OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

FINANCIAL AUDIT DIVISION REPORT

Minnesota Veterans Home – Minneapolis

Internal Control and Compliance Audit

July 1, 2004, through June 30, 2007

November 26, 2008 **Report 08-32**

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November 26, 2008

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Department of Veterans Affairs - Veterans Health Care

Judy Kurki-Coleman, Administrator
Minnesota Veterans Home - Minneapolis

This report presents the results of our internal control and compliance audit of the Minnesota Veterans Home – Minneapolis for fiscal years 2005 through 2007. The report contains 18 findings related to weak internal controls and noncompliance with finance-related legal requirements. These weaknesses indicate an unacceptable level of management control over the home's financial operations.

Our fieldwork ended on August 6, 2008, and we discussed the results of the audit with the Department of Veterans Affairs on November 19, 2008. The audit was conducted by Michael Hassing, CPA, CISA, (Audit Manager) and Laura Peterson, CPA, CISA (Auditor-in-Charge), assisted by auditors Lat Anantaphong, Tracia Gimbut, Melanie Greufe, Chau Nguyen, and Paul Thompson.

We received the full cooperation of the Department of Veterans Affairs and Minneapolis Veterans Home's staff while performing this audit.

/s/ James R. Nobles

James R. Nobles
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Cecile M. Ferkul, CPA, CISA
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Report Summary

Conclusion

The Minnesota Veterans Home - Minneapolis (home) did not adequately manage its financial responsibilities. The home did not have adequate internal controls over resident cost of care, resident trust accounts, gifts and donations, and payroll and administrative expenditures. As a result, the home did not ensure it safeguarded assets, accurately paid employees or vendors in accordance with management's authorizations, produced reliable financial information, and complied with finance-related legal requirements.

For the items we tested, the home did not consistently comply with finance-related legal requirements for depositing cash receipts and soliciting vendor bids. The home did not resolve six of eight prior audit findings related to resident cost of care, resident accounts, and payroll and administrative expenditures.

Key Findings

- Minnesota Veterans Home - Minneapolis did not fulfill its financial management responsibilities to control its financial activities and ensure that transactions complied with state requirements and internal policies. (Finding 1, page 9)
- Prior Finding Not Resolved: The home did not adequately safeguard its receipts. (Finding 2, page 11)
- Prior Finding Not Resolved: The home did not reconcile its internal accounting systems to the state's accounting system or to bank statements. (Finding 3, page 12)
- Prior Finding Not Resolved: The home did not adequately restrict employees' access to the accounting systems. (Finding 4, page 14)
- Prior Finding Not Resolved: The home did not adequately manage its employee overtime costs. (Finding 7, page 18)
- The home did not adequately manage its personnel function. (Finding 8, page 22)
- The home did not adequately manage its fixed assets. (Finding 9, page 24)
- The home's pharmacy did not adequately manage its noncontrolled prescription drugs and other pharmaceutical supplies. (Finding 10, page 25)
- The home did not require employees to account for cash advanced from the gift and donation account for resident recreational activities. (Finding 12, page 26)

Audit Objectives and Scope

Objectives	Period Audited
• Internal Controls	Fiscal Years 2005 through 2007
• Compliance	(July 1, 2004, through June 30, 2007)

Programs Audited

- Resident Cost of Care
- Resident Accounts
- Gifts and Donations
- Payroll Expenditures
- Administrative Expenditures

Background

The Minnesota Veterans Home – Minneapolis is both a skilled nursing and domiciliary care facility for eligible veterans and has approximately 400 residents. The home operates on General Fund appropriations and cost of care receipts from its residents. In fiscal year 2007, the home's total expenditures were more than $37 million. In November 2007, in response to serious care and financial management concerns, Governor Pawlenty transferred management responsibility for the home from the Veterans Home Board to the state's Department of Veterans Affairs.

Minnesota Veterans Home – Minneapolis

Agency Overview

The Minnesota Veterans Home – Minneapolis was established in 1887 and is both a domiciliary and skilled nursing care facility for eligible veterans and their dependents. The Minneapolis home is the largest of five veterans homes operating in the state and has approximately 60 domiciliary and 340 skilled nursing care residents. The other homes are located in Fergus Falls, Hastings, Luverne, and Silver Bay. The Minnesota veterans homes operate under *Minnesota Statutes* 2007, Chapter 198. *Minnesota Rules* 2007, Chapter 9050, outlines the process for determining resident eligibility, maintenance charges, and calculating the cost of care. Through November 2007, the Minnesota Veterans Homes Board provided oversight of the home's operations.

In response to serious concerns about the care and management being provided at the Minneapolis Veterans Home, in February 2007, Governor Pawlenty created the Veterans Long Term Care Advisory Commission to provide recommendations on long term care operations, administration, management, and governance models for the veterans homes.[1] In November 2007, based on the commission's recommendations, the Governor abolished the Veterans Homes Board and transferred the board's functions, powers, duties, and responsibilities to the Minnesota Department of Veterans Affairs.[2] In January 2008, the Department of Veterans Affairs created the Veterans Health Care Division to manage the state's veterans homes and appointed Deputy Commissioner Gilbert Acevedo to oversee the division.

In November 2007, Governor Pawlenty also created the Veterans Health Care Advisory Council as an advisory group to provide the commissioner with information and professional expertise on any and all aspects of the delivery of quality long term care to veterans.[3] The Governor finalized appointments to the council in April 2008.

The home also had other significant administrative changes. Due to concerns over resident care raised by the Minnesota Department of Health in August 2005, the home's administrator at that time resigned, and the Veterans Home Board terminated the home's assistant administrator, director of nursing, and quality

[1] Executive Order 07-02.
[2] Reorganization Order 194.
[3] Executive Order 07-20.

manager. The board's executive director assumed the administrative responsibilities at the Minneapolis home. In May 2006, the board hired a permanent administrator, but subsequently fired him in February 2007. The following month, the board appointed an interim administrator who left the Minneapolis home in July 2008 to become the administrator at the Silver Bay Veterans Home. Pam Barrows served as the interim administrator at the Minneapolis home until October 2008, when the department hired Judy Kurki-Coleman to be the new permanent administrator. In addition to the turnover of the administrative staff, the home's previous business manager left in May 2006, and a new business manager was hired in August 2006.

The home received General Fund appropriations for its operations. The home maintains its operating account on the state's accounting system. The home also received federal per diem and resident maintenance payments, which it deposited into the operating account. In addition, the home maintains resident trust accounts and a gift account for designated contributions from donors. The home keeps a portion of these funds in a local bank account to meet the daily cash demands of the residents. Table 1 summarizes the home's revenues and expenditures for the period July 1, 2004, through June 30, 2007.

Table 1
Revenues and Expenditures
July 1, 2004, through June 30, 2007

	Fiscal Years[1]		
	2005	**2006**	**2007**
Revenue:[2]			
Cost of Care[3]	$15,702,784	$15,738,216	$15,802,127
Resident Trust Account Deposits[4]	738,213	779,891	673,291
Gifts and Donations[4]	243,256	334,860	220,410
Other Revenues[5]	459,891	536,132	795,271
	$17,144,144	$17,389,099	$17,491,099
Expenditures:			
Payroll	$25,962,815	$27,242,363	$29,149,564
Supplies	2,765,110	2,980,721	3,282,171
Professional/Technical Contracts	952,593	2,077,476	1,261,313
Space Rental, Maintenance, & Utilities	837,233	1,001,448	963,348
Resident Trust Account Withdrawals	728,689	781,385	712,522
Uses of Gifts and Donations[7]	46,700	56,587	39,805
Equipment	198,240	280,378	344,024
Communications	237,794	193,777	212,411
Repairs, Alterations, & Maintenance	165,208	151,736	170,857
Other Expenditures[6]	783,013	874,060	1,117,441
	$32,677,395	$35,639,931	$37,253,456

[1] The state's fiscal year is July 1 through June 30.

[2] The home also received appropriations of $13,705,000 in 2005, $17,578,062 in 2006, and $15,684,160 in 2007.

[3] Cost of care includes federal per diems and maintenance charges to residents.

[4] Resident trust accounts and gifts and donations also include interest earned.

[5] Other revenues include a federal housing and urban development grant, facility rental income, and canteen sales.

[6] Other expenditures include indirect costs paid to the state, employee development, travel, printing, and advertising.

[7] Additional gift and donation expenditures of $169,267 in 2005, $180,806 in 2006, and $126,829 in 2007 are included in the nonpayroll expenditure categories of the table.

Source: Minnesota Accounting and Procurement System.

Objectives, Scope, and Methodology

Our audit of the Minnesota Veterans Home – Minneapolis included cost of care, resident trust accounts, gifts and donations, payroll, and other administrative expenditures and focused on the following audit objectives for the period of July 1, 2004, through June 30, 2007:

- Were the home's internal controls adequate to ensure that it safeguarded receipts and other assets, accurately paid employees and vendors in accordance with management's authorizations, produced reliable financial information, and complied with finance-related legal requirements?

- For the items tested, did the home comply with significant finance-related legal requirements over its financial activities, including state and federal laws, regulations, contracts, and applicable policies and procedures?

- Did the home resolve prior audit findings?[4]

To meet the audit objectives, we gained an understanding of the home's financial policies and procedures. We considered the risk of errors in the accounting records and noncompliance with relevant legal requirements. We analyzed accounting data to identify unusual trends or significant changes in financial operations. In addition, we selected a sample of financial transactions and reviewed supporting documentation to test whether the controls were effective and if the transactions complied with laws, regulations, policies, and grant and contract provisions.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

We used the guidance contained in the *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission, as our criteria to evaluate the home's internal controls.[5] We used state and federal laws, regulations, and contracts, as well as policies and

[4] Office of the Legislative Auditor, Financial Audit Division Report 05-43, *Minnesota Veterans Home – Minneapolis*, issued July 22, 2005.

[5] The Treadway Commission and its Committee of Sponsoring Organizations were established in 1985 by the major national associations of accountants. One of their primary tasks was to identify the components of internal control that organizations should have in place to prevent inappropriate financial activity. The resulting *Internal Control-Integrated Framework* is the accepted accounting and auditing standard for internal control design and assessment.

procedures established by the departments of Finance[6] and Administration and the board's internal policies and procedures as evaluation criteria over compliance.

Conclusions

The Minnesota Veterans Home – Minneapolis did not adequately manage its financial responsibilities. The home's internal controls over cost of care calculations, resident maintenance fees, resident trust accounts, gifts and donations, and payroll and administrative expenditures were not adequate. As a result, the home did not ensure it safeguarded assets, accurately paid employees and vendors in accordance with management's authorizations, produced reliable financial information, and complied with finance-related legal requirements.

For the items tested, the home did not consistently comply with finance-related legal requirements for depositing cash receipts and soliciting vendor bids.

The home did not resolve six out of eight prior findings related to resident cost of care charges, resident accounts, and payroll and administrative expenditures.

The following *Findings and Recommendations* further explain the exceptions noted above.

[6] Effective June 2008, the Legislature reorganized the Department of Finance to include the duties of the Department of Employee Relations. Although still identified in statute as the Department of Finance, in October 2008, the department changed its name to Minnesota Management and Budget. The department will seek legislative approval for the name change in the 2009 legislative session.

Findings and Recommendations

Finding 1

Minnesota Veterans Home - Minneapolis did not fulfill its financial management responsibilities to control its financial activities and ensure that transactions complied with state requirements and internal policies.

The home had serious weaknesses in controlling and documenting its financial transactions and had instances of noncompliance with state finance-related legal requirements and internal policies. As highlighted below and further explained in findings 2 through 18, the home did not establish fundamental internal controls to ensure that it safeguarded its assets, accurately paid employees and vendors in accordance with management's authorizations, produced reliable financial information, and complied with finance-related legal requirements. Collectively, these weaknesses show an overall lack of proper administrative oversight and an unacceptable level of financial management control by the home.

- The home did not safeguard its assets and sensitive items, including cash, fixed assets, and pharmaceutical noncontrolled drugs. (Findings 2, 9, and 10)

- The home did not reconcile its internal accounting systems to the state's accounting system or bank statements. (Finding 3)

- The home granted excessive access to the state's accounting system and two internal accounting systems. (Finding 4)

- The home could not support the accuracy of or authorization for overtime paid. Overtime was significantly higher than other veterans homes and other state agencies. (Finding 7)

- The home exceeded its delegated authority by setting starting wages of new employees higher than state limits and did not document its authorizations for new positions. (Finding 8)

- The home could not locate documentation for numerous financial transactions, including timesheet approvals, a personnel file, authorizations for employees' starting wages, authorizations for new positions, purchasing documentation, and bank deposit logs. (Findings 5, 6, 8, and 11)

- The home did not solicit vendor bids when required by state policy for procuring goods and services. (Finding 11)

- The home did not adequately monitor and settle cash advances provided to employees for resident recreational activities. (Finding 12)
- The home's Designated Contribution Committee did not approve gift and donation expenditures, as required by board policy. (Finding 13)
- The home did not record noncash donations in its internal accounting system. (Finding 14)

The frequent turnover of administrators and business managers, uncertainty during the time that the state was studying the management structure of the homes and the subsequent transition of management to the Minnesota Department of Veterans Affairs may have significantly contributed to the home's poor internal controls. An organization's top administration establishes the overall control environment for an entity. When the administration is constantly changing and the control environment is undefined and not monitored, the whole organization struggles to meet its goals and objectives, including its financial operations.

In addition, the home's need to focus on important resident care issues may have been a higher priority than ensuring good financial management. However, the ability for an organization to effectively accomplish its mission is integral with its ability to effectively perform basic financial operations. The home's financial records lacked integrity due to errors in recording financial activity, missing supporting documentation, and incomplete and untimely reconciliations between the state's accounting system, the home's subsystems, and local bank accounts.

The home's lack of fundamental internal controls throughout its financial operations created an unacceptably high risk of errors and numerous opportunities for fraud. The serious internal control weaknesses undermined the ability to determine or substantiate whether a fraud had occurred.

Recommendations

- *The Department of Veterans Affairs needs to work with the home to reassess its administrative structure to ensure that it has established appropriate positions and lines of authority to address the deficiencies in its financial operations and to meet its fiscal management responsibilities.*
- *The home needs to assess the risks in its financial operations and implement internal controls to mitigate the risks and ensure transactions are sufficiently documented and justified, properly approved, accurately recorded, and in compliance with state requirements and internal policies.*

Prior Finding Not Resolved: The home did not adequately safeguard its receipts.

Finding 2

The home had several internal control weaknesses related to the physical safeguarding of cash and checks. It did not adequately secure the receipts before deposit, did not deposit the receipts within one day, as required by statute, did not safeguard receipts while in transit to the bank, and did not sufficiently limit the number of staff authorized to sign checks on its local bank account. The following bullets further explain these weaknesses:

- Business office staff did not lock the cash drawer and safe in the cashier's office during the day. Although the door to the cashier's office was locked at all times, a noncashiering employee shared the office space, and the cashier allowed access to other staff. In addition, the home did not change the combination to the safe after two employees transferred to different positions and no longer needed access to the safe. By not securing the cash, the risk of theft and unaccountability increased.

- The home did not deposit cash receipts exceeding $250 in the bank within one day of receipt, as required by state statute.[7] The home did not make timely deposits for 45 of 81 deposits tested; five of these deposits were for more than $160,000 and the largest was $305,933. It did not deposit resident maintenance fee receipts for up to five days and sometimes delayed gifts and donation receipts for more than a week while the contribution committee confirmed and approved donations.

- The home had employees take the deposits to the bank, rather than hiring an armored car service. During peak periods, the daily deposits were as high as $300,000. The home put the employees at risk when it allowed the employees to transport the deposits.

- The home authorized the administrator and six business office employees to sign checks written from its imprest checking accounts. The risk of theft increases as the number of people with access to the checking accounts increases. In addition, because some of these employees were not familiar with the program activities, the home risked having employees approving an inappropriate check. The Department of Finance authorized the home to keep funds in local checking accounts to provide daily cash for its resident trust accounts and recreational activities.

The departments of Finance and Administration issued a policy to ensure all receipts are properly safeguarded, promptly deposited, and appropriately recorded

[7] *Minnesota Statutes* 2007, 16A.275.

in the state's accounting system.[8] This policy not only reiterates the statutory requirement, but also requires state agencies to develop internal policies to ensure the agency complies with the statute and policy. The home had not developed such a policy.

Recommendations

- *The home should establish controls to secure cash within the cashier's office and limit the number of people with access to cash.*
- *The home should promptly deposit receipts in accordance with statutory requirements.*
- *The home should ensure the security of receipts and the safety of its staff during the transport of receipts to the bank. It should consider using an armored car service to transport receipts to the bank.*
- *The home should limit the number of check signers on the imprest checking accounts; check signers should have sufficient knowledge of the resident trust and recreation programs to assess the legitimacy of the payment.*
- *The home should develop an internal policy for managing its cash receipts, as required by state policy.*

Finding 3

Prior Finding Not Resolved: The home did not reconcile its internal accounting systems to the state's accounting system or to bank statements.

The home did not reconcile three of its internal accounting subsystems to the state's accounting system or to bank statements. The home had the following reconciliation weaknesses for resident maintenance fee accounts receivable, resident trust accounts, and gifts and donations:

- The home did not perform monthly reconciliations of the maintenance fees posted to its resident maintenance fee accounts receivable subsystem and the revenues recorded on the state's accounting system. The home collected over $15 million per year for resident maintenance fees. The home used its internal system to track billings and payments of residents' maintenance fees and to monitor any outstanding resident balances; however, it did not ensure the integrity of the subsystem's data by reconciling it to the state's accounting system. By not reconciling the

[8] Department of Finance Policy 0602-03.

subsystem to the state's accounting system, the home did not detect several accounts receivable errors in its internal accounting system. (Finding 18 further explains the accounts receivable errors.) The home had this significant weakness throughout the past twelve years, as reported in the past three audit reports.[9]

- The home had not reconciled its internal resident trust accounts subsystem to the state's accounting system and to the imprest checking accounts since October 2000. The home annually processed approximately $700,000 of deposits and withdrawals on behalf of the residents. When the home attempted to perform this reconciliation in March 2008, the balance on the state's accounting system was about $6,250 higher than the home's total of individual resident trust accounts of $195,505.

- The home also did not perform monthly reconciliations between the donations recorded in the state's accounting system and the home's internal subsystem for donations. The home averaged more than $266,000 in donations each year. In addition to tracking donations, the subsystem provides information about the various service organizations' and other donors' contributions, enables a high level summary of donation activity, provides a method of maintaining donor and volunteer contact information, and provides a way to track volunteer hours for recognition purposes. Reconciling the database to the state's accounting system would ensure that the home properly recorded all actual donations in both systems and used the funds according to the donor's intended purposes. The home did not detect or correct the following errors in the state's accounting system, because it did not reconcile the two systems:[10]

  - $1,000 donated for fishing trips was incorrectly coded as general recreation;
  - $135 donated for Bingo-Fridley was incorrectly coded to the TV subscription account;
  - $1,225 donated for special functions was incorrectly coded as Bingo-Fridley; and
  - $230 donated for celebrations-Christmas was incorrectly coded as special functions.

- The home had not reconciled its resident trust checking account to the bank statements until September 2007. The Department of Finance

[9] Office of the Legislative Auditor, Financial Audit Division, *Minnesota Veterans Home - Minneapolis* reports 05-43, 02-31, and 99-33, issued July 2005, May 2002, and July 1999, respectively.
[10] The home records donations to individual recreation accounts within the state's accounting system using a sub-organization code. This allows the home the capability to track and monitor the use of donated funds.

authorized the limit on this account to be $25,000. See Finding 15 for recording errors related to resident trust accounts.

- The home also did not perform monthly reconciliations between the state's accounting system and the recreational activity checking account for 21 of 36 months in our audit period. The Department of Finance authorized the limit on this account, which is part of the gift and donation account, to be $20,000. Without performing reconciliations, the home could not ensure that it accurately accounted for all recreational activity or that it had not exceeded the authorized balance of the account. The home reimbursed $4,200 to the imprest account in January 2006, but was unable to provide documentation or an explanation for how it had used those funds.

By not performing periodic reconciliations, the home could not ensure the accuracy of the accounts and could not promptly detect errors or unauthorized transactions. The lack of reconciliations and unsupported reimbursements are strong indicators of fraud.

Recommendations

- *The home should perform monthly reconciliations between the financial activity recorded on the home's subsystems and the state's accounting system for the following accounts:*
  - -- *Maintenance Fees Accounts Receivable.*
  - -- *Resident Trust Accounts.*
  - -- *Gift and Donations.*

- *The home should perform monthly bank reconciliations for the following accounts:*
  - -- *Resident Trust Imprest Checking Account.*
  - -- *Recreational Activities Imprest Checking Account.*

Finding 4

Prior Finding Not Resolved: The home did not adequately restrict employees' access to the accounting systems.

The home did not sufficiently restrict the number of employees with excessive access to accounting systems and allowed access to employees to perform incompatible activities. The following deficiencies existed in the home's administration of employees' access to various accounting systems:

- Seven employees could enter purchase orders and record receiving data in the state's accounting system; two of those employees could also process

- payments. Generally, the functions of purchasing, receiving, and payment processing should be segregated to provide an appropriate level of control over expenditures.

- In the cashiering and accounts receivable functions, five employees had security clearances to the home's accounts receivable subsystem that allowed them to adjust resident accounts. Individuals with access to cash should not have the ability to adjust the accounts receivable records. The home used the subsystem to track the residents' maintenance fees, including accounts receivable.

- Six employees had a password that allowed access to the home's resident trust accounting system. Once in the system, each of these employees had the ability to create data records, change or update existing information, and enter deposit or withdrawal transactions. One of these users transferred to a new position that no longer required access to this subsystem, but was not removed from the security access profile. The home did not utilize security features within the system to restrict access of individual users to certain functions.

The home significantly increased its risk of errors and fraud by allowing employees excessive or incompatible access to its accounting systems and subsystems.

Recommendations

- *The home should limit employee business system access to the minimal level necessary to complete individual job responsibilities.*

- *The home should restrict computer system access for incompatible functions. If the home is unable to eliminate incompatible access because of limited staffing, it should develop and document effective detective controls, such as periodic and independent review of the employee's work to mitigate the risks.*

- *The home should periodically review employees' access to subsystems to ensure the access is required to perform current job responsibilities.*

Finding 5

The home could not locate numerous documents to support certain financial activities.

The home did not have sufficient documentation to support the propriety of financial transactions, management's authorizations of the activity, or to ensure that the transaction was properly recorded in the appropriate accounting system. Following are items selected for audit for which the home was unable to provide sufficient documentation:

- The home did not have documentation to support approximately $8,600 of negative adjustments to receipts recorded in the state's accounting system. A $3,000 adjustment occurred in fiscal year 2005 and reduced skilled nursing care maintenance revenue and the home's cash balance. The other four adjustments, which reduced the cash balance in the state's accounting system by nearly $5,600, were prompted by the state treasury division of the Department of Finance, because the account did not balance to the bank.

- The home did not have its cash receipt bank logs from July 1, 2004, through August 16, 2004. The logs showed the signatures of the employees delivering the cash receipts to the bank and the signatures of the bank clerks receiving the deposits at the bank.

- The home did not have the initial purchase order requisition forms to show authorization for three of eight dietary and canteen purchases tested.

- The home did not have documentation to support the disposition of $50,000 worth of equipment, as further explained in Finding 9.

- The home did not have documentation to show the donors' intent for four of ten donations tested.

- The home did not have documentation to support the authorization of the starting wages of 13 of 17 new employees.

- The home was unable to locate one employee's personnel file.

- The home did not maintain evidence that supervisors approved employee timesheets, as further explained in Finding 6.

- The home did not have documentation to support that overtime was requested and approved by the home's employees and supervisors, as further explained in Finding 7.

Minnesota Statutes require all officers and agencies of the state to maintain records necessary to provide full and accurate documentation of official activities.[11] Statutes further require that the chief administrative officer of each agency preserve the agency's records connected to the transaction of public business, including protecting these records from deterioration, mutilation, loss, or destruction. State policies reinforce this requirement.

Preserving public financial records is an important responsibility – it allows management to demonstrate its appropriate use of public resources and protects employees from accusations of error, illegality, and noncompliance. Without supporting documentation, the home was unable to demonstrate that they procured goods and services in accordance with the statutes and state policies and procedures, accurately deposited receipts, made payments in accordance with authorizations and contracts and, generally, appropriately used its resources to serve a public purpose.

In December 2004, the Minnesota Veterans Home Board established a records retention policy; however, the home did not consistently adhere to the policy.

Recommendations

- *The home should document justification and management's authorizations to support its current financial activities.*

- *The home should adhere to the record retention policy and maintain documentation to support its historical financial records.*

Finding 6

Prior Finding Not Resolved: The home did not verify that supervisors approved their employees' timesheets.

The home could not provide evidence that supervisors approved employee timesheets. State policy and procedures require supervisors to review employee timesheets for accuracy.[12] Supervisors and others at the home approved timesheets using the home's electronic time-keeping system; however, this system did not have an audit trail indicating who approved the timesheets. In addition, the home's payroll section did not print and save the system's reports that showed the approvals.

[11] *Minnesota Statutes* 2007, 15.17, subd. 1 and 2.
[12] Department of Finance, PAY0016.

For nursing staff, the home's scheduling section mass approved timesheets, rather than having the employee's direct supervisors approve individual timesheets.[13] The nursing staff represents approximately half of the home's employees; it accounts for 46 percent of the total payroll expenditures.[14] By mass approving the timesheets, the home could not validate the hours worked by employee or verify the accuracy of hours recorded on an individual timesheet.

In fiscal year 2007, the home paid $29 million for payroll costs. Without evidence that supervisors reviewed and approved timesheets, the home could not ensure employees received the correct compensation for actual hours worked, including overtime payments, vacation and sick leave usage, and compensatory time taken.

Recommendations

- *Direct supervisors should review and approve their employees' timesheets to ensure the accuracy of the reported hours agree with actual hours worked.*

- *The home's payroll section should verify that all timesheets are approved and retain documentation showing the approvals.*

Finding 7

Prior Finding Not Resolved: The home did not adequately manage its employee overtime costs.

The home could not support the propriety of its substantial employee overtime costs. During fiscal years 2005 through 2007, the home's overtime costs averaged nearly $2 million each year (approximately seven percent of the home's total payroll) and exceeded the overtime ratio of other state facilities.

To assess the reasonableness of overtime charges, we compared the overtime hours paid to the Minneapolis home's key nursing employees to the overtime hours of similar positions at other state operated veterans homes and Department of Human Services' treatment facilities. These nursing positions accounted for approximately 86 percent of the home's total overtime costs. As seen in Table 2, the nursing employees at the Minneapolis home were paid significantly more overtime hours than their peers in the other state facilities.

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[13] Nursing staff include registered nurses, licensed practical nurses, and human services technicians.

[14] Total payroll expenditures, excluding fringe, from July 1, 2004, through June 30, 2007, were $62.1 million.

Table 2
Percentage of Overtime Hours[1]
Fiscal Years 2005 through 2008[2]

Position	Minneapolis Veterans Home	Other Veterans Homes	Department of Human Services[3]
Human Services Technician	12.6%	4.8%	4.1%
Licensed Practical Nurse 2	11.5%	3.7%	3.7%
Registered Nurse	8.6%	7.2%	4.3%
Registered Nurse Senior	10.2%	4.0%	3.7%
Registered Nurse Supervisor	8.0%	1.6%	2.2%

[1]To arrive at the percentages, we divided the hours of overtime earned by the standard hours worked. Standard hours included regular, vacation, sick, compensatory time taken, and holiday hours.

[2]The data in this table is through June 19, 2008, and does not include all of fiscal year 2008.

[3]The Department of Human Services operates group homes and regional treatment centers throughout Minnesota.

Source: The state's payroll system.

To further assess whether the home's metropolitan location, which had a tight labor market for nursing staff, may explain the high overtime hours, we compared the home's overtime percentage for these key employees to similar employees working at the Department of Human Services' Anoka Regional Treatment Center, also located in the metropolitan area. Because the Anoka Regional Treatment Center treats adults with mental health disabilities and chemical dependencies, it often requires nursing staff to monitor the clients on a one-to-one basis and results in a higher expected rate of overtime for the facility. However, as shown in Table 3, the home's overtime rate exceeded that of the Anoka Regional Treatment Center.

Table 3
Percentage of Overtime Hours[1]
Fiscal Year 2008[2]

Position	Minneapolis Veterans Home	Anoka Regional Treatment Center[3]
Human Services Technician	16.0%	15.1%
Licensed Practical Nurse 2	14.9%	7.2%
Registered Nurse	10.1%	7.2%
Registered Nurse Senior	12.4%	8.8%
Registered Nurse Supervisor	10.7%	6.8%

[1] To arrive at the percentages, we divided the hours of overtime earned by the standard hours worked. Standard hours included regular, vacation, sick, compensatory time taken, and holiday hours.

[2] The data in this table is through June 19, 2008, and does not include all of fiscal year 2008.

[3] The Department of Human Services' Anoka Regional Treatment Center is a residential facility that treats adults with mental health disabilities and chemical dependencies.

Source: The state's payroll system.

Because of the home's substantial overtime costs and the high ratio of overtime hours compared to other state facilities, we expanded our tests to determine whether the home had effectively controlled authorization for hours employees worked to ensure that the overtime it paid was necessary to its mission. A key control that we looked for was evidence of advance authorization for overtime hours worked. Advance authorization of overtime allows the home to decide how it will use its resources rather than allowing employees to make that determination on their own. State policies and procedures require advance authorization to ensure that supervisors agree that the overtime is necessary before an employee works the hours.[15]

The home could not support that supervisors had authorized overtime hours, whether in advance or after the fact, and thus could not support the necessity or legitimacy of the overtime it paid. We could not validate authorization for any of the overtime hours for the following nine employees (listed in Table 4) to whom the home paid over $680,000 of overtime during fiscal years 2005 through 2007:

[15] Department of Finance Policy PAY0012.

Table 4
Comparison of Base Salary and Overtime Pay
Fiscal Years 2005 - 2007

Position	2005 Base Salary[1]	2005 Overtime	2006 Base Salary	2006 Overtime	2007 Base Salary	2007 Overtime
Registered Nurse Supervisor	$47,820	$39,583	$58,140	$46,064	$60,865	$43,055
Registered Nurse	49,072	40,420	58,981	43,568	65,203	8,980
Licensed Practical Nurse 2	35,036	20,802	36,967	39,218	39,004	33,898
Human Services Technician	28,299	20,212	33,760	28,186	35,830	28,522
Human Services Technician	28,989	28,236	31,036	35,531	32,094	17,243
Human Services Technician	29,192	15,013	30,482	27,094	31,964	19,370
Human Services Technician	22,693	13,669	24,094	21,940	25,850	16,876
Human Services Technician	11,500	9,344	23,130	20,453	27,141	26,386
Human Services Technician	1,529	399	23,883	29,146	22,657	9,581

[1] Base salary includes all regular, vacation, sick, holiday, and compensatory hours paid. It does not include any overtime, achievement awards, or bonuses.

Source: The state's accounting and payroll systems.

Six of these employees claimed between 45 and 60 hours of overtime every pay period during at least one of these years.[16] One employee averaged $43,000 in overtime per year and two other employees averaged $31,000 of annual overtime. For the nine employees tested, the home could not validate any of the overtime requests. The majority of overtime requests did not exist or were missing; others were not completed accurately or lacked a supervisor's approval. Regardless of the absence or deficiency of the overtime slips, the home's payroll section paid the employees for the overtime hours claimed.

We also reviewed the nine employees' daily work schedules to determine whether the schedules would substantiate that the home had assigned the employees to work the overtime hours. The schedules validated only 522 hours (48 percent) of the 1,077 overtime hours included in our sample.

As noted in the previous finding, the home's electronic time reporting system did not provide an audit trail to determine whether supervisors approved hours worked, including overtime, and the scheduling section used electronic mass approval for nursing timesheets.

Finally, the home overpaid two other employees a total of $487 by using an incorrect overtime rate. Both of these employees were exempt from the Fair Labor Standards Act (FLSA) and, according to their respective bargaining agreements, should have been paid overtime at straight time. The home, however, paid these employees at time and one-half.

[16] The State of Minnesota uses a biweekly pay period.

By not adequately controlling employees' overtime hours, the home created an unacceptable opportunity for fraudulent overtime claims. Some employees may have exploited this opportunity.

Recommendations

- *The home should examine, in detail, employees who have been paid for significant overtime hours and determine whether there is some basis to support the legitimacy of the payments. If not, the home should work with the Office of the Attorney General to seek recovery of unsubstantiated overtime payments, pursue appropriate disciplinary action against the employees, and work with the Hennepin County Attorney's Office to consider criminal charges.*

- *The home should review and analyze its overtime payments and practices to determine the cause and propriety of the excess overtime and develop a plan to better control and monitor overtime hours.*

- *The home's employees and supervisors should comply with the state's overtime policy by submitting requests for overtime in advance, properly approving overtime, and accurately recording and reviewing all overtime hours worked on timesheets.*

- *The home should recover the $487 overpayment and ensure it pays employees the correct overtime rates according to the bargaining agreements and compensation plans.*

Finding 8

The home did not adequately manage its personnel function.

During fiscal years 2005 through 2007, the home set initial pay for 78 new employees higher than allowed by state personnel rules. Through authority delegated to the Minnesota Veterans Home Board's chief operations officer, the home could set initial compensation higher than the state rules for licensed practical nurse positions, but it had no authority to exceed the limits for other positions.[17]

[17] *Minnesota Rules* 2007, Chapter 3900.2100, subp. 2, limits initial pay for new employees at 12 percent above the bottom of the range for the position or at the third step in the range, unless authorized by the commissioner of the Department of Employee Relations. As of June 2008, the Department of Employee Relations merged with the Department of Finance.

The home could only provide appropriate authorization for 1 of 17 new employees tested. The home exceeded its delegation of authority for three positions and could not find documentation to support authorizations for the other 13 positions. Without the authorization forms or specific authority, the home could not justify the propriety of the higher compensation rates for the other new employees. During the three-year audit period, the home hired 78 new employees, excluding licensed practical nurses, above the authorized compensation limits.

In addition, the home's human resources section did not consistently document management's authorizations when establishing new positions. The home's past practice was to require the administrator, business manager, and the human resources director to authorize and validate the need and available funding for new hires by approving a job requisition form. The home could not find 10 of 16 sampled job requisition forms. Of the six they did find, only two had all of the required authorized signatures. Without proper authorization, the home risked hiring new employees without having sufficient funds to pay for the additional positions.

As mentioned in Finding 5, the human resources section could not find one employee's personnel file. Therefore, the home could not support the authorization or the initial compensation for this employee. More importantly, a personnel file contains a significant amount of confidential information about an employee, and the home risks having that information exposed when it does not secure and track sensitive, private information.

Finally, the human resources section did not verify the accuracy of personnel transactions recorded in the state's payroll system, such as new employee demographic information, position information due to promotions, or changes in pay rates entered into the state's system. By not providing an independent review to verify the accuracy of personnel data and changes, the risk of errors and unauthorized transactions increases.

Recommendations

- *The home should obtain the Department of Employee Relations' specific approval for the employees receiving higher compensation rates or seek additional delegation of authority.*

- *The home should work with the Department of Employee Relations to determine whether any funds should be recovered due to the higher compensation rates.*

- *The home should obtain the approvals needed for hiring new employees and retain the job requisition and compensation authorization forms.*

- *The home should locate the missing personnel file and systematically file and secure all personnel files.*

- *The home should have an independent person verify the accuracy of personnel transactions processed in the state's payroll system.*

Finding 9

The home did not adequately manage its fixed assets.

The home did not effectively control its fixed asset inventory. The home used two inventory systems, one for older assets and a new system for assets purchased since June 2007; however, neither of the systems contained accurate or complete fixed asset data. For example, neither of the home's fixed asset inventory systems included a closed circuit camera controller, valued at $7,900. In addition, one of the systems listed several televisions as one asset.

The home could not find 8 of 20 assets we selected for testing, including a trailer, an air compressor, and a medication cart. The missing assets originally cost approximately $50,000. Staff thought that three of the missing assets were traded in for replacement assets, and another asset, a computer projector valued at $5,200, was stolen. Staff had no documentation to support these statements. The home had not removed the assets from their inventory system and did not notify authorities (including the Office of the Legislative Auditor) of the stolen projector. Statutes require state entities to promptly notify our office of evidence of theft, embezzlement, or unlawful use of public funds or property.[18]

In addition, the home did not always update its fixed asset records for new equipment purchased and did not always properly identify its fixed assets with state stickers. While conducting our inventory tests, we observed that the home had not added 14 medication carts, valued at up to $6,500 each, to its fixed asset inventory system and had not marked those assets with state asset identification numbers or labels. Two other assets tested also did not have proper state identification labels.

The home is responsible for the physical custody and financial accountability of its assets. The home last conducted a physical inventory in June 2007, but did not determine the disposition of missing assets or correct the inventory records. The home had not designated a fixed asset coordinator or defined its fixed asset management policy. Maintaining an accurate inventory of fixed assets is a basic internal control to ensure the home safeguards fixed assets and sensitive items against theft and loss.

[18] *Minnesota Statutes* 2007, 609.456, subd. 2.

Recommendations

- *The home should take a complete inventory of its fixed assets and update its fixed asset system.*
- *The home should record all new equipment purchases and any disposals of equipment in its fixed asset system.*
- *The home should ensure all equipment is properly labeled with a State of Minnesota asset identification number.*
- *The home should designate a fixed asset coordinator to oversee the management of its fixed assets, including developing policies and procedures.*
- *The home should report all missing or stolen assets to the Legislative Auditor's Office, as required by state law.*

Finding 10

The home's pharmacy did not adequately manage its noncontrolled prescription drugs and other pharmaceutical supplies.

The home did not adequately separate incompatible duties in its pharmacy. One pharmacy employee entered daily orders for noncontrolled prescription drugs and other pharmaceutical supplies into the vendor's online ordering system, received the order, and verified the contents of the shipment. (Rather than delivering the drugs and supplies to the regular loading dock, pharmacy orders are delivered directly to the pharmacy.) The home should ensure someone other than the person ordering the drugs verifies the drugs received agree with the order. The risk of errors, theft, or abuse increases when one person has control over all phases of the ordering and receiving functions.

In addition, the pharmacy did not keep an inventory of its noncontrolled prescription drugs and other pharmaceutical supplies. An inventory serves as an accountability tool for budgeting and reorder information to ensure that needed supplies are on hand. Without an inventory system and validating that the drugs and supplies on hand agree with the inventory system, there is an increased risk of theft and loss.

Recommendations

- *The home's pharmacy should separate the incompatible duties of placing pharmaceutical orders and receiving the ordered goods.*

- *The home's pharmacy should maintain an inventory system of all its drugs and pharmaceutical supplies and periodically verify the inventory on hand agrees with the inventory system.*

Finding 11

The home did not always solicit vendor bids for purchases of supplies and equipment.

The home could not provide evidence that it solicited bids from vendors without a state contract for eight of eleven purchases requiring bids. State policy requires agencies with delegated authority from the Department of Administration to solicit and document a minimum of one price quote for purchases up to $2,500, a minimum of two price quotes for purchases between $2,500 and $10,000, and at least three written solicitations for purchases greater than $10,000.[19] Goods and services purchased by a state agency that are not on the state contract must go through this solicitation process. The solicitation process ensures the state receives a competitive price for goods and services and provides assurance that the home has complied with the state's efforts to include targeted economically disadvantaged vendors. By not complying with the purchasing policies, the home may not have obtained the best price or included targeted vendors as potential suppliers.

Recommendation

- *The home should obtain and document vendor quotes for purchases that are not on the state contact, in compliance with state policy.*

Finding 12

The home did not require employees to account for cash advanced from the gift and donation account for resident recreational activities.

In fiscal year 2007, home employees had not accounted for their use of nearly $12,000 from the gift and donation account for resident recreational activities. The home used funds from the gift and donation account to provide residents with recreational activities, such as bowling, movies, and fishing trips. Recreation staff obtained cash for an upcoming event by completing and submitting a cash request form to the business office. The form stipulated that the employee must settle all cash advances within five working days after the event by submitting receipts and any unused funds. Although the home's business office tracked employees who received cash advances, it did not diligently follow up with those that failed to submit receipts for actual expenses or return any unused cash.

[19] Department of Administration, Authority for Local Purchase Manual, Section 2.

Recommendations

- *The home should account for all outstanding cash advances for resident recreational activities and recover any funds due back to the home.*

- *The home should develop and enforce policies and procedures for issuing and settling cash advances.*

Finding 13

The home used funds in the gift and donation account without authorization from the designated contribution committee.

Nine of ten gift fund expenditures tested, totaling $58,000, were not authorized by the home's designated contribution committee. Board policy requires each home to establish a designated contribution committee to administer the receipt and distribution of funds donated for the benefit of residents.[20] The home risked spending its gifts and donations funds for unallowable activities and not in accordance with the donor's specifications without the prior approval of the committee.

Recommendation

- *The home should ensure the Designated Contribution Committee approves all gift fund expenditures before disbursing the funds.*

Finding 14

The home did not track nonmonetary gifts and donations on its accounting subsystem.

The home did not record the receipt and disposition of noncash gifts in its accounting subsystem. Statutes require the home to maintain records of all gifts received, clearly showing the identity of the donor, the purpose of the donation, and the ultimate disposition of the donation.[21] The home received a variety of noncash donated items, including clothing, books, and stamps. The home did not have a process for receiving, accounting for, or securing noncash donations. Any employee could receive donated items; there was no process to provide assurances that the items were received in a secure, centralized location. The home used its internal subsystem to track cash donations, but it did not use the system to record noncash donations. By not tracking the receipt and disposition

[20] Minnesota Veterans Home Board, Agency Operating Policy, Donations for the Benefits of the Residents; Designated Contributions, AOP-07-001, reissued February 24, 2005.
[21] *Minnesota Statutes* 2007, 198.16.

of noncash donations, the home increased the risk of theft and loss of the donated items and could not ensure that it used the donations for the benefit of the residents or as the donor intended.

Recommendations

- *The home should establish a centralized location for receiving noncash donations and secure those items until they are properly distributed.*

- *The home should establish a policy for recording noncash donated items in its subsystem.*

Finding 15

Prior Finding Not Resolved: The home did not adequately manage residents' funds it held in trust.

During fiscal years 2005 through 2007, the home did not perform daily cash counts of the resident trust imprest cash on hand and did not promptly reimburse the account for bank fees and check printing costs.[22] The Department of Finance authorized the home to have $25,000 in an imprest account to meet the daily cash demands of the residents. The home retained a portion of the $25,000 in the cashier's office and the balance in a local checking account. The resident imprest cash account is part of the resident money that statutes[23] allow the veterans home to accept and maintain for safekeeping purposes, much like a bank account. (Except for the imprest cash account, resident funds are held in the state treasury and accounted for on the state's accounting system.) Residents could withdraw their funds for personal use upon demand.

By not counting cash on a daily basis, the risk of errors and fraud increases. On May 21, 2008, we verified that cash on hand and in the local checking account totaled $25,048, which exceeded the authorized limit.

The home also did not promptly reimburse the imprest checking account for service and check printing fees the bank withdrew from the account. Our last audit found that the home had not reimbursed the checking account for $1,870 in fees. In November 2005, the home reimbursed the account $1,842 from its operating account; the home could not explain or provide documentation for the $28 discrepancy. Since November 2005, the home had not reimbursed the resident imprest account for an additional $1,274 in bank fees. In our prior report, we recommended the home determine if the reimbursement should be paid from its general operating appropriation or netted against the resident trust fund interest

[22] In addition, as reported in Finding 3, the home did not reconcile the account to monthly bank statements or to the state's accounting system.
[23] *Minnesota Statutes* 2007, 198.265.

earned. As of August 2008, the home had not yet made a formal decision of what funding source should be used for the reimbursement.

Recommendations

- *The home should implement daily cash counts of the resident trust imprest cash to minimize errors and fraud.*

- *The home should determine the proper funding source for bank service fees and make prompt reimbursement of those fees.*

Finding 16

The home did not accurately allocate interest earned income to the resident trust accounts.

For 10 of 34 months tested, the home did not accurately record or allocate interest to the individual resident accounts. For example, in October 2005, the home did not allocate to residents any of the $572 interest earned by the account. In November 2005, the home recorded only 81 cents of interest instead of $691 earned per the state treasury. When the home later tried to allocate the October and November interest, it was unable to determine each resident's appropriate share. The home ultimately allocated the interest based on January 31, 2006, balances. Some residents received more than they were due, and others received less.

Statutes require the home, on at least a quarterly basis, to credit individual resident account balances of $100 or more with interest.[24] The home developed a practice to allocate interest on a monthly basis.

Recommendation

- *The home should determine the proper allocation of interest and adjust resident accounts to reflect the correct interest earnings.*

Finding 17

Prior Finding Not Resolved: The home did not accurately calculate the annual cost of care rate for fiscal years 2005 and 2007.

The home did not correctly calculate the cost of care rate for fiscal years 2005 and 2007. Statutes require the home to determine the amount it will charge residents for staying at the home.[25] Statutes require that the home determine its charges based on "the average cost per resident taking into account, but not limited to,

[24] *Minnesota Statutes* 2007, 198.265.
[25] *Minnesota Statutes* 2007, 198.03.

administrative cost of the homes, the cost of service available to the resident, and food and lodging costs. These average costs must be calculated separately for domiciliary and nursing care residents. ” The home calculated its cost of care rate based on its operating expenditures from the previous March 1 through the end of February. The federal per diem charge was not affected because it was already less than the maximum chargeable cost of care rate.

The fiscal year 2005 error occurred due to a combination of two errors: (1) the home assessed the maximum maintenance charge for 366 days (leap year) instead of 365 days during that fiscal year, and (2) the home communicated to residents and parties responsible for resident finances a higher daily rate for the maximum maintenance charge than the rate the business office calculated.

As a result, residents paying the full cost of care were overcharged for fiscal year 2005 as follows:

- Each veteran in domiciliary care was overcharged $62.28 (or 17 cents per day).
- Each nonveteran in domiciliary care was overcharged $87.72 (or 24 cents per day).
- Each veteran in nursing care was overcharged $161.52 (or 44 cents per day).
- Each nonveteran in nursing care was overcharged $221.04 (or 61 cents per day).

In fiscal year 2007, the calculation error occurred due to the home incorrectly allocating $88,985 of capital expenditures to the individual types of care, which impacted the final rates.[26] The home also included $2,724 in unallowable expenditures in the calculation.

As a result, residents paying the full cost of care were incorrectly charged for fiscal year 2007 as follows:

- Each veteran and nonveteran in domiciliary care was overcharged $142.35 (or 39 cents per day).
- Each veteran and nonveteran in nursing care was undercharged $18.35 (or 5 cents per day).

Although cost of care calculations are complex, the home needs to ensure the accuracy of the calculation. Our prior audits identified that the home had incorrectly calculated the cost of care charges for five earlier years.[27] A secondary review of the calculations by the board office did not identify these errors or discrepancies.

[26] Direct and indirect costs for domiciliary and skilled nursing care.
[27] Incorrect cost of care calculations in 1997, 1998, 2000, 2001, and 2003.

Recommendations

- *The home should accurately calculate the cost of care rate by including only allowable costs and using precise dates.*
- *The home should consider having two individuals independently calculate the cost of care and then resolve any differences to arrive at the correct rate.*
- *The home should analyze and determine whether these errors are significant enough on an individual resident basis to provide refunds or to adjust the residents' accounts receivable balances for maintenance fees.*

Finding 18

The home did not record collections of past due maintenance fee accounts receivable in its resident accounts receivable subsystem.

The home did not record the Department of Revenue's collection of its past due accounts receivables in its resident accounts receivable system. After the home exhausted all of its efforts to collect outstanding account balances from residents, the home turned the accounts over to the Department of Revenue's Collection Division. The Collection Division remitted the funds it collected through revenue recapture on the home's accounts directly into the state's accounting system for the benefit of the home. However, the home did not adjust its internal accounts receivable records for seven collection payments, totaling $1,363, from the Department of Revenue.[28] The home also did not record two other collection payments ($196) until three to five months after they were received. Finally, the home erroneously recorded two receivable payments, totaling $1,396, without sufficient documentation or a corresponding collection transaction from the Department of Revenue.

In addition, the home did not record in its internal accounts receivable system a $2,000 administrative fee it paid to the Department of Revenue. The home received a $20,000 appeal settlement from the Veterans Home Board related to one resident's account. The account had previously been turned over to the Department of Revenue's Collection Division. The home paid $2,000 to the department for its collection efforts on the account. The home applied the full settlement to the resident's account, but failed to account for the $2,000 administrative payment. As a result, the account balance within the home's internal accounting system was inaccurate.

[28] The unrecorded $1,363 represents 18 percent of the total Department of Revenue collection payments from July 1, 2004, through June 30, 2008.

The home needs to accurately account for all transactions related to its resident accounts to ensure the integrity of its financial accounting records. A monthly reconciliation is a fundamental internal control that would have identified these errors and discrepancies.

Recommendations

- *The home should accurately and promptly record all transactions related to resident accounts, including accounts receivable collections from the Department of Revenue.*

- *The home should review all of its resident maintenance accounts to ensure the accuracy of account balances and amounts owed and make any adjustments as needed.*

- *The home should reconcile its internal accounting records to the state's accounting system for its resident maintenance accounts on a regular basis and resolve any differences.*

STATE OF MINNESOTA
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November 24, 2008

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, November 19, 2008.

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

Finding 1
Minneapolis did not fulfill its financial management responsibilities to control its financial activities and ensure that transactions complied with State requirement and internal policies.

Recommendation;
The Department of Veterans Affairs needs to work with the home to reassess its administrative structure to ensure that it has established appropriate positions and lines of authority to address the deficiencies in its financial operations and to meet its financial management responsibilities.
The home needs to assess the risks in its financial operations and implement internal controls to mitigate the risk and ensure transactions are sufficiently documented and justifies, properly approved, accurately recorded, and in compliance with state requirements and internal policies.

Response:
Since the completion of the audit the Department of Veterans Affairs and the home have taken several steps to address the administrative structure of the organization by filling several key positions to include a new administrator, two assistant administrators, a quality director, and a new accounts receivable supervisor.

A full risk assessment will be completed the Business Manager in the key areas identified in the audit report by 6/30/09. Internal controls and procedures will be implemented in these key areas and those key areas will become a reportable item to the Quality Council report for the Business Office. The report will contain the status of the audit findings and resolutions, bank reconciliations, and other significant financial events and activities.

Finding 2
Prior finding not resolved: The home did not adequately safeguard its receipts.

Recommendation;
The home should establish controls to secure cash within the cashier's office and limit the number of people with access to cash.
The home should promptly deposit receipts in accordance with statutory requirements.
The home should ensure the security of receipts and the safety of its staff during the transport of receipts to the bank. It should consider using an armored car service to transport receipts to the bank.
The home should limit the number of check signers on the imprest checking accounts; check signers should have sufficient knowledge of the resident trust and recreation programs to assess the legitimacy of the payment.
The home should develop an internal policy for managing its cash receipts, as required by state policy.

Response:
The home concurs with the recommendations. Several of these recommendations have been implemented prior to the report. The home will ensure that the safe and cash drawer are locked at all times. Staff will not be given access to the office unless authorized by the supervisor. The combination to the safe will be changed after all staff changes have been made and/or on an annual basis. A procedure will be developed for the cashier area. All other changes have been implemented.

All cash that exceeds $250.00 dollars is being deposited on a daily basis.

A RFB (Request for Bid) has been completed for an Armored Car Service. We are in the process of awarding the bid to a vendor and hope to have this service in place by December 1, 2008.

The number of signatures for the imprest checking account has been reduced from the current seven employees who were authorized down to four employees. This will be effective December 1, 2008.

All policies and procedures will be developed and implemented by March 31, 2009.

Finding 3
Prior finding not resolved: The home did not reconcile its internal accounting system to the state's accounting system or to bank statements

Recommendation;
The home should perform monthly reconciliations between the financial activity recorded on the home's subsystems and the state's accounting system for the following accounts:

- Maintenance Fees Accounts Receivable.
- Resident Trust Accounts.
- Gift and Donations.

The home should perform monthly bank reconciliations for the following accounts:

- Resident Trust Imprest Checking Account.
- Recreational Activities Imprest Checking Account.

Response:
The home concurs with these recommendations. Reconciliation processes are being developed for all three areas and will be completed on a monthly basis. The two imprest checking accounts will also be reconciled on a month basis. All reconciliations will be completed for fiscal years 2008 and 2009 by August 31, 2009.

Finding 4
Prior finding not resolved: The home did not adequately restrict employee's access to the accounting system.

Recommendation;
The home should limit employee business system access to the minimal level necessary to complete individual job responsibilities.
The home should restrict computer access for incompatible functions. If the home is unable to eliminate incompatible access because of limited staffing, it should develop and document effective controls, such as periodic independent review of the employee's work to mitigate the risks.
The home should periodically review employee's access to subsystems to ensure the access is required to perform current job responsibilities.

Response:
This finding has been resolved in May 2008 after reviewing all MAPS and SEMA4 security levels for appropriate compatibilities. Where access could not be fully restricted due to software limitations, mitigating controls and reporting procedures were implemented, security accesses were changed to delete former employees, and security profiles will be reviewed annually or as job duties and responsibilities change.

Finding 5
The home could not locate numerous documents to support certain financial activities.

Recommendation;
The home should document justification and management's authorizations to support its current financial activities.
The home should adhere to the record retention policy and maintain documentation to support its historical financial records.

Response:
The home concurs with the recommendations. We are in the process of revising how documents are filed and retrieved based upon lessons learned during the audit. We have begun to look at all the different work areas that file documents and revise how they are currently doing the filing to make it easier to retrieve necessary documents. Processes will be developed for the storage of documents in all areas of the home with financial activities. The retention schedule will be reviewed and updated if necessary, and followed for document storage and destruction. All new filing systems should be implemented by June 30, 2009.

Finding 6
Prior finding not resolved: The home did not verify that supervisors approved their employees' timesheets.

Recommendation;
Direct supervisors should review and approve their employees' timesheets to ensure the accuracy of the reported hours agree with actual hours worked.
The homes payroll section should verify that all timesheets are approved and retain documentation showing the approvals.

Response:
The home concurs with the recommendation. The payroll unit will continue to emphasize the requirement for supervisors to maintain copies of employee leave slips. The payroll unit will also perform random audits of the nurse scheduling office to ensure employee leave requests are properly filed.

Finding 7
Prior finding not resolved: The home did not adequately manage its employee overtime costs.

Recommendation;
The home should examine in detail employee's who have been paid for significant overtime hours and determine whether there is some basis to support the legitimacy of the payments.
The home should review and analyze its overtime payments and practices to determine the cause and propriety of the excess overtime and develop a plan to

better control and monitor overtime hours.
The home's employees and supervisors should comply with the state's overtime policy.
The home should recover the $487 overpayment and ensure it pays employees correct overtime rate.

Response:
Several steps have been taken to reduce overtime costs and to appropriately manage how overtime is assigned and how it is used. Overtime reports are sent to each manager on a biweekly basis for their review. A second report is sent to managers identifying those employees that exceed a predetermined threshold. The Business Manager meets with the DON, Nurse Scheduling staff, HR on a daily basis to review overtime and agency utilization. Vacant positions have been filled timelier reducing the need for additional overtime. Block scheduling was implemented in July 2008 further reducing the need for unscheduled overtime. Upon review of the current fiscal year data and the Nursing Activity Report the overtime trend shows a reduction in overtime costs compared to costs at this time last year. The home will continue to aggressively monitor on-going overtime costs.

Finding 8
The home did not adequately manage its personnel function.

Recommendation;
The home should obtain the Department of Employee Relations' specific approval for the employees receiving higher compensation rates or seek additional delegation of authority.
The home should work with the Department of Employee Relations to determine whether any funds should be recovered due to higher compensation rates.
The home should obtain the approvals needed for hiring new employees and retain job requisition and compensation form.
The home should locate the missing personnel file and systematically file and secure all personnel files.
The home should have an independent person verify the accuracy of personnel transactions processed in the state's payroll system.

Response:
The home concurs with the recommendations and will work with DOER to resolve the compensation rates and delegated authority by 6/30/09. Documentation will be more accurately filed, and every effort will be made to locate the missing personnel file.

Finding 9
The home did not adequately manage its fixed assets

Recommendation;
The home should take a complete inventory of its fixed assets and update its fixed asset system.
The home should record all new equipment purchases and any disposals of equipment in its fixed asset system.
The home should ensure all equipment is properly labeled with a State of Minnesota asset identification number.
The home should designate a fixed asset coordinator to oversee the management of fixed assets, including developing policies and procedures.
The home should report all missing or stolen assets to the Legislative Auditor’s Office, as required by state law.

Response:
The home concurs with the recommendations. The home is in the process of hiring an employee who will oversee the inventory and fixed asset systems for the home and the central office. A fixed asset inventory policy will be developed to include an annual inventory of fixed assets which exceeds the standard required every two years. As purchases are made the asset inventory records will be updated as required. Disposals will follow the Department of Administration Surplus policy and records will be maintained and filed properly. All assets will be properly labeled with either a State of Minnesota sticker or State of Minnesota asset identification number. As a quality check, an expenditure report for fixed asset classes will be compared to assets added to the system. All processes should be implemented no later than June 30, 2009.

Finding 10
The home's pharmacy did not adequately manage its non-controlled prescription drugs and other pharmaceutical supplies

Recommendation:
The home’s pharmacy should separate the incompatible duties of placing pharmaceutical orders and receiving the ordered goods.
The home’s pharmacy should maintain an inventory system of all its drugs and pharmaceutical supplies and periodically verify the inventory on hand agrees with the inventory system.

Response:
The home concurs with the recommendations. As of August 2008 the separation of duties is now part of a formal policy and 100% compliance is required.

The pharmacy contracted with an outside inventory service, General Business Services Inc. to perform a complete inventory of all prescription and non prescription drugs in the pharmacy. The initial inventory was performed on August 15, 2008. A physical inventory will be performed twice annually, and the results will be maintained by the pharmacy.

Finding 11
The home did not always solicit vendor bids for purchases of supplies and equipment.

Recommendation;
The home should obtain and document vendor quotes for purchases that are not on the state contract, in compliance with state policy.
Response:
The home concurs with the recommendation. The home has implemented a plan to move forward to prevent this from occurring from this point on and for the future. The accounting and purchasing record filing systems have been reviewed and will be updated to include all documents with each vendor to be filed together in the appropriate vendor file. The Purchase Orders, Expenditure Requests and all related documentation will be filed together to insure proper documentation and ease for all staff to find vendor information when needed.
The home will obtain and document vendor quotes for purchases and solicitations for purchases that are not on the state contracts. The home will follow the procedures to be in compliance with State of Minnesota policies and statutes that govern purchasing.
This implementation has started as of 11/1/08 and will be on-going, and we anticipate update, revisions, and full implementation by 6/30/09.

Finding 12
The home did not require employees to account for cash advanced from the gift and donation account for recreational activities.

Recommendation;
The home should account for all outstanding cash advances for resident recreational activities and recover any funds due back to the home.
The home should develop and enforce policies and procedures for issuing and settling cash advances.

Response:
The recommendation has been fully implemented and the finding resolved as of September 2008. All cash requests will be settled within 3 business days after the advance is issued. The requestor will turn in receipts and any unused cash to the cashier's office. If receipts are unavailable from a vendor a Designated Contributions Affidavit , will be completed by the requestor and notarized that funds from the Designated Contributions Imprest Cash account were used on behalf of the residents and that no receipts were available from the vendor.

A new cash request will not be released until all outstanding funds from the previous activities have been reconciled and turned in to the cashier.

Finding 13
The home used funds in the gift and donation account without authorization from the designated contribution committee

Recommendation;
The home should ensure the Designated Contributions Committee approves all gift fund expenditures before disbursing the funds.

Response:
The recommendation has been fully implemented and the finding resolved as of October 2008. All requests for expenditures must have committee approval before funds are released. All requests for expenditures must be brought to the Designated Contributions Committee which meets once per month. Explanations of funding requests are brought forward for discussion. A motion for approval of funds is then requested and documented in committee meeting minutes.
If there is an unanticipated request that falls in between the currently scheduled DC meetings, an explanation of the request and amount, along with the account number is sent via e-mail to Designated Contribution Committee members asking for approval of the request. If requests are approved, they are then processed per MVH protocol. The Business Office reviews all Expenditure Request for the committee's approval before funds are encumbered.

Finding 14
The home did not track nonmonetary gifts and donations on its accounting subsystem.

Recommendation;
The home should establish a centralized location for receiving noncash donations and secure those items until they are properly distributed.
The home should establish a policy for recording noncash donated items in its subsystem.

Response:
The home concurs with the recommendation. The Public Affairs Director will coordinate efforts to publicize what noncash items are needed at the home, what noncash items will no longer be accepted, as well as establish a Donation Receiving Center with set hours. This information will be communicated in the resident/family newsletter, the Voice; the volunteer newsletter, the Volunteer Connection; the Minnesota Veterans Home-Minneapolis website; and literature provided to Veterans Organizations and interested parties**.** The Volunteer Service Coordinator will enter all noncash donations into the Donation Tracking System. An itemized list of all noncash donations received during the previous month will be printed and submitted at the Designated Contribution Meetings for public record.

A policy and procedure will be established for recording noncash donated items into the Donation Tracking System. The policy will also identify a tracking method of distribution of those items. This policy and procedure will be in place by June 30, 2009.

Finding 15
Prior finding not resolved: The home did not adequately manage resident's funds held in trust.

Recommendation;
The home should implement daily cash counts of the resident trust imprest cash to minimize errors and fraud.
The home should determine the proper funding source for bank service fees and make prompt reimbursement of those fees.

Response:
The home concurs with the recommendations. During the audit a process was implemented to count the cash daily. This continues to be the practice and the supervisor of this area will ensure this practice continues.
The imprest cash deposit is being reconciled daily with MAPS. A process will be implemented to reimburse the account for all bank fees and service charges in the account form the homes operating budget. This will be corrected and implemented by March 31, 2009.

Finding 16
The home did not accurately allocate interest earned income to the resident trust accounts

Recommendation;
The home should determine the proper allocation of interest and adjust resident accounts to reflect the correct interest earnings.

Response:
The home concurs with this recommendation. Interest will be allocated correctly to each resident account on a monthly basis. A process will be developed to ensure this is done correctly. The process will be completed by December 31, 2008

Finding 17
Prior finding not resolved: The home did not accurately calculate the annual cost of care rate for fiscal years 2005 and 2007.

Recommendation;
The home should accurately calculate the cost of care rate by including only allowable costs and using precise dates.
The home should consider having two individuals independently calculate the cost

of care and then resolve any differences to arrive at the correct rate.
The home should analyze and determine whether these errors are significant enough on an individual resident basis to provide refunds or to adjust the residents accounts receivable balances for maintenance fees.

Response:
The home concurs with these recommendations. The Business Manager and the Assistant Business Manager will calculate the cost of care independently. A further assessment will be completed to determine the impact on the resident accounts that may have been overcharged or under charged for those residents paying the full cost of care. This will be completed by 6/30/09.

Finding 18
The home did not record collections of past due maintenance fee accounts receivable in its resident accounts receivable subsystem.

Recommendation;
The home should accurately and promptly record all transactions related to resident accounts, including accounts receivable collections from the Department of Revenue.
The home should review all of its resident maintenance accounts to ensure the accuracy of account balances and amounts owed and make any adjustments as needed.
The home should reconcile its internal accounting records to the state's accounting system for its resident maintenance accounts on a regular basis and resolve any differences.

Response:
The home concurs with the recommendations. The home will develop a policy and procedure for the accounts receivable functions. This will be written and implemented by June 30, 2009.

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 Ed Anderson, Business Manager.

Sincerely,

/s/ Judy Kurki-Coleman

Judy Kurki-Coleman
Administrator

CC; Gilbert Acevedo, Deputy Commissioner for Veterans Health Care
Sherry Kromschroeder, Department of Veterans Affairs
Jill Smith, Assistant Administrator