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Financial-Related Audit

Minnesota Veterans Homes Board
July 1, 1997, through June 30, 2002



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We have audited the Minnesota Veterans Homes Board for the period July 1, 1997, through June 30, 2002. Our audit scope included: payroll, per diem payments to board members, and selected operational expenditures. The audit objectives and conclusions are highlighted in the individual chapters of this report.

We conducted our audit in accordance with *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 Homes Board complied with provisions of laws, regulations, and contracts that are significant to the audit. The management of the Minnesota Veterans Homes Board is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, and contracts.

This report is intended for the information of the Legislative Audit Commission, the management of the Minnesota Veterans Homes Board, and members of the Minnesota Veterans Homes Board. This restriction is not intended to limit the distribution of this report, which was released as a public document on September 19, 2002.

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: July 19, 2002

Report Signed On: September 16, 2002

Minnesota Veterans Homes Board

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Audit Participation

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

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Deputy Legislative Auditor
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Minnesota Veterans Homes Board

Report Summary

Overall Conclusions

The Minnesota Veterans Homes Board adequately safeguarded and accurately reported its expenditures, including payroll, professional and technical services, rent, supplies and equipment, and board member per diem payments. For the items tested, the board complied with material finance-related legal provisions and management authorizations.

Background

The Minnesota Veterans Homes Board was established in 1988 by the Legislature and charged with providing high quality health care for Minnesota's veteran population. The board consists of nine members appointed by the Governor. The board assures that the homes are operated according to stated goals and standardized practices, policies, and procedures, that residents' rights are recognized and respected, and that a high quality of life is maintained for the veterans who are residents of the homes. The board office is managed by an executive director who is responsible for ensuring that the board's vision for the care of its residents, mission, and goals are properly managed.

There are five veterans homes operating in Minnesota, located in Minneapolis, Hastings, Silver Bay, Luverne, and Fergus Falls. It is the mission of the Veterans Homes Board to oversee and guarantee high-quality health care for veterans and dependents in its care.

Financial Related Audit Reports address internal control weaknesses and noncompliance issues found during our audits of state departments and agencies. The scope of our work at the Minnesota Veterans Homes Board included: payroll, board member per diem payments, and selected operational expenditures.

Minnesota Veterans Homes Board

Chapter 1. Introduction

The Minnesota Veterans Homes Board consists of nine voting members responsible for the oversight and direction of the state's five veterans homes. The Governor, with the advice and consent of the senate, appoints the board. The mission of the Minnesota Veterans Homes Board is to oversee and guarantee high-quality health care for veterans and their dependents.

Domiciliary (board and care) and skilled nursing care is provided to eligible veterans and their dependents in veterans homes in Minneapolis, Hastings, Silver Bay, Luverne, and Fergus Falls. The board appointed Steven Musser as its executive director in April 1999. Mr. Richard Zierdt had previously served as the executive director.

The board office, located in St. Paul, provides a centralized management team that supports the veterans homes and the board of directors. The activities of the board and board office are financed by General Fund appropriations and accounted for on the state's accounting system.

Table 1-1 summarizes the board's administrative expenditures for fiscal years 2000 through 2002.

Table 1-1
Administrative Expenditures
Three Fiscal Years Ended June 30, 2002

| <u>Expenditure Type</u> | <u>2000</u> | <u>2001</u> | <u>2002</u> |
|---------------------------------|--------------------|--------------------|--------------------|
| Payroll | \$ 920,874 | \$1,018,357 | \$1,026,979 |
| Board Per Diems | 10,285 | 8,800 | 8,855 |
| Professional/Technical Services | 38,033 | 54,648 | 100,730 |
| Rent | 49,080 | 51,686 | 51,284 |
| Supplies | 54,006 | 141,725 | 14,920 |
| Equipment | 36,529 | 95,876 | 18,720 |
| Other | 88,717 | 84,689 | 128,277 |
| | <u>\$1,197,524</u> | <u>\$1,455,781</u> | <u>\$1,349,765</u> |

Source: Minnesota Accounting and Procurement System (MAPS).

The Minneapolis Veterans Home provides certain administrative services to the board, such as payroll processing, purchasing, and vendor payments. The board, however, is responsible for authorizing all financial transactions.

Chapter 2. Payroll and Board Member Per Diem Expenditures

Chapter Conclusions

The Minnesota Veterans Homes Board's internal controls provided reasonable assurance that its payroll and board per diem expenditures were properly authorized, adequately supported, and accurately recorded in the state's accounting records. For the items tested, the board complied with material finance-related legal provisions and management authorizations.

During the period July 1, 1997, to June 30, 2002, the board office had payroll expenditures of approximately \$4.6 million or 75 percent of the board's total expenditures. The board office currently has 13 employees, which are represented by one of the following compensation plans:

- American Federation of State, County, and Municipal Employees
- Minnesota Association of Professional Employees
- Managerial Plan
- Commissioner's Plan

Currently, the executive director reviews and approves all board office employee timesheets. The timesheets are forwarded to the Minneapolis Veterans Home where the payroll is entered into the state's payroll system (SEMA4).

Board members are paid a per diem of \$55 for board meetings or board directed activities. During the period July 1, 1997, to June 30, 2002, board members received total per diems of \$67,310.

Audit Objectives and Methodology

Our audit of the board's payroll and other administrative expenditures focused on the following objectives:

- Did the board design and implement internal controls to provide reasonable assurance that payroll and board per diem expenditures were properly authorized, adequately supported, and accurately recorded in the state's accounting system?
- Did the board comply with material finance-related legal provisions and management authorizations?

To answer these questions, we interviewed board personnel to gain an understanding of the controls over payroll and board per diem expenditures. We performed analytical reviews and

Minnesota Veterans Homes Board

tested a sample of payroll and per diem payments to determine if they were authorized, adequately supported, and accurately recorded in the state's accounting system.

Conclusions

The board's internal controls provided reasonable assurance that its payroll and per diem expenditures were properly authorized, adequately supported, and accurately recorded in the state's accounting system. In addition, for the items tested, the board complied with material finance-related legal provisions and management authorizations.

Chapter 3. Selected Operational Expenditures

Chapter Conclusions

The Minnesota Veterans Homes Board's internal controls provided reasonable assurance that operational expenditures were properly authorized, adequately supported, and accurately reported in the state's accounting records. In addition, for the items tested, the board complied with material finance-related legal provisions and management authorizations.

During the period July 1, 1997, to June 30, 2002, the board had non-payroll operating expenditures of approximately \$1.5 million or 25 percent of the board's total operating expenditures. These expenditures included supplies and equipment, professional and technical services, and rent. The board accounts for operational expenditures in an account in the Special Revenue Fund in the state's accounting system. As with payroll and board per diem payments, other operational expenditures are processed by personnel at the Minneapolis Veterans Home.

During the period July 1, 1997, to June 30, 2002, the board spent approximately \$233,310 on professional and technical services. Rent was paid to the Department of Administration for office and parking space rental.

The board procured supplies and equipment using state contracts and its local purchasing authority. The board maintained fixed asset records and conducted periodic physical inventories.

Audit Objectives and Methodology

Our audit of the board's operational expenditures focused on the following questions:

- Did the board's internal controls provide reasonable assurance that its operational expenditures were properly authorized, adequately supported, and accurately recorded in the state's accounting system?
- For the items tested, did the board comply with applicable material finance-related legal provisions and management authorizations?

To answer these questions, we gained an understanding of the internal control structure over the processing and recording of operational expenditures. We tested transactions to ensure that they were authorized and properly recorded on the accounting system.

Minnesota Veterans Homes Board

Conclusions

The board's internal controls provided reasonable assurance that operational expenditures were properly authorized, adequately supported, and accurately recorded in the state's accounting system. In addition, for the items tested, the board complied with applicable finance-related legal provisions and management authorizations.

Minnesota Veterans Homes Board

Status of Prior Audit Issues As of July 19, 2002

Legislative Audit Report 98-23, issued in April 1998, covered the two fiscal years ending June 30, 1997. The audit scope included payroll and other administrative expenditures. The report contained two findings.

The first finding related to inappropriate access to its payroll and personnel data. That audit identified nine employees that had inappropriate access. Although our current audit identified only two employees that had inappropriate access and that progress had been made, this situation needs to be resolved. These two employees are Minneapolis Veterans Home employees, and the board should work with the home to remove the employees' access. We are not repeating this issue as a finding in our current report.

The second finding concerning a board overpayment for services was resolved when the overpayment was refunded.

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.