

Minnesota Veterans Home - Minneapolis

Full Scope Financial Audit

For the Two Years Ended June 30, 1994

August 1995

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**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**

95-35



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

CENTENNIAL BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. James Main, Chairman
Minnesota Veterans Homes Board

Members of the Minnesota Veterans Homes Board

Mr. Donald C. Mills, Administrator
Minnesota Veterans Home-Minneapolis

We have audited the Minnesota Veterans Home-Minneapolis for the period July 1, 1992 through June 30, 1994, as further explained in Chapter 1. Our audit scope included maintenance fees, federal per diem reimbursements, resident receipt and disbursement accounts, drug purchases, and payroll. The following summary highlights the audit objectives and conclusions. We discuss these issues more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the Minnesota Veterans Home-Minneapolis complied with provisions of laws, regulations, contracts, and grants that are significant to the audit.

This report is intended for the information of the Legislative Audit Commission and the management of the Minnesota Veterans Home-Minneapolis. This restriction is not intended to limit the distribution of this report, which was released as a public document on August 25, 1995.

We thank the Minnesota Veterans Home-Minneapolis staff for their cooperation during this audit.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: June 22, 1995

Report Signed On: August 18, 1995

SUMMARY

State of Minnesota
Office of the Legislative Auditor
Centennial Office Building • St. Paul, MN 55155
612/296-4708

Minnesota Veterans Home - Minneapolis

Full Scope Financial Audit
For the Two Years Ended June 30, 1994

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Public Release Date: August 25, 1995

LEGISLATIVE REFERENCE No. 95-35

STATE OFFICE BUILDING
ST. PAUL, MN 55155

Agency Background

The Minnesota Veterans Home-Minneapolis (MVH) was founded in 1887 and is one of four veterans homes currently operating in the state. The mission of the MVH is to provide high-quality skilled nursing and/or domiciliary care to residents. Minn. Stat. Section 198.01 requires the veterans homes to provide nursing care and related health and social services to veterans and their spouses who meet eligibility and admission requirements. The home is under the direct management of the Veterans Home Board. Mr. Donald Mills is the current administrator of the MVH.

The MVH receives financial support from state appropriations, federal per diem reimbursements, and resident maintenance fees. Total receipts for federal per diem reimbursement and resident maintenance fees amounts to \$9,050,000 and \$9,378,000 in fiscal years 1993 and 1994, respectively. The largest expenditure for the MVH is payroll. Additional large expenditures include drugs, medicine, and food.

Audit Areas and Conclusions

MVH properly processes resident maintenance fees and federal per diem reimbursements. Resident maintenance fees, federal per diem reimbursements, and cost of care calculations are accurate. MVH eligibility determination procedures and the methodology used in calculating resident maintenance fees are in compliance with Minn. Stat. Sections 198.022 and 198.03 and related rules within Minnesota Rules 9050.

MVH processes resident deposits and withdrawals correctly. The account balances in the individual resident accounts and the statewide accounting (SWA) system are accurate. However, the MVH did not reconcile the imprest cash checking account correctly for fiscal years 1994 and 1995. MVH is in compliance with Minn. Stat. Section 198.265.

The Minnesota Veterans Home-Minneapolis (MVH) follows the payroll processing procedures outlined in the Department of Finance payroll manual. Time sheets are adequately documented and approved, and the correct pay rate is used in determining payments to employees. We did note one employee was underpaid during fiscal years 1993 and 1994. The MVH completed a retroactive adjustment of \$428 to correct the pay rate of that individual. The MVH has allowed several employees to accumulate alternative holiday leave balances. One such individual, upon retirement, had accumulated 11 uncompensated holidays.

The MVH purchases drugs and medicine based upon the available contracts.

Minnesota Veterans Homes-Minneapolis

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Audit Participation

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

John Asmussen, CPA	Deputy Legislative Auditor
Tom Donahue, CPA	Audit Manager
Jack Hirschfeld, CPA	Auditor-In-Charge
Jean Mellett, CPA	Auditor
Laura Puig-White	Auditor

Exit Conference

The findings and recommendations in this report were discussed with the following officials of the Minnesota Veterans Home Board and the Minnesota Veterans Home-Minneapolis on August 9, 1995.

Minnesota Veterans Home Board:

Richard Zierdt	Executive Director
Sandy Linn	Internal Auditor

Minnesota Veterans Home-Minneapolis:

Donald Mills	Administrator
Karen Jennings	Assistant Administrator
Larry Clausen	Assistant Administrator
Paul Conery	Business Manager

Chapter 1. Introduction

The Minnesota Veterans Home-Minneapolis (MVH) was founded in 1887 and is one of four veterans homes currently operated by the state. The mission of the Minnesota Veterans Homes is to provide high-quality skilled nursing and/or domiciliary care to residents. Minn. Stat. Section 198.01 requires the veterans homes to provide nursing care and related health and social services to veterans and their spouses who meet eligibility and admission requirements.

The MVH continues to meet the Minnesota Department of Health and the United States Department of Veterans Affairs licensure and certification requirements. The MVH is currently licensed to serve 346 nursing care and 194 domiciliary residents. The average daily census of residents for fiscal years 1993 to 1994 is presented in Table 1-1.

**Table 1-1: MVH Average Daily Census
Fiscal Years 1993 through 1994**

<u>Years</u>	<u>Nursing Care</u>	<u>Domiciliary</u>	<u>Total</u>
1993	334	74	408
1994	329	70	399

Source: MVH Medical Records.

The MVH is under the direct management of the Veterans Home Board. The board consists of nine voting members appointed by the governor with the advice and consent of the senate. The commissioner of Veterans Affairs serves as an ex officio, nonvoting member of the board. In addition, the chair of the Senate Veterans Affairs Committee and the chair of the House Committee on General Legislation, Veterans Affairs, and Gaming serve as ex officio, nonvoting members of the board. The Veterans Home Board appointed Mr. Donald Mills as the administrator of the Minneapolis Veterans Home on June 13, 1992.

The financial activities of the MVH directly relate to the operation of the home. The determination and collection of resident maintenance fees and federal per diem reimbursements are the major financial activities. State appropriations, resident maintenance fees and federal per diem reimbursements are the most significant funding sources for the MVH.

The available resources and expenditures of the general operating account for the MVH during fiscal years 1993 and 1994 are shown in Table 1-2. The financial activities of the MVH's social welfare or resident accounts is shown in Table 3-1 in Chapter 3.

The state appropriation is provided to the Minnesota Veterans Home Board. The board allocates the appropriation to its various homes. The allocation amount to the MVH was reduced from \$17,806,000 in fiscal year 1993 to \$9,327,000 in fiscal year 1994. The difference in the allotment is due to a change in a funding policy for the Minnesota Veterans Homes. Effective in fiscal year 1994, Minn. Stat. Section 198.34 permits the Minnesota Veterans Homes to retain

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federal per diem reimbursements and resident maintenance fees received during the year. These receipts are appropriated for the operational needs of the veterans homes. Prior to fiscal year 1994, the federal per diem reimbursements and resident maintenance fees were directly deposited into the General Fund.

Expenditures in the general operating account consist mainly of payroll and other administrative costs. Payroll is the largest category and amounts to 76 percent of the MVH expenditures. Other large operating costs include drug and food purchases, supplies, and equipment.

The receipts in the social welfare account consist only of resident deposits. The social welfare account earns interest on the amount on deposit in the state treasury. The interest earnings are deposited into a designated contribution account in compliance with Minn. Stat. Section 198.265. Reductions in the social welfare account represent resident withdrawals.

For fiscal years 1993 and 1994, we examined the process for determining resident eligibility and the calculation and collection of resident maintenance fees. Included within this process was the review of the billing and deposit of federal per diem reimbursements. We examined the deposits and withdrawals in the social welfare account. We examined the purchase of drugs and medicine. Our examination included the testing of invoice prices. Finally, we examined payroll expenditures. Our audit included a review of payroll processing and compliance to state and federal regulations.

Table 1-2
General Fund Operating Account

	Fiscal Year	
	1993	1994
General Fund Operating Account:		
<u>Appropriation</u>		
Beginning Balance	\$ 406,000	\$ 11,000
Appropriation Allocation	17,806,000	9,327,000
Supplemental Allocation	844,000	0
Appropriation Cancellation	(106,000)	0
Transfers Out	(159,000)	0
Balance Carried Forward	(11,000)	(460,000)
Total Available Appropriations	<u>\$18,780,000</u>	<u>\$ 8,878,000</u>
<u>Receipts</u>		
Maintenance Fees	\$ 5,697,000	\$ 5,683,000
Federal Per Diem	<u>3,353,000</u>	<u>3,695,000</u>
Total Receipts	9,050,000	9,378,000
Receipts Deposited to the General Fund	<u>(9,050,000)</u>	<u>0</u>
Total Available Funding	<u>\$19,056,000</u>	<u>\$18,716,000</u>
<u>Expenditures</u>		
Personal Services	\$14,008,000	\$14,393,000
Drugs and Medicines	403,000	297,000
Other Expenditures	<u>4,304,000</u>	<u>3,565,000</u>
Total Expenditures	<u>\$18,715,000</u>	<u>\$18,255,000</u>

Source: Statewide Accounting Managers Financial Report, Est./Actual Report and the Allotment Balance Within Appropriation Account Report as of May, 1995.

Chapter 2. Financing Sources

Chapter Conclusions

The Minnesota Veterans Home-Minneapolis (MVH) receipts for cost of care consist of resident maintenance fees and federal per diem reimbursements. MVH properly processes resident maintenance fees and federal per diem reimbursements. Resident maintenance fees, federal per diem reimbursements, and cost of care calculations are accurate. MVH eligibility determination procedures and the methodology used in calculating resident maintenance fees are in compliance with Minn. Stat. Sections 198.022 and 198.03 and related rules within Minnesota Rules, Chapter 9050.

The Minnesota Veterans Home-Minneapolis (MVH) receives funding from resident maintenance fees, federal per diem reimbursements, and state appropriations. Residents pay either a maximum monthly fee or a specially calculated charge based on their income and assets. MVH staff annually calculate the cost of care for domiciliary and nursing care residents. Staff adjust the calculation by the federal per diem rate to provide a separate maximum charge for veterans. The cost of care calculation represents the maximum amount that the MVH may charge residents. Table 2-1 shows MVH calculated maximum monthly resident maintenance fees effective July 1, 1993 and July 1, 1994, respectively.

Table 2-1
Maximum Monthly Resident Maintenance Fee (Rounded)

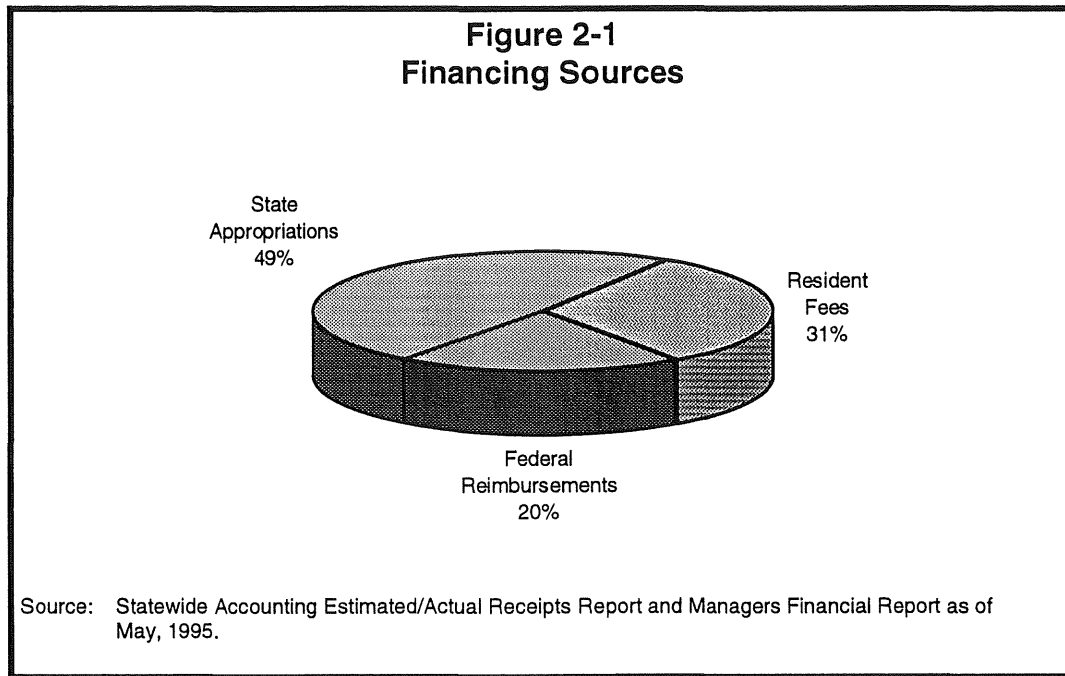
<u>Type of Care</u>	<u>July 1, 1993</u>		<u>July 1, 1994</u>	
	<u>Veterans</u>	<u>Non Veterans</u>	<u>Veterans</u>	<u>Non Veterans</u>
Domiciliary Care	\$2,210	\$2,569	\$2,384	\$2,787
Nursing Care	\$2,976	\$3,816	\$3,176	\$4,120

Approximately 90 percent of MVH residents pay specially calculated rates based on their income and assets. The rate equals 95 percent of the residents' income minus approved exclusions, such as spousal maintenance and a deduction of \$85 for personal expenses. Residents whose net worth exceeds \$3,000 pay the maximum rate.

The Veterans Administration pays MVH a per diem rate for eligible veterans. MVH claims federal per diem reimbursement by submitting a monthly report identifying total veteran days of care to the Veterans Administration. The current federal per diem is \$15.11 for domiciliary residents and \$35.37 for nursing care residents.

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Financing sources for fiscal year 1994, are shown in Figure 2-1.



Our audit focused on answering the following questions:

- Are resident maintenance fees and federal per diem reimbursements properly recorded and deposited?
- Are resident maintenance fees, federal per diem reimbursements, and cost of care calculations accurate?
- Is MVH complying with Minn. Stat. Sections 198.022 and 198.03, and related rules within Minnesota Rules, Chapter 9050, which outline resident eligibility requirements and the methodology for calculating resident maintenance fees?

We tested the processing of resident maintenance fees and federal per diem reimbursements. We recalculated a sample of resident maintenance charges and federal per diem reimbursements. We verified 1993 and 1994 cost of care calculations. We also reviewed eligibility determination and MVH census procedures.

Conclusion

MVH properly records and deposits resident maintenance fees and federal per diem reimbursements. MVH adequately documents and correctly calculates resident maintenance fees, federal per diem reimbursements, and cost of care. MVH eligibility determination procedures and the methodology used in calculating resident maintenance fees are in compliance with Minn. Stat. Sections 198.022 and 198.03 and related rules within Minnesota Rules, Chapter 9050.

Chapter 3. Social Welfare

Chapter Conclusions

The Minnesota Veterans Home-Minneapolis (MVH) administers a social welfare account as a service to its residents. The social welfare account is comprised of resident deposits in the state treasury and an imprest cash fund used for resident withdrawals. MVH processes resident deposits and withdrawals correctly. The account balances in the individual resident accounts and the statewide accounting (SWA) system are accurate. However, the MVH did not reconcile the imprest cash checking account correctly for fiscal years 1994 and 1995. MVH is in compliance with Minn. Stat. Section 198.265.

The Minneapolis Veterans Home accepts money from residents for safekeeping purposes and returns the money to the residents upon their request. The MVH deposits residents' money in a separate investment account within the state treasury. The social welfare account balances as of June 30, 1993 and 1994 are presented in Table 3-1.

**Table 3-1: MVH Social Welfare
Financial Activities (Rounded)**

	<u>FY 1993</u>	<u>FY 1994</u>
Social Welfare Account:		
Beginning Balance	\$ 143,000	\$ 126,000
Resident Deposits	<u>524,000</u>	<u>548,000</u>
Total Resources	<u>\$ 667,000</u>	<u>\$ 674,000</u>
Resident Withdrawals	533,000	531,000
Transfers Out	<u>8,000</u>	<u>5,000</u>
Balance Carried Forward	<u>\$ 126,000</u>	<u>\$ 138,000</u>

Source: Statewide Accounting Allotment Balance Within Appropriation Report as of the fiscal year close.

Residents sign a form agreeing to have their money in an account that does not credit interest directly to the resident. In accordance with Minn. Stat. Section 198.265, the MVH transfers the interest earned from the social welfare account, less bank charges, to the designated contributions account established for the general benefit of the residents. Interest for fiscal years 1993 and 1994 of \$7,400 and \$5,200 respectively, were deposited into the designated contributions account.

The MVH accounting system maintains individual resident balances in the social welfare account. On a monthly basis, the MVH reconciles the resident account balances on the system to the amount in the SWA system to ensure the accuracy of the accounting records. The MVH has an imprest cash account of \$25,000 to satisfy withdrawal requests of the

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residents. A local bank maintains a checking account balance of \$18,000 and the MVH retains \$7,000. Through voucher requests, the Department of Finance issues warrants to reimburse the imprest cash account. The MVH reconciles the balance per the bank to MVH accounting records.

Our audit focused on answering the following questions:

- Are resident deposits and withdrawals recorded correctly?
- Are account balances in the individual resident accounts, the imprest cash account, and the SWA system accurate?
- Is the MVH complying with Minn. Stat. Section 198.265 which requires 1) interest earned from the social welfare account to be transferred at least twice a year to the designated contributions account, 2) residents depositing money into the social welfare account have a signed agreement, 3) residents' deposits be deposited into a separate investment account with the state treasury?

We examined resident deposits and withdrawals for the two years ended June 30, 1994. The examination included a review of the deposit and withdrawal process and the transfers of interest from the investment account to the designated contribution account. We verified residents had signed agreements on file. We also reviewed the June 30, 1993, 1994, and the April and May 1995 imprest cash reconciliations.

Conclusion

Resident deposits and withdrawals are recorded correctly. Account balances in the individual resident accounts and SWA are accurate. However, as discussed below, MVH did not reconcile the imprest cash checking account correctly for fiscal years 1994 and 1995. MVH is transferring interest earned from the social welfare account to the designated contributions account at least twice a year. The MVH has signed agreements on file with each resident of the social welfare account. Also, the MVH is using a separate investment account to deposit resident funds.

1. The MVH has not prepared complete, timely, and accurate reconciliations of its social welfare imprest cash checking account.

The MVH did not reconcile its \$18,000 imprest cash checking account accurately. For fiscal years 1994 and 1995, the internal auditors from the Minnesota Veterans Home Board reconciled and made proper adjustments to the December, 1993 to March, 1995 bank reconciliations. The MVH incurs a large number of receipt and withdrawal transactions each month. An accurate reconciliation is necessary to detect discrepancies between the bank balance and the MVH records.

Recommendation

- *The Minnesota Veterans Home-Minneapolis should prepare a complete and timely reconciliation of the imprest cash checking account and investigate any differences each month.*

Chapter 4. Payroll

Chapter Conclusions

The Minnesota Veterans Home-Minneapolis (MVH) follows the payroll processing procedures outlined in the Department of Finance payroll manual. Time sheets are adequately documented and approved, and the correct pay rate is used in determining payments to employees. We did note one employee was underpaid during fiscal years 1993 and 1994. The MVH completed a retroactive adjustment of \$428 to correct the pay rate of that individual. The MVH has allowed several employees to accumulate alternative holiday leave balances. One such individual, upon retirement, had accumulated 11 uncompensated alternate holidays.

The Minnesota Veterans Home-Minneapolis (MVH) has a staff of approximately 475 employees, of which 405 employees are considered full-time equivalents (FTEs). The MVH processes the payroll for these staff through the state payroll system. Payroll expenditures have remained relatively stable during fiscal years 1993 and 1994. Table 4-1 shows the payroll expenditures during this time period.

**Table 4-1: Changes in Payroll Expenditures
Fiscal Years 1993-1994**

<u>Expenditure Type</u>	<u>Fiscal Year 1993</u>	<u>Fiscal Year 1994</u>
Classified	\$12,937,000	\$13,363,000
Unclassified	176,000	145,000
Seasonal	58,000	51,000
Severance	53,000	44,000
Premium Pay	121,000	119,000
Overtime	<u>663,000</u>	<u>671,000</u>
Total	<u>\$14,008,000</u>	<u>\$14,393,000</u>

Source: Statewide Accounting Managers Financial Report as of the close of each fiscal year.

Our audit focused on answering the following questions:

- Are time sheets adequately documented and approved, and are the correct pay rates used in determining payments to staff?
- Is the MVH processing payroll in accordance with Department of Finance requirements?
- Does the MVH comply with the salary requirements of the related labor agreements?

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We examined MVH's payroll processing procedures for the two years ended June 30, 1994. Our review focused on the process for documenting and approving time worked, and comparison of the pay rates to the salary schedules included within the various labor agreements. We also reviewed the current alternate holiday leave balances.

Conclusion

Time sheets are adequately documented and approved, and the correct pay rate is used in determining the payments to employees. We did note that one employee was underpaid during fiscal years 1993 and 1994. As a result, MVH completed a retroactive adjustment of \$428 to correct the individual's pay rate. In this instance, MVH did not provide step increases in accordance with the AFSCME labor agreement. We expanded our testing of the pay rate increases during fiscal years 1993 and 1994. We noted no other occurrence of an inaccurate pay rate to employees and consider the one example to be an isolated incident. Overall, the MVH processes the payroll in accordance with Department of Finance requirements. However, we did note a problem in the accumulation of alternate holiday leave balances. MVH allowed some employees to accumulate excessive alternate holiday leave balances, and one individual, upon retirement, had accumulated 11 uncompensated alternate holidays.

- 2. The Minnesota Veterans Home-Minneapolis (MVH) is not adequately monitoring its alternate holiday leave balances. It currently does not have a process in place for insuring the liquidation of these balances.**

MVH staff do not liquidate alternate holidays on a timely basis. In addition, MVH does not monitor the accumulation of alternate holidays.

MVH allows employees to accumulate alternate holiday leave balances. During the year some employees are required to work on holidays. These employees earn an alternate holiday. However, the method of liquidating these alternate holidays depends on the various union agreements. For instance, the AFSCME labor agreement requires employees to schedule an alternate holiday within 120 days of the worked holiday, or the day shall be converted to compensatory time. However, some employees at the MVH have not scheduled an alternate holiday for almost two years, and the time has not been converted to compensatory time. Sixteen employees have accumulated alternate holiday leave during fiscal years 1993 and 1994 totaling 34 days. Another 109 employees have not scheduled an alternate holiday since working the holidays in fiscal year 1995.

One employee retired in June 1995 with an 11 day alternate holiday leave balance and was not paid. This individual had worked the holidays and was entitled to holiday pay, in cash or an alternate holiday, under the Middle Management Agreement (MMA). Under the agreement, the appointing authority (MVH) has the discretion to pay the holiday in cash, or give the employee an alternate holiday. In this instance, MVH failed to provide the employee with alternate holidays or cash. It is difficult to determine from available documentation or discussions with MVH personnel why these alternate holidays went uncompensated. Although the employee is retired, MVH should consult with the Department of Employee Relations to determine if payment for the alternate holidays is appropriate.

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Recommendations

- *The Minnesota Veterans Home-Minneapolis should liquidate alternate holiday balances in cash, compensatory time, or determine an alternate holiday schedule.*
- *MVH should consult with the Department of Employee Relations concerning the 11 uncompensated alternate holidays to the retired individual in question. In addition, MVH should monitor its alternate holiday balances to prevent this situation from occurring in the future.*

Chapter 5. Drug and Medicine Purchases

Chapter Conclusions

Medicine and drug purchases are one of the largest administrative costs of the Minnesota Veterans Home-Minneapolis (MVH). Total purchases during fiscal years 1993 and 1994 amounted to \$700,000. Recent changes in contract prices has allowed the MVH to reduce the amount expended for medicine and drugs. The MVH purchases drugs and medicine based upon the available contracts.

The MVH expenditures for drugs and medicine is one of the primary operational costs of the home. However, since fiscal year 1993, the cost of medicine and drugs has slowly decreased. This decrease is due to the MVH's accessibility to the Federal Supply Schedule (FSS). Prior to January 1, 1993, the MVH purchased drugs and medicine based upon the Minnesota Multi-State Schedule as included within the State of Minnesota's contract with the wholesaler. On November 4, 1992, the Veterans Health Care Act of 1992 was signed into law. This law requires drug manufactures to sell their "covered drugs" to state veterans homes at a price no greater than the price on the FSS. Not all drugs and medicine are on the FSS, and the MVH at times is required to purchase from the Minnesota Multi-State Schedule. Since January 1993, the MVH has taken advantage of the FSS and purchased available drugs and medicine at the reduced price. The costs of drugs and medicine has decreased from \$403,000 in fiscal year 1993 to \$297,000 in fiscal year 1995.

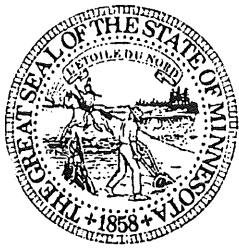
Our audit focused on answering the following question:

- Are MVH drug and medicine purchases based upon the available contracts?

We examined the process for ordering drugs and medicine and tested the prices on individual purchase orders to the existing contracts.

Conclusion

The Minnesota Veterans Home-Minneapolis is purchasing drugs based on the available contracts.



STATE OF MINNESOTA
VETERANS HOMES BOARD

VETERANS SERVICE BUILDING
20 WEST 12TH STREET, ROOM 122
ST. PAUL, MINNESOTA 55155
(612) 296-2073

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August 14, 1995

Mr. James Nobles
Legislative Auditor
Office of the Legislative Auditor
1XX Centennial Office Building
St. Paul, MN 55155

Dear Mr. Nobles:

We have received your draft report of the audit of the Minneapolis Veterans Home. We are pleased to find that there were no major findings noted for the period being audited.

The auditor in charge of the review, Tom Donahue, and his staff were professional, respectful and courteous in all of their dealings with this agency. Their behavior most assuredly represents your function of government positively. During the course of the audit, suggestions were made to help us conduct our affairs in less cumbersome and more prudent ways. These suggestions are being implemented and it is the insight which these comments afford us which make possible a "no major exceptions" audit such as we have experienced.

We find your staff to be highly competent and professional in their conduct, and their review of our activities is very helpful in assisting us to do what we are charged to do.

Sincerely,


Richard Zierdt
Executive Director

RZ:cb