MINNESOTA VETERANS HOME - MINNEAPOLIS

FINANCIAL AUDIT

FOR THE TWO YEARS ENDED JUNE 30, 1990

JUNE 1991

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

91-34

Veterans Service Building, Saint Paul, Minnesota 55155 • 612/296-4708

SUMMARY

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

MINNESOTA VETERANS HOME - MINNEAPOLIS

FINANCIAL AUDIT
JULY 1, 1988 - JUNE 30, 1990

Public Release Date: June 14, 1991 No. 91-34

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: cost of care revenues, federal revenues, social welfare revenues and expenditures, classified payroll, food expenditures, and pharmacy and nursing supplies.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

We found one area where the internal control structure needed improvement:

- The home is not reconciling the social welfare bank account.

We found four areas where the home had not complied with finance-related legal provisions:

- Funds were improperly transferred from the home to the board office.
- The home is not charging interest on overdue maintenance accounts.
- Contracts for deed are not included in the calculation of maintenance charges.
- The home is not complying with state gift acceptance procedures and is not using some contributions properly.

Contact the Financial Audit Division for additional information.
(612) 296-1730

STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
VETERANS SERVICE 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 Sieben, Chair
Minnesota Veterans Home Board

Members of the Minnesota Veterans Home Board

Ms. Karen Jennings, Acting Administrator
Minnesota Veterans Home-Minneapolis

Audit Scope

We have completed a financial related audit of the Minnesota Veterans Home-Minneapolis for the two years ended June 30, 1990. Our audit included only that portion of the State of Minnesota financial activities attributable to the transactions of the Minnesota Veterans Home-Minneapolis discussed in the introduction. We have also made a study and evaluation of the internal control structure of the Minnesota Veterans Home-Minneapolis in effect as of January 1991.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transactions of the Minnesota Veterans Home-Minneapolis are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Minnesota Veterans Home-Minneapolis compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Management Responsibilities

The management of the Minnesota Veterans Home-Minneapolis is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;

JUN 18 1991

- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and,

- transactions are recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- cost of care revenues;
- federal revenues;
- social welfare revenues and expenditures;
- classified payroll expenditures;
- food expenditures; and
- pharmacy and nursing supplies expenditures.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed the control risk.

Conclusions

Our study and evaluation disclosed the condition discussed in finding 5 involving the internal control structure of the Minnesota Veterans Home-Minneapolis. We consider this condition to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the entity's ability to record, process, summarize and report financial data.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors and irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe that the reportable condition described above is not a material weakness.

We also noted other matters involving the internal control structure and its operation that we reported to the management of the Minnesota Veterans Home-Minneapolis at the exit conference held on April 26, 1991.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial activities being audited. The results of our tests of compliance disclosed the instances of noncompliance noted in finding 1.

The results of our tests indicated that, except for the issues discussed in findings 2 to 4, with respect to the items tested, the Minnesota Veterans Home-Minneapolis complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Minnesota Veterans Home-Minneapolis has not complied, in all material respects, with those provisions.

The Department of Finance was also asked to respond to finding 1 in the report. The board and the department worked together to transfer funds from the home to the board. Both responses are included in this report.

This report is intended for the information of the Legislative Audit Commission, the Minnesota Veterans Home Board, and 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 June 14, 1991.

We would like to 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: March 20, 1991

REPORT SIGNED ON: June 4, 1991

MINNESOTA VETERANS HOME-MINNEAPOLIS

TABLE OF CONTENTS

		Page
I.	INTRODUCTION	1
II.	CURRENT FINDINGS AND RECOMMENDATIONS	2
	AGENCY RESPONSE	6
	DEPARTMENT OF FINANCE RESPONSE	7

AUDIT PARTICIPATION

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

John Asmussen, CPA	Deputy Legislative Auditor
Margaret Jenniges, CPA	Audit Manager
Jack Hirschfeld, CPA	Auditor-In-Charge
Rhonda Regnier, CPA	Senior Auditor
Karen Klein	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 April 26, 1991:

Minnesota Veterans Home Board:

James Sieben, Chair
Robert Hansen, Board Member
Rich Zierdt, Executive Director
Rebecca Leschner, Accounting Coordinator
Sandra Linn, Internal Audit
Lois Davis, Internal Audit

Minnesota Veterans Homes - Minneapolis:

Karen Jennings, Acting Administrator
John Seelhammer, Assistant Administrator
Dennis Blager, Business Manager
Carlene Hoeschen, Quality Assurance
Barbara Kochener, Personnel Director

I. INTRODUCTION

The Minnesota Veterans Home-Minneapolis was founded in 1887. It is currently licensed to serve 346 nursing care and 194 domiciliary residents. Its purpose is to provide a home for veterans and their spouses, surviving spouses, and parents who meet eligibility and admission requirements.

The home is under the direct management of the Minnesota Veterans Home Board. The board consists of nine voting members appointed by the Governor. The chair is designated by the Governor. Three public members and five members of veterans organizations have professional experience in health care delivery. The Commissioner of Veterans Affairs serves as a nonvoting member of the board as do the chairs of the senate veterans affairs committee and the house committee on general legislation, veterans affairs, and gaming.

Jeffrey Smith, the administrator of the Minnesota Veterans Home-Minneapolis since September 19, 1988, resigned in January, 1991. The Board appointed Karen Jennings as the acting administrator.

The Minnesota Veterans Home-Minneapolis received $16,336,000 in appropriations for fiscal year 1990. Following is a summary of the financial activities of the Minnesota Veterans Home-Minneapolis during fiscal year 1990:

Minnesota Veterans Home-Minneapolis
Revenues and Expenditures
for the Fiscal Year Ended June 30, 1990

Appropriations	$16,336,000
Expenditures:	
Classified payroll	$12,250,000
Overtime	824,000
Food purchases	741,000
Pharmacy and Nursing Supplies	650,000
Other activities	2,219,000
Total Expenditures	$16,684,000

The home also received revenue of $5,329,000 for care of persons and $2,506,000 federal reimbursement. The residents accounts had revenue of $674,000 and expenditures of $678,000.

Source: *Managers Financial Report*, as of September 1, 1990.

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. Funds were improperly transferred from the Minnesota Veterans Home-Minneapolis to the Minnesota Veterans Home Board Office.

Funding was improperly transferred from the Minnesota Veterans Home-Minneapolis (home) to the board office. Over $26,000 was transferred in fiscal year 1990, and $257,000 was transferred in fiscal year 1991. The transfer of funds has not received the appropriate authorization. Unless the transfer is approved by the Legislative Advisory Commission, it would constitute a violation of Minn. Stat. Section 10.31.

The transfer of funds between the homes and the board is not authorized by the appropriation laws. Laws of 1989, Chapter 282, Article 1, Section 4 provides the appropriations for the Veterans Home Board for fiscal years 1990 and 1991. The law further divides the appropriation between two programs: The Veterans Homes and the Veterans Home Board. It does not provide authority to transfer amounts between the two program areas. For fiscal year 1991, the law provided $145,000 to the board and $20,896,000 to the nursing homes.

The Veterans Home Board sought additional funding to improve its oversight and management capabilities for the nursing homes. It needed additional funds to finance the salaries of internal auditors, an accounting coordinator, human resources coordinator, and management information systems coordinator. The board's executive director sought to obtain supplemental budget authority for the additional positions. However, due to the state's budget problems, the Department of Finance did not allow a supplemental budget request during the 1990 legislative session. Finance also would not have submitted a supplemental budget request to the Legislative Advisory Commission.

The executive director then worked with the Department of Finance's executive budget officer to execute a transfer from the home to the board. The transfer documentation cited Minn. Stat. Section 198 as its authority. However, the statute does not provide authority to transfer funds between the homes and the board. Upon further review, officials from both the board and the Department of Finance agree that the transfer requires approval from the Legislative Advisory Commission. Finance officials told us that the commission routinely approves appropriation transfers between programs. Thus, they plan to seek LAC approval in June 1991.

RECOMMENDATION

- **The board must adhere to the provision of the appropriation laws and seek LAC approval for the unauthorized transfer from the homes.**

2. <u>The home is not charging interest on overdue maintenance accounts</u>.

The home is not charging interest on overdue resident maintenance charges. The home bills the residents for their cost of care prior to the first of each month. Any resident failing to pay the maintenance charge by the first of the following month is delinquent. Delinquent accounts of current residents as of February 10, 1991 totaled over $300,000.

Agency rules Section 9050.0520, effective May 1, 1990, requires the home to charge interest on overdue resident accounts. The home has been developing contracts with residents for the payment of the overdue amounts. While these contracts provide for the monthly repayment of the overdue amounts, there is no provision for interest on the overdue accounts.

RECOMMENDATION

- **The home should charge interest on overdue maintenance accounts as required by the agency rules.**

3. <u>Contracts for deed are not included in the calculation of maintenance charges</u>.

The home is not including contracts for deed in the determination of the amount of maintenance charges for residents. Agency rules 9050.0600 Subp. 2 Paragraph B effective May 1990 requires that real property, including contracts for deed, be included in the determination of maintenance charges. These rules further require that contracts for deed be sold, and the income be included in the calculation of the residents maintenance charge. The additional income would increase the amount of the maintenance charges for those residents. The individual at the home responsible for calculating the maintenance charges was on an extended leave after the rules became effective. Since his return, the home has begun developing a list of residents that have contracts for deed. The home should continue to review all resident files for contracts for deed. When this listing is complete, the home should process these contracts for deed according to the requirements of the agency rules.

RECOMMENDATION

- **The home should require the residents to sell their contracts for deed, and include this income in the determination of their maintenance charge.**

4. <u>PRIOR AUDIT FINDING NOT RESOLVED: The home is not complying with state gift acceptance procedures and is not using some contributions properly</u>.

The administrator at the Minnesota Veterans Home-Minneapolis is not reviewing all donated gifts. The administrator did not review and approve 6 out of 24 gifts received during fiscal year 1991. Minn. Stat. Section 198.16 authorizes the home to receive gifts from any source. Minn. Stat. Section 7.09 also requires an agency to study each gift offer to determine if it will benefit the state, and if it conforms to the agency objectives. If these two criteria are met, the agency can accept the gift. The home did not comply with the statutory requirement. The home did not receive approval from the Department of Finance for gifts of $500 or more. During July 1990 to January 1991, the home failed to submit 9 out of the 15 gifts exceeding $500 tested to the Department of Finance for approval.

The home is not providing written acknowledgment to all donors. Statewide accounting procedures require that the donor receive a copy of the gift acceptance form. This procedure provides assurance to the donor that the home received the donation and understands the intended purpose. The home sent a letter of acknowledgment to only eight of the 24 donors in fiscal year 1991.

Some expenditures out of the designated contributions were improper. The home purchased coffee, rolls, and lunches for Minnesota Veterans Home Board meetings. Other organizations at the home also charged similar expenditures to the designated contributions account. The designated contributions account incurred charges of over $300 for refreshments and meals during a three month period reviewed ending June 1990. Additional expenditures occurred in fiscal year 1991. Minn. Stat. Section 191.161 states that donations shall be expended in accordance with the conditions of the gift or in the best interest of the residents. Use of designated contribution funds for refreshments for board meetings does not directly benefit the residents.

RECOMMENDATIONS

- **The home should comply with statewide gift acceptance procedures for authorizing and approving all donated gifts.**

- **The home should send to all donors an acknowledgment that includes the amount of the gift and its intended use.**

- **All expenditures charged to the designated contributions account should be for the benefit of the residents.**

5. <u>The home is not reconciling the Social Welfare bank account</u>.

The home does not reconcile the Social Welfare monthly bank statement. The home does not verify the outstanding checks amount and uses an incorrect ending bank balance for the bank reconciliation. The home has established an imprest cash account of $25,000 to provide cash for the daily activity of resident accounts. A checking account of $18,000 is maintained at a local bank, and $7,000 is kept at the home. The home properly reconciles the $7,000 cash balance daily. However, the home does not accurately reconcile the checking account.

The home has not included the correct outstanding checks amount in completing the bank reconciliations for fiscal year 1991. The home also did not use the correct ending bank balance to complete the reconciliations. Verification of all amounts used in reconciling the checking account is an essential part of the reconciliation process.

We completed the reconciliation for the month of December 1990. There was a difference of $629 between our cash balance and the cash balance calculated by the home. This difference was the sum of incorrect outstanding checks ($173) and the incorrect bank balance ($456) used in computing the reconciliation. The home should determine the correct outstanding checks amount and use the correct bank balance when reconciling the checking account. An accurate reconciliation is necessary to verify the correct balance on statewide accounting records.

RECOMMENDATION

- **The home should complete an accurate reconciliation of the Social Welfare bank account monthly and investigate any differences.**

STATE OF MINNESOTA
VETERANS HOMES BOARD

VETERANS SERVICE BUILDING
20 WEST 12TH STREET, ROOM 206A
ST. PAUL, MINNESOTA 55155
(612) 296-2073

May 23, 1991

Mr. James R. Nobles
Legislative Auditor
Office of the Legislative Auditor
St. Paul, Mn. 55155

Dear Mr. Nobles:

I hereby acknowledge receipt of your draft letter which identifies the findings and recommendations of your office as the result of your biannual audit of our Minneapolis facility's accounts and programs. As has been the case in the past, we continue to appreciate the efforts of the state's Legislative Audit Commission in performing audits which assist us in improving our performance in serving Minnesota's veteran population.

Our Board of Director's feels, once again, that your auditor's review of one of our programs is a valuable resource in assisting us to fine tune our still quite new function in state government. We have noted all of the findings which your report illuminates and we will be making the necessary adjustments in our processes forthwith.

In specific detail and regarding finding number one of your draft report, we believe that the first sentence in paragraph number four does not accurately reflect the sincerity of the attempt to make the transfer in question correctly. I would, additionally, like to comment on finding number four and point out that we have been struggling for a number of months now already to find a better procedure to implement, and will be redoubling our efforts in this regard immediately. In fact, we will be implementing corrective processes in all of the areas you have identified.

In closing, I wish to inform you that we will be assigning our executive director and the administrator of our Minneapolis facility to be the persons responsible for implementing corrective actions as soon as possible.

Respectfully Yours,

James C. Sieben
Chairman

State of Minnesota
Department of Finance

400 Centennial Building
658 Cedar Street
St. Paul, Minnesota 55155
(612) 296-5900

June 4, 1991

To: James R. Nobles, Legislative Auditor

Fr: David S. Doth, Assistant Commissioner David S Doth

Re: Transfer of funds from Minneapolis Veterans Home to Veterans Home Board

In the course of your audit of the Minneapolis Veterans Nursing Home, you discovered Department of Finance staff had inappropriately authorized appropriation transfers of $25,056 in F.Y. 90 and $256,994 in F.Y. 91 from the Minneapolis Veterans Home to the Veterans Home Board.

It is the recollection of our staff that the Veterans Home Board initiated the request to transfer funds from the Minneapolis Veterans Home's appropriation account to the Veterans Home Board's appropriation account. Staff from the Veterans Home Board explained the request as needed to establish budgeting, personnel, and audit capabilities at the Board level. Since both the Department of Finance and the Department of Employee Relations had been encouraging the Veterans Home Board to develop additional management resources at the Board level, this was interpreted as a positive management improvement for the entire system. The Veterans Home Board staff also indicated they had checked with the chairs of the House Health and Human Services Appropriation Division and the Senate Health and Human Services Appropriation Division, and the chairs had agreed the transfer was consistent with the policy objectives of the legislature.

By failing to carefully review the statutory reference cited as the authority for the transfer, however, Department of Finance staff failed to realize that proper authority did not exist for the transfer. Since the authority was not present in statute, Department of Finance staff should have not authorized the transfer.

Now, however, in the Laws of Minnesota for 1991, Chapter 292, Article 1, Section 4, the legislature and governor have included the following authorizing language:

> "For the biennium ending June 30, 1991, the veterans nursing homes board, with the approval of the commissioner of finance, may transfer seven positions and unencumbered appropriation balances between the the veterans nursing homes and the veterans nursing homes board."

With this authority now in law, the present matter appears to be resolved. In order to prevent similar situations from occurring in the future, however, I will ask my staff to double their efforts to ensure appropriate authority exists for appropriation transfers.