08
U.S. Department of Veterans Affairs	168,577.78	312,751.14	-	481,328.92	150,008.32	279,037.23	-	429,045.55
Allowance for doubtful accounts	(727,828.00)	(750,840.97)	-	(1,478,668.97)	(672,228.00)	(700,440.97)	-	(1,372,668.97)
Amounts advanced to management company	43,867.15	34,883.24	-	78,750.39	30,530.46	-	-	30,530.46
Medicare cost settlement receivable	67,484.92	225,362.18	-	292,847.10	271,711.23	45,865.09	-	317,576.32
Medicaid cost settlement receivable	-	-	-	-	6,270.00	-	-	6,270.00
Due from Humboldt facility	4,447.99	-	-	4,447.99	-	-	-	-
Due from Murfreesboro facility	-	-	-	-	-	25,342.38	-	25,342.38
Inventories	16,126.55	44,934.62	-	61,061.17	16,126.55	26,093.67	-	42,220.22
Prepaid items	41,051.05	50,488.74	-	91,539.79	5,278.52	3,829.51	-	9,108.03
Total current assets	1,015,964.92	975,187.89	77,879.48	2,069,032.29	1,094,351.85	796,879.81	79,994.29	1,971,225.95
Restricted assets:								
Cash	1,203,372.34	1,053,836.67	-	2,257,209.01	1,173,442.75	1,371,198.81	-	2,544,641.56
Total restricted assets	1,203,372.34	1,053,836.67	-	2,257,209.01	1,173,442.75	1,371,198.81	-	2,544,641.56
Other assets:								
Deposit with management company	10,000.00	-	-	10,000.00	10,000.00	-	-	10,000.00
Unamortized bond issuance costs	22,069.88	89,361.63	-	111,431.51	23,823.68	93,924.75	-	117,748.43
Unamortized preopening expenses	-	-	-	-	-	19,518.94	-	19,518.94
Total other assets	32,069.88	89,361.63	-	121,431.51	33,823.68	113,443.69	-	147,267.37
Fixed assets:								
Land	33,700.00	160,544.00	-	194,244.00	33,700.00	160,544.00	-	194,244.00
Buildings and improvements	4,122,626.87	6,928,076.53	-	11,050,703.40	3,963,255.67	6,927,389.96	-	10,890,645.63
Accumulated depreciation - buildings and improvements	(1,066,156.47)	(966,250.83)	-	(2,032,407.30)	(954,695.42)	(786,047.17)	-	(1,740,742.59)
Furniture and equipment	836,577.74	854,404.16	-	1,690,981.90	814,325.10	837,901.67	-	1,652,226.77
Accumulated depreciation - furniture and equipment	(612,828.47)	(423,462.48)	-	(1,036,290.95)	(550,834.44)	(341,875.09)	-	(892,709.53)
Total fixed assets	3,313,919.67	6,553,311.38	-	9,867,231.05	3,305,750.91	6,797,913.37	-	10,103,664.28
Total assets	$ 5,565,326.81	$ 8,671,697.57	$ 77,879.48	$ 14,314,903.86	$ 5,607,369.19	$ 9,079,435.68	$ 79,994.29	$ 14,766,799.16

TENNESSEE STATE VETERANS' HOMES BOARD
SUPPLEMENTARY BALANCE SHEETS (CONT.)
JUNE 30, 2001, AND JUNE 30, 2000

	June 30, 2001				June 30, 2000			
	Murfreesboro	Humboldt	Foundation	Totals	Murfreesboro	Humboldt	Foundation	Totals
LIABILITIES AND EQUITY								
Liabilities:								
Current liabilities:								
Accounts payable and accruals	$ 431,441.31	$ 434,386.42	$ 9,377.37	$ 875,205.10	$ 408,326.08	$ 404,331.32	$ -	$ 812,657.40
Due to primary government	281,655.77	102,919.16	-	384,574.93	237,340.26	420,423.56	-	657,763.82
Amounts advanced by management company	-	-	-	-	-	26,047.60	-	26,047.60
Amounts held in custody for others	46,319.30	91,068.27	-	137,387.57	48,657.89	53,286.73	-	101,944.62
Medicaid current financing	78,152.90	47,113.82	-	125,266.72	115,323.50	126,169.67	-	241,493.17
Due to Humboldt facility	-	-	-	-	25,342.38	-	-	25,342.38
Due to Murfreesboro facility	-	4,447.99	-	4,447.99	-	-	-	-
Advance from primary government	20,000.00	-	-	20,000.00	10,000.00	-	-	10,000.00
Total current liabilities	857,569.28	679,935.66	9,377.37	1,546,882.31	844,990.11	1,030,258.88	-	1,875,248.99
Current liabilities payable from restricted assets:								
Bonds payable	90,000.00	75,000.00	-	165,000.00	85,000.00	75,000.00	-	160,000.00
Total current liabilites payable from restricted assets	90,000.00	75,000.00	-	165,000.00	85,000.00	75,000.00	-	160,000.00
Noncurrent liabilities:								
Bonds payable, net of unamortized discount	1,749,077.27	2,815,796.97	-	4,564,874.24	1,837,017.23	2,890,327.05	-	4,727,344.28
Advance from primary government	150,000.00	-	-	150,000.00	160,000.00	-	-	160,000.00
Total noncurrent liabilities	1,899,077.27	2,815,796.97	-	4,714,874.24	1,997,017.23	2,890,327.05	-	4,887,344.28
Total liabilities	2,846,646.55	3,570,732.63	9,377.37	6,426,756.55	2,927,007.34	3,995,585.93	-	6,922,593.27
Equity:								
Contributed capital	3,260,126.38	5,948,592.46	-	9,208,718.84	3,260,126.38	5,948,592.46	-	9,208,718.84
Retained earnings:								
Reserved for foundation	-	-	68,502.11	68,502.11	-	-	79,994.29	79,994.29
Unreserved	(541,446.12)	(847,627.52)	-	(1,389,073.64)	(579,764.53)	(864,742.71)	-	(1,444,507.24)
Total retained earnings	(541,446.12)	(847,627.52)	68,502.11	(1,320,571.53)	(579,764.53)	(864,742.71)	79,994.29	(1,364,512.95)
Total equity	2,718,680.26	5,100,964.94	68,502.11	7,888,147.31	2,680,361.85	5,083,849.75	79,994.29	7,844,205.89
Total liabilities and equity	$ 5,565,326.81	$ 8,671,697.57	$ 77,879.48	$ 14,314,903.86	$ 5,607,369.19	$ 9,079,435.68	$ 79,994.29	$ 14,766,799.16

TENNESSEE STATE VETERANS' HOMES BOARD
SUPPLEMENTARY STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN EQUITY
FOR THE YEARS ENDED JUNE 30, 2001, AND JUNE 30, 2000

	For the Year Ended June 30, 2001				For the Year Ended June 30, 2000			
	Murfreesboro	Humboldt	Foundation	Totals	Murfreesboro	Humboldt	Foundation	Totals
Operating revenue:								
Resident service revenue less contractual adjustments of $703,945.07 for 2001 and $1,006,911.03 for 2000	$ 5,795,395.48	$ 5,179,080.58	$ -	$ 10,974,476.06	$ 5,368,543.64	$ 4,921,686.26	$ -	$ 10,290,229.90
Total operating revenue	5,795,395.48	5,179,080.58	-	10,974,476.06	5,368,543.64	4,921,686.26	-	10,290,229.90
Operating expenses:								
Administrative and general	994,362.50	963,495.26	-	1,957,857.76	907,737.23	916,968.80	-	1,824,706.03
Nursing services	2,465,495.13	1,994,466.79	-	4,459,961.92	2,045,009.51	1,820,269.63	-	3,865,279.14
Central services	157,600.79	161,628.75	-	319,229.54	140,683.52	177,111.27	-	317,794.79
Ancillary departments	607,992.81	537,153.53	-	1,145,146.34	675,332.12	421,859.13	-	1,097,191.25
Dietary	454,857.92	414,463.02	-	869,320.94	437,648.03	428,555.72	-	866,203.75
Activities	78,056.59	73,132.07	-	151,188.66	73,757.77	72,601.16	-	146,358.93
Social services	85,333.98	46,900.79	-	132,234.77	60,001.87	52,560.28	-	112,562.15
Housekeeping services	204,617.20	188,190.04	-	392,807.24	195,756.62	176,695.51	-	372,452.13
Laundry and linens	109,043.05	84,055.58	-	193,098.63	98,354.52	87,942.33	-	186,296.85
Plant operations and maintenance	311,076.72	277,065.24	-	588,141.96	293,303.23	237,522.66	-	530,825.89
Depreciation	173,455.08	261,791.05	-	435,246.13	171,148.57	265,455.76	-	436,604.33
Amortization of preopening expenses	-	19,518.94	-	19,518.94	-	33,456.00	-	33,456.00
Bad debt expense	55,600.00	50,400.00	-	106,000.00	84,000.00	227,996.00	-	311,996.00
Other operating expenses	1,733.00	2,309.88	-	4,042.88	2,054.12	957.91	-	3,012.03
Total operating expenses	5,699,224.77	5,074,570.94	-	10,773,795.71	5,184,787.11	4,919,952.16	-	10,104,739.27
Operating income	96,170.71	104,509.64	-	200,680.35	183,756.53	1,734.10	-	185,490.63
Nonoperating revenues (expenses):								
Interest revenue	81,455.46	72,406.37	3,809.86	157,671.69	74,391.05	62,631.88	557.12	137,580.05
Miscellaneous revenue	-	-	33,766.41	33,766.41	20.00	-	43,119.20	43,139.20
Interest expense	(146,315.96)	(194,144.07)	-	(340,460.03)	(150,428.37)	(198,385.30)	-	(348,813.67)
Amortization of bond issuance costs	(1,753.80)	(4,563.12)	-	(6,316.92)	(1,753.80)	(4,563.12)	-	(6,316.92)
Cable television expense	-	-	(12,510.15)	(12,510.15)	-	-	(11,178.39)	(11,178.39)
Building improvements donation	-	-	-	-	6,241.00	-	-	6,241.00
Building improvements expense	-	-	-	-	-	-	(6,241.00)	(6,241.00)
Equipment donation	8,762.00	12,206.37	-	20,968.37	-	4,780.00	-	4,780.00
Equipment expense	-	-	(20,968.37)	(20,968.37)	-	-	(4,780.00)	(4,780.00)
Miscellaneous expense	-	-	(15,589.93)	(15,589.93)	-	-	(5,671.46)	(5,671.46)
Total nonoperating revenues (expenses)	(57,852.30)	(114,094.45)	(11,492.18)	(183,438.93)	(71,530.12)	(135,536.54)	15,805.47	(191,261.19)
Capital grant	-	26,700.00	-	26,700.00	-	-	-	-
Net income (loss)	38,318.41	17,115.19	(11,492.18)	43,941.42	112,226.41	(133,802.44)	15,805.47	(5,770.56)
Equity, July 1	2,680,361.85	5,083,849.75	79,994.29	7,844,205.89	2,568,135.44	5,217,652.19	64,188.82	7,849,976.45
Equity, June 30	$ 2,718,680.26	$ 5,100,964.94	$ 68,502.11	$ 7,888,147.31	$ 2,680,361.85	$ 5,083,849.75	$ 79,994.29	$ 7,844,205.89

TENNESSEE STATE VETERANS' HOMES BOARD
SUPPLEMENTARY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2001, AND JUNE 30, 2000

	For the Year Ended June 30, 2001				For the Year Ended June 30, 2000			
	Murfreesboro	Humboldt	Foundation	Totals	Murfreesboro	Humboldt	Foundation	Totals
Cash flows from operating activities:								
Receipts from customers and users	$ 5,885,277.48	$ 5,068,753.60	$ -	$ 10,954,031.08	$ 5,716,268.55	$ 4,981,871.07	$ -	$ 10,698,139.62
Other miscellaneous receipts	-	37,781.54	-	37,781.54	-	27,072.52	-	27,072.52
Payments to suppliers	(2,175,447.40)	(2,368,653.00)	-	(4,544,100.40)	(2,546,228.27)	(1,974,135.67)	-	(4,520,363.94)
Payments to employees	(3,380,320.70)	(2,819,046.04)	-	(6,199,366.74)	(2,964,394.40)	(2,675,936.52)	-	(5,640,330.92)
Other miscellaneous payments	(2,338.59)	-	-	(2,338.59)	(4,332.37)	-	-	(4,332.37)
Net cash provided by (used for) operating activities	327,170.79	(81,163.90)	-	246,006.89	201,313.51	358,871.40	-	560,184.91
Cash flows from noncapital financing activities								
Principal paid on advance from state	-	-	-	-	(10,000.00)	-	-	(10,000.00)
Foundation donations	-	-	33,766.41	33,766.41	-	-	43,119.20	43,119.20
Expenses paid by Foundation	-	-	(28,100.08)	(28,100.08)	-	-	(15,921.49)	(15,921.49)
Net cash provided by (used for) noncapital financing activities	-	-	5,666.33	5,666.33	(10,000.00)	-	27,197.71	17,197.71
Cash flows from capital and capital-related financing activities:								
Capital grant received	-	26,700.00	-	26,700.00	-	-	-	-
Purchase of fixed assets	(165,896.07)	(4,982.69)	(11,591.00)	(182,469.76)	(27,873.46)	(10,353.76)	(11,021.00)	(49,248.22)
Principal paid on bonds	(85,000.00)	(75,000.00)	-	(160,000.00)	(80,000.00)	(75,000.00)	-	(155,000.00)
Interest paid on bonds	(145,055.00)	(195,434.75)	-	(340,489.75)	(150,735.00)	(199,602.98)	-	(350,337.98)
Net cash used for capital and capital-related financing activities	(395,951.07)	(248,717.44)	(11,591.00)	(656,259.51)	(258,608.46)	(284,956.74)	(11,021.00)	(554,586.20)
Cash flows from investing activities:								
Purchase of certificate of deposit	-	-	-	-	-	-	(25,000.00)	(25,000.00)
Proceeds from sale of investment	-	-	25,076.78	25,076.78	-	-	-	-
Interest received	81,455.46	72,406.37	2,447.14	156,308.97	74,391.05	62,631.88	557.12	137,580.05
Net cash provided by (used for) investing activities	81,455.46	72,406.37	27,523.92	181,385.75	74,391.05	62,631.88	(24,442.88)	112,580.05
Net increase (decrease) in cash	12,675.18	(257,474.97)	21,599.25	(223,200.54)	7,096.10	136,546.54	(8,266.17)	135,376.47
Cash, July 1	1,599,766.46	1,428,783.69	29,917.51	3,058,467.66	1,592,670.36	1,292,237.15	38,183.68	2,923,091.19
Cash, June 30	$ 1,612,441.64	$ 1,171,308.72	$ 51,516.76	$ 2,835,267.12	$ 1,599,766.46	$ 1,428,783.69	$ 29,917.51	$ 3,058,467.66

TENNESSEE STATE VETERANS' HOMES BOARD
SUPPLEMENTARY STATEMENTS OF CASH FLOWS (CONT.)
FOR THE YEARS ENDED JUNE 30, 2001, AND JUNE 30, 2000

	For the Year Ended June 30, 2001				For the Year Ended June 30, 2000			
	Murfreesboro	Humboldt	Foundation	Totals	Murfreesboro	Humboldt	Foundation	Totals
Reconciliation of operating income to net cash provided (used) by operating activities:								
Operating income	$ 96,170.71	$ 104,509.64	$ -	$ 200,680.35	$ 183,756.53	$ 1,734.10	$ -	$ 185,490.63
Adjustments to reconcile operating income to net cash from operating activities:								
Depreciation and amortization	173,455.08	281,309.99	-	454,765.07	171,148.57	298,911.76	-	470,060.33
Changes in assets and liabilities								
(Increase) decrease in resident accounts receivable - private	(132,837.12)	119,431.13	-	(13,405.99)	390,214.70	66,100.16	-	456,314.86
(Increase) decrease in resident accounts receivable - U.S. Department of Veterans Affairs	(18,569.46)	(33,713.91)	-	(52,283.37)	(17,821.56)	(38,399.99)	-	(56,221.55)
Increase in allowance for doubtful accounts	55,600.00	50,400.00	-	106,000.00	82,645.80	227,996.00	-	310,641.80
Decrease in amounts advanced to management company	(13,336.69)	(34,883.24)	-	(48,219.93)	(30,530.46)	-	-	(30,530.46)
(Increase) decrease in Medicare cost settlement receivable	204,226.31	(179,497.09)	-	24,729.22	(7,881.67)	(35,427.09)	-	(43,308.76)
Decrease in Medicaid cost settlement receivable	6,270.00	-	-	6,270.00	-	-	-	-
Increase in due from Humboldt	(4,447.99)	-	-	(4,447.99)	-	-	-	-
Decrease in due from Murfreesboro	-	25,342.38	-	25,342.38	-	146,480.22	-	146,480.22
(Increase) decrease in inventories	-	(18,840.95)	-	(18,840.95)	6,834.64	(1,018.92)	-	5,815.72
(Increase) decrease in prepaid items	(35,772.53)	(46,659.23)	-	(82,431.76)	13,781.19	(6,153.07)	-	7,628.12
Increase (decrease) in noncapital accounts payable and accruals	16,948.54	31,815.70	-	48,764.24	(346,384.61)	(144,677.67)	-	(491,062.28)
Increase (decrease) in due to primary government	44,315.51	(317,504.40)	-	(273,188.89)	(133,345.25)	(159,169.56)	-	(292,514.81)
Decrease in amounts advanced by management company	-	(26,047.60)	-	(26,047.60)	(17,385.68)	(60,100.23)	-	(77,485.91)
Increase (decrease) in amounts held in custody for others	(2,338.59)	37,781.54	-	35,442.95	(4,332.37)	27,072.52	-	22,740.15
Increase (decrease) in Medicaid current financing	(37,170.60)	(79,055.85)	-	(116,226.45)	57,093.90	35,523.17	-	92,617.07
Decrease in due to Humboldt	(25,342.38)	-		(25,342.38)	(146,480.22)	-	-	(146,480.22)
Increase in due to Murfreesboro	-	4,447.99	-	4,447.99	-	-	-	-
Total adjustments	231,000.08	(185,673.54)	-	45,326.54	17,556.98	357,137.30	-	374,694.28
Net cash from (used for) operating activities	$ 327,170.79	$ (81,163.90)	$ -	$ 246,006.89	$ 201,313.51	$ 358,871.40	$ -	$ 560,184.91