



TENNESSEE STATE VETERANS' HOME BOARD

Investigative Report
March 15, 2016

Justin P. Wilson, Comptroller





STATE OF TENNESSEE

Justin P. Wilson
Comptroller

COMPTROLLER OF THE TREASURY

STATE CAPITOL
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March 15, 2016

Ed Harries, Executive Director
Tennessee State Veterans Homes
345 Compton Road
Murfreesboro, Tennessee 37130

Dear Mr. Harries:

We were contacted by management of the Tennessee State Veterans' Home (the home) located in Murfreesboro, Tennessee, about possible missing funds. As a result, we conducted an investigation of the home in conjunction with the Tennessee Bureau of Investigation (TBI) for the period January 1, 2013, through August 31, 2014.

BACKGROUND¹



The Tennessee State Veterans' Homes Board (the board) was established in 1988 under the provisions of Title 58, Chapter 7, *Tennessee Code Annotated*. This statute authorized the creation of public homes throughout the state to provide support and care for honorably discharged veterans who served in the United States armed forces.

The first home was a 140-bed facility offering intermediate and skilled levels of nursing care, which opened in Murfreesboro on June 10, 1991. This home is located on a seven acre tract adjacent to the Alvin C. York Veteran Administration Medical Center. The board's primary revenue source is resident fees. The board currently operates three facilities, which are located in Murfreesboro, Humboldt, and Knoxville. A fourth facility is under construction in Clarksville.

¹ Information obtained from the Tennessee State Veterans' Home

The central purpose and role of the Tennessee State Veterans' Homes is to:

- Provide quality of care and quality of life for veterans.
- Rehabilitate residents to the maximum attainable level of independent functioning by utilizing all necessary governmental and community services and therapies, and to provide a comfortable, safe, sanitary environment conducive to personal happiness.
- Make available to residents, social and cultural activities of personal interest designed to foster feelings of dignity and self-respect.
- Meet the individual needs of each resident to the greatest extent possible.

The board has responsibility for oversight of the day-to-day management and operations, which is vested in an Executive Committee. Members of the board are appointed by the governor to serve a three-year term. The Executive Committee exercises its authority for planning, implementation, and operation of the Tennessee State Veterans' Homes through an executive director. Administrators at each facility are responsible for the day-to-day operation at their facility.

Results

Our investigation of the Murfreesboro veterans' home disclosed the following:

- The home had a cash shortage of at least \$7,906 from the sale of meals.
- The home had questionable transactions of at least \$1,833 related to resident's trust accounts.
- Prescription drugs were not accounted for properly, and some drugs were missing.
- The home had operating deficiencies.
- The home had purchasing and disbursement deficiencies.

Findings and recommendations, as a result of our investigation, are presented below. These findings and recommendations have been reviewed with management to provide an opportunity for their response. Also, these findings and recommendations have been reviewed with the district attorney general for the Sixteenth Judicial District.

On March 9, 2016, the former receptionist, Marilyn Truss, was indicted by a grand jury on one count of theft under \$10,000 and one count of making false entries in books or records.

INVESTIGATIVE FINDINGS

FINDING 1 THE HOME HAD A CASH SHORTAGE OF AT LEAST \$7,906 FROM THE SALE OF MEALS

The home had a cash shortage of at least \$7,906 from the sale of meals. Visitors and staff can purchase meals in advance and present their receipt in the cafeteria as evidence of prepayment. Marilyn Truss, who assisted in collecting and processing the funds from meal sales, advised our investigator and the TBI that she collected these funds throughout the day, removed some of the funds for her personal use, and recorded the remaining funds in the accounting records. In addition, the employee advised that she would tear out and discard the corresponding receipts that related to some of the funds removed for her personal use. Unknown to management, Marilyn Truss was a convicted felon on probation for a previous theft of property over \$60,000 in Hamilton County. During the time this employee was working at the home, she had an outstanding warrant for her arrest because she had violated the conditions of her probation. We examined the meal receipts, bank deposits, and other documentation maintained by the cafeteria for meals served and sold to determine any missing funds. One contributing factor that allowed this theft to occur was management did not reconcile meals sold with collections and meals actually served. Marilyn Truss' resigned August 26, 2014.

RECOMMENDATION

The board should take immediate steps to collect the cash shortage of at least \$7,906, and the board should reconcile meals sold with collections and meals actually served.

MANAGEMENT'S RESPONSE

The TSVHB notified the Comptroller's Office to assist in collecting the monies once it was determined funds were missing. The TSVHB changed background companies effective October 14, 2014. The new vendor provides national and county background checks. The meal purchase process was standardized among all locations in October 2014 to mitigate risk. The procedures include reconciling meal money in a timely manner.

FINDING 2 THE HOME HAD QUESTIONABLE TRANSACTIONS OF AT LEAST \$1,833 RELATED TO RESIDENTS' TRUST ACCOUNTS

The home had at least \$1,833 in questionable transactions related to residents' trust accounts. Marilyn Truss collected funds from the sale of meals and also assisted in maintaining the resident's trust accounts. The home holds the veterans' funds in trust accounts and uses these funds to pay each veteran's monthly bills, personal expenses, or other miscellaneous expenses. If the veteran withdraws cash and does not spend all of the money, he or she may deposit the remainder back into the trust account. Family members may also deposit money into the veteran's trust accounts. The Tennessee State Veterans' Home Resident Trust Deposit and Withdrawal Procedures state in part that the veteran and disbursing employee should sign the withdrawal receipt. The procedures also state that if a veteran is not able to sign the withdrawal receipt, two employees should sign the

receipt showing the money was properly disbursed. We identified the questionable amount based on the following transactions and miscalculations:

- A. Five veterans' trust receipts totaling \$119 did not have the proper signatures on withdrawal receipts. In addition, documentation related to these withdrawals did not reflect that any unspent funds were deposited back into the various veterans' trust accounts as required.
- B. One withdrawal totaling \$100 did not have a proper receipt; therefore, we could not determine who actually received the money.
- C. We noted that 21 trust accounts totaling \$1,614 were not properly reconciled. The trust accounts did not reflect proper account activity based on amounts deposited and disbursed to the various veterans. We could not determine if these inconsistencies were actual shortages or miscalculations.
- D. Reconciliations were not adequately reviewed by management.

Failure to obtain the required signatures, obtain receipts, and perform account reconciliations increases the risk of loss or misappropriation of resident trust funds.

RECOMMENDATION

Withdrawal receipts and deposit forms should contain the necessary signatures, and trust account reconciliations should be performed and reviewed by management. The board should determine whether they should seek reimbursement of any of the questionable transactions.

MANAGEMENT'S RESPONSE

TSVHB management will review resident trust accounts documentation periodically to ensure procedures are being followed. Management will review supporting documentation and return any funds determined to be questionable.

INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES

FINDING 3 PRESCRIPTION DRUGS WERE NOT ACCOUNTED FOR PROPERLY, AND SOME DRUGS WERE MISSING

On August 25, 2014, management found several opened and unopened mail pouches containing various prescription drugs located under the desk of Marilyn Truss. The prescription drugs were dated from October 2013 to June 2014. The home's pharmacy personnel marked the unopened pouches "Return To Sender" and mailed the pouches. The drugs found in the opened pouches were logged and then accumulated for in-house destruction. We traced prescription drugs that should have come to the home and compared this list to those prescription drugs found under the desk. Based on our review of these prescription drugs, we noted that some drugs were missing.

Normal procedures require that prescription drugs should be received by the home's pharmacy. Occasionally, the veterans receive prescription drugs through the mail from the Veterans Administration Hospital after a stay at the hospital. These prescription drugs may be mailed directly to the resident rather than to the home's pharmacy. Protocol for any prescription drugs that may be received by the resident through the mail is for the drugs to remain unopened and be marked "Return to Sender" and mailed back. Other prescription drugs coming into the home go directly to the pharmacy. Only qualified personnel should handle the prescription drugs, and all prescription drugs should be accounted for properly. Good internal controls dictate that all prescription drugs should be received at a central location (the pharmacy) and be handled only by qualified personnel.

RECOMMENDATION

Any prescription drugs should be received by the pharmacy and disbursed by qualified personnel.

MANAGEMENT'S RESPONSE

Procedures will be implemented by February 2016 to ensure all prescription drugs are received by the pharmacy nurse. The administrative staff will no longer mark "Return to Sender" and mail back. This task will be performed by the pharmacy nurse.

FINDING 4 THE HOME HAD OPERATING DEFICIENCIES

We noted the following operating deficiencies:

- A. Duties related to receipting funds from the sale of meals were not segregated adequately. Employees receipted funds from the sale of the meals and verified the amounts received. However, these same employees were also involved in recording the receipts in the accounting records, reconciling the funds, and preparing bank deposits. Sound business practices dictate that management is responsible for designing internal controls to provide reasonable assurance of the reliability of financial reporting and of the effectiveness and efficiency of operations. This lack of segregation of duties is a significant deficiency in internal controls that increases the risk of unauthorized transactions.

- B. In some instances, deposits were not posted properly to the accounting records, not deposited timely, not deposited intact, or not deposited at all. Section 9-4-301, *Tennessee Code Annotated*, states in part that every officer and employee of state government must deposit state funds immediately into the treasury or to the account of the state treasurer in a bank designated as a state depository or to the appropriate departmental account. The Tennessee Department of Finance and Administration's Policy 25 states in part for departments, institutions, offices and agencies, "immediately" means within 24 hours after \$500 has been accumulated or five working days if more than \$100 but less than \$500 has been accumulated, provided that the funds to be deposited are secured under lock and key. Accumulated funds of \$100 or less, secured under lock and key, are to be deposited at least once each calendar month. If funds cannot be secured under lock and key,

“immediately” means the same day. For departments, institutions, offices, and agencies with enterprise or sales operations that maintain change funds, the \$500, \$250, or \$100 referred to above are considered the funds in excess of the established change fund amount. Failure to account for deposits properly increases the risk that funds could be misappropriated.

- C. Reconciliations of funds from the sale of meals with deposits and meals served were not performed. Timely reconciliations are a necessary internal control procedure to ensure that all collections are accounted for properly.

RECOMMENDATION

The home should segregate duties to the extent possible using available resources. All collections should be properly posted to the accounting records and deposited as required by state statute. Reconciliations of funds from the sale of meals with deposits and meals served should be performed currently.

MANAGEMENT'S RESPONSE

Meal purchase process was standardized among all locations. Procedures were implemented to ensure meal money is reconciled daily.

FINDING 5 THE HOME HAD PURCHASING AND DISBURSEMENT DEFICIENCIES

Marilyn Truss maintained various credit cards and was responsible for maintaining documentation for certain purchases of the home. Therefore, we examined purchases made with the credit cards and reviewed the board's Purchasing Policy and Accounts Payable Standard Operating Procedures (SOP).

The home uses a computerized purchasing system in which purchase orders (PO) are sometimes issued for specific items, but most of the time, a PO is issued at the beginning of a fiscal year to cover the entire year. This is called a blanket PO. The home makes most of its purchases using credit cards, so these blanket PO's are often made out to the credit card company, rather than to the vendor where the purchase will be made. An employee making a purchase presents the PO to the receptionist prior to receiving the credit card to make the purchase. After making the purchase, the employee returns the credit card and presents the receipt to a witness, who signs the receipt to validate the purchase. We noted the following internal control and compliance deficiencies related to purchasing and disbursements.

- A. We reviewed a sample of purchases. Our sample revealed that none of the POs included detailed descriptions or amounts for the purchases made. Instead, the POs consisted of the single blanket PO issued at the beginning of the fiscal year with a generic description (i.e., office supplies). The blanket PO was not updated to reflect the date of the purchase and the items to be purchased, and the PO did not show a signature of approval beyond the initial approval at the beginning of the fiscal year. There was not a current date and initial to reflect when the PO was put to use. The

dollar amounts and descriptions of items on POs at the time of issuance are necessary to quantify purchasing commitments and to identify the items to be purchased. We noted POs dated July 1, 2013, that were used for purchases made much later, such as in May of 2014. We did not note any review of purchases to determine propriety; as long as what was purchased fit the generic category of the PO turned in with the receipt, it was paid. We also noted that there are not specific individuals assigned to witness the purchase receipt to validate what was bought, and the witness does not include a title when signing the receipt. Often, the employee's name could not be determined.

These practices weaken the effectiveness of the PO since the PO and the invoice/receipt reflect different vendors and dates. Sound business practices dictate supervisory review evidenced by an authorized signature to ensure that the POs are for legitimate purchases. The dollar amounts and descriptions of items on POs are necessary to quantify purchasing commitments and to identify the items purchased. The failure to list descriptions and amounts on POs increases the risk of unauthorized purchases.

- B. The Accounts Payable SOP requires POs on all purchases except those specifically excluded by the policy such as monthly utilities, telephone, cable, labor and compensation, employee travel reimbursements, resident and insurance refunds, federal agencies (*i.e.*, IRS), and other state agencies. Our sample revealed that POs were not issued in 11 of 21 purchasing packets. POs are necessary to control who has purchasing authority for the entity and to document purchase commitments. This deficiency could result in unapproved purchases, purchases made without an adequate appropriation, and undocumented purchasing commitments.
- C. The Accounts Payable SOP identifies the types of purchases that do not require POs as noted in Part C. above. Our sample revealed eight of 11 applicable purchases had a computer screen print from the credit card billing rather than an invoice to support the purchase, and six of eight applicable purchases did not have POs. Sound business practices dictate that invoices should be on file to support all purchases. The absence of invoices increases the risks of fraud and unauthorized purchases. POs should be issued for all applicable purchases.
- D. We reviewed the documentation for fuel purchases and noted that the required trip log was not always filled out completely or did not identify which of the three vans was being fueled. Without proper and complete information, the risks for abuse are higher.
- E. We examined trip logs for each van; however, the logs did not appear to have been monitored or reviewed, except to be copied and turned in with the fuel purchases. The logs were not filled out completely and did not identify the van to which they belonged. Incomplete trip logs increase the risks of improper use.
- F. The credit card sign-out sheets were not used appropriately. Each credit card has an individual sheet for documenting its usage. We noted multiple cards signed out on the Sam's Club card sheet, and also noted sign-out sheets for the American

Express card were missing from January 2014 to August 2014. Failure to properly utilize the sign-out sheets increases the risk that cards will be misused.

RECOMMENDATION

To strengthen internal controls over purchasing procedures and to document purchasing commitments, the home should issue POs to the vendor where the purchase is to be made. POs should be evidenced by an authorizing signature. POs should be issued for all applicable purchases. POs should include the vendor's name as well as the dollar amounts and descriptions of items. All disbursements should be supported by invoices from the respective vendors. Fuel purchases should be supported by trip logs and should be reviewed with any variances or abnormalities explained and documented. Credit card sign-out sheets should be properly utilized and reviewed for completeness.

MANAGEMENT'S RESPONSE

The purchase process requires employees enter a requisition in the accounting system. The requisition must be approved by appropriate staff which includes the Administrator or Executive Director. Once the requisition is approved by all appropriate staff the accounting system issues a purchase order. All requisition approvals are maintained in the accounting system and include the name of the person approving, date and time. The purchase orders do not have signatures for security reasons; rather, they list the name of the individual(s) approving. Purchase orders must be issued to the vendor that will be paid because the system generates the check based on the vendor listed on the purchase order. This prevents employees from changing vendors. The purchase order must be issued to American Express instead of Wal-Mart, Target, etc. because the payment will be issued to American Express. POs were issued for the purchases. A copy of the PO may not be included with the purchase packet but the original PO is maintained in the accounting system which is used by accounts payable to process the payment. Management will review credit card sign-out sheets periodically for completeness to mitigate risk.

INVESTIGATOR'S COMMENT

PO's are not always issued for individual purchases at the home. The purpose of a PO is to authorize and control purchasing. By issuing blanket POs, the home is authorizing payment to the credit card, not the actual purchase. By using a copy of a blanket PO, without a current date and initial or signature, there is no way to verify that the specific purchase was approved. Section 10.6.2 of the *Procurement Procedures Manual of the Central Procurement Office* governing state agencies states "Upon receipt of supplies, materials, and equipment, the receiving agency shall make a written certification that items received were equal in quality and quantity to those purchased..." using the agency's copy of the PO to check goods or services received. Section 10.6.3 states that the agency is to "verify the PO/release number on the shipping documents, freight bill, packing slip, and invoice; the agency is the actual consignee; ...and that the number of cartons, crates, etc., listed on the freight bill is the same as the amount received." Furthermore, "If any discrepancies (i.e. overages, shortages, damages) exist, they must be noted on the packing slip, receiving report, and PO." This cannot be done using vague blanket POs.

If you have any questions concerning the above, please contact this office.

Sincerely,

A handwritten signature in black ink, appearing to read "Justin P. Wilson". The signature is written in a cursive style with a prominent vertical stroke at the beginning.

Justin P. Wilson
Comptroller of the Treasury

JPW/kbh