Minnesota Veterans Home - Hastings

Financial Audit
For the Three Fiscal Years Ended June 30, 1997

August 1998

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

98-46

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STATE OF MINNESOTA
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Members of the Legislative Audit Commission

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Minnesota Veterans Home Board

Members of the Minnesota Veterans Home Board

Mr. Andrew Vinson, Administrator
Minnesota Veterans Home - Hastings

We have audited the Minnesota Veterans Home - Hastings for the period July 1, 1994, through June 30, 1997, as further explained in Chapter 1. Our audit scope included: cost of care, payroll (including resident payroll), lease receipts, operational expenditures, and resident account activity. The following Summary highlights the audit objectives and conclusions. We discuss our audit objectives and conclusions more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards require that we design the audit to provide reasonable assurance that the Minnesota Veterans Home - Hastings complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. The management of the Minnesota Veterans Home - Hastings is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of the Minnesota Veterans Home - Hastings. This restriction is not intended to limit the distribution of this report, which was released as a public document on August 14, 1998.

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: April 24, 1998

Report Signed On: August 10, 1998

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SUMMARY

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Minnesota Veterans Home - Hastings

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Public Release Date: August 14, 1998 No. 98-46

Background

The Minnesota Veterans Home - Hastings (Hastings Veterans Home) is one of five Minnesota Veterans Homes under the direct management of the Veterans Homes Board. The board consists of nine voting members appointed by the Governor with the advice and consent of the state senate. The Veterans Homes Board appointed Mr. Andrew Vinson as the administrator of the Hastings Veterans Home in December 1996. The Hastings Veterans Home provides board and care for eligible residents and their spouses. Currently, the home cares for 186 residents and is licensed for 200 residents. The home funds its operations through state appropriations, federal per diem payments, and resident maintenance payments.

Audit Objectives and Conclusions

Our audit objectives were to obtain an understanding of management controls for the period from July 1, 1994 to June 30, 1997, relevant to costs of care, payroll, lease receipts and operational expenditures, and resident trust account activities. We designed our audit to provide reasonable assurance that the home complied with the provisions of laws and rules.

We concluded that the Hastings Veterans Home designed and implemented internal controls to provide reasonable assurance that resident maintenance fees, federal per diem reimbursements, and lease receipts were properly deposited and accurately recorded in the state's accounting system. In addition, the home accurately calculated federal per diem reimbursements. However, the home did not accurately calculate its cost of care rate for fiscal year 1998. In addition, the home did not adequately verify the financial status of residents to ensure that resident maintenance fees were accurately calculated. For the items tested, the home's eligibility determination procedures were in compliance with statutory and rule provisions. However, the home did not calculate interest on delinquent resident accounts.

The Hastings Veterans Home designed and implemented internal controls to provide reasonable assurance that payroll expenditures and other operational expenditures were supported and approved. However, the home did not implement controls to ensure it used correct pay rates in determining payments to staff, or to ensure it complied with the salary requirements of the related bargaining agreements. The home needs to improve controls over access to its payroll and personnel system, resident employee pay checks, and approval of overtime hours. Finally, the home made errors adjusting leave balances and calculating retroactive pay adjustments.

The Hastings Veterans Home designed and implemented internal controls to provide reasonable assurance that resident account financial activities were promptly and accurately recorded in accordance with resident authorizations. We were unable to conclude on resident financial activities for the period July 1, 1994, to October 31, 1994, since supporting documentation for that time period was unavailable. For the items tested, the home complied with applicable finance-related legal provisions. However, the home did not reconcile resident financial activity to the state's accounting system on a regular basis. Also, the home did not transfer interest in accordance with Minnesota Statutes.

The Hastings Veterans Home response indicated general agreement with the majority of audit findings and that corrections were either completed or in progress. However, the home disagreed with our finding to recover fiscal year 1998 cost of care rates from certain residents based on its belief that recovery costs would exceed outstanding fees collected.

Table of Contents

Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Thomas Donahue, CPA	Audit Manager
Rhonda Regnier, CPA	Auditor-in-Charge
Eric Wion, CPA	Senior Auditor
Scott Tjomsland, CPA	Senior Auditor

Exit Conference

We discussed the results of the audit at an exit conference with the following Minnesota Veterans Homes Board Office and Veterans Home - Hastings staff on August 10, 1998:

Stephen J. O'Connor	Chair, Minnesota Veterans Homes Board
Richard Zierdt	Executive Director
Andrew Vinson	Administrator, Hastings Veterans Home
Mark Kryzer	Business Manager, Hastings Veterans Home
Sandy Linn	Board Office, Internal Audit
Lois Davis	Board Office, Internal Audit

Chapter 1. Introduction

The Minnesota Veterans Home - Hastings (Hastings Veterans Home) is one of five Minnesota veterans homes currently under the general direction of the Minnesota Veterans Homes Board. The other homes are located in Minneapolis, Silver Bay, Luverne and Fergus Falls. The Hastings Veterans Home provides domiciliary care for veterans and their spouses who meet eligibility and admission requirements. Currently, the facility cares for 186 residents and is licensed for 200 residents. The home's daily management is the responsibility of the administrator. Mr. Andrew Vinson has been the administrator of the home since December 30, 1996. Ms. Patrica Larsen was the acting administrator from October to December 1996, and Ms. Catherine Johnson was the administrator during the remainder of our audit period.

The Veterans Homes Board received appropriations for the operation of its veterans homes. The Hastings Veterans Home received an allocated portion of the appropriations to assist in funding its operations. In addition, the home received revenue from federal per diem payments and resident maintenance payments. Table 1-1 summarizes the funding activities of the home for fiscal years 1996 and 1997.

Table 1-1
Summary of Financial Activities
Budgetary Fiscal Years 1996 and 1997

	FY 1996	FY 1997
Source of Funds:		
State appropriations	$2,709,366	$2,718,469
Balance in	199,730	486,983
Maintenance charges	546,287	600,126
Federal per diem	643,473	762,915
Lease revenue	407,318	374,658
Resident deposits	269,763	299,147
Other	127,247	290,732
Total Funds Available	$4,903,184	$5,533,030
Use of Funds:		
Payroll	$2,991,839	$3,248,231
Rent, Maintenance, Utilities	179,134	208,281
Supplies	677,227	780,291
Resident withdrawals	264,225	288,533
Other	303,776	526,161
Total Expenditures	$4,416,201	$5,051,497
Balance	$ 486,983	$ 481,533

Source: Financial information obtained from the state's accounting system.

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Chapter 2. Cost of Care

Chapter Conclusions

The Hastings Veterans Home designed and implemented internal controls to provide reasonable assurance that resident maintenance fees and federal per diem reimbursements were properly deposited and accurately recorded in the state's accounting system. In addition, the home accurately calculated federal per diem reimbursements. However, the home did not accurately calculate its cost of care rate for fiscal year 1998. In addition, the home did not adequately verify the financial status of residents to ensure that resident maintenance fees were accurately calculated. For the items tested, the home's eligibility determination procedures were in compliance with statutory and rule provisions. However, the home did not calculate interest on delinquent resident accounts.

Minnesota Statutes require the veterans homes to annually calculate its cost of care rate for residents. The cost of care rate represents the homes average daily per resident cost of providing care. The daily cost of care rates for fiscal years 1995, 1996, and 1997 were $70.96, $73.18, and $74.27, respectively.

The cost of care for residents of the Hastings Veterans Home was paid from three sources: federal per diem reimbursements, resident maintenance fees, and state appropriations. For each eligible resident, the federal Veterans Administration (VA) pays the home a portion of the daily cost of care. The federal reimbursement rates for domiciliary care for federal fiscal years 1995, 1996, and 1997 were $15.11, $15.33, and $16.13 per day, respectively. To qualify for this reimbursement, the resident must be a veteran and meet specific financial guidelines.

Residents pay a maintenance fee based upon ability to pay. Residents with a net worth exceeding $3,000 were responsible for their full daily cost of care less the federal reimbursement. When resident net worth drops below $3,000, a resident's income must be considered. Ultimately the home's appropriation pays the difference between the full cost of care and the amounts paid by federal reimbursements and resident maintenance fees.

Audit Objectives and Methodology

Our audit of resident maintenance fees and federal per diem reimbursements focused on the following questions:

- Did the home design and implement internal controls to provide reasonable assurance that resident maintenance fees and federal per diem reimbursements were properly calculated, deposited, and accurately recorded in the state's accounting system?

Minnesota Veterans Home - Hastings

- Did the home comply with Minnesota Statutes Section 198.01, 198.03, 198.34 and related rules within Minnesota Rules Chapter 9050, which outline the resident's eligibility requirements and the methodology for calculating the annual cost of care rate and resident maintenance fees?

To answer these questions, we interviewed key staff members to gain an understanding of the controls over resident maintenance fees and federal per diem reimbursements. We reviewed and tested a sample of maintenance fee determinations, billings, and deposits. In addition, we reviewed and tested the federal per diem process and the most recent annual cost of care calculation for fiscal year 1998.

Conclusions

The Hastings Veterans Home designed and implemented internal controls to provide reasonable assurance that resident maintenance fees and federal per diem reimbursements were properly deposited and accurately recorded in the state's accounting system. In addition, the home accurately calculated federal per diem reimbursements. However, as explained in Finding 1, the home did not accurately calculate its cost of care rate for fiscal year 1998. In addition, the home did not adequately verify the financial status of residents, as explained in Finding 2. For the items tested, the home's eligibility determination procedures were in compliance with statutory and rule provisions. However, the home did not calculate interest on delinquent resident accounts, as explained in Finding 3.

1. The home did not calculate its fiscal year 1998 cost of care rate accurately.

During our audit, we reviewed the homes most current cost of care rate calculation. The home calculated the fiscal year 1998 daily cost of care rate at $81.15. To calculate its daily cost of care rate, the home should have analyzed its activities from April 1, 1996, through March 31, 1997. However, the home did not include expenditures for March 30 and March 31, totaling $140,050, and also failed to include 506 resident days of care in its cost of care calculation for fiscal year 1998. These exclusions resulted in the daily rate being understated by approximately $3. As a result, the home may not have collected the proper amounts from those residents that had the ability to pay for their cost of care.

Recommendation

- *The home should determine those residents that had the ability to pay for their cost of care during fiscal year 1998 and recover the additional maintenance fees.*

2. The home did not adequately verify the financial status of residents.

The home did not adequately verify the financial information provided to it at the time residents were admitted. In addition, the home did not hold annual financial status interviews with residents or adequately verify resident's financial status on an annual basis. For example, we found residents who indicated on the home's application that they had bank accounts, life insurance policies with cash values, and other obligations, however, the home did not verify the accuracy of the financial information. In addition, during 1995 and 1996, the home did not conduct an annual review of its residents' total income, assets, and other obligations. Rather, the home only verified federal social security benefits and Veterans Administration pensions. Residents were not asked if they had a change in other sources of income, assets, or other obligations. This information is necessary to properly calculate a resident's maintenance rate. By failing to adequately verify a resident's financial status, the home cannot accurately calculate the resident's maintenance fees.

During 1997, the home attempted to conduct a complete annual review and verification of the financial status of all of its residents. Our testing indicated that the information provided by the residents was not consistently verified by the home. In addition, the home used a form that failed to ask the residents if they had other obligations or deductions that could ultimately reduce the resident's ability to pay for maintenance fees.

Minnesota Rule 9050.0560 required a resident's maintenance charge to be calculated at the time of admittance and at least annually after admission. Furthermore, Minnesota Rule 9050.0800 required the resident to be present at the interview held to determine the applicant's or resident's ability to pay or to obtain the financial information from the applicant or resident. Minnesota Rule 9050.0820 required the information obtained in the financial interview to be verified by the facilities financial staff. Examples of the information required to be verified included income, insurance benefits, property, expenses or deductions claimed, social security benefits, federal VA benefits, pensions and annuities, and transfers of property.

Recommendation

- *The Hastings Veterans Home should develop a process to conduct a complete financial review of an applicant's financial status prior to admission and to verify the financial status of its residents annually thereafter.*

3. Prior Finding Not Resolved: The home did not calculate, bill, and collect interest on delinquent resident accounts.

The home did not bill or collect interest on delinquent resident accounts during the audit period. We noted that the home calculated interest on a resident's outstanding balance only after the resident left the home. Although the home calculated interest on these accounts, it never billed the resident for the interest. The home did not accrue interest on any delinquent accounts if the resident paid the balance owed prior to the resident leaving the home. After December 1997, the home stopped calculating interest on delinquent resident accounts.

Minnesota Rule 9050.0520 required interest to be charged on all delinquent accounts. The resident's account was considered delinquent if a resident willfully refused or willfully failed to pay the bill by the due date. According to Minnesota Rule 9050.0200, discharge proceedings must be initiated once an account becomes delinquent.

Recommendation

- *The home should implement a process to consistently calculate, bill, and collect interest on delinquent accounts, regardless of whether the resident was formally discharged.*

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Chapter 3. Payroll

Chapter Conclusions

The Hastings Veterans Home designed and implemented internal controls to provide reasonable assurance that payroll expenditures were supported and approved. However, the home did not design and implement internal controls to ensure it used correct pay rates in determining payments to staff, and to ensure it complied with the salary requirements of the related bargaining agreements. The home needs to improve controls over access to its payroll and personnel system, over resident employee pay checks, and approval of overtime hours. Finally, the home made errors adjusting leave balances and calculating retroactive pay adjustments.

During the audit period, payroll expenditures amounted to approximately $8.9 million or about 66 percent of the home's total expenditures. The home employs approximately 80 employees and has staff on hand 24 hours a day. In addition, the home employs approximately 60 residents in its resident employment program. Participating residents work part-time, performing various duties at the home.

The home used the state's old payroll system (PPS) to process payroll in fiscal year 1995 and the first half of fiscal year 1996. The home began using the state's new payroll system (SEMA4) to process payroll in December 1995.

Audit Objectives and Methodology

Our review of the home's payroll, including resident payroll, focused on the following questions:

- Did the home design and implement internal controls to provide reasonable assurance that payroll expenditures were adequately supported and approved, and correct pay rates were used in determining payments to staff and residents?

- Did the home design and implement internal controls to provide reasonable assurance that payroll and personnel transactions were processed in accordance with bargaining agreement provisions and applicable state policies and procedures?

To answer these questions, we interviewed staff to gain an understanding of the internal control structure and processes for payroll, resident payroll, and personnel transactions. We performed analytical procedures, reviewed system access, and tested samples of payroll and personnel transactions.

Conclusions

The Hastings Veterans Home designed and implemented internal controls to provide reasonable assurance that payroll expenditures were supported and approved. However, as discussed in Findings 4 and 5, the home did not implement controls to ensure it used correct pay rates in determining payments to staff, and to ensure it complied with the salary requirements of the related bargaining agreements. As discussed in Findings 6, 7, and 8, the home needs to improve controls over access to its payroll and personnel system, over resident employee pay checks, and approval of overtime hours. Finally, the home made errors adjusting leave balances, as discussed in Finding 9.

4. The home paid several employees inappropriately.

Personnel function deficiencies at the home caused several payroll errors. The home did not adequately monitor personnel records to ensure that pay rates were accurate. When the home began using SEMA4, it assumed increased responsibility over personnel records used to determine payments to staff. Personnel staff determined when employee pay rate adjustments were needed based on applicable bargaining agreement provisions, and input those adjustments into SEMA4. However, on several occasions, personnel staff did not input adjustments timely or accurately. Errors included the following:

- The home paid several employees for 80 hours that they did not work during the pay period ending December 26, 1995, the home's first pay period on SEMA4. When the home initially input personnel records into SEMA4, it input all employees with full time schedules. SEMA4 automatically credits 80 hours worked to employees with full time schedules unless the agency overrides the hours. The home did not detect the error at the time of payroll input. As a result, the home paid approximately 45 individuals for time they did not work.

  The home was able to collect most of the pay checks generated in error and return them to the Department of Finance before they were cashed. However, a few of the individuals did cash their checks. The home contacted those individuals and attempted to collect the overpayments. As of June 1996, the home collected all but two of the overpayments. Each of those employees received $778 in gross pay. However, the home's documentation of collection efforts ended in August 1996, with records showing the two overpayments still outstanding.

- We noted several instances where the home did not process step progression pay rate increases timely. The home input personnel transactions, adjusting pay rates for some employees between six months and two years after the adjusted rates were effective. Those delays caused the home to pay the employees at inappropriate pay rates for several pay periods and resulted in several large retroactive pay adjustments.

- For one employee, the home input step progression transactions in May 1997 for step increases effective March 1996, September 1996, and March 1997. In June 1997, the home input transactions to correct the effective dates of the first step progression to September 1996 and eliminated the other two step increases. As a result of these transactions, the home underpaid the employee for approximately eight months and overpaid the employee for two pay periods. In June 1997, the home paid a retroactive pay adjustment of $40 to correct those errors. The employee was eligible for the next step progression effective September 1997. However, the home did not input the step increase transaction until November 1997. As a result, the home owed the employee $410 in retroactive pay and finally paid the employee in March 1998.

- For one employee, the home input pay rate adjustment transactions in February 1998 that adjusted pay rates back to December 1995. The home determined that it owed the employee $2,924 in retroactive pay for underpayments for this period. In March 1998, the home paid the employee $2,924. However, the home did not take into account two mass retroactive pay adjustments to the employee totaling $402, processed centrally by the Department of Employee Relations, that covered the same time period. As a result, the home overpaid the employee by $402 and had to withhold that amount from the employee's pay checks in April 1998.
- The home continued to pay one employee at a higher pay rate after the employee returned from working out of class. The employee worked out of class from October through December of 1996. However, the home paid the employee at the higher rate until July 1997. As a result, the home overpaid the employee $1,082. The home agreed to withhold $79 from the employee's pay checks until it collected the overpayment. As of the end of our audit fieldwork, the home had not yet collected the overpayment in full.
- For one employee, the home input a step progression transaction but did not increase the pay rate. The home underpaid the employee for 11 months before it corrected the rate in June 1997. As a result, the home paid the employee $588 in retroactive pay in July 1997.
- The home paid one ineligible employee a retroactive pay adjustment of $238. In December 1995, the home paid retroactive adjustments to AFSCME employees for cost of living increases to pay rates that were effective July 1, 1995. Provisions in the bargaining unit made this employee ineligible for a rate increase. However, the home paid the employee $238 in retroactive pay as if the employee had received a pay rate increase. In March 1996, the home identified the error and withheld the overpayment from the employee's pay check.

The home's former personnel director left shortly before our audit began. Because of the errors discussed here, the home and its new personnel aide plan to review the personnel files of all employees to determine the accuracy of personnel records in SEMA4.

Recommendations

- *The home should establish procedures to ensure that it updates personnel records timely and accurately.*
- *The home should review personnel records for all employees, process corrections as necessary, and fully document the review.*
- *The home should attempt to collect the overpayments to the two employees for hours not worked.*

5. The home did not properly monitor employee pay rates.

The home did not review employee pay rates used each pay period to determine payments to staff. Each pay period, SEMA4 generates payroll registers listing hours worked and pay rates for each employee. For all employees, the home currently compares hours worked on the register to timesheets to verify the accuracy of hours input into SEMA4. However, the home did not begin to review payroll registers until the pay period ending April 4, 1997. When the home did review payroll registers, it did not review pay rates. Department of Finance policy number PAY0028 states that agencies must review the payroll register to verify that time and amounts were paid at the correct rate.

By not properly reviewing employee pay rates, the home did not identify instances where it underpaid resident employees. For several pay periods, the home paid some resident employees at the current federal minimum wage and others at the previous federal minimum wage. In September 1996, the minimum hourly wage increased from $4.25 to $4.75. We identified three resident employees the home paid at $4.25 per hour from January 1997 to May 1997. After the home corrected the rates for those three resident employees, it paid retroactive pay to only one of them. The home owed the other two $57.50 and $48.50 in retroactive pay, respectively. We identified another resident employee that the home paid at $4.25 per hour through September 16, 1997. For the pay period ending September 30, 1997, the home finally increased the pay rate for that employee to $5.15 per hour, which was the new minimum hourly wage effective September 1, 1997. In October 1997, the home correctly paid the resident $155 in retroactive pay.

The home's policy is to pay all resident employees at the current federal minimum wage. If the home properly monitored pay rates each pay period, it could identify instances when resident pay rates were incorrect.

Recommendations

- *The home should design and implement procedures to monitor employee pay rates in compliance with Department of Finance policy number PAY0028.*

- *The home should pay retroactive adjustments to the two resident employees who were underpaid.*

- *The home should review all resident employee payroll records to ensure they were paid at the correct pay rate.*

6. The home did not properly restrict system access to SEMA4.

The home granted inappropriate SEMA4 access to certain staff. During the audit period, the personnel director had incompatible access to information and functions in SEMA4. That employee had full access to perform all personnel and payroll functions. Subsequent to our audit period, the current personnel director and the business manager had the same incompatible SEMA4 access. In addition, a business office employee shared the business manager's logon ID.

Access to information and functions in SEMA4 should be limited to employees based on job responsibilities. Employees with access to perform personnel functions should not have access to perform payroll functions and vice versa. Employees with incompatible access could create fictitious employees, change pay rates, or enter other unauthorized transactions that may not be detected.

Recommendation

- *The home should restrict access to SEMA4 functions to those employees who need access to perform their job responsibilities. The home should avoid granting individual employees full access to both personnel and payroll functions.*

7. The home needs to improve controls over resident employee pay checks.

The home's cashier section receives resident pay checks for safekeeping and locks them in a safe until residents pick them up. However, some resident employees may not always remember to collect their paycheck. The home did not maintain a log of resident employee pay checks received by the cashier and subsequently paid to the resident. Currently, the home has no assurance that it received all resident pay checks each pay period and that it handed out all resident pay checks to appropriate residents.

Recommendation

- *The home should maintain a log of resident employee pay checks received. Resident employees should sign the log at the time they pick up their check from the cashier. In addition, the business office should periodically perform independent reviews of the log to monitor unclaimed checks.*

8. The home did not properly monitor employee overtime hours.

The home did not require employees to document reasons for overtime hours worked. Several bargaining agreements contain provisions that allow overtime provided it is for special circumstances and approved in advance. We noted the home paid one administrative employee, the former personnel director, overtime for three consecutive pay periods. However, the employee did not document reasons for the overtime. Those overtime hours were questionable, particularly for the last of the three pay periods noted. In that pay period, the home paid the employee for 22 hours of overtime worked on two Saturdays and a Sunday. In between the Saturdays, the employee took 40 hours of vacation. Following the Sunday worked, the employee took eight hours each of holiday and vacation to complete the pay period. Although the former administrator approved the timesheet, the home could not locate any documentation showing the reason for the overtime and whether it was approved in advance. Without a procedure in place, the home cannot properly document the justification and prior approval of overtime hours worked.

Recommendation

- *The home should ensure that all overtime worked has been appropriately authorized in advance and that the reasons for the overtime are properly documented. The home should not pay employees for overtime unless it has been authorized in advance and is adequately documented.*

9. The home did not properly review adjustments to employee leave balances.

The home received leave balance reports each pay period, but did not review the reports to determine if leave balance adjustments were correct. We found two cases where the home incorrectly adjusted employee leave balances. In one case, the home erroneously entered one employee's time worked as 16 hours of vacation. The next pay period, the home entered leave balance adjustments to restore the 16 hours to the employees vacation leave balance. However, the home incorrectly processed the adjustment and restored 32 hours to the employee's vacation leave balance. In the second case, the home incorrectly adjusted an employee's leave balance causing the employee's vacation leave to be short eight hours and sick leave to be over eight hours. Without a review of leave balance reports, the home did not identify inappropriate adjustments to leave balances processed in error.

Recommendation

- *The home should review its bi-weekly leave balance reports to determine if leave balance adjustments are correct. In addition, the home should review leave balance adjustments and leave balance reports throughout the audit period to determine if any other errors occurred and make corrections as necessary.*

10. The home overpaid retroactive pay adjustments to two employees.

The home overpaid retroactive pay adjustments totaling $181 to two employees. The home paid the retroactive pay adjustments for a pay rate increase, but did not calculate the retroactive pay using the correct time period. For each employee, the home included hours worked in the two pay periods prior to the effective date of the rate increase. As a result, the home paid $365 to an employee entitled to $274, and $344 to an employee entitled to $254.

Recommendation

- *The home should collect the overpaid retroactive pay adjustments from the two employees.*

Chapter 4. Lease Receipts and Operational Expenditures

Chapter Conclusions

The Hastings Veterans Home designed and implemented internal controls to provide reasonable assurance that lease receipts were properly billed, collected, deposited, and recorded in the state's accounting system. In addition, operational expenditures were properly authorized, supported, and recorded in the state's accounting system. Also, for the items tested, the home processed lease receipts and operational expenditures in compliance with applicable legal provisions.

Lease Receipts

During the audit period July 1, 1994, through June 30, 1997, the home received approximately $1.2 million in revenue from rental of its facilities. These funds were deposited in the General Fund as nondedicated receipts. The primary lease the home had during the audit period was with the Dakota County Receiving Center (DCRC). The agreement specified that the home would provide the DCRC with facilities and meals for DCRC clients.

Operational Expenditures

Operational expenditures, for the period of July 1, 1994, through June 30, 1997, included rent, maintenance, utilities, and supplies. The home's rent, maintenance, and utilities expenditures were mainly for local utility services or to operate the home's power plant. The home's supplies expenditures included food purchases, various medical supplies, and general office supplies. The home purchases food in bulk orders to provide three meals a day, seven days a week to its residents. The home purchased resident prescription medications on an as-needed basis from the Minneapolis Veterans Home's pharmacy.

Audit Objectives and Methodology

Our audit of lease receipts and operational expenditures focused on the following questions:

- Did the home design and implement internal controls to provide reasonable assurance that lease receipts were properly billed, collected, deposited, and recorded in the state's accounting system and that operational expenditures were properly authorized, supported, and recorded in the state's accounting system?

- Did the home process lease receipts and operational expenditures in accordance with applicable finance-related legal provisions?

Minnesota Veterans Home - Hastings

To answer these questions, we met with key staff members to gain an understanding over the receipt and expenditure process. We reviewed and tested samples of lease agreement receipts and rent, maintenance, utilities, and supplies purchases. In addition, we performed analytical reviews of these areas.

Conclusions

The Hastings Veterans Home designed and implemented internal controls to provide reasonable assurance that lease receipts were properly billed, collected, deposited, and recorded in the state's accounting system. In addition, operational expenditures were properly authorized, supported, and recorded in the state's accounting system. Also, for the items tested, the home processed lease receipts and operational expenditures in compliance with applicable legal provisions.

Chapter 5. Resident Trust Accounts

Chapter Conclusions

The Hastings Veterans Home designed and implemented internal controls to provide reasonable assurance that resident account financial activities were promptly and accurately recorded in accordance with resident authorizations. We were unable to conclude on resident financial activities for the period July 1, 1994, to October 31, 1994, since supporting documentation for that time period was unavailable. For the items tested, the home complied with applicable finance-related legal provisions. However, the home did not reconcile resident financial activity to the state's accounting system on a regular basis. Also, the home did not transfer interest in accordance with Minnesota Statutes.

The residents of the Hastings Veterans Home deposit personal funds with the home's business office and withdraw those funds as needed. The business office deposits the resident funds into the state treasury. The State Board of Investment invests the funds. Minn. Stat. Section 198.265 requires that interest earned on these accounts be used for the benefit of all residents.

The business office maintains subsidiary account records of each resident's account activity. The office has a small amount of cash on hand and a local checking account to meet the residents withdrawal requests. The home requests reimbursements of the checking account, as needed, from the funds on deposit in the state treasury. The home could not locate the daily deposit and withdrawal supporting documentation from July 1 to October 31, 1994. Recorded activity during this period totaled $76,712 in resident deposits and $71,611 in withdrawals. Table 5-1 summarizes the financial activity of the resident accounts for fiscal years 1995 to 1997.

Table 5-1
Summary of Resident Account Financial Activity

	FY 1995	FY 1996	FY 1997
Balance at July 1	$ 28,501	$ 29,179	$ 34,895
Deposits	216,971	269,763	299,147
Interest Earned	728	1,177	1,326
Total Available	$246,200	$300,119	$335,368
Expenditures	216,467	264,224	288,533
Transfers Out	554	1,000	1,063
Balance at June 30	$ 29,179	$ 34,895	$ 45,772

Note: Transfers out represent that portion of interest earned in the local checking account and transferred to a designated contributions account.

Source: Derived from the state's accounting system.

Minnesota Veterans Home - Hastings

Audit Objectives and Methodology

Our audit of the Hastings Veterans Home's resident accounts focused on the following questions:

- Did the home design and implement internal controls to provide reasonable assurance that resident account financial activity was promptly and accurately recorded in accordance with the residents' authorizations?

- Did the home comply with finance-related legal provisions in Minn. Stat. Section 198.265?

To address these questions, we interviewed the home's employees to gain an understanding of the internal control structure over resident account activity. We reviewed and tested resident financial activities and verified the accuracy of resident and bank account reconciliations.

Conclusions

The Hastings Veterans Home designed and implemented internal controls to provide reasonable assurance that resident account financial activities were promptly and accurately recorded in accordance with resident authorizations. However, as explained in Finding 11, the home did not reconcile resident financial activity to the state's accounting system on a regular basis. For the items tested, the home complied with Minn. Stat. Section 198.265. However, as explained in Finding 12, interest earned on resident deposits was not transferred on a timely basis.

11. The home has not verified the accuracy of the activity posted to its resident account records to MAPS since March 1997.

The home currently does not verify resident account activities recorded in the resident subsidiary accounts to the state's accounting system. The home was completing monthly reconciliations of resident account activities to the state's accounting system until the prior business manager left in April 1997. During the audit period, the home maintained resident subsidiary account records using a software package called Melyx. The home recorded daily activity in Melyx and the state's accounting system. In March 1998, the home's Melyx system stopped functioning. Since then, the home maintained a spreadsheet to account for resident activities.

To ensure accurate resident account records, a reconciliation of the resident account records to the state's accounting system must be completed periodically. We attempted a reconciliation of fiscal year 1997 resident records to the state's accounting system and had an unresolved difference of $1,016.

Recommendation

- *The Hastings Veterans Home should reconcile its subsidiary records of resident account activity to the state's accounting system.*

12. The Hastings Veterans Home did not transfer interest from the resident accounts, as required by Minn. Stat. Section 198.265.

The Hastings Veterans Home did not transfer interest timely during fiscal years 1995 and 1997. The home made one $73 interest transfer in fiscal year 1995 and a $90 interest transfer at the end of fiscal year 1997. The home properly transferred interest earned on resident accounts twice during fiscal year 1996.

Minn. Stat. Section 198.265 required that interest earned on the resident accounts be used for the direct benefit of the residents of the home, and the interest is to be available not less than twice each year.

Recommendation

- *The Hastings Veterans Home should comply with Minn. Stat. Section 198.265 and transfer interest earned on resident accounts at least twice per year.*

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Status of Prior Audit Issues As of April 24, 1998

Most Recent Audits

Legislative Audit Report 94-40, issued in September 1994, covered the three fiscal years ending June 30, 1993. The audit scope included maintenance charge revenues, employee payroll, designated contribution revenue and expenditures, dedicated resource revenue and expenditures, and resident account revenues and expenditures.

Two of the four prior audit findings were resolved. One prior audit finding related to the review of employee timesheets and the payroll certification reports produced by the old payroll system. See Chapter 3, Finding 4 for our related concerns in the payroll review process. The other unresolved finding is again repeated in our current report. See Chapter 2, Finding 3.

State of Minnesota Audit Follow-Up Process

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

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STATE OF MINNESOTA
VETERANS HOMES BOARD
VETERANS SERVICE BUILDING
20 WEST 12TH STREET, ROOM 122
ST. PAUL, MINNESOTA 55155
(651) 296-2073

August 10, 1998

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 Hastings. We appreciate this opportunity to respond to the findings detailed in that document.

Of the twelve (12) findings, eight (8) were already identified by the Home's staff and/or the Agency's Internal Audit Team; all were already corrected or nearing correction. It is significant to note that these eight findings were due in no small measure to a lack of effective management by two of the Home's managers, both of whom are not now with the Agency. Of the remaining four (4), three (3) have merit and were not previously identified by either the Home or Agency staff, and one (1) is not considered to have merit.

- Finding #1 - Board Rules do not permit collection of the additional maintenance fees. Likewise, recovery costs would far exceed the $2,500 in outstanding fees from four (4) residents.

- Finding #2 - Previously identified by the Home's staff. Board Rules permit full financial verification to be completed in 30 days after admission. In May of 1998, the Home hired an additional staff member for the Business Office to address this problem along with completing effective annual financial verifications.

- Finding #3 - The Home has applied interest penalties to a resident's overdue maintenance charges when the resident "willfully refuses or willfully fails to pay his bill" in accordance with both statute and Board Rules.

However, the Agency will clarify this process in policy to enable the Home to perform this function more effectively.

- Finding #4 - Previously identified by the Home's staff and the Agency's Internal Audit Team. Corrections completed.
- Finding #5 - Previously identified by the Home's staff. Corrections in progress.
- Finding #6 - Previously identified by the Agency's staff. Corrections completed.
- Finding #7 - While the employee resident paychecks have not been mismanaged, the recommendation for improved administrative controls have been implemented.
- Finding #8 - Previously identified by the Home's staff and the Agency's Internal Audit Team. Corrections completed.
- Finding #9 - The one discrepancy discovered has been corrected. Good Personnel Management practices have already been implemented to prevent a reoccurrence of this problem.
- Finding #10 - Previously identified by the Home's staff. Corrections in progress.
- Finding #11 - Previously identified by the Home's staff. Corrections completed.
- Finding #12 - Previously identified by the Home's staff. Corrections in progress.

As usual, your staff who participated in the audit were highly competent and conducted themselves in a highly professional manner. We appreciate their assistance and the opportunity for them to work with what is mostly a new management team at the Hastings Home. We appreciate the time your office spent on this review.

Sincerely,

Stephen J. O'Connor

Stephen O'Connor, Chairman