



State of Nevada
Governor's Finance Office
Division of Internal Audits

Audit Report

**Department of
Veterans Services
State Trust Funds**

Report No. 18-04
October 11, 2017

EXECUTIVE SUMMARY
Department of Veteran Services
State Trust Funds

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Objective: Improve Internal Controls over Trust Funds.

Segregate Trust Funds Receipt and Recording Functions.....page 2

Segregating trust funds receipt and recording functions will ensure trust funds are safeguarded and available to residents. The Nevada State Veterans Home receives on average \$2,200 daily in funds for deposit to resident's trust accounts. The funds are received by the receptionist who records the funds in each resident's account in the computerized accounting system. The receptionist could falsify the amounts received and/or recorded in each resident's account. Segregating fund receipt and recording functions will ensure trust funds are safeguarded and available to residents.

Strengthen Controls over the Checkbook.....page 3

Strengthening controls over access to the checkbook will ensure trust funds are safeguarded and available to residents. The checkbook is maintained inside a locked safe located in a supply room and both the receptionist and management analyst II have the combination to the safe. The receptionist and management analyst II can also record disbursements in each resident's accounts in the computerized accounting system. Therefore, these employees could write a fraudulent check, record it in the computerized accounting system, and misappropriate funds.

Restricting access to the checkbook from employees who have access to the computerized accounting system will prevent any one employee from writing a fraudulent check, recording it in the computerized accounting system, and misappropriating funds.

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INTRODUCTION

At the direction of the Executive Branch Audit Committee, the Division of Internal Audits conducted an audit of state trust funds held by the Department of Veterans Services (department). Our audit focused on trust funds maintained at the department. The audit scope and methodology, background, and acknowledgements are included in Appendix A.

Our audit objective was to develop recommendations to:

- ✓ Improve internal controls over trust funds.

Department of Veterans Services Response and Implementation Plan

We provided draft copies of this report to the department for its review and comments. The department's comments have been considered in the preparation of this report and are included in Appendix B. In its response, the department accepted our recommendations. Appendix C includes a timetable to implement our recommendations.

NRS 353A.090 requires within six months after the final report is issued to the Executive Branch Audit Committee, the Administrator of the Division of Internal Audits shall evaluate the steps the department has taken to implement the recommendations and shall determine whether the steps are achieving the desired results. The administrator shall report the six month follow-up results to the committee and department officials.

The following report contains our findings, conclusions, and recommendations.

Improve Internal Controls Over Trust Funds

The department can improve internal controls over trust funds by:

- Segregating trust funds receipt and recording functions; and
- Strengthening controls over the checkbook.

Segregate Trust Funds Receipt and Recording Functions

The department should segregate trust funds receipt and recording functions. Proper segregation of these functions will ensure trust funds are safeguarded and available to residents.

Access to Accounting System Not Restricted

The Nevada State Veterans Home (home) receives on average \$2,200 daily in checks and money orders for the resident's trust accounts. The funds are received by the receptionist at the home's front desk. The receptionist logs the funds received on an Excel spreadsheet, makes copies of the checks/money orders, and delivers the funds to the management analyst (MAII).

The MAII fills out a deposit slip and deposits the funds in an outside bank account. The MAII gives the deposit slip back to the receptionist who verifies all checks recorded on the Excel spreadsheet are included in the deposit. The receptionist records funds received in the residents' accounts in the computerized ADL accounting system (ADL).

The receptionist who receives and logs the funds also records the funds in each resident's account in ADL. Residents' trust funds may be susceptible to misappropriation when one individual has the ability to perform these two functions. The individual could falsify the amounts received and/or recorded in each resident's account. The individual receiving the funds should not have access to ADL to record the funds.

Conclusion

Segregating trust funds receipt and recording functions will ensure trust funds are safeguarded and available to residents.

Recommendation

1. Segregate trust funds receipt and recording functions.

Strengthen Controls over the Checkbook

The department should strengthen controls over access to the checkbook to ensure trust funds are safeguarded and available to residents.

Access to Checkbook Not Restricted

The receptionist and MAII have access to the checkbook and can also record disbursements in ADL. Therefore, these employees could write a fraudulent check, charge a resident's account in ADL, and misappropriate funds.

The home uses a non-computerized checkbook to disburse trust funds. The checks are sequentially numbered and, when issued, stubs and carbon copies remain in the checkbook. The checkbook is maintained inside a locked safe located in a supply room. The receptionist and MAII have the combination to open the safe. Either one of these employees can open the safe and retrieve the checkbook without being seen by other employees.

Restricting access to the checkbook from employees who have access to ADL will prevent them from writing a fraudulent check, recording it in ADL, and misappropriating funds.

Conclusion

Strengthening controls over access to checkbook will ensure trust funds are safeguarded and available to residents.

Recommendation

2. Strengthen controls over the checkbook.

Appendix A

Scope and Methodology, Background, Acknowledgements

Scope and Methodology

We began the audit in March 2017. In the course of our work, we interviewed the Department of Veterans Services (department), State Treasurer's Office, and State Controller's Office. We reviewed trust fund records, applicable Nevada Revised Statutes, and other state guidelines. We concluded field work and testing in August 2017.

We conducted our audit in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Background

The department collects and manages funds for residents living at the Nevada State Veterans Home. Funds received on behalf of the residents include Survivor and Disability Insurance, Supplemental Insurance Income benefits, pensions, and donations. The funds collected for the residents' trust accounts are deposited into an outside bank account.

The Nevada State Veterans Home had 239 residents as of June 30, 2017 with approximately \$907,000 in the trust fund account.

Acknowledgments

We express appreciation to the State Treasurer's Office, the State Controller's Office, department director and staff for their cooperation and assistance throughout the audit.

Contributors to this report included:

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Appendix B

Department of Veterans Services Response and Implementation Plan

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GOVERNOR



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September 21, 2017

Steve Weinberger, Administrator
Governor's Office of Finance
Division of Internal Audits
209 East Musser Street, Room 302
Carson City, NV 89701

Mr. Weinberger,

The Department of Veterans Services (NDVS) thanks the Division of Internal Audit's staff for their time and assistance over the past seven months to conduct an audit of our Resident Trust Fund Account. The Department always appreciates the opportunity to receive feedback to improve processes, enhance efficiencies, and ensure fiscal transactions are appropriately conducted. The following are the Department's response to your audit recommendations:

Recommendation #1

Segregate trust funds receipt and recording functions.

Response

NDVS accepts this recommendation. NDVS will change processes to ensure that one staff member receives and logs the funds and a separate staff member records funds received in the residents' accounts in the computerized ADL accounting system.

Anticipated Implementation Date

NDVS will update policy and implement new processes by April 2018.

Recommendation #2

Strengthen controls over the checkbook.

Response

NDVS accepts this recommendation. NDVS will change processes to ensure that the staff with recording abilities in the computerized ADL accounting system does not have

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access to the safe where the checkbook is located.

Anticipated Implementation Date

NDVS will update policy and implement new processes by April 2018.

The Department appreciates all of your assistance during the audit and your assistance as we move forward on implementing the aforementioned recommendations. If you have any questions or need any additional information, please contact Amy Garland at (775)825-9750 or garlanda@veterans.nv.gov.

Sincerely,



Katherine Miller
Director
Department of Veterans Services

Cc: Vita C. Ozoude, Executive Branch Audit Manager
Dennis Stoddard, Executive Branch Auditor

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Appendix C

Timetable for Implementing Audit Recommendations

In consultation with the Department of Veterans Services (department), the Division of Internal Audits categorized the recommendations contained within this report into one of two separate implementation time frames (i.e., *Category 1* – less than six months; *Category 2* – more than six months). The department should begin taking steps to implement all recommendations as soon as possible. The department's target completion date is incorporated from Appendix B.

Category 1: Recommendations with an anticipated implementation period of less than six months.

<u>Recommendations</u>	<u>Time Frame</u>
1. Segregate trust funds receipt and recording functions. (page 3)	Apr 2018
2. Strengthen controls over the checkbook. (page 3)	Apr 2018

The Division of Internal Audits shall evaluate the action taken by the department concerning the report recommendations within six months from the issuance of this report. The Division of Internal Audits must report the results of its evaluation to the Executive Branch Audit Committee and the department.

