

DEPARTMENT OF VETERANS AFFAIRS

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED JANUARY 13, 2021

**LOUISIANA LEGISLATIVE AUDITOR
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Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE

Department of Veterans Affairs



January 2021

Audit Control # 80200006

Introduction

As a part of our work related to the Single Audit of the State of Louisiana (Single Audit) for the fiscal year ended June 30, 2020, we performed procedures at the Louisiana Department of Veterans Affairs (LDVA) to evaluate the effectiveness of LDVA's internal controls over compliance and determine whether LDVA complied with applicable laws and regulations.

We also performed procedures for the period July 1, 2018, through June 30, 2020, to evaluate certain internal controls LDVA uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and accountability over public funds. In addition, we determined whether management has taken actions to correct the prior-report findings.

Results of Our Procedures

Federal Compliance - Single Audit of the State of Louisiana

As a part of the Single Audit for the year ended June 30, 2020, we performed internal control and compliance testing as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) on LDVA's major federal program, Veterans State Nursing Home Care (CFDA 64.015).

Those tests included evaluating the effectiveness of LDVA's internal controls designed to prevent or detect material noncompliance with program requirements and tests to determine whether LDVA complied with applicable program requirements. Based on the results of our procedures, we did not report any findings.

Other Procedures

In addition to the Single Audit procedures noted above, we performed certain procedures that included obtaining, documenting, and reviewing LDVA's internal control and compliance with related laws and regulations over the Resident Trust Fund (RTF), accounts receivable, pharmacy billing and inventory, meal ticket revenue, Care and Maintenance fees, contract expenditures, LaCarte purchasing card expenditures, and payroll expenditures.

In addition, we reviewed the status of the prior-report findings in LDVA's procedural report dated February 25, 2019. We determined that management has resolved the prior-report findings related to Weaknesses in Controls over Accounts Receivable, Meal Ticket Documentation Not Maintained and Reconciliations Not Performed, and Weakness in Controls over LaCarte Expenditures at Southeast Louisiana Veterans Home. The prior-report findings related to Weaknesses in Controls over the Resident Trust Fund and Noncompliance with Contract Regulations at LDVA Headquarters have not been resolved and are addressed again in this letter.

Based on the results of these procedures, we reported findings related to Weakness in Controls over the Resident Trust Fund, Noncompliance with Contract Regulations at LDVA Headquarters, and Lack of Adherence to Payroll Policies, as described below.

Current-year Findings

Weakness in Controls over the Resident Trust Fund

For the second consecutive engagement, LDVA failed to ensure that employees at all homes followed established policies and procedures to close out individual RTF accounts in a timely manner after residents were discharged or deceased. Failure to close accounts increases the risk that funds could be misused or unauthorized disbursements could be made.

Based on a review of RTF account balances for individual residents at the Northwest Louisiana Veterans Home, the home began the process to close the accounts for eight former residents from one to 10 months after the residents passed away, but did not complete closing the accounts or transfer the funds to the Recreation and Welfare (R&W) Account in a timely manner. At the time of our procedures, these accounts had balances totaling \$122,211. As of June 30, 2020, the home had closed one account more than six years after the resident passed away and transferred the balances for three other accounts to the R&W Account from five years and 10 months to seven years after the residents passed away. Four accounts still had balances totaling \$120,303 at June 30, 2020.

The RTF is a facility account used to manage personal funds received from residents and is separate from the facility's operating accounts. Upon written authorization by the resident, the facility accepts responsibility for holding, safeguarding, and accounting for the resident's personal funds. Balances for each resident are tracked separately. According to LDVA policy, the resident's account shall be reconciled, and any amounts due to the resident shall be refunded within 30 days of discharge or death. After a resident passes away or is discharged from the home, the resident's account is balanced to ensure all activity has been posted to the account and all outstanding bills have been paid before any remaining funds are returned to the resident or his legal representative. If LDVA is unsuccessful in returning the funds and if no claim on the funds is initiated within five years of the date of death or discharge, the funds are considered abandoned and are deposited in the home's R&W Account, which is used for the benefit of all residents.

LDVA management should ensure that employees at all of the homes follow established policies and procedures related to RTF balances. Management concurred with the finding and provided a plan of corrective action (see Appendix A, pages 1-2).

Noncompliance with Contract Regulations at LDVA Headquarters

For the second consecutive engagement, LDVA Headquarters failed to obtain proper approval for a legal services contract with a vendor due to a lack of internal controls to ensure contracts are properly approved prior to incurring expenditures. Failure to obtain proper contract approvals increases the risk for the procurement of fraudulent or unauthorized services.

A review of contracts disclosed that LDVA Headquarters executed a \$25,000 contract for legal services without obtaining Division of Administration, Office of State Procurement (OSP) approval. Per Louisiana Administrative Code, OSP approval is needed for contracts that exceed LDVA's delegated purchase authority of \$2,000. During the period November 30, 2018, through June 30, 2020, the vendor was paid \$5,783. LDVA Headquarters began to pursue contract approval in November 2018 but failed to obtain contract approval prior to expenditures being incurred. The contract has not been approved by OSP as of June 30, 2020.

LDVA management should ensure that state procurement laws and regulations are followed and provide oversight of procurement activities. Management concurred with the finding and provided a plan of corrective action (see Appendix A, page 3).

Lack of Adherence to Payroll Policies

LDVA employees did not follow established payroll policies and procedures for the certification and approval of time sheets and for approval of leave and overtime requests. Failure to follow established payroll policies and procedures increases the risk that payroll errors and/or fraud could occur and not be detected in a timely manner.

We reviewed a total of 116 time sheets at LDVA Headquarters and the five veterans homes, covering the period of July 1, 2018, through December 30, 2019. Our procedures disclosed the following:

- Twenty-six (22%) time sheets were not certified by the employee and were not approved by the supervisor.
- Two (2%) time sheets were not certified by the employee.
- Five (4%) time sheets were not approved by the supervisor.
- Overtime hours earned per the time sheets for two employees did not agree with the overtime hours credited to the employees, resulting in the employees receiving 9.15 hours of compensatory time that was not earned.

In addition, the time sheet for one of the employees lacked evidence of prior approval to work overtime.

- One time sheet that showed leave was taken lacked evidence of prior approval to take leave.

LDVA's payroll policies and procedures require employees to complete a time sheet and the employee and supervisor to sign it as certification of its accuracy; to obtain advance approval to work overtime for which compensatory leave is earned; and to obtain advance approval to use annual, sick, or compensatory leave. LDVA management did not ensure that employees followed established payroll policies and procedures for certifying and approving time sheets, and approving leave requests and overtime worked.

LDVA management should emphasize compliance with established payroll policies and procedures through employee training, guidance, and oversight. Management concurred with the finding and provided a plan of corrective action (see Appendix A, pages 4-5).

Resident Trust Fund

We obtained an understanding of LDVA's controls over the RTF. We reviewed selected transactions at each home for the period of July 1, 2018, through June 30, 2020, to determine whether charges to resident accounts were appropriate, adequately supported, and properly authorized. We also reviewed RTF balances as of January 31, 2020, for selected residents to determine whether accounts for discharged or deceased residents were handled in accordance with LDVA policy. Based on the results of our procedures, except as noted in the Current-year Findings section above, LDVA had adequate controls in place to ensure charges to resident accounts were appropriate, adequately supported, and properly authorized and balances for discharged or deceased residents were handled in accordance with LDVA policy.

Accounts Receivable

We obtained an understanding of LDVA's controls over accounts receivable and policies and procedures related to the write-off of uncollectible accounts. Monthly billings and collections are posted to resident accounts maintained in the Pioneer system, which has been utilized by LDVA since calendar year 2014. We reviewed selected accounts with outstanding balances to determine whether charges were billed accurately and timely. We also evaluated selected write-offs to determine whether LDVA made appropriate efforts to collect the debt before writing off the balance and whether the write-off was properly approved. Based on the results of our procedures, LDVA had adequate controls in place to ensure charges were properly billed and uncollectible balances were written off in accordance with LDVA policy.

Pharmacy Billing and Inventory

The Northeast Louisiana Veterans Home, Northwest Louisiana Veterans Home, Southwest Louisiana Veterans Home, and Southeast Louisiana Veterans Home operate their own in-house pharmacies. The Southeast Louisiana Veterans Home serves as the pharmacy for the Louisiana Veterans Home in Jackson.

We obtained an understanding of LDVA's controls over pharmacy billings and returns at each of the five homes and reviewed selected transactions for fiscal years 2019 and 2020. Based on the results of our procedures, LDVA had adequate controls in place to ensure medications billed to residents and medications billed by the Southeast Louisiana Veterans Home to the Louisiana Veterans Home in Jackson were accurate and appropriate, and pharmacy returns were properly reconciled and monitored.

We obtained an understanding of LDVA's controls over pharmacy inventory for the homes operating their own in-house pharmacy and reviewed physical inventory performed during fiscal years 2019 and 2020. Based on the results of our procedures, physical inventory was performed in accordance with LDVA policy, and inventory reports were maintained and accurate.

Meal Tickets

Meal tickets are sold at each home to LDVA employees, volunteers, and visitors. We obtained an understanding of LDVA's controls over meal tickets and performed procedures to determine whether meal ticket sales were adequately supported and properly reconciled in accordance with LDVA policy. Based on the results of our procedures, LDVA had adequate controls in place over meal ticket sales and complied with applicable policies and regulations.

Care and Maintenance Fees

Louisiana Revised Statute 29:383 allows LDVA to establish a monthly Care and Maintenance (C&M) charge for all veterans capable of paying for the use of the facilities. In accordance with the Louisiana Administrative Code, certain allowances, such as personal spending and income considerations, may reduce a resident's C&M fee.

We obtained an understanding of LDVA's controls over C&M fees and performed procedures to determine whether each home complied with state law and followed LDVA policies related to the waiver or deferment of C&M fees. Based on the results of our procedures, LDVA had adequate controls in place over the waiver and deferment of C&M fees and complied with applicable policies and regulations.

Contract Expenditures

We obtained an understanding of LDVA's controls over professional services contracts and examined selected contracts for compliance with state law. Based on the results of our procedures, except as noted in the Current-year Findings section above, LDVA had adequate controls in place to ensure that professional services contracts were properly authorized and were administered in accordance with state law.

LaCarte Purchasing Card Expenditures

LDVA participates in the state of Louisiana's LaCarte purchasing card program. We obtained an understanding of LDVA's controls over LaCarte purchases. We analyzed LaCarte card transaction listings for the period July 1, 2018, through January 16, 2020, and reviewed selected transactions to determine whether LDVA obtained prior approval to purchase, purchases were made for proper business purposes, sufficient documentation was maintained to support purchases, and transactions were properly reviewed and recorded. Based on the results of our procedures, LDVA had adequate controls in place over LaCarte purchases and complied with applicable policies and regulations.

Payroll and Personnel

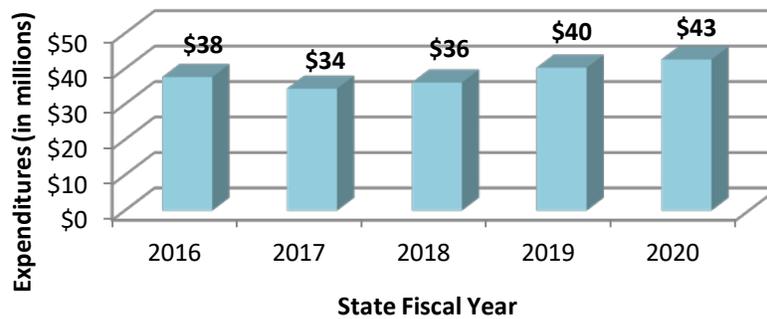
Salaries and related benefits accounted for approximately 71% and 72% of LDVA's expenditures in fiscal years 2019 and 2020, respectively. We obtained an understanding of LDVA's controls over the time and attendance function and reviewed selected employee time statements and leave records. Based on the results of our procedures, a finding was written related to Lack of Adherence to Payroll Policies (see Current-year Findings section).

Trend Analysis

We compared the most current and prior-year financial activity using LDVA's Annual Fiscal Reports and/or system-generated reports and obtained explanations from LDVA's management for any significant variances. We also prepared an analysis of expenditures and per diem rates for the Veterans State Nursing Home Care program (Program) over the last five fiscal years as well as an analysis of LDVA's total fiscal year 2020 revenues and expenditures.

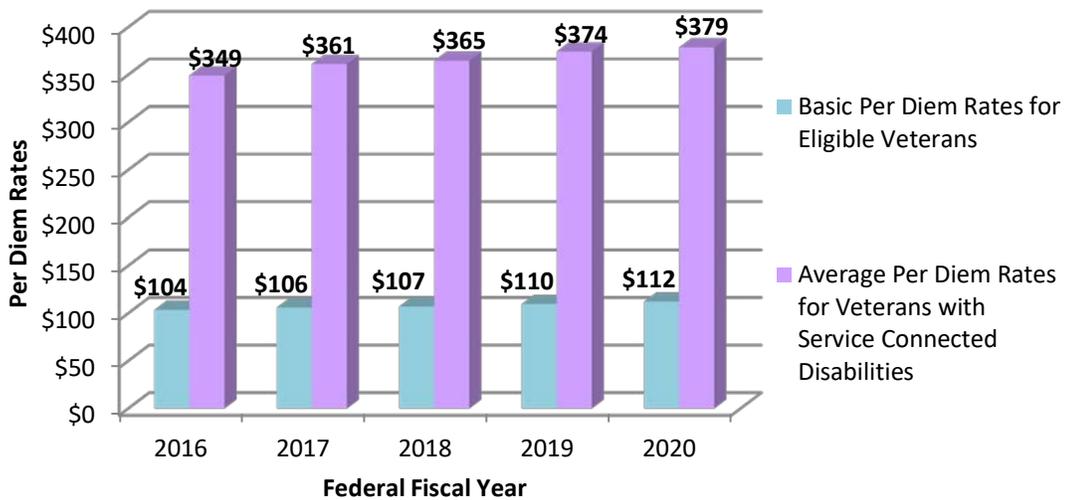
As shown in Exhibit 1, Program expenditures decreased in fiscal year 2017 from fiscal year 2016, then steadily increased from fiscal year 2017 through fiscal year 2020. Program expenditures decreased by \$4 million (11%) in fiscal year 2017 due to LDVA exhausting self-generated funds before expending federal funds, and increased each year from fiscal year 2017 through fiscal year 2020 due to an increase in per diem rates. Per diem rates, shown in Exhibit 2, are set by the U.S. Department of Veterans Affairs, and have steadily increased each year. For veterans with service-connected disabilities, a per diem rate is set for each individual home.

**Exhibit 1
Veterans State Nursing Home Care Program Expenditures**



Source: Fiscal Years 2016 – 2020 Schedule of Expenditures of Federal Awards

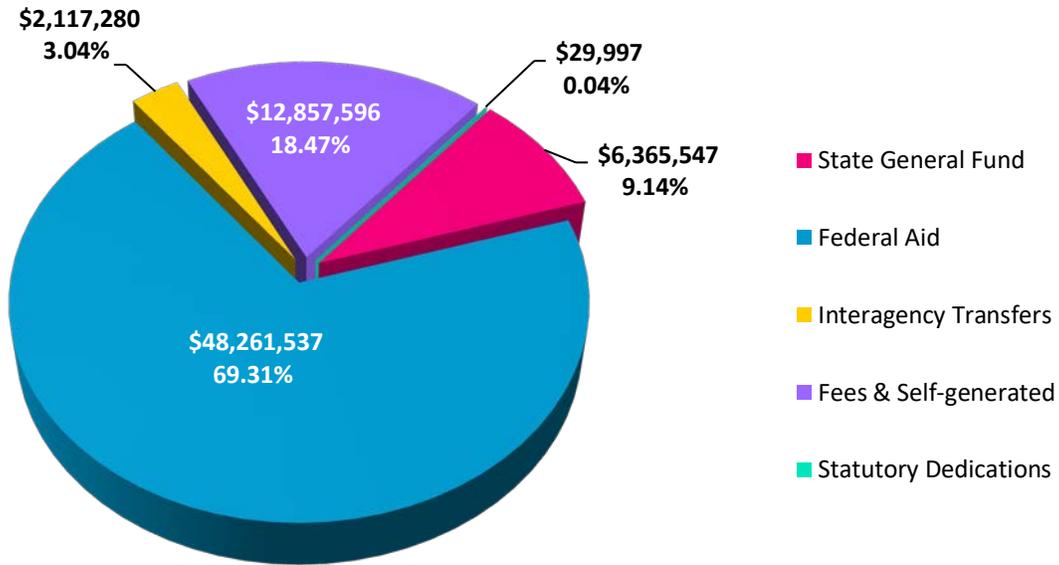
**Exhibit 2
Per Diem Rates**



Source: https://www.va.gov/COMMUNITYCARE/providers/SH_Payment_Rate.asp

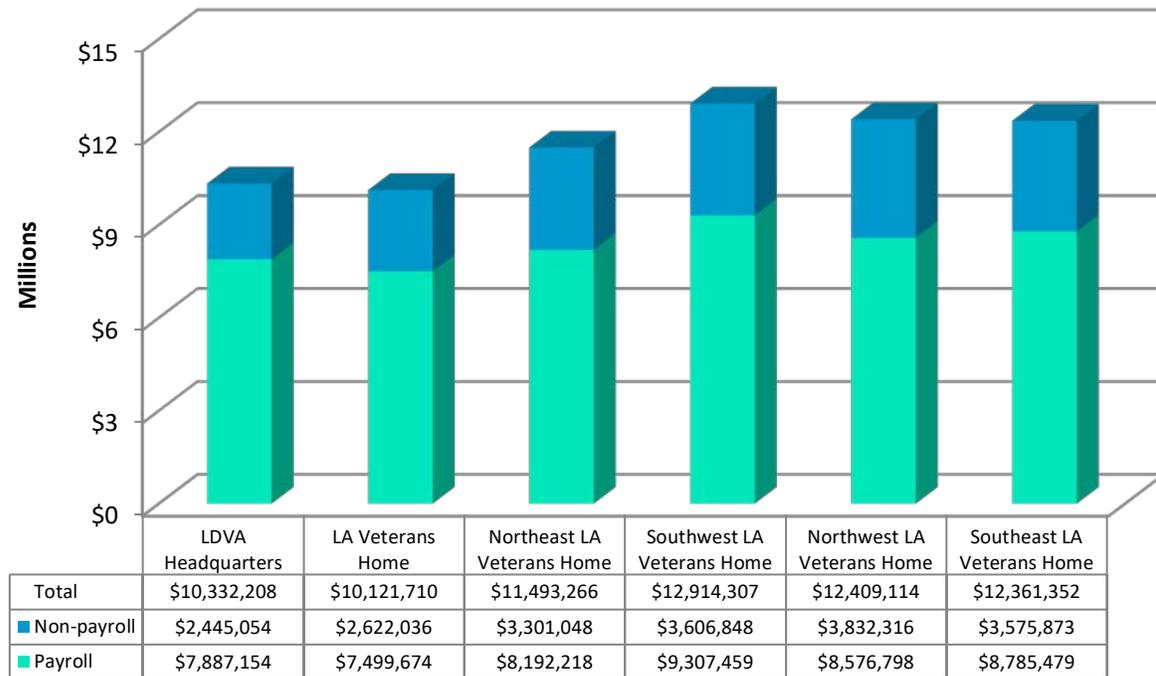
As shown in Exhibit 3, LDVA’s main sources of revenue consist of federal aid and fees and self-generated revenue. The majority of federal revenue is received from the United States Department of Veterans Affairs for the Program. Exhibit 4 shows LDVA’s fiscal year 2020 total expenditures, by agency. Payroll expenditures consisted approximately \$50 million (72%) of LDVA’s total expenditures.

Exhibit 3
Total Fiscal Year 2020 Revenue by Appropriation Type
Total: \$69,631,957



Source: LaGov System Reports

Exhibit 4
Total Fiscal Year 2020 Expenditures by Agency
Total: \$69,631,957



Source: LaGov System Reports

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of LDVA. The nature of the recommendations, their implementation costs, and their potential impact on the operations of LDVA should be considered in reaching decisions on courses of action. The findings related to LDVA's compliance with applicable laws and regulations should be addressed immediately by management.

Under Louisiana Revised Statute 24:513, this letter is a public document and it has been distributed to appropriate public officials.

Respectfully submitted,

A handwritten signature in blue ink that reads "Daryl G. Purpera". The signature is written in a cursive style.

Daryl G. Purpera, CPA, CFE
Legislative Auditor

JP:CRV:RR:EFS:aa

LDVA 2020

APPENDIX A: MANAGEMENT'S RESPONSES

Louisiana Department of Veterans Affairs
State of Louisiana

JOHN BEL EDWARDS
GOVERNOR



JOEY STRICKLAND
SECRETARY

December 28, 2020

Daryl G. Purpera, CPA, CFE
Legislative Auditor
Louisiana Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70804-9397

Dear Legislative Auditor:

LDVA concurs with the finding that our Northwest Louisiana Veterans Home (Bossier) did not follow established policies and procedures to close out eight of that facility's individual Resident Turst Fund (RTF) accounts timely enough after the residents were discharged or deceased. The home's fiscal staff did begin processing the closing of these accounts from one to 10 months after the residents passed away. However, the home did not complete closing these accounts by transferring the remaining funds to the facility's Recreation and Welfare (R&W) Account timely enough after the five-year period from date of death or discharge had run.

The law allows a five year period from the date of a resident's discharge or death for any remaining claims on the funds to be resolved, and then directs that the funds shall revert to the Department of Veterans Affairs to then be deposited to each facility's R&W Account. At the time when these particular eight discharged or deceased residents' accounts were scheduled to be closed, the remaining unclaimed funds in their accounts were a result of federal VA Aid and Attendance benefit payments. The federal VA does not pay for a resident's month of death. Therefore, the federal VA must then electronically recoup the payment it made for that month of death. Sometimes the federal VA recoups this money timely. However, sometimes we have to work over months, or even years in a few cases, to ask the federal VA to finalize these recoupment transactions.

Per our facility's Accounting Policy and Procedures, all funds due to these eight residents were refunded. However, various delays particular to each family's situation and delays on our staff's and federal VA's part in finalizing the repayment transactions on the books did result ultimately in some unclaimed funds remaining at the end of the day not having been timely transferred to the Bossier facility's R&W account. Fortunately, no funds were misused from these eight accounts, nor were any unauthorized disbursements made in these accounts.

While neither our accounting policies nor the statute prescribes any particular time period after the five years from date of death or discharge within which we are required to transfer the remaining account balance, nevertheless we concur with your finding that we could have ultimately transferred the final remaining unclaimed funds in these eight accounts more timely than we did.

In order to ensure that all accounts continue to be closed timely and that any remaining unclaimed funds are transferred timely to the R&W account, we are already working with our NWLVH facility to monitor more closely that the home follows established policies and procedures related to RTF account balances. Our Bossier home fiscal staff will begin a Quality Assurance and Performance Improvement (QAPI) review monthly on this process next month (January 2021) for at least 90 days, if 100% compliance is achieved in those three months. If not, the QAPI process will continue until 100% compliance is achieved for at least three consecutive months. Further, the Bossier fiscal staff has already outlined an improved calendaring process to use in order to close all RTF accounts timely, monitor when the five year period has run, and then - should any funds remain at that time - to transfer those funds more timely to the R&W account for their facility. It is true that the eight accounts mentioned in your finding represent only a very small number of the many RTF accounts our Bossier facility handled over the two-year audit period. Also, our home completed the refund reconciliation reports for these accounts very soon after each resident's death or discharge (typically within the first two months or so). Still, in the future, we want to ensure that all remaining funds in a deceased or discharged resident's RTF account (including any federal VA Aid and Attendance benefit payments for which we have requested recoupment) are transferred timely to the facility's R&W account.

We expect to complete these initial corrective actions (90 days QAPI review) by March 31, 2020. For more information on the planned corrective actions, please feel free to contact Wes Pepitone, NWLVH Long-Term Care Hospital Administrator at wesley.pepitone@la.gov

Thank you again for your diligent work in our department's regular FY19-20 fiscal audit.

Sincerely,



COL Joey Strickland
LDVA Secretary

Louisiana Department of Veterans Affairs
State of Louisiana

JOHN BEL EDWARDS
GOVERNOR



JOEY STRICKLAND
SECRETARY

September 15, 2020

Daryl G. Purpera, CPA, CFE
Legislative Auditor
Louisiana Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70804-9397

Dear Legislative Auditor:

LDVA concurs with the finding of Noncompliance with Contract Regulations at LDVA Headquarters, noting here that this finding has already been corrected - and was corrected prior to receiving request for this response. In November 2018, LDVA began working with the Office of State Procurement (OSP) to obtain approval of this contract through the *lagov* system. (This contract had previously been approved by the Attorney General's Office.) The contract moved slowly through the process in 2019. In January 2020, LDVA became aware of a newer OSP legal contract template and opted to update to that template at that point, even though this would require repeating a few steps in the approval process. However, soon after that, COVID-19 took priority attention from our headquarters staff for a time with the arrival of the pandemic in Louisiana. However, by June 2020 (prior to the end of the audit engagement period), we had received all appropriate signatures and submitted all documents OSP required. OSP told us at that point that final approval could take a few months to proceed through the process. It did. By September 1, 2020, OSP had approved this contract.

Therefore, the corrective action for this finding is already completed. For more information on this approval, please feel free to contact LDVA Deputy Secretary Julie Baxter Payer.

Thank you again for your diligent work in our department's regular FY19-20 fiscal audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Joey Strickland".

COL Joey Strickland
LDVA Secretary

Louisiana Department of Veterans Affairs
State of Louisiana

JOHN BEL EDWARDS
GOVERNOR



JOEY STRICKLAND
SECRETARY

October 2, 2020

Mr. Daryl G. Purpera, CPA, CFE
Legislative Auditor
Louisiana Legislative Auditor
1600 N. Third St.
Baton Rouge, LA 70804-9397

Dear Legislative Auditor:

LDVA concurs with the finding of Lack of Adherence to Payroll Polices, noting here that as of the latest completed payroll for the pay period that ended September 20, 2020, this finding has been corrected. We are very proud and pleased that given the relatively large sample size reviewed, the majority of exceptions were due to documentation errors of missing signatures on timesheets, with only two instances of employees lacking prior approval to take leave or work overtime, two exceptions involving compensatory leave errors, and no errors involving employee pay or paid overtime.

In order to effectively address the concerns noted, the following procedures have been implemented in nursing administration: Timesheets will be printed on Payroll Tuesday and filed in alphabetical order in a binder along with supporting documents (leave slips, time punch corrections, etc.) for the employee and supervisor to sign. The binder will be located in a central location accessible to applicable employees, 24 hours a day, to accommodate employees who work night and weekend shifts. The employees and supervisors must sign the timesheets and supporting documents by the Sunday following payday. On Monday, the timekeeper(s) will submit all timesheets to Human Resources (HR), and will notify HR of any non-compliant employees or supervisors. HR will contact non-compliant employees and supervisors to obtain signatures. If the non-compliant employees or supervisors have not signed timesheets and supporting documents by the payroll Friday of the subsequent pay period, time will not be entered until the documents are signed. Furthermore, a reprimand letter or appropriate disciplinary action will be issued to address the conduct. Exceptions will be made for extenuating circumstances, such as employees on extended medical leave. Upon return to work, these employees are required to report to HR to sign the associated timesheets covering their absence.

As noted, this procedure was in place for the latest completed payroll for the pay period that ended September 20, 2020. All employee and supervisor signatures for timesheets have been secured, except for employees unable to sign who are currently out on extended medical leave. However, for those instances, all supervisor signatures have been secured.

The two instances of compensatory leave calculation errors were simply timekeeper data entry errors, and have been corrected. As a result, timekeepers now audit each other's work each pay period for accuracy, with HR sampling the entries as well. Although there could be extenuating circumstances making prior approval of leave or overtime unfeasible, as noted per policy, we will continue to ensure every effort is made to secure prior approval, and if pre-approval is not possible, it will be reported timely by the employee along with an appropriate explanation.

Accordingly, the corrective action for this finding is already completed. However, it is also noted that payroll is continuously audited for accuracy, and compliance with these newly established procedures will be monitored as well. For more information on this procedure, please feel free to contact LDVA Deputy Chief of Staff Dustin Guy.

Thank you for your diligent work during this audit, which has already assisted in improving our payroll processes.

Sincerely,



COL Joey Strickland
LDVA Secretary

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Louisiana Department of Veterans Affairs (LDVA) for the period from July 1, 2019, through June 30, 2020, to evaluate relevant systems of internal control in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Our procedures, summarized below, are a part of our work related to the Single Audit of the State of Louisiana (Single Audit) for the year ended June 30, 2020.

In addition, we conducted certain procedures at LDVA for the period from July 1, 2018, through June 30, 2020. Our objective was to evaluate certain controls LDVA uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and accountability over public funds. The scope of these procedures was significantly less than an audit conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

- We evaluated LDVA's operations and system of internal controls through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to LDVA.
- We performed procedures on the Veterans State Nursing Home Care (CFDA 64.015) program for the year ended June 30, 2020, as a part of the 2020 Single Audit.
- We compared the most current and prior-year financial activity using LDVA's Annual Fiscal Reports and/or system-generated reports to identify trends and obtained explanations from LDVA's management for significant variances. We also prepared an analysis of expenditures and per diem rates for the Veterans State Nursing Home Care program over the last five fiscal years as well as an analysis of LDVA's total fiscal year 2020 revenues and expenditures.

In addition, we performed procedures on the Resident Trust Fund, accounts receivable, pharmacy billing and inventory, meal ticket revenue, Care and Maintenance fees, contract expenditures, LaCarte purchasing card expenditures, and payroll expenditures. The scope of these procedures was significantly less than an audit conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is solely to describe the scope of our work at LDVA, and not to provide an opinion on the effectiveness of LDVA's internal control over financial reporting or on compliance. Accordingly, this report is not intended to be, and should not be, used for any other purposes.

We did not audit or review LDVA's Annual Fiscal Reports, and accordingly, we do not express an opinion on those reports. LDVA's accounts are an integral part of the state of Louisiana's CAFR, upon which the Louisiana Legislative Auditor expresses opinions.