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**OFFICE OF THE LEGISLATIVE AUDITOR**  
STATE OF MINNESOTA

Financial Audit Division Report

# **Minnesota Veterans Home – Minneapolis**



**JULY 22, 2005**

**05-43**

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## Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota state government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately forty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of representatives and senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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If you have comments about our work, or you want to suggest an audit, investigation, or evaluation, please contact us at 651-296-4708 or by e-mail at [auditor@state.mn.us](mailto:auditor@state.mn.us)



Senator Ann H. Rest, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. Frank W. Budd, Chairman  
Minnesota Veterans Home Board

Member of the Minnesota Veterans Home Board

Mr. Alan Saatkamp, Administrator  
Minnesota Veterans Home – Minneapolis

We have audited selected areas of the Minnesota Veterans Home – Minneapolis for the period July 1, 2001, through June 30, 2004. Our audit scope included: cost of care receipts, payroll expenditures (including resident payroll), other administrative expenditures, and resident trust accounts. Our objectives focused on a review of the home's internal controls over these financial activities and its compliance with applicable legal provisions.

The enclosed Report Summary highlights our overall audit conclusions. The specific audit objectives and conclusions for each area are contained in the individual chapters of this report.

We would like to thank staff from the Minnesota Veterans Home – Minneapolis for their cooperation during this audit.

*/s/ James R. Nobles*

James R. Nobles  
Legislative Auditor

*/s/ Claudia J. Gudvangen*

Claudia J. Gudvangen, CPA  
Deputy Legislative Auditor

End of Fieldwork: February 22, 2005

Report Signed On: July 19, 2005

# Minnesota Veterans Home – Minneapolis

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### Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Thomas Donahue, CPA	Audit Manager
Laura Peterson, CPA	Auditor-in-Charge
Patrick Phillips, CPA	Auditor
Gena Hoffman	Auditor

### Exit Conference

We discussed the results of the audit with the following staff of the Minnesota Veterans Home – Minneapolis at an exit conference on June 29, 2005:

#### Minnesota Veterans Homes Board Office:

Stephen Musser	Executive Director
Doug Rickabaugh	Financial Management Director

#### Minnesota Veterans Home – Minneapolis:

Alan Saatkamp	Administrator
Paul Treffert	Assistant Administrator
Fred Brumm	Assistant Administrator
Karl Irwin	Director of Human Resources
Mike Webster	Business Manager
Tom Schwanke	Accounting Supervisor

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## Report Summary

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### Overall Conclusions:

- The Minnesota Veterans Home - Minneapolis operated within available resources, accurately recorded its finances in the state's accounting system, and generally complied with applicable laws. However, we had concerns about the home's administration of its cash collections, in-house accounting systems, and checkbook containing a portion of the residents' personal funds.

### Key Findings:

- The home did not adequately secure its cash collections. (Finding 1, page 6)
- The home did not reconcile two of its in-house accounting systems to the state's main accounting system. (Finding 2, page 7)
- The home's payroll staff did not verify that supervisors approved employee timesheets before processing the payroll. (Finding 6, page 14)
- The home did not adequately manage the checking account containing a portion of the residents' personal funds. (Finding 7, page 18)

### Audit Scope:

#### Audit Period:

Fiscal Years 2002 – 2004

#### Selected Audit Areas:

- Cost of Care Receipts
  - Payroll Expenditures
  - Resident Trust Accounts
  - Other Administrative Expenditures
- 

### Agency Background:

The Minnesota Veterans Home – Minneapolis is one of five veterans homes operated by the Minnesota Veterans Homes Board of Trustees. In addition to a state appropriation and per diems received from the U.S. Department of Veteran Affairs, the home received room and board fees from its residents. Over the three-year audit period, the home's total revenue averaged \$16.6 million.

This audit report contained eight audit findings relating to internal control and legal compliance. Four of those findings were included in our prior audit report.

## **Minnesota Veterans Home – Minneapolis**

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# Minnesota Veterans Home – Minneapolis

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## Chapter 1. Introduction

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We selected the Minnesota Veterans Home – Minneapolis for audit based on our annual assessment of state agencies and programs. We used various criteria to determine the entities to audit, including the size and type of each agency’s financial operations, length of time since the last audit, changes in organizational structure and key personnel, and available audit resources.

### Overview

The Minnesota Veterans Home – Minneapolis (home) was founded in 1887 and is one of five homes operating under the general direction of the Minnesota Veterans Home Board. The home provides domiciliary and skilled nursing care for veterans and spouses who meet eligibility and admission requirements. The home is a licensed care facility and has the capacity for 61 boarding care beds, 341 nursing care beds, and 16 beds for the Transitional Housing Program. In April 2000, the Minnesota Veterans Homes Board appointed Mr. Alan Saatkamp as the home’s administrator.

The Minnesota Veterans Homes Board received General Fund appropriations for the operation of the five homes. The board allocated and transferred a portion of the appropriation to each home to fund its operations. The Minneapolis home maintained its operating account in the Special Revenue Fund. The home also received federal per diem and resident maintenance payments, which were deposited into the operating account. The home recorded donations in the Gift Fund and maintained an Agency Fund to account for resident money. Table 1-1 shows the financial activity of the home for the audit period.

# Minnesota Veterans Home – Minneapolis

**Table 1-1**  
**Sources and Uses of Funds**  
**By Budget Fiscal Years 2002 through 2004**

<b><u>Sources:</u></b>	<b><u>2002</u></b>	<b><u>2003</u></b>	<b><u>2004</u></b>
Receipts:			
Maintenance Charges	\$7,957,609	\$8,277,454	\$8,776,147
Federal Per Diem	6,600,524	6,909,769	7,083,151
Residents' Trusts	589,802	612,770	681,539
Donations	207,499	275,529	225,809
Other	<u>527,026</u>	<u>473,767</u>	<u>476,253</u>
Total Receipts	\$15,882,460	\$16,549,289	\$17,242,899
State Appropriation	15,471,176	16,259,150	14,746,836
Balance Forward In	<u>1,395,442</u>	<u>3,117,755</u>	<u>3,819,971</u>
<b>Total Sources</b>	<b><u>\$32,749,078</u></b>	<b><u>\$35,926,194</u></b>	<b><u>\$35,809,706</u></b>
 <b><u>Uses:</u></b>			
Expenditures:			
Payroll	\$22,339,835	\$24,513,387	\$25,082,780
Resident Activities	620,215	652,194	753,025
Other	<u>6,645,302</u>	<u>6,614,101</u>	<u>6,158,679</u>
Total Expenditures	\$29,605,352	\$31,779,682	\$31,994,484
Transfers Out	25,970	326,541	713
Balance Forward Out	<u>3,117,756</u>	<u>3,819,971</u>	<u>3,814,509</u>
<b>Total Uses</b>	<b><u>\$32,749,078</u></b>	<b><u>\$35,926,194</u></b>	<b><u>\$35,809,706</u></b>

Source: Minnesota Accounting and Procurement System (MAPS) as of November 30, 2004.

## Audit Approach

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of the Minneapolis Veterans Home's internal controls relevant to the audit objectives. We used the guidance contained in *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission, as our criteria to evaluate agency controls. The standards also require that we plan the audit to provide reasonable assurance that the Minneapolis Veterans Home complied with financial-related legal provisions that are significant to the audit. In determining the home's compliance with legal provisions, we considered requirements of laws, regulations, contracts, and grant agreements.

To meet the audit objectives, we gained an understanding of the home's financial policies and procedures. We considered the risk of misstatements in the accounting records and noncompliance with relevant legal provisions. We analyzed accounting data to identify unusual trends or significant changes in financial operations. We examined a sample of evidence supporting the home's internal controls and compliance with laws, regulations, and contracts.



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## Chapter 2. Financial Management

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### *Chapter Conclusions*

*The Minnesota Veterans Home - Minneapolis operated within available resources and accurately recorded its financial activities in the state's accounting system.*

*However, the home did not adequately safeguard its cash receipts and did not consistently deposit receipts promptly, as required by Minnesota Statute. In addition, the home did not reconcile two of its internal accounting systems to the state's accounting system. Finally, the home did not adequately restrict users' access to the accounting systems.*

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### **Audit Objective**

The primary objective of our audit of the home's financial management practices was to answer the following question:

- Did the home's internal controls provide reasonable assurance that it safeguarded assets, accurately recorded its financial activities in the accounting systems, and complied with the applicable finance related legal provisions?

### **Background Information**

The Minneapolis Veterans Home used the state's accounting system (MAPS) as its main accounting system. In addition, the home processed its payroll on the state's payroll system (SEMA4), which then interfaced with MAPS. On July 1, 2001, the Minneapolis home implemented an electronic timekeeping system, Time Trak. With Time Trak, employees entered their start and end times either on their computers or by "swiping" their badges across a reader. Time Trak then interfaced with SEMA4 after supervisors electronically approved their employees' timesheets.

The Minneapolis home has at least three other stand-alone accounting systems. The Department of Finance authorized the home to maintain a portion of the resident trust and designated contribution money outside of the state treasury. The home used Quicken to track the receipts and disbursements for these two imprest checking accounts. In addition, the home used the Control Center System to account for all resident trust account activities. Finally, the home used QuickBooks to track the residents' maintenance charges.

# Minnesota Veterans Home – Minneapolis

## Audit Findings and Recommendations

### 1. The home did not adequately safeguard its cash.

We found several control issues related to physical safeguarding of cash and checks in the cashier's office. On several occasions, we observed cash and checks lying on various desks and cabinets in the cashier's office. During this time, we also observed a number of home employees coming and going through the cashier's office. Although the door to the cashier's office is locked at all times, the frequent traffic through the cashier's office, for whatever purpose, makes it more difficult to safeguard cash from the risk of theft. The safe was left open during the day and locked only at night.

We also found that the home had an excess amount of currency in the cashier's office during our audit. The home keeps a certain amount of currency on hand to ensure it can meet the requests of residents withdrawing money from their accounts. We believe the amount on hand was more than needed to administer the resident trust fund accounts.

The home also did not consistently make daily deposits of its cash receipts. *Minnesota Statute 16A.275* requires that, "An agency shall deposit receipts totaling \$250 or more in the state treasury daily." The home did not make the required deposits for 16 out of 85 days we tested. We found 15 instances where there were two days between receipt and deposit and one instance where there was a three-day delay.

Finally, the home had employees take the deposits to the bank, rather than hiring an armored service. During peak periods, the daily deposits were as high as \$200,000. The home put the employees at risk when it allowed them to transport the deposits.

#### *Recommendations*

- *The home should take steps to secure cash within the cashier's office and limit the number of people with access to cash.*
- *The home should reassess the amount of currency needed to meet its daily cash requirements.*
- *The home should promptly deposit receipts in accordance with Minnesota Statutes 16A.275.*
- *The home should consider having deposits handled by an armored service to reduce the risk of loss or harm to employees.*

## Minnesota Veterans Home – Minneapolis

### 2. **PRIOR FINDING NOT RESOLVED: The home did not perform key reconciliations of its internal accounting records to the state’s accounting system.**

The home did not reconcile two of its internal accounting systems to the state’s main accounting system (MAPS). First, the home did not perform monthly reconciliations of the maintenance fees collected and posted in QuickBooks to the revenues recorded on MAPS. We reported this finding in our last two audit reports, issued in May 2002 and July 1999. In addition, the home did not reconcile the Control Center System to the account balances in the resident trust imprest checking account and the fund balance in MAPS. The home used the Control Center System to track each resident’s personal funds held in trust by the home. The home last reconciled its resident trust account balance to MAPS in October 2000. By not performing periodic reconciliations, the home cannot detect errors and improprieties in a timely manner.

#### *Recommendations*

- *The home should perform periodic reconciliations of the maintenance fees recorded in QuickBooks to the revenues recorded on MAPS.*
- *The home should periodically reconcile the activity in the Control Center System to the resident trust imprest checking account and MAPS.*

### 3. **The home did not adequately restrict users’ access to the accounting systems.**

We identified the following two weaknesses in the home’s administration of employee access to the various accounting systems.

- In the MAPS procurement and accounting cycle, we identified three employees that had the ability to encumber funds, enter the invoice and/or receiving data, and process payment vouchers. Generally, the functions of purchasing, encumbering, and payment processing should be segregated to provide an appropriate level of control over expenditures.
- In the cashiering and accounts receivable functions for residents, five employees have maximum security clearances for QuickBooks accounts receivable. Ideally, individuals with access to cash should not have the ability to adjust resident accounts receivable.

The risk of errors and irregularities are diminished when employee access to various functions are segregated.

#### *Recommendations*

- *The home should limit employee business system access to the minimal level necessary to complete individual job responsibilities.*
- *The home should limit computer system access to incompatible functions. If the home is unable to eliminate incompatible access because of limited staffing, it should develop effective detective controls, such as periodic and independent review of the employees’ work.*

## **Minnesota Veterans Home – Minneapolis**

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## Chapter 3. Cost of Care Receipts

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### *Chapter Conclusions*

*Generally, the Minnesota Veterans Home – Minneapolis’ internal controls provided reasonable assurance that it accurately recorded the cost of care receipts in the state’s accounting system and complied with the applicable federal per diem regulations, Minnesota statutes, and rules.*

*However, as discussed in Chapter 2, the home did not adequately safeguard cash receipts, or reconcile maintenance fee receipts recorded on its internal accounting records to the state’s accounting system, or adequately restrict security clearances into the accounting system.*

*In addition, the home did not accurately calculate the cost of care for fiscal year 2003 and did not comply with certain admissions criteria to determine eligibility for resident admittance.*

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### **Audit Objective**

The primary objective of our audit of the home’s resident maintenance fees and federal per diem reimbursements was to answer the following questions:

- Did the home’s internal controls provide reasonable assurance that it safeguarded cash receipts, accurately recorded the cost of care receipts in the accounting systems, and complied with the applicable federal per diem regulations, Minnesota statutes, and rules?
- For the items tested, did the home comply with the cost of care legal requirements set forth in Minnesota statutes and rules?

### **Background Information**

The home received funding for its operations from resident maintenance fees, federal per diem reimbursements, and state appropriations. Table 3-1 shows the financing sources for the three fiscal years from 2002 - 2004.

# Minnesota Veterans Home – Minneapolis

**Table 3-1  
Cost of Care Financing Sources  
For the Three Fiscal Years Ended June 30**

	<u>2002</u>	<u>2003</u>	<u>2004</u>
State Appropriations	\$15,471,176	\$16,259,150	\$14,746,836
Resident Fees	7,957,609	8,277,454	8,776,147
Federal Reimbursements	6,600,524	6,909,769	7,083,151
Other (See Note)	527,026	473,767	476,253
<b>Total</b>	<u>\$30,556,335</u>	<u>\$31,920,140</u>	<u>\$31,082,387</u>

Note: Housing and Urban Development funding and lease revenue.

Source: Minnesota Accounting and Procurement System.

*Minnesota Statutes*, Section 198.03, subd. 2, requires the home to identify in rules the method of calculating the average cost of care on an annual basis. Therefore, each year according to Minnesota Rules 9050.0500, the home calculates a monthly cost of care for skilled nursing care and domiciliary care for both veteran and non-veteran residents. The calculation excludes the home's capital expenditures. A portion of the cost of care for each eligible resident is paid for by federal per diem reimbursements. The home's operating appropriation and lease revenue cover the difference between the full cost of care and the amount of federal per diems and maintenance fees collected. The home reduces the cost for veteran residents by the federal per diem payments. Residents pay either the monthly cost or a lesser fee based on their income and assets. Residents whose net worth exceeds \$3,000 pay the full monthly cost. Approximately 85-90 percent of the residents pay less than the actual cost of care. The reduced fee equals the resident's income less approved exclusions, such as spousal maintenance and a \$90 personal expense deduction. The home takes the adjusted income for each resident and multiplies it by 95 percent to calculate the resident's maintenance fee. Table 3-2 shows the monthly cost of care in effect during fiscal years 2002, 2003, and 2004.

**Table 3-2  
Monthly Cost of Care Fees**

<u>Type of Care</u>	<u>Fiscal Year 2002</u>		<u>Fiscal Year 2003</u>		<u>Fiscal Year 2004</u>	
	<u>Veterans</u>	<u>Non-Veterans</u>	<u>Veterans</u>	<u>Non-Veterans</u>	<u>Veterans</u>	<u>Non-Veterans</u>
Domiciliary Care	\$2,737	\$3,434	\$1,773	\$2,515	\$1,940	\$2,762
Nursing Care	\$4,118	\$5,680	\$4,836	\$6,453	\$4,986	\$6,701

(1) A non-veteran is a spouse of a veteran.

Source: Minnesota Veterans Home – Minneapolis records.

The U. S. Department of Veterans Affairs reimburses the home a fixed per diem amount for eligible veterans. The home claimed the federal per diem reimbursement by submitting a monthly report identifying the total number of days of care provided to eligible veterans to the department. For the federal fiscal year 2004, the federal per diem rate was \$27.19 a day for domiciliary residents and \$57.78 a day for nursing care residents.

## Minnesota Veterans Home – Minneapolis

The Veterans Homes Board received a state appropriation that it allocated to each of the veterans homes. The state appropriation comprised approximately 47 percent of the total operating revenue for the Minneapolis home during fiscal year 2004.

The Transitional Housing Program provides housing for a maximum of 16 residents. The federal Department of Housing and Urban Development reimburses up to 50 percent of the programs costs.

### Findings and Recommendations

#### **4. PRIOR FINDING NOT RESOLVED: The home did not accurately calculate the cost of care for fiscal year 2003.**

The home did not accurately compute the cost of care for fiscal year 2003. The inaccurate calculations resulted in underbilling domiciliary residents and overbilling nursing care residents. The home calculates its cost of care rate for each fiscal year based on its operating expenditures from the previous March 1 through February 28/29. The fiscal year 2003 error occurred because the home also included approximately \$664,000 in fiscal year 2001 net operating expenditures. As a result, domiciliary care was undercharged \$3.01 per day, and nursing care residents were overcharged \$3.15 per day. As identified in our prior audits, the home incorrectly calculated the cost of care charges in 1997, 1998, 2000, and 2001.

#### *Recommendation*

- *The home should strengthen its controls over the cost of care rates by having two individuals independently calculate the cost of care and resolving any differences.*

#### **5. The home did not comply with certain admissions policies and procedures.**

The home incorrectly applied two eligibility criteria to establish resident admission. First, the home allowed three spouses of veterans to be admitted without a physicians signature. Title 38, Section 51.150 of the Code of Federal Regulations requires, “A physician must personally approve in writing a recommendation that an individual be admitted to a facility.” In each of these three cases, the signature of a certified nurse practitioner was accepted. According to the Veterans Home Board policy, which is based upon the Code of Federal Regulations, the standard practice is to require a physicians signature. The board does provide for emergency admissions where a nurse practitioner may sign; however, a physician must follow up with personal approval.

In addition, our test of eligibility found that the home admitted one veteran from Iowa who did not meet the Minnesota residency requirement. *Minnesota Statute* 198.022 (2) states, “Veterans must have served in a Minnesota regiment or have been credited to the state of Minnesota, or have been a resident of the state in accordance with board rules preceding the date of application.” According to Minnesota Rule 9050.0050, a person is a Minnesota resident if,

## **Minnesota Veterans Home – Minneapolis**

"A. the person currently resides in Minnesota and intends to reside in the state permanently; and  
B. the person does not own or maintain a home in another state." The home's admissions staff incorrectly believed that the rule contained a typo and should have had an "or" between parts A and B. According to the board's legal advisor, the rule is correct as written.

### *Recommendation*

- *The home should provide staff sufficient training to ensure that resident admissions comply with applicable legal provisions and administrative policies.*



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## Chapter 4. Payroll Expenditures

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### *Chapter Conclusions*

*Generally, the Minnesota Veterans Home – Minneapolis’ internal controls provided reasonable assurance that the payroll expenditures were accurately recorded in the accounting systems and complied with the various bargaining agreements and compensation plans. However, the home’s payroll section did not verify that supervisors approved employees’ timesheets prior to processing the payroll in the state’s payroll system.*

*For the items tested, the home complied with the various bargaining unit agreements and compensation plans.*

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### **Audit Objective**

The primary objective of our audit of payroll expenditures was to answer the following questions:

- Did the home’s internal controls provide reasonable assurance that payroll expenditures were accurately recorded in the accounting systems and in compliance with the various bargaining agreements, compensation plans, and management’s authorization?
- For the items tested, did the home comply with the various bargaining agreements and compensation plans?

### **Background Information**

The home’s fiscal year 2004 payroll expenditures, including resident payroll, totaled approximately \$25 million and represented nearly 80 percent of the home’s total operating expenditures. The home employed approximately 500 employees and had staff on hand 24 hours a day, seven days a week. In addition, the home employed approximately 60 residents through its resident employment program. Participating residents worked part-time and performed various duties at the home.

The home’s employees are represented by one of the following bargaining units:

- American Federation of State, County, and Municipal Employees
- Middle Management Association
- Minnesota Association of Professional Employees
- Minnesota Nurses Association

## Minnesota Veterans Home – Minneapolis

- Managerial Plan
- Commissioner’s Plan

The home processed its payroll on the state’s main payroll system (SEMA4). On July 1, 2001, the Minneapolis home implemented an electronic timekeeping system, Time Trak. Employees enter their start and end times on their computers or by “swiping” their badges across a reader. Each pay period, supervisors electronically approved their employees’ timesheets on Time Trak, and the approved hourly data then interfaced into SEMA4.

### Audit Finding and Recommendation

#### **6. PRIOR FINDING PARTIALLY RESOLVED: The home’s payroll section did not verify that supervisors approved employee timesheets.**

The home’s payroll section did not verify that all supervisors electronically approved their employees’ timesheets in Time Trak prior to processing the payroll in the state’s payroll system (SEMA4). During our last audit, we found the home had several problems implementing the new Time Trak timekeeping system. The home resolved the majority of those problems, but supervisors still did not consistently approve timesheets. For example, for the pay period ended January 25, 2005, we found at least 120 employee timesheets that were not approved prior to the payroll data being interfaced into SEMA4. Time Trak allowed timesheets to interface into SEMA4 without a supervisor’s approval. In addition, the payroll staff was not aware of, and thus did not review, a Time Trak report that showed timesheets not yet approved.

The risk of employees receiving incorrect compensation increases when supervisors do not approve timesheets. Each pay period, the home’s payroll staff received a significant number of e-mails from supervisors indicating certain employees received the wrong compensation. For example, for the pay period ended January 25, 2005, the payroll staff received 15 e-mails about incorrect compensation and errors in leave balances. Eleven of those e-mails related to underpayments and only one related to an overpayment. Employees who were over compensated may not have contacted their supervisors.

During the audit period, the home paid its employees an average of nearly \$1 million in overtime or four percent of its total payroll costs. We had concerns about the amount of overtime certain employees earned during the audit period. As shown in Table 4-1, we found two human services technicians that earned more in overtime pay than their regular base salary.

## Minnesota Veterans Home – Minneapolis

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**Table 4-1**  
**Overtime Comparison to Base Salary**  
**For the Three Fiscal Years Ended June 30, 2004**

	2002	2003	2004
Human Services Technician 1:			
Overtime Pay	\$48,915	\$38,974	\$25,646
Base Salary	29,628	31,505	33,083
Human Services Technician 2:			
Overtime Pay	\$21,679	\$23,144	\$29,207
Base Salary	19,632	22,892	23,606

Source: The state's payroll system (SEMA4) for budget fiscal years 2001 through 2004.

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These employees earned overtime at a rate of time and one-half. We also inquired about the overtime earned by three additional employees. With one exception, the home could not provide us with documentation showing that the supervisor for these five employees approved their overtime. We were able to review the daily assignment schedules for three of the employees and gain some assurance that these three employees worked overtime, but the result of our review was not consistent. For 6 of the 20 pay periods we reviewed, the overtime hours per the daily schedules were less than the overtime paid the employee. Without proper documentation of the supervisor approval, the home cannot justify the propriety of the overtime paid its employees.

### *Recommendation*

- *The home's supervisors should approve their employees' timesheets each pay period, and the home's payroll section should verify all timesheets were approved prior to processing the payroll in SEMA4.*

## **Minnesota Veterans Home – Minneapolis**

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## Chapter 5. Resident Trust Accounts

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### *Chapter Conclusions*

*We noted several weaknesses in the Minnesota Veterans Home – Minneapolis’ administration of resident trust funds. We found:*

- *The home did not adequately secure cash receipts, as discussed in Chapter 2, Finding 1.*
- *The home did not reconcile the resident trust account activity to the state’s accounting system and the imprest checking account. This prior audit finding is discussed in Chapter 2, Finding 2.*
- *The home did not adequately manage its resident trust imprest checking account resulting in charges for insufficient funds.*

*The home complied with statutory requirements regarding the allocation of interest earned to the resident trust accounts.*

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### **Audit Objective**

The primary objective of our audit of the resident trust accounts was to answer the following questions:

- Did the home’s internal controls provide reasonable assurance that it safeguarded the cash receipts, accurately recorded the resident trust account financial activities in the accounting systems, and complied with the applicable Minnesota statutes?
- For the items tested, did the home comply with the applicable Minnesota statute regarding resident trust accounts?

### **Background Information**

*Minnesota Statute 198.265* allows the home to accept a resident’s personal funds for safekeeping purposes. Residents submit personal funds to the home’s cashier for deposit and can withdraw those funds as needed. The home deposits the resident funds in the state treasury in a separate investment account where interest is earned.

*Minnesota Statute 198.266* allows the home to establish an imprest cash fund to satisfy normal demand withdrawal requests from residents who have funds in the Resident Trust Account. The

## Minnesota Veterans Home – Minneapolis

Department of Finance authorized an imprest cash account of \$25,000. The home retains a portion of the imprest cash in the cashier's office and the balance in a local checking account. The home reimburses the imprest cash account from the resident trust account funds in the state treasury as needed.

The home maintains subsidiary records to track each resident's account. The subsidiary records are maintained on a software program called Control Center. The home plans to discontinue using Control Center and begin using QuickBooks. Table 5-1 summarizes the financial activity of the resident trust accounts held in the state treasury for fiscal years 2002 through 2004.

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**Table 5-1**  
**Resident Trust Account Financial Activity**  
**Fiscal Years 2002 to 2004**

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Balance at July 1	\$105,594	\$127,671	\$147,627
Deposits	589,802	612,770	681,539
Interest Earned	<u>4,662</u>	<u>3,285</u>	<u>2,066</u>
Total Available	\$594,464	\$616,055	\$683,605
Withdrawals	<u>572,387</u>	<u>596,099</u>	<u>671,127</u>
Balance at June 30	<u>\$127,671</u>	<u>\$147,627</u>	<u>\$160,105</u>

Source: Minnesota Accounting and Procurement System (MAPS).

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### Audit Finding and Recommendations

#### 7. The home did not adequately manage its resident trust imprest checking account.

During the audit period, we found the home did not do a daily cash count of the resident trust imprest cash on hand. The home is authorized to have \$25,000 in the imprest cash account to administer the resident trust fund account. The home retains a portion of the imprest cash in the cashier's office and the balance in a local checking account. By not counting cash on a daily basis, the risk of error and improprieties increases. For example, On December 22, 2004, we counted the cash in the cashier's office and found that the cash on hand plus the balance in the checking account totaled \$32,736 or \$7,736 more than authorized. The home was not able to explain the difference.

In addition, the home did not reimburse the resident trust imprest checking account on a timely basis. The cashier's office informed the business office of the amount of withdrawals from the imprest account on a daily basis. The business office then recorded those withdrawals in the state's accounting system and requested the imprest account be reimbursed from the state treasury. However, the business office did not reimburse the imprest account daily. Due to late recording of withdrawals in the state's accounting system, the home incurred charges for insufficient funds totaling \$360.

## Minnesota Veterans Home – Minneapolis

We also found that the home did not promptly record the reimbursements from the state treasury in the imprest account records (i.e., Quicken). Rather than recording the reimbursement based on the documentation sent to the business office, the home recorded the deposits based on the bank statements. As a result, the home did not appropriately monitor the actual cash balance in the account, which may have contributed to the bank charges.

Finally, we also found that the home did not reimburse the imprest checking account for bank service fees. The home incurred \$1,443 in check printing fees and \$68 in miscellaneous fees in the imprest account. The home has not determined if these fees should be paid from its general operating appropriations or from resident trust fund interest earned.

### *Recommendations*

- *The home should determine the source of the excess funds in the imprest cash account and correct bank and accounting records.*
- *The home should implement daily cash counts of the resident trust imprest cash to minimize errors and improprieties.*
- *The home should reimburse the imprest checking account in a timely manner and reimburse the account for the \$360 nonsufficient fund charges.*
- *The home should record the reimbursements to the imprest checking account on a daily basis rather than rely on the bank statements.*
- *The home should determine the proper funding source for bank service fees and make timely reimbursement of those fees.*

## **Minnesota Veterans Home – Minneapolis**

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## Chapter 6. Other Administrative Expenditures

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### *Chapter Conclusions*

*The Minnesota Veterans Home - Minneapolis' internal controls provided reasonable assurance that operational expenditures were properly authorized, adequately supported, and accurately reported in the state's accounting records. However, as discussed in Chapter 2, Finding 4, the home did not adequately restrict access into the state's accounting system.*

*For the items tested, with one exception, the home complied with finance-related legal provisions concerning operational expenditures. We found the home did not consistently encumber funds prior to incurring an obligation.*

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### **Audit Objectives**

The primary objective of our audit of administrative expenditures was to answer the following questions:

- Did the home's internal controls provide reasonable assurance that the other administrative expenditures were accurately recorded in the state's accounting system and complied with applicable Minnesota statutes?
- For the items tested, did the Minneapolis home comply with the applicable Minnesota statutes regarding procurement of goods and services?

### **Background Information**

The home incurred approximately \$6 million for nonsalary operational expenditures for fiscal year 2004. These expenditures included space rental and utilities, medical and dental services, supplies and materials, food, pharmaceuticals, and other expenditures. Table 6-1 summarizes the administrative expenditures for the audit period.

## Minnesota Veterans Home – Minneapolis

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**Table 6-1**  
**Administrative Expenditures**  
**For the Three Fiscal Years Ended June 30, 2004**

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Space Rental and Utilities	\$ 741,137	\$ 732,022	\$ 844,865
Medical and Dental	1,606,846	1,497,712	960,278
Supplies and Materials	1,239,246	1,160,538	1,101,748
Food	905,701	901,201	971,564
Pharmaceuticals	626,582	632,988	718,950
Equipment	461,999	535,845	315,582
Laundry	299,035	337,080	390,355
Other Operating Costs	206,830	295,536	195,865
Other Administrative Costs	<u>557,925</u>	<u>521,177</u>	<u>659,475</u>
Total Operating Expenditures	<u>\$6,645,301</u>	<u>\$6,614,099</u>	<u>\$6,158,679</u>

Source: Minnesota Accounting and Procurement System (MAPS).

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The Minnesota Department of Administration established purchasing policies and procedures that direct how state agencies perform purchasing functions. Most purchases are for standard items that the home obtains either through state or federal government contracts. For other items, policies require agencies to solicit bids from vendors registered with the state.

### Food Purchases

The home purchased \$2.7 million in food supplies to provide meals to residents during the three fiscal years. Approximate food cost per day for fiscal year 2004 was \$6.46 per resident. Visitors and staff may purchase meal tickets at a cost of \$3.50 per meal.

### Supplies and Materials

The home purchased \$3.5 million in supplies and materials for the three fiscal years ending June 30, 2004. These purchases were for administrative supplies and materials to operate the home.

### Medical and Dental Services

The home incurred \$4.1 million in medical, nursing, and dental services for the three years ended June 30, 2004. These expenditures provided dental and health care and nursing services for residents at the home. The home maintains contracts with health care facilities, dentists, and nursing vendors. These services are coordinated with the home's medical staff. The invoice is forwarded to the business office for payment. The business office compares the invoice to the contract to verify charges prior to making the payment.

## Minnesota Veterans Home – Minneapolis

### Pharmaceuticals

The net purchases of drugs and pharmaceuticals for the three fiscal years ended June 30, 2004, totaled \$2 million. Under a sharing agreement, the home purchases most of its drugs and pharmaceuticals through the Veterans Affairs Medical Center's prime vendor. The Veterans Affairs Medical Center's contract with its prime vendor provided for a significant discount over state contract prices.

The home was also able to obtain free drugs and pharmaceuticals for qualified residents under the aid and attendance federal program. The home would purchase drugs and pharmaceuticals through the Veterans Affairs Medical Center's prime vendor. The home would then submit a listing of residents qualified under the aid and attendance program to the Veterans Affairs Medical Center for reimbursement. The home would record the reimbursement check as a reduction of drug and pharmaceutical expenditures. The home received approximately \$1 million in reimbursements for the three years ending June 30, 2004.

### Finding and Recommendation

#### **8. Certain program staff obligated the home without ensuring the home had sufficient funds.**

Out of 20 expenditures, we found three different program employees that made obligations to vendors prior to contacting the home's purchasing division. By not contacting the purchasing division, these employees did not ensure the state's accounting system (MAPS) showed sufficient funds prior to making an obligation. *Minnesota Statute* 16A.15, subd. 3 states, "An obligation may not be incurred against any fund, allotment, or appropriation unless...the accounting system shows sufficient allotment or encumbrance balance in the fund, allotment, or appropriation to meet it." Generally, employees requesting goods and services submit an expenditure request form to the business office's purchasing staff. The purchase staff then encumbers the funds in MAPS and contacts the vendor. However, two of these employees submitted the expenditure request forms 9 and 26 days after they obligated the home, and the third employee did not submit a request form.

#### *Recommendation*

- *The home's program employees should work with the purchasing division to ensure the home complies with Minnesota Statute 16A.15, subd. 3.*

## **Minnesota Veterans Home – Minneapolis**

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## Status of Prior Audit Issues As of February 22, 2005

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### Most Recent Audit

**May 16, 2002, Legislative Audit Report 02-31** covered the Minnesota Veterans Home – Minneapolis for the three fiscal years ending June 30, 2001. The audit focused on the internal control structure over the cost of care receipts, payroll expenditures, resident trust accounts, designated contribution accounts, and selected operational expenditures, as well as testing for compliance with finance-related legal provisions. The report cited nine audit findings, two of which have been resolved. We did not follow up on three findings related to the designated contribution accounts since they were outside the scope of this audit. We repeated the remaining four findings in this report.

During the prior audit, we found that the home did not accurately calculate its cost of care rate for two fiscal years. We repeat this issue for fiscal year 2003, as discussed in Finding 5. In addition, we found that the home did not perform monthly reconciliations of maintenance fees and resident trust accounts. We combined these two issues as Finding 2 in this report. Finally, we found the home had not resolved all problems relating to the implementation of its new electronic timekeeping system. The home resolved the majority of the implementation problems but still did not ensure supervisors approved employees' compensation.

#### State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota and quasi-state organizations, such as the metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

## **Minnesota Veterans Home – Minneapolis**

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STATE OF MINNESOTA  
VETERANS HOMES BOARD

MINNESOTA VETERANS HOME - MPLS  
5101 Minnehaha Avenue South  
Minneapolis, MN 55417-1699  
(612) 721-0600

July 18, 2005

Mr. James Nobles  
Legislative Auditor  
Office of the Legislative Auditor  
Centennial Office Building  
St. Paul, MN. 55155

Dear Mr. Nobles:

We have received the draft audit report for the Veterans Home at Minneapolis. This is in response to the audit and the exit interview held at the Veterans Home Minneapolis on Wednesday, June 29, 2005.

Listed below is our responses which indicate the actions we have or will be taking to implement your recommendations.

Finding #1. The home did not adequately safeguard its cash.

Response: The home agrees with the finding and has initiated corrective actions to address cash handling, receipting and security. The majority of this was done prior to completion of audit field work being done with Tom Schwanke, Doug Vickman, and Mike Webster responsible.

Finding # 2. The home did not perform key reconciliations of its internal accounting records to the state's accounting system.

Response: The home agrees with the finding and will be resolving this reconciliation issue within one year. Tom Schwanke and Mike Webster will be responsible for this. New resident trust software is being brought on line this summer, which is an element of the reconciliation.

Finding # 3. The home did not restrict users' access to the accounting systems.

Response: We agree with the finding and the Business Manager removed incompatible access issues before the audit field work was completed. Other items will be reviewed annually to assess risk threat.

Finding # 4. The home did not accurately calculate the cost of care for fiscal year 2003.

Response: The home agrees with the finding. Doug Rickabaugh, the chief financial officer of the Veteran's Home Board, independently reviewed the fiscal year 2005 Cost of Care calculations after the homes Mike Webster, Business Manager prepared it.

Finding # 5. The home did not comply with certain admissions policies and procedures.

Response: The home agrees and is addressing the related admissions policies and procedures with admissions staff. Under the direction of Paul Treffert, Assistant Administrator, the review should be complete by August 31, 2005.

Finding # 6. The home's payroll section did not verify that supervisors approved employee timesheets.

Response: The home agrees and has initiated a comprehensive review to address supervisor approval on employee timesheets. The payroll function led by Mike Webster, Business Manager, and Marylyn O'Neil, Payroll Technician will complete by January 31, 2006.

Finding # 7. The home did not adequately manage its resident trust imprest checking account.

Response: The home agrees and is reviewing the trust imprest checking account procedures for future changes to improve its management of the account. Tom Schwanke and Kevin Pitcher will be responsible.

Finding # 8. Certain program staff obligated the home without ensuring the home had sufficient funds.

Response: We agree with the finding and are in the process of developing training that will be conducted with new supervisors and managers to help educate them and remind them of this issue. Our purchasing staff led by Bill Trcka will begin education process by October 31, 2005.

Our thanks to your audit team for their courtesy and professionalism during the audit. The feedback we get is always helpful and reassuring. If you have further questions on the responses, please contact Mike Webster, Business Manager.

Sincerely,

*/s/ Alan C. Saatkamp*

Alan C. Saatkamp  
Administrator