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DEPARTMENT OF VETERANS AFFAIRS
AND
MINNESOTA VETERANS HOMES

AUDIT REPORT
OF
THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA
ST. PAUL

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Audit Reports

841397

DEPARTMENT OF VETERANS AFFAIRS
AND
MINNESOTA VETERANS HOMES

OFFICE OF THE LEGISLATIVE AUDITOR

FINANCIAL AUDIT DIVISION

SEPTEMBER 1984

Audit Report

DEPARTMENT OF VETERANS AFFAIRS
CENTRAL OFFICE

Audit Period July 1, 1982 to March 31, 1984

Operating Under Minn. Stat.
Chapters 196, 197, and 198

OFFICE OF THE LEGISLATIVE AUDITOR
FINANCIAL AUDIT DIVISION

SEPTEMBER 1984



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Dick Welch, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission,

and

William J. Gregg, Commissioner
Department of Veterans Affairs

We have completed a financial and compliance audit of the Department of Veterans Affairs Central Office for the period July 1, 1982 to March 31, 1984. Our audit was made in accordance with generally accepted auditing standards, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The objectives of this audit were to:

- determine that effective control is being maintained over revenues, expenditures, assets and liabilities;
- verify that expenditures are made in accordance with applicable laws, regulations, and budget requirements; and
- review the status of prior audit recommendations.

The recommendations included in this report are presented to assist you in improving accounting procedures and controls. Progress on implementing these recommendations will be reviewed during our next audit. Because of the importance of the recommendations contained in this report, we are tentatively planning to schedule an audit of the department next year to review the progress made on these recommendations.

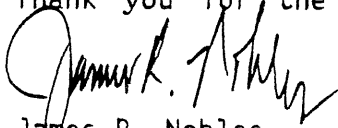
This audit report contains our recommendations developed during this audit and reiteration of our prior recommendations which have not been implemented. Prior audit recommendations specifically repeated in this text are denoted under the caption "PRIOR RECOMMENDATIONS NOT IMPLEMENTED" or "PRIOR RECOMMENDATION PARTIALLY IMPLEMENTED." For a summary of the progress on all prior audit recommendations see Section 4.

The financial statements in this report are presented for the general information of the reader only, and do not purport to represent financial position or results of operations in accordance with generally accepted accounting principles. The financial statements were not audited by us,

Representative Dick Welch, Chairman
Members of the Legislative Audit Commission,
and
William J. Gregg, Commissioner
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and accordingly we do not express an opinion on them. See Note 1 of the financial statements for an explanation of the basis of financial statement presentation.

Thank you for the cooperation extended to our staff during this audit.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

September 27, 1984

DEPARTMENT OF VETERANS AFFAIRS CENTRAL OFFICE

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AUDIT PARTICIPATION

Staff from the Office of the Legislative Auditor:

John Asmussen, CPA, Deputy Legislative Auditor
Margaret Jenniges, CPA, Audit Manager
Jim Riebe, Auditor-in-Charge
Brad Olson, CPA, Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Department of Veterans Affairs Central Office on September 13, 1984:

William J. Gregg, Commissioner
Jeffrey L. Olson, Deputy Commissioner
Alice MacLennan, Accounting
Dennis Forsberg, Guardianship Program
Tom Barrett, Accounting Supervisor, MVH, Mpls.
William Kelley, Controller, Department of Finance

DEPARTMENT OF VETERANS AFFAIRS CENTRAL OFFICE

INTRODUCTION

The Department of Veterans Affairs (DVA) exists to provide benefits and services for veterans and their dependents who are needy, disabled or aged. The department administers four programs: Veterans benefits and services; Minnesota Veterans Home, Minneapolis; Minnesota Veterans Home, Hastings; and the Big Island Veterans Camp. DVA is operated under the general management and control of Commissioner William J. Gregg who was appointed effective July 5, 1983. Commissioner Gregg was preceded by Commissioner James H. Main, appointed March 2, 1982.

Veterans benefits and services and the Big Island Veterans Camp are administered by the DVA central office. Temporary financial assistance--including subsistence, hospital, medical, educational, and related benefits--are provided to needy and disabled veterans and their dependents through the veterans benefits program. Services consist of assistance provided to veterans and their families in four general areas. Claims services assists veterans in the application, approval, and appeal processes for federal veterans benefits. Field services provides general and technical support to county veterans service officers (CVSO's) who assist veterans throughout Minnesota; it also investigates alleged veterans preference violations. Fiscal guardianship services administers the estates of incompetent veterans who are unable to manage their personal financial affairs. The veterans are appointed wards of DVA by the probate court of jurisdiction. Finally, agent orange information and assistance furnishes information about health effects of exposure to toxins, monitors the status of the agent orange issue and makes recommendations for corrective action.

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The Big Island Veterans Camp is located on Lake Minnetonka and is operated between Memorial Day and Labor Day each year. The camp is a limited recreational facility offering food service and shelter for veterans and their dependents, in particular needy and disabled veterans. The facility has been under the jurisdiction of the DVA since February 1979.

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CURRENT FINDINGS AND RECOMMENDATIONS

The financial management systems and organization at the Minnesota Veterans Homes require major changes.

A good financial management system provides assurance to an organization's administration, and other concerned individuals, that operations are conducted as specified by the administration, and that the assets of the organization are protected against loss or misuse. The system should require that incompatible duties be segregated, adequate documentation be maintained, tasks and duties be described by detailed written procedures, and assets be safeguarded.

Our 1980 audit report of the Department of Veterans Affairs (DVA) and the Minnesota Veterans Home, Minneapolis (MVH, Mpls.) included many specific findings and recommendations relating to administrative and accounting controls. Again this year we found similar problems at the DVA; MVH, Mpls.; and MVH, Hastings. The weaknesses in the homes' financial management systems and organization are severe and subject them to an abnormally high risk of errors and irregularities. Because of the pervasiveness of these weaknesses, the problems have been consolidated into four major areas for each home. (See the MVH, Mpls. and MVH, Hastings management letters for further discussion of the areas.) Each problem area must be addressed as a whole if effective corrective action is to be taken.

Because of the severity of these problems, we feel they should be given immediate attention. While the homes are under the management of administrators, the commissioner is ultimately responsible for their financial management. Therefore, we feel the commissioner must be aware of the problems at the homes and coordinate and monitor any changes made.

RECOMMENDATION:

1. The Commissioner of DVA should work with the administrators of the homes to improve the financial management systems and organization of the MVH, Mpls. and MVH, Hastings.

Guardianship records and supporting documentation are not included in DVA's record retention policies.

The guardianship section is responsible for the financial affairs of approximately 150 veterans. Wards under guardianship suffer from physical and/or mental disabilities that prevent them from managing their personal finances. Services provided by the guardianship program include securing benefits and making deposits to and disbursements from the ward's personal bank accounts. The guardianship section prepares an annual accounting of the financial affairs of each ward which is submitted to the probate division of the county court system for approval.

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During our audit of the guardianship program we found that program documentation is not included in the department's record retention policy. In reviewing guardianship files, we noted that there was not a uniform method of filing, maintaining or destroying invoices paid on behalf of the wards. Section staff informed us that currently they do not maintain paid invoices even until the annual account is approved by the courts. As fiscal guardians, DVA may be legally liable to retain such documentation for a specific period of time. For example, if the courts would question expenditures made on behalf of the wards, the department may have to provide supporting documentation to justify the expenditure.

RECOMMENDATION:

2. DVA should consult with their legal counsel to determine guardianship record retention responsibilities and establish record retention policies in accordance with Minn. Stat. Section 138.17.

Formal bank reconciliations for wards of the guardianship program are only completed annually.

The guardianship section maintains individual bank accounts for each of the approximately 150 veterans for which it has fiduciary responsibilities. Our audit tests revealed that the monthly bank statements are reviewed by DVA staff to determine which checks have cleared the bank during the month. However, the bank statement account balance is only reconciled to the checkbook balance once a year when the annual account is prepared. Due to the limited staff available to perform these reconciliations and the large number of accounts involved, DVA is prevented from reconciling each ward's account on a monthly basis. However, reconciling the bank account balance to the checkbook balance is the only assurance that deposits and disbursements have been properly recorded by the bank and in the check register by DVA staff, and that errors do not result in overdrafts being written on the accounts. Therefore, DVA should ensure the accuracy of the wards' account balances by preparing a schedule so that each checking account is reconciled to the bank balance periodically throughout the year.

As an alternative to this approach, DVA could consider aggregating the funds of the veterans who are under the guardianship program in accordance with the authority granted by Minn. Stat. Section 196.051. One account could be established on the statewide accounting system with subsidiary records being maintained for each ward's receipt, disbursement, and investment transactions. The existing imprest cash account balance could be increased so that sufficient funds would be available for wards requiring immediate access to their funds.

On a monthly basis the subsidiary account activity could be summarized and reconciled to statewide accounting (SWA) receipt and expenditure reports, and to the control account balance on SWA. Maintaining detailed subsidiary records and reconciling them to SWA reports would eliminate the need for the prohibitive number of individual checking accounts and would strengthen internal control.

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Furthermore, by collectively investing wards' funds, the department may be able to increase the amount of investment income that the wards could earn. DVA would have to develop a method for allocating the investment income earned to the wards whose funds were being invested. A computerized system could provide valuable assistance in efficiently maintaining the detailed subsidiary records and performing the reconciliations necessary to achieve an adequate system of internal control over guardianship funds.

RECOMMENDATION:

3. DVA should either establish a schedule so that each veteran's checking account is reconciled to the bank balance several times during the year, or together with the Department of Finance pursue the possibility of establishing one account within the statewide accounting system to account for the receipts, disbursements, and investments of all wards of the guardianship program. Detailed subsidiary records for each ward would have to be established and reconciled to SWA reports.

The guardianship section should improve internal controls to strengthen its fiduciary responsibilities.

As financial guardians DVA central office receives the ward's income checks and makes the deposits into the ward's bank account. Generally the ward's income may consist of pension benefits from the Veterans Administration, social security income, and other benefits for which they are eligible. In conducting our audit we attempted to determine that the correct amount of income was received and deposited on behalf of the ward. However, documentation stating the amount of income to be received for the ward was not always available. For example, the social security administration does not routinely notify benefit recipients of the amount of income they will be receiving; the social security administration must be specifically requested to provide this information. In our opinion, income documentation should be requested and maintained for each ward to ensure they are receiving the benefits they are entitled.

Upon receipt, the ward's income checks are stamped "Commissioner of Veterans Affairs, guardian of _____," and a deposit is prepared and then generally mailed to the bank. This is not considered a restrictive endorsement and therefore the check remains negotiable. Lost or stolen checks could be improperly negotiated if they have not been restrictively endorsed. In order to be considered a restrictive endorsement, the words "for deposit only" should appear as part of the endorsement.

In conducting the financial affairs of its wards, the guardianship section is also responsible for making payments from the wards checking accounts. These payments may be made to third parties for food, shelter and clothing or may be made directly to the ward. In reviewing disbursements we noted the following weaknesses:

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- A signature list of those department staff authorized to sign checks for wards is not on file as required by department policy 01:08:01. Maintaining this listing would assist in ensuring that only authorized personnel are making disbursements from ward's accounts. As part of the bank reconciliation process, cancelled checks should be reviewed for authorized signatures.
- When invoices are submitted for goods or services received by the ward, the mathematical accuracy of the invoice is not routinely verified or documented. Verifying the accuracy of invoices assures that errors are detected prior to payment.
- Purchase orders are not adequately safeguarded. The guardianship section has arranged for certain local department stores to provide goods to veterans presenting a purchase order prepared and authorized by guardianship personnel. These purchase orders are not prenumbered. Therefore, the DVA would not be able to ensure that unauthorized purchases are not made if the purchase orders would become lost or stolen. In order to ensure against misuse of lost or stolen purchase orders, controls should be improved.

Regarding disbursements made directly to the ward, a signature card for the ward is not on file in the guardianship section. A signature card, when compared to the endorsement on checks made payable to the ward, would provide assurance that the ward has received the allowance checks and that the check has not been improperly negotiated.

We also found that for a number of wards residing in nursing homes, one check made payable to the nursing home may include payment to the nursing home for the ward's maintenance costs and an allowance for the ward. The nursing homes submit periodic statements of the ward's account balances. In order to ensure that the ward's allowance money is not being misappropriated and that the ward is receiving their allowance, the guardianship staff should verify and document that receipt of the allowances are accurately recorded on the ward's statement of account.

RECOMMENDATIONS:

4. The guardianship section should request (if necessary) and maintain comprehensive documentation supporting the amount of income each ward is entitled to receive.
5. To strengthen internal controls:
 - Ward's income checks received in the guardianship section should be restrictively endorsed "for deposit only."
 - A signature list of department staff authorized to make disbursements from ward's accounts should be on file in the department and compared to cancelled checks as part of the bank reconciliation process.

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- Invoices should be verified for mathematical accuracy. The verification should be documented by having the responsible employee initial the invoice.
- Purchase orders should be pre-numbered and accounted for, or at a minimum they should be stored in a secure location.
- A signature card for each ward should be kept in the ward's file. As part of the bank reconciliation process, the signature should be compared to the endorsement on checks made payable to the ward.
- Allowance money for wards, which is included in maintenance checks made payable to nursing homes, should be verified to the ward's statement of account received from the nursing home. This control should be documented by the employee performing the verification.

The current contract between the Department of Veterans Affairs and the Big Island Concerned Veterans Committee is not sufficiently detailed to ensure compliance with DVA's legal responsibilities.

Big Island Veterans Camp (Camp) is a camping facility exclusively for the use of Minnesota veterans and their families. In a 1979 court settlement, the Department of Veterans Affairs (DVA) was given primary responsibility for the operation of the Camp. The 1979 settlement stipulated that the DVA 1) continue to operate the Camp as a camping facility for Minnesota veterans, 2) give preference in reservations to handicapped veterans, 3) ensure that the fees charged for camping not exceed the cost of operating the camp, and 4) assure that the cost of any capital improvements not be included in the fees.

The DVA contracted with the Big Island Concerned Veterans Committee (Committee) to operate the camp from April 1, 1983 to March 31, 1985. Our review of the Camp's operations and management disclosed that the DVA contract with the Committee is not sufficiently detailed to ensure that the DVA is fulfilling its responsibilities according to the terms of the 1979 stipulation. DVA has reimbursed the Committee for two capital improvements totalling \$7,039. The contract states that the Committee may request the state to alter or improve the property at state expense. However, these improvements were made without prior written approval of the DVA.

Our review also included verifying the existence of a sample of inventory items assigned to the Camp. Camp personnel were unable to provide documentation on the status of several fixed assets at the Camp which could not be located. The Committee should notify the DVA and maintain documentation

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on any fixed asset changes, retirements, or disposals. Fixed asset management is not addressed in the current contract.

The current contract requires that a financial report on Camp operations be submitted to the DVA once per year. In order for the DVA to properly monitor the financial activities of the Camp and to ensure Committee compliance with their contract, we feel that the DVA should require a financial summary of camp activities be submitted to them more frequently. This summary would allow the DVA to more effectively monitor the Camp's financial operations and allow more time for the identification and resolution of any financial or contractual problems that may arise.

RECOMMENDATION:

6. The current contract with the Big Island Concerned Veterans Committee should be amended and any future contracts should address all aspects of the Big Island Veterans Camp operations, including:
 - prior DVA approval for any reimbursable capital improvement transactions;
 - notification by the Committee of any fixed asset changes; and
 - submission of periodic financial summaries of Camp activities to the DVA.

Control over fixed asset inventory at the DVA central office needs to be improved.

The DVA central office consists of the operation at the Veterans Service Building, the Claims Division at Fort Snelling, two branch offices located in Duluth and Moorhead, and the Big Island Veterans Camp located on Lake Minnetonka. As of April 1984 the cost of central office fixed assets listed on the state property inventory (SPI) system totalled approximately \$68,800.

During our audit of central office fixed assets, we selected a sample of 64 fixed assets to be tested. Audit tests consisted of locating the asset, observing that the asset was properly marked with a state property inventory sticker and asset number, and determining that the asset was being utilized. These tests revealed the following exceptions:

- several assets including two outboard motors and a food service unit at Big Island Veterans Camp could not be located;
- a secretarial desk and two inexpensive calculators were broken but had not been repaired or removed from the SPI listing;
- the SPI listing included a motor that had been stolen from the Big Island Veterans Camp in 1983 and an adding machine which had been transferred to another state agency in 1977; and

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- numerous assets, including a pontoon boat at Big Island Veterans Camp valued at \$10,000, were observed that did not contain state property inventory stickers or numbers.

According to the Department of Administration's Fixed Asset Inventory User's Manual, a system of periodically spot-checking the fixed asset inventory will provide a method of identifying areas of weakness in the inventory system so that corrective action can be taken. Results of spot-checks may also be used to determine the timing or need for a complete physical inventory. Central office staff stated that a spot-check of inventory was made last year but had not been documented. The last complete physical inventory of central office fixed assets was April 1982.

RECOMMENDATION:

7. In order to maintain effective control over central office fixed assets, DVA should:
 - develop a policy and procedures regarding the timing and method of conducting spot-checks (including documentation of spot-checks) and complete physical inventories of fixed assets; and
 - conduct a complete physical inventory of fixed assets and update the SPI listing accordingly.

PRIOR AUDIT RECOMMENDATION PARTIALLY IMPLEMENTED: The central office does not have adequate procedures for the collection of accounts receivable which originate from veterans benefits overpayments.

Central office accounts receivable originate from overpayments to veterans benefits recipients. During our fiscal years 1978 and 1979 audit we found that the central office did not have written procedures pertaining to the collection of these accounts receivable which totalled \$22,796, and no individual was responsible for the collection of these accounts. Therefore, we recommended that:

- written procedures be developed for the collection of accounts receivable and that collection responsibilities be assigned to appropriate personnel;
- collection efforts be strengthened by making personal visitations to the veterans who received the overpayments;
- uncollected accounts be submitted to the Attorney General for further collection efforts; and
- uncollectible accounts be submitted to the Executive Council to be written off.

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Based on our prior audit recommendation, DVA developed policies and procedures so that overpayments erroneously made to veterans receiving benefit payments would be recovered. These procedures specifically discuss department responsibilities for the first two weeks after an overpayment has been identified. After the initial two weeks the procedures are very general; they do not specify what action should be taken after that period of time. For example, current procedures do not indicate when or how veterans should be contacted if their account has not been settled in the first few weeks, or at what time the uncollectible accounts should be referred to the Attorney General for further action or to the Executive Council for write-off (according to Minn. Stat. Section 10.15 no account in excess of \$100 shall be cancelled for at least six years).

During our review of the status of veterans benefits accounts receivable recovery cases, we found that the balance of accounts receivable is currently \$24,364 which is virtually unchanged since our last audit report issued in 1980. Many of these accounts are at least ten years old. Furthermore, no attempt has been made to contact the veterans since November 1982, and no uncollectible accounts have been submitted to the Executive Council for cancellation since 1975.

RECOMMENDATIONS:

8. DVA should attempt to collect accounts receivable balances originating from overpayments of veterans benefits by using the Revenue Recapture Act (Minn. Stat. Section 270A) which would apply any of the debtor's tax refunds to the amount of his debt.
9. The existing recovery case policy and procedures should be expanded to address department action to be taken after the first two weeks the department has attempted to recover the overpayment, (including when and how personal visits should be made to the veterans) and to specify when the uncollectible accounts should be turned over to the Attorney General and the Executive Council.

PRIOR RECOMMENDATION PARTIALLY IMPLEMENTED: Payroll overpayments totalling \$2,000 have not been resolved.

During our fiscal year 1975 audit we discovered approximately \$7,000 in payroll overpayments originating from inappropriate overtime payments to "A" schedule employees, improper holiday overtime rates, excess workers' compensation, and inaccurate payments to terminated employees. At that time we recommended that the DVA request reimbursement for the erroneous payments. As a result, DVA collected approximately \$5,000 from the individuals involved. The remaining \$2,000 were overpayments to persons who had terminated employment at the MVH and would not reimburse DVA.

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The DVA referred the \$2,000 in overpayments to the Attorney General in 1980, and the Attorney General determined that it was DVA's responsibility to pursue these overpayments in conciliation court. DVA has taken no further action to collect these amounts.

RECOMMENDATION:

10. The remaining payroll overpayments should be pursued in conciliation court in accordance with the Attorney General's recommendation. Any amounts not collectible in conciliation court should be submitted to the Executive Council to be written off.

The central office accounting section was not reconciling manual supplies and expense disbursement records to the statewide accounting system on a timely basis.

The central office accounting section maintains manual control records for supplies and expense disbursements. These records are organized by allotment account and encumbrance (sequence) numbers and contain estimated and actual costs and unliquidated encumbrance amounts.

At the beginning of each month, DVA accounting staff access encumbrance data in the statewide accounting system by making a terminal inquiry. Liquidated and unliquidated encumbrance amounts are then listed by encumbrance number and reconciled to the manual disbursement control records. This reconciliation ensures that the fiscal year, allotment account, expenditure object code classification, and amount are properly recorded in the statewide accounting system.

During our audit of supplies and expense disbursements, we reviewed internal accounting controls and found that the reconciliation process had not been performed and/or documented during fiscal year 1984. DVA staff explained that due to two vacancies in the accounting section, the time necessary to train the new employees, and the temporary reassignment of one employee to assist with the accounting function at the Minneapolis home, the reconciliation process had been considerably delayed.

RECOMMENDATION:

11. To ensure the accuracy of the disbursement transactions recorded in the statewide accounting system, the reconciliation between manual control records should be performed on a timely basis and the reconciliation should be documented with the initials of the individual responsible for completing the reconciliation.

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Internal accounting controls for supplies and expense disbursements should be improved.

During our audit of the DVA central office we examined 63 supplies and expense disbursement transactions. In five of the transactions tested, we found the payment had not been made in a timely manner. Department of Finance operating policy and procedure 06:05:01 states:

"If payment terms . . . are specified in a purchase order, contract, invoice or other communication with the vendor, the payment transaction should be entered so that the vendor receives the warrant on the due date. The scheduled input date should be three to five work days earlier, depending on the time needed for mail delivery."

Furthermore, the Laws of Minnesota for 1984, Chapter 502, Article 14, Section 1 provides guidelines requiring prompt payment of state agency bills. In particular, subdivision 5 specifies that state agencies shall pay interest of one percent per month (if billed by the vendor) when the agency has not paid the undisputed invoices within 30 days following receipt of the invoice, merchandise, or service whichever is later. These policies advocate timely payment of invoices for goods and services in order to avoid late payment interest or penalty charges and promote a positive business image for the State of Minnesota.

Our audit tests revealed that in 3 of 63 items tested the disbursement was charged to an incorrect allotment (AID) account. Accounting staff informed us that at the time these disbursements were made, sufficient funds were not available in the account that the disbursements should have been made from. In order for management to control program costs and effectively project future budgetary needs, it is essential that the accounting system provide accurate and reliable financial information.

We also noted the following weaknesses during our audit:

- Verification of the mathematical accuracy of invoices prior to payment is not always documented. In order to rely on this control, there should be evidence that the verification was performed.
- Receiving reports are not filed with invoices. By filing the receiving report with the invoice, the employee responsible for authorizing the payment batch would readily be able to ensure that the goods or services were received prior to the payment of the invoice.
- Copies of lodging receipts filed with employee expense reports were not filed in the department. In order to provide an adequate audit trail, copies of lodging receipts should be maintained in the department.

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RECOMMENDATIONS:

12. DVA should establish a method of filing invoices--for example, a "tickler file" organized by date--so that the vendor receives the warrant on the due date.
13. In order for disbursements to be recorded in the proper allotment accounts, funds should be transferred into the appropriate account before the disbursement is made.
14. In order to strengthen internal controls:
 - The verification of the mathematical accuracy of invoices prior to payment should be documented with the initials of the responsible employee.
 - Receiving reports should be filed with invoices so they can be compared before the payment is made.
 - Copies of lodging receipts should be filed with employee expense reports maintained in the department.

DEPARTMENT OF VETERANS AFFAIRS CENTRAL OFFICE

EXHIBIT A

UNAUDITED, FOR INFORMATIONAL PURPOSES ONLY, SEE NOTE 1

STATEMENT OF FINANCIAL RESOURCES, EXPENDITURES, ENCUMBRANCES,
TRANSFERS, AND AVAILABLE BALANCES
Years Ended June 30, 1983 and 1984

	Year Ended June 30	
	1983	1984
<u>General Fund</u>		
Available Balance, July 1	\$ 83,733	\$ 0
State Appropriations	2,326,583	2,438,242
Appropriation Cancellations	(68,217)	0
Transfers In: Salary Adjustments	138,322	70,745
TOTAL AVAILABLE	\$2,480,421	\$2,508,987
Expenditures:		
Personnel Services	\$ 936,277	\$ 993,933
Rents and Leases	56,074	16,774
Repair Services	2,016	872
Printing and Binding	6,814	10,847
Professional/Technical Services	7,088	32,405
Purchased Services	192	0
Communications	19,027	20,805
Travel	18,236	24,792
Utility Service	1,075	8
Fees and Fixed Charges	182	941
Supplies and Materials	3,431	4,801
Equipment	0	2,172
Aid to Individuals - Medical Rehabilitation	966,545	993,328
Aid to Individuals - Non-Medical	130,011	25,202
Aid to Non-Government Organizations	0	4,391
Claims, Awards, Indemnities	29,778	0
Other	18	40
TOTAL EXPENDITURES	\$2,176,764	\$2,131,311
Encumbrances and Requisitions	3,604	217,388
Transfers Out	300,053	0
TOTAL EXPENDITURES, ENCUMBRANCES, AND TRANSFERS OUT	\$2,480,421	\$2,348,699
AVAILABLE BALANCE, JUNE 30	\$ 0	\$ 160,288

DEPARTMENT OF VETERANS AFFAIRS CENTRAL OFFICE

EXHIBIT A
(con't)

UNAUDITED, FOR INFORMATIONAL PURPOSES ONLY, SEE NOTE 1

STATEMENT OF FINANCIAL RESOURCES, EXPENDITURES, ENCUMBRANCES,
TRANSFERS, AND AVAILABLE BALANCES
Years Ended June 30, 1983 and 1984

	Year Ended June 30	
	<u>1983</u>	<u>1984</u>
<u>Gift and Deposits Fund</u>		
Available Balance, July 1	\$44,080	\$47,002
Receipts (See Exhibit C)	<u>4,144</u>	<u>6,015</u>
TOTAL AVAILABLE	<u>\$48,224</u>	<u>\$53,017</u>
Expenditures:		
Repairs	\$ 0	\$ 5,020
Equipment	0	2,720
Supplies and Materials	<u>1,222</u>	<u>0</u>
TOTAL EXPENDITURES	\$ 1,222	\$ 7,740
Encumbrances and Requisitions	<u>0</u>	<u>45</u>
TOTAL EXPENDITURES AND ENCUMBRANCES	<u>\$ 1,222</u>	<u>\$ 7,785</u>
AVAILABLE BALANCE, JUNE 30	<u>\$47,002</u>	<u>\$45,232</u>

DEPARTMENT OF VETERANS AFFAIRS CENTRAL OFFICE

EXHIBIT B

UNAUDITED, FOR INFORMATIONAL PURPOSES ONLY, SEE NOTE 1

STATEMENT OF APPROPRIATIONS AND BUDGET REDUCTIONS
Years Ended June 30, 1983 and 1984

	<u>Year Ended June 30</u>	
	<u>1983</u>	<u>1984</u>
<u>General Fund</u>		
Appropriations:		
Laws 1981, Chapter 356, Section 36	\$2,275,500	
Laws 1982, Chapter 641, Article I, Section 2, Subd. 5	165,100	
Laws 1983, Chapter 81, Section 3	27,832	
Laws 1983, Chapter 244, Section 2	2,050	
Laws 1983, Chapter 301, Section 37		\$2,285,800
Laws 1984, Chapter 486, Section 3, Subd. 2		12,442
Laws 1984, Chapter 654, Article II, Section 19		140,000
Budget Reductions:		
Laws 1981, Chapter 356, Section 36	(33,700)	
Laws 1981, Third Special Session, Chapter 2, Article I, Section 2, Subd. 1(ee)	(41,840)	
Laws 1982, Chapter 641, Article I, Section 2, Subd. 1(j)	(38,100)	
Laws 1982, Third Special Session, Chapter 1	(30,260)	
	<u>\$2,326,582</u>	<u>\$2,438,242</u>
AVAILABLE APPROPRIATIONS		

DEPARTMENT OF VETERANS AFFAIRS CENTRAL OFFICE

EXHIBIT C

UNAUDITED, FOR INFORMATIONAL PURPOSES ONLY, SEE NOTE 1

STATEMENT OF REVENUE DEPOSITED WITH THE STATE TREASURER
Years Ended June 30, 1983 and 1984

	Year Ended June 30	
	<u>1983</u>	<u>1984</u>
<u>General Fund</u>		
Reimbursements	\$1,737	\$1,337
Other	<u>426</u>	<u>407</u>
TOTAL GENERAL FUND	<u>\$2,163</u>	<u>\$1,744</u>
<u>Gift Fund</u>		
Gifts and Donations	\$ 25	\$2,055
Investment Income	<u>4,119</u>	<u>3,960</u>
TOTAL GIFT FUND	<u>\$4,144</u>	<u>\$6,015</u>

EXHIBIT D

NOTE TO THE FINANCIAL STATEMENTS

NOTE 1: The financial statements do not represent financial position or results of operations in accordance with generally accepted accounting principles. The Statewide Accounting (SWA) reports were used in preparing these statements. Consequently, these statements were not prepared using the accrual basis of accounting.



STATE OF MINNESOTA
DEPARTMENT OF VETERANS AFFAIRS
VETERANS SERVICE BUILDING
ST. PAUL, MINNESOTA 55155-2079

September 27, 1984

REPLY TO: (612) 296-2783

James R. Nobles
Legislative Auditor
State of Minnesota
Office Of The Legislative Auditor
Veterans Service Building
St. Paul, Minnesota 55155

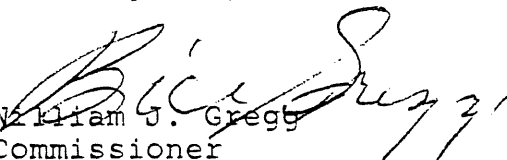
RE: Audits Conducted At Department of Veterans Affairs
Central Office, As Well As Minneapolis and Hastings
Veterans Homes, For The Period Of Time From July 1, 1982
Through March 21, 1984.

Mr. Nobles,

Enclosed are the requested responses, in writing, to the
Findings And Recommendations of your Audit Reports. These
responses are in accordance with your request of correction
and responsibility.

We thank you and your staff for your assistance and professional
relationship with our department in preparing these Findings
And Recommendations.

Best regards,


William J. Gregg
Commissioner

WJG:ah

DEPARTMENT Veterans Affairs

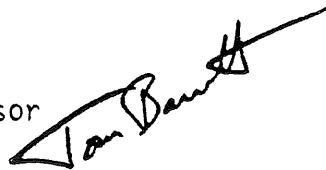
Office Memorandum

TO: William Gregg
Commissioner

DATE: September 28, 1984

FROM: Tom Barrett
Accounting Supervisor

PHONE: 297-2210



SUBJECT: Central Office Response to Legislative Audit

Please find attached for your review and submission, the Central Office response to specific recommendations made by the Legislative Auditors for the period ending March 31, 1984. The report is an accurate reflection of some deficiencies in procedure and accountability. The report requests a response from the Commissioner. The attached represents the Central Office response and proposed implementation dates. If you have any questions, please call.

DEPARTMENT OF VETERAN AFFAIRS

CENTRAL OFFICE

RESPONSE TO LEGISLATIVE AUDIT REPORT

INTRODUCTION

The audit covering the Central Office operations clearly highlighted some areas of concern that need to be addressed and our responses should sufficiently dictate the steps we plan to take to correct the deficiencies cited. The responses are formatted after your draft report in numerical order.

Recommendation #1: The Commissioner of DVA should work with the administrators of the homes to improve the financial management systems and organization of the MVH, Mpls, and MVH, Hastings.

Response: The two homes, through the direction of the new administrator, have begun a reorganization. The reorganization focuses on nursing care but will also reflect a sound financial management system. Central Office will monitor the progress made at the Homes in response to their specific audit recommendations and ensure that completion dates are followed.

Expected completion date:

Recommendation #2: DVA should consult with their legal counsel to determine guardianship record retention responsibilities and establish record retention policies in accordance with Minn. Stat. Sec. 138.17

Response: The Department has corresponded with the Attorney General's Office and we are awaiting his response. Based on response, policies will be written in accordance to Minnesota Statutes.

Expected completion date: 12/31/84

Recommendation #3: DVA should either establish a schedule so that each veteran's checking account is reconciled to the bank balance several times during the year, or together with the Department of Finance pursue the possibility of establishing one account within the statewide accounting system to account for the receipts, disbursements, and investments of all wards of the guardianship program. Detailed subsidiary records for each ward would have to be established and reconciled to SWA reports.

Response: Reconciliation of guardianship accounts will be done on a timely basis. Currently, the Department is studying the possibility of utilizing Statewide Accounting (SWA) or a computer assisted reconciliation process. Depending upon the method/option used, the Department is hoping that accounts could be reconciled as often as monthly.

Expected completion date: 1/31/85

Recommendation #4: The guardianship section should request (if necessary) and maintain comprehensive documentation supporting the amount of income each ward is entitled to receive.

Response: The guardianship section maintains VA award letters. The other major sources of income is Social Security benefits. Typically, Central Office does not receive award letters but instead, a notification of rate increase accompanied with their monthly checks. In the future, the notifications will be kept on file and periodic audits will be made to verify actual benefit is correct. It will be the responsibility of the guardianship officer to monitor implementation.

Expected completion date: 12/31/84

Recommendation #5: To strengthen internal controls.

Response: A restrictive endorsement stamp for ward's income checks has been ordered.

A signature list of authorized staff is now kept on file and will be used for bank reconciliation.

All invoices will be verified for accuracy and initialed approving payment by responsible employee.

Purchase orders are pre-numbered. Old purchase orders have been discontinued/voided.

Signature cards will be kept on file and periodically verified with endorsement on warrants made payable to ward.

The guardianship officer will routinely verify all accounts as received. Statements from nursing homes will be requested.

Expected completion date: 12/31/84

Recommendation #6: The current contract with the Big Island Concerned Veterans Committee should be amended and any future contracts should address all aspects of the Big Island Veterans Camp operations.

Response: Management of Big Island and contract agreements will be reviewed and if necessary amended. Corrective action has begun on some specific areas such as fixed assets, and the Department will continue on each recommendation.

Expected completion date: 6/30/85

Recommendation #7: In order to maintain effective control over Central Office fixed assets, DVA should:

Develop a policy and procedure regarding spot check inventory and physical inventory of fixed assets, and

Conduct a complete physical inventory of fixed assets and update the SPI listing accordingly.

Response: A policy and procedure has been drafted for approval. A physical inventory with subsequent update to SPI list will be scheduled in accordance to available work schedules.

Expected completion date: 6/30/85

Recommendation #8: DVA should attempt to collect accounts receivable balances originating from overpayments of veterans benefits by using the Revenue Recapture Act (Minn. Stat. Section 270A) which would apply any of the debtor's tax refunds to the amount of his debt.

Response: Procedures will be reviewed and assistance sought (i.e. Revenue Recapture Act) to strengthen the Department's efforts in collecting overpayments of veterans benefits.

Expected completion date: 3/31/85

Recommendation #9: The existing recovery case policy and procedures should be expanded to address department action to be taken after the first two weeks the department has attempted to recover the overpayment, (including when and how personal visits should be made to the veterans) and to specify when the uncollectible accounts should be turned over to the Attorney General and the Executive Council.

Response: Policies and procedures will be revised to reflect specific actions to be taken regarding benefit overpayment. Policy will include time frame for uncollectable accounts and responsibilities involving personal visits.

Expected completion date: 3/31/85

Recommendation #10: The remaining payroll overpayments should be pursued in conciliation court in accordance with the Attorney General's recommendation. Any amounts not collectible in conciliation court should be submitted to the Executive Council to be written off.

Response: Payroll overpayments will be pursued in conciliation court. If no further progress is made, a report will be submitted to Executive Council for action.

Expected completion date: 3/31/85

Recommendation #11: To ensure the accuracy of the disbursement transactions recorded in the statewide accounting system, the reconciliation between manual control records should be performed on a timely basis and the reconciliation should be documented with the initials of the individual responsible for completing the reconciliation.

Response: Procedures will be reviewed and better utilization of the Statewide Accounting System will be established. All accounts will be reconciled monthly.

Expected completion date: 3/31/85

Recommendation #12: DVA should establish a method of filing invoices-- for example, a "tickler file" organized by date--so that the vendor receives the warrant on the due date.

Response: Procedures (in accordance with applicable Statewide Accounting procedures) will be developed and payments generated in the appropriate manner.

Expected completion date: 12/31/84

Recommendation #13: In order for disbursements to be recorded in the proper allotment accounts, funds should be transferred into the appropriate account before the disbursement is made.

Response: Sufficient funding will be available prior to the obligations of funds. If emergencies arise, adequate audit trails will be established to support the transfer of funds/disbursements between accounts.

Expected completion date: 10/31/84

Recommendation #14: In order to strengthen internal controls:

- The verification of the mathematical accuracy of invoices prior to payment should be documented with the initials of the responsible employee.
- Receiving reports should be filed with invoices so they can be compared before the payment is made.
- Copies of lodging receipts should be filed with employee expense reports maintained in the department.

Response: All invoices will be verified for accuracy and initialed by responsible employee approving processing of payment.

-- Receiving reports or acknowledgement of services rendered will be attached to invoice and filed in office.

-- All receipts for travel expenses will be filed with paid expense reports.

Expected completion date: 10/31/84

Audit Report

MINNESOTA VETERANS HOME, HASTINGS

Audit Period July 1, 1982 to March 31, 1984

Operating Under Minn. Stat.
Chapters 196, 197, and 198

OFFICE OF THE LEGISLATIVE AUDITOR
FINANCIAL AUDIT DIVISION

SEPTEMBER 1984



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Dick Welch, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission,

William J. Gregg, Commissioner
Department of Veterans Affairs

and

Robert J. Strunk, Administrator
Minnesota Veterans Home, Hastings

We have completed a financial and compliance audit of the Minnesota Veterans Home, Hastings (MVH, Hastings) for the period July 1, 1982 to March 31, 1984.

Our audit was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The objectives of this audit were to:

- determine that effective control is being maintained over revenues, expenditures, assets and liabilities;
- verify that expenditures are made in accordance with applicable laws, regulations, and budget requirements; and
- determine that MVH, Hastings is complying with statutory requirements regarding regulatory and financial activities.

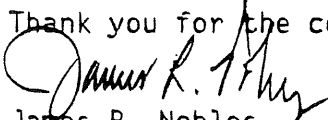
The recommendations included in this report are presented to assist you in improving accounting procedures and controls. Progress on implementing these recommendations will be reviewed during our next audit. Because of the importance of the recommendations contained in this report, we are tentatively planning to schedule an audit of the MVH, Hastings next year to review the progress made on these recommendations.

The financial statements in this report are presented for the general information of the reader only, and do not purport to represent financial position or results of operations in accordance with generally accepted accounting principles. The financial statements were not audited by us,

Representative Dick Welch, Chairman
Members of the Legislative Audit Commission,
William J. Gregg, Commissioner
and
Robert J. Strunk, Administrator
Page 2

and accordingly we do not express an opinion on them. See Note 1 to the financial statements for an explanation of the basis of financial statement presentation.

Thank you for the cooperation extended our staff during this audit.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

September 27, 1984

MINNESOTA VETERANS HOME, HASTINGS

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AUDIT PARTICIPATION

Staff from the Office of the Legislative Auditor:

John Asmussen, CPA, Deputy Legislative Auditor
Margaret Jenniges, CPA, Audit Manager
Charlie Gill, Auditor-in-Charge
Mario Cocchiarella, Staff Auditor
Monica Milbert, Staff Auditor
Scott Trobec, Staff Auditor
Alan Vogt, Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Department of Veterans Affairs and the Hastings Veterans Home on September 13, 1984:

William J. Gregg, Commissioner
Jeffrey L. Olson, Deputy Commissioner
Charles Turnbull, Administrator, MVH, Hastings
Robert Strunk, Assistant Administrator, MVH, Hastings
Roger Lindgren, Accounting Supervisor, MVH, Hastings
Tom Barrett, Accounting Supervisor, MVH, Mpls.
William Kelley, Controller, Department of Finance

MINNESOTA VETERANS HOME, HASTINGS

INTRODUCTION

Minnesota Laws of 1978, Chapter 554, Section 1 transferred control of the state hospital facilities at Hastings to the Commissioner of Veterans Affairs for the establishment of a veterans home. The veterans home at Hastings opened in May of 1978. Its purpose is to provide a home for veterans and their spouses, surviving spouses, and parents, who meet eligibility and admission requirements.

As of March 31, 1984 the population of the Hastings campus was 190 registered residents. The home employs 54 personnel to meet the needs of its population.

The Minnesota Veterans Home, Hastings is under the general management and control of the Commissioner of Veterans Affairs. The commissioner appoints an administrator to provide immediate supervision of the home. Robert J. Strunk has served as administrator since August 4, 1983.

The home operations are financed through the General Fund appropriations made directly to the Department of Veterans Affairs (DVA). DVA is responsible for maintaining, controlling, and transferring the necessary funds to the appropriate home accounts.

MINNESOTA VETERANS HOME, HASTINGS

I. GENERAL INTERNAL CONTROL AREAS

Internal accounting controls are practices and policies developed by an organization's administration to provide assurance to themselves and to other interested and concerned parties that operations are conducted as specified and authorized by the administration, and that the assets of the organization are protected against loss or misuse. In order to meet these objectives the controls should require that incompatible functions be segregated, adequate documentation be maintained, tasks and duties be described by detailed written procedures, and assets be safeguarded.

As a result of our audit, we found that the internal controls at the MVH, Hastings need to be strengthened. The internal control weaknesses are severe and subject MVH, Hastings to an abnormally high risk of errors and irregularities. Due to the pervasiveness of the internal control weaknesses, we have consolidated many different weaknesses into four general internal control areas. General recommendations are offered rather than specific ones because these problems must be addressed as a whole in order to achieve effective corrective action. We believe these problems must be given immediate attention and be seriously pursued. Solutions will require comprehensive changes to the MVH, Hastings general financial management system and organization.

Duties are not adequately segregated at MVH, Hastings

The segregation of incompatible functions is an essential element of accounting control. Incompatible functions are ones that if performed by one person would allow that person to make and conceal an irregularity or an error. When incompatible functions are not segregated, the likelihood that irregularities could occur without being detected increases greatly. Although our audit showed no evidence of any material irregularities, it is important that MVH, Hastings maintain controls to prevent or detect such occurrences in order to demonstrate to the Legislature, the residents of the home, and the public in general that state and resident assets are properly safeguarded. Segregation of duties will also help prevent errors that occur in the normal course of business by providing a review of each transaction by more than one person. Functions that should be separated are the custody of assets, the authorization of transactions, and the accounting for those transactions.

Custody is the physical control of assets. Authorization is the review and approval of transactions involving assets. Accounting is the organization and maintenance of records of transactions involving assets. The custody, authorization, and accounting functions should be separated to prevent and detect irregularities and errors. Custody of assets should be separated from accounting. For example, the cashier should receive and disburse all cash, but the accounting department should post the transactions to the accounting control records. Periodically, the accounting records should be reconciled to the cash on hand by a person who does not have direct access

MINNESOTA VETERANS HOME, HASTINGS

to either the cash or the accounting records. This review of the transactions by different people will help detect any errors, and it will demonstrate to the public that no person is in a position to misuse the organization's funds. Without segregation of these functions, a person would be able to misuse funds and hide that misuse through manipulation of the accounting records. Custody of assets should also be separated from authorization of transactions. A cashier should not prepare and sign checks. The signing of checks (the authorization function) should be done by someone who does not have access to cash (the custodial function). This control is designed to protect against any intentional or unintentional misuse of cash by preventing one person from controlling all aspects of a transaction. Segregation of duties is also necessary within various units. In an accounting department, the person authorizing the payment of bills should be separate from the person posting to the accounting records. This provides a check that only legitimate bills are paid, the correct amount is paid, and no bill is paid more than once.

The MVH, Hastings has responsibility for safeguarding resident and state assets. They also have the responsibility to use state assets efficiently by ensuring that only properly authorized transactions are processed. During our audit we found the following areas where internal control at MVH, Hastings would be strengthened by proper segregation of duties. As stated before, we found no evidence of any misuse of assets, but controls are important for MVH, Hastings to demonstrate they are protecting state and resident funds. Without the existence of these controls, detection of errors and irregularities is extremely difficult.

- The cashiers duties should be segregated. Currently the cashier has complete responsibility for all resident work program activity. The cashier receives the residents time reports prepared and signed by the resident and approved by the supervisor. The biweekly pay is calculated for each resident and entered on a roster by the cashier. The Statewide Accounting System (SWA) batch cover sheet is prepared by the cashier and approved by the accounting supervisor. The cashier enters the transaction on SWA, receives the payroll check and deposits the check to the resident depository account. The cashier then distributes the payroll to the residents by entering the information on each resident's ledger card. To ensure that each resident is receiving the correct amount each pay period, the duties of preparing the roster and receiving and distributing the residents payroll should be separated.

The cashier also handles and records other activity in the residents' accounts. All money to go to the residents' accounts is received, deposited, and recorded on the residents' cards by the cashier. All money withdrawn from a resident's account is recorded by the cashier. The reconciliations of the bank account and the residents ledger cards are performed by the cashier. Reconciliations are one method of detecting errors or irregularities and should be performed by someone who does not have access to the resident records.

MINNESOTA VETERANS HOME, HASTINGS

Finally, the cashier is responsible for resident maintenance charges. The monthly maintenance charge for each resident is calculated by the cashier and entered on the resident's ledger card. The cashier receives the payment, issues the resident a receipt, and enters the amount received on the resident's card. The cashier also makes adjustments to the maintenance charges when the residents monthly income changes. In order to detect errors in the calculation of maintenance charges the original calculation and any adjustments should be reviewed and approved by someone other than the one who makes the calculation.

- Duties should be segregated in the store operations. The same person authorizes purchases and payment of goods and has custody of goods when received. This would allow that person to purchase goods that are either inappropriate or for personal use and to authorize the payment for those goods. Authority to purchase goods and approve payment of goods should be segregated and be the responsibility of employees not involved in the canteen operations. All delivery of goods should be made to the central receiving department.
- One person is responsible for the beer vending operations. This person has access to the beer inventory and is responsible for stocking the vending machine, removing the sale proceeds, and maintaining records of the sales. Our review of the operation for a seven-month period in fiscal year 1984 disclosed a shrinkage of about four percent or \$700 retail. To provide better control, the person responsible for the vending machines should not maintain the inventory. Also, an independent employee should periodically reconcile the beer purchases and sales to the inventory.
- The account clerk prepares disbursements, authorizes payments, and enters them on SWA. When these functions are not segregated, there is no verification of the propriety of the payment or the transaction codings. Disbursements should be reviewed and authorized by someone other than the person who prepares them before they are entered on SWA.
- The duties performed within the payroll/personnel section are not adequately separated. The employee responsible for processing the payroll also has responsibility for processing all personnel forms including entering new employees on the system and changing pay rates.

The payroll/personnel systems are designed so that payroll data cannot be changed by a payroll clerk unless the information has been approved and processed by the personnel clerk. When one individual has responsibility for both systems that individual is in the position of being able to enter a fictitious employee on the system and generate an extra paycheck. To prevent this from occurring, the payroll function could be assigned to employees who would not have authority to process personnel transactions.

MINNESOTA VETERANS HOME, HASTINGS

- The process of maintaining supplies inventory is not adequately separated. The inventory counts are overseen by the custodian of the inventory. This practice invalidates the independence of the periodic inventory count. Periodic physical counts of the inventory should be taken by an employee independent of the custody of the inventory.

RECOMMENDATION:

1. MVH, Hastings should review the organization and delegation of duties in the cashier's unit, the personnel office, the canteen and store, the inventory section, and the business office to identify incompatible functions. Duties should be redelegated so that incompatible functions are not performed by one individual or unit. Caution should be taken to ensure that new conflicts of duties are not created by the segregation of existing incompatible functions.

MVH, Hastings is not adequately safeguarding their assets.

An adequate system of internal control includes the safeguarding of assets against loss. This does not just refer to the physical security of money, desks, chairs, and other assets, but also to the protection against loss arising from intentional and unintentional errors in processing transactions.

Direct access is limited through the use of physical barriers (i.e., locked storage areas) and the control of keys to those areas. All storage facilities and cash holding areas should be locked and control of the keys should be assigned to an individual who would have the responsibility to see that only authorized personnel can obtain them. Indirect access to assets is controlled through management's authorizations of specific personnel to review and approve various transactions and through a proper segregation of duties to prevent one individual from perpetrating and concealing inappropriate activities. The responsibilities for the direct and indirect control or safeguarding of assets can be communicated to employees through formal delegations of authority, job descriptions, and policy and procedure manuals.

By instituting a system to safeguard assets MVH, Hastings would have assurance that their assets are being protected. The system should provide sufficient controls to prevent errors or irregularities from occurring without being detected. The system would prevent unauthorized personnel from having access to areas and/or transactions that do not pertain to their work functions. This system would also assign responsibility for assets to various employees so that these individuals would be accountable for any discrepancies.

Without a logical system to safeguard assets, items may be stolen, lost, destroyed, or temporarily diverted. Also, the lack of such a system could lead to records being misused or altered by unauthorized personnel to the

MINNESOTA VETERANS HOME, HASTINGS

detriment of the home, its residents, its employees, or its vendors. During our audit we identified many areas where the system to safeguard assets needs to be strengthened. Some of these items are highlighted below:

- There are problems in the cashier's unit. The cashier is not always making prompt deposits to the state depository. The sample of deposits we reviewed indicated that the number of days between most deposits was 6 to 14. The amount deposited varied from about \$3,000 to \$128,000. We also found cash of \$236 from donations and craft fairs in the cashier's vault. Some of this cash was being held since 1978. Minn. Stat. Section 16A.275 requires that all monies in excess of \$250 be deposited daily. The prompt depositing ensures the safeguarding of the money and allows the State Treasurer to earn interest on that money.

Also, checks are not stamped with a restrictive endorsement immediately upon receipt. Lost or stolen checks could be improperly negotiated if they have not been restrictively endorsed.

In addition, we found that not all of the residents' funds are on the Statewide Accounting System (SWA). Day-to-day operations of the residents are transacted through the cashier's cage and a local bank account. Minn. Stat. Section 198.266 was revised in 1983 to allow the home to maintain the residents' funds on SWA and transact resident activities through an imprest cash fund. Maintaining these funds on SWA could better safeguard residents' assets, since all receipts would be deposited with the State Treasurer's Office and all withdrawals would be made from an imprest cash account established through the Department of Finance. Withdrawals would have to be supported by properly authorized vouchers in order to be reimbursed through SWA. The receipts on SWA could be balanced to the deposit slips and reconciled to postings on the residents' cards each month. Also, the cash on hand and in the bank, and the outstanding vouchers could be reconciled to the established petty cash balance.

We also observed that the cashier's office is sometimes left unattended with the door unlocked and the key in the cash drawer. This practice allows unauthorized persons access to the area and cash.

- Finally, the store cash register control totals and reset key are not adequately protected. The cash register is equipped with a reset key that allows access to a control total within the machine. If used properly, this control total acts as a verification of all register activity, thus ensuring that all receipts are accounted for. At present, the control total reset key is kept by the store manager, who also operates the register and delivers receipts for deposit. The integrity of the control total cannot be assured if the shop manager has the ability to reset or adjust the total or void transactions.

MINNESOTA VETERANS HOME, HASTINGS

In addition to the areas highlighted above, we also noted the following situations where assets were not properly safeguarded:

- over/short accounts are not used in the store and canteen areas;
- receipts are not being reconciled to SWA on a monthly basis;
- employee checks are being cashed using the residents account petty cash;
- a reasonable balance is not being maintained for the residents account petty cash; and
- beer issued is not reconciled to sales receipts.

RECOMMENDATION:

2. The MVH, Hastings should develop and implement new procedures to ensure the direct and indirect safeguarding of all assets.

MVH, Hastings does not have an adequate records management system.

A soundly conceived and carefully maintained system of accounting records is necessary to provide reasonable accounting control over assets, liabilities, and expenses by maintaining all pertinent documentary information on file. The information kept on file should be of the quality and nature necessary to provide evidence and support for all transactions processed. The system should be established for all activities concerning operations of the home and care of the residents.

An important aspect of a records management system is the establishment of a complete and organized filing system. Information needs to be readily accessible so that timely decisions can be made. Enough supporting documentation should be kept on file so that an independent person could reconstruct the transaction and review its propriety.

By implementing this system of records management, MVH, Hastings would establish a reliable trail of all activity. There would be evidence of tasks completed and of the methods used to complete the tasks which would provide a framework within which new employees could more easily assume their duties. Overall, the control over transactions would be strengthened.

Lack of an organized filing system can result in lost or misplaced records. Files may be difficult to retrieve or may not contain all necessary information. Valuable time may be spent searching for and/or reconstructing the records. An environment such as this makes tasks appear overwhelming. Also, answering residents' questions becomes difficult. For example, support for changes made to files and maintenance fees may be missing or inadequately documented, causing residents to mistrust the business office's actions.

MINNESOTA VETERANS HOME, HASTINGS

During our audit we identified many areas in which the MVH, Hastings records management system needs improvement. Some of these areas are discussed below. Others are briefly mentioned at the end of this section.

- Residents maintenance fee calculations are not supported by adequate documentation. As an example, during our testing we found that one resident paid no maintenance fee but there was no documentation in his file to justify this. Residents often have questions regarding the calculation of their maintenance fee. If adequate documentation to support the amounts used in the calculation is not found in the file, the question may not be answered completely and the resident may doubt the validity of the charge.

Also, the residents are not given documentation of the activity in their individual accounts. Individual account statements should be sent to each resident periodically showing all deposits and withdrawals for the period.

Resident's monies and valuables are held in the cashier vault for prolonged periods of time without maintaining records of them. The cashier performs a custodial function for the residents' cash and valuables. We found that operating procedures do not exist for this activity. Receipts are not given to residents and a record is not maintained of the cash and valuables being held. Operating procedures and records which document the custodial activity should be developed.

- The canteen and variety store at MVH, Hastings are run by residents of the home. Control over cash and inventories in these shops rests with MVH, Hastings. During our review of these operations, we noted several problems in documenting the controls over these areas. Presently, purchase orders are not being used consistently when goods are ordered. Orders are often placed by telephone with no documentation on file as to vendor selection, items and quantities ordered, prices agreed to, or proper authorization by MVH, Hastings. Also, we found the supporting documentation for inventory counts to be inadequate. A consumable inventory system for control and reporting purposes would help provide adequate documentation.

In addition to the areas highlighted above, we also noted the following areas where sufficient documentation was lacking:

- numbering of receipt and withdrawal slips used for the resident depository accounts;
- monitoring designated contributions to ensure and document that funds donated for specific purposes are expended in accordance with the donor's intentions; and
- comparing meat and produce contract specifications with the goods received to ensure that quality requirements are met.

MINNESOTA VETERANS HOME, HASTINGS

RECOMMENDATION:

3. MVH, Hastings should establish a records management and documentation system that would ensure all business and resident related activities are adequately supported.

Procedures at MVH, Hastings are not updated periodically or available for reference.

Adequate accounting control over transactions and assets includes the establishment and maintenance of relevant, up-to-date, written procedures. These procedures would establish the processing mechanics for operations at MVH, Hastings, defining which position is responsible for each task and exactly how the task is to be completed. This would enable MVH, Hastings to run its business operations more smoothly.

Documenting methods of completing tasks strengthens internal control by providing reasonable assurance that those tasks are completed consistently and in accordance with all applicable statutes and policies. The procedures would outline the process management feels is necessary to conduct operations and make well-founded decisions. Written procedures would also provide a guideline for new employees to follow when trying to complete their assigned tasks. If the procedures are well-defined, many tasks could be completed with little guidance necessary from a supervisor. Procedures should be explicit so that tasks can be completed in the absence of the responsible employee. If the proper statutory or management authorities were cited within the procedures, anyone having a question could refer to the specific statute, law or regulation for further explanation. In order to ensure that procedures are not added, altered or deleted without management's approval, a system of reviewing, approving or disapproving proposed procedures or changes in procedures should be established.

Procedures are only useful to the extent they are updated and available for use. During our audit we did find written procedures; however, most were too general and outdated. They appeared to be policy statements more so than procedures. Procedures should detail all steps used to complete the various tasks. Also, there appeared to be only one copy of the procedures manual available at the home. One copy could not sufficiently serve all employees at MVH, Hastings. Without adequate, up-to-date, written procedures, management's policies may not be properly implemented and objectives may not be met. Employees are forced to rely on oral instructions and their memories for procedures, leading to improperly executed tasks. New employees find it difficult to assume their responsibilities in this environment.

Thoroughly reviewing the tasks and responsibilities assigned to different positions at MVH, Hastings would be a starting point for establishing well-defined written procedures. Some tasks may need to be redefined and some responsibilities reassigned before accurate procedures can be written. To ensure that employees have adequate direction for completing tasks, all objectives need to be clear and goals need to be properly identified.

MINNESOTA VETERANS HOME, HASTINGS

Detailed steps of how each task is to be completed are necessary if adequate written procedures are to be established. Care must be taken to provide directions for how the tasks are to be completed and not just a general description of the tasks. In addition to detailing the steps for completion of the tasks, adequate procedures would direct the flow of information once the task is complete.

During our audit we noted that procedures were not adequate to ensure proper operations in the following areas:

- Deceased and discharged resident's funds and personal property left at MVH, Hastings have not been disposed of in accordance with Minnesota statutes. As of March 31, 1984, there was a balance of \$5,941 in the accounts of residents who have been discharged or deceased. Some balances were for residents deceased or discharged in 1978. Minn. Stat. Sections 198.23 and 198.231 specify what action is to be taken when funds and property remain unclaimed for more than one year. Detailed procedures would provide guidance on how each step should be performed and specify the person/position responsible to perform it.

Legal questions may arise and be hard to resolve if the procedures are not carefully derived from the statutes or other regulations and carefully followed by the designated employee.

- State policy on the notification of the State Treasurer's Office (STO) that a deposit over \$1,000 has been made was not followed. The policy is important because it allows the State Treasurer to act as soon as possible to invest funds. Our review of the MVH, Hastings depository account disclosed that deposits over \$1,000 are not phoned into the STO on the day that they are made, as required by the Department of Finance policy number 06:06:01. Most deposits made by MVH, Hastings exceed \$1,000 and, at times, exceed \$100,000. We found that on the average it took 7.5 days before the STO was notified that a deposit had been made. Since the state's policies and procedures were not documented in any procedures used by MVH, Hastings, this policy was overlooked and the state was not able to maximize its investment income.
- We also found that written procedures are needed to describe, in detail, how maintenance charges are to be calculated, who is to perform the calculations, how and when the calculations are to be reviewed and revised, and what documentation is to be maintained to support the calculations and revisions. Detailed written procedures would help to ensure that all maintenance calculations are done consistently and accurately for this sensitive area.
- Written procedures would improve MVH, Hastings' operations in the resolution of invoice discrepancies and the receipt of all credits on items purchased. During the 21-month period ending March 31, 1984, MVH, Hastings purchased \$27,964 in pharmaceuticals. All purchasing and receiving was performed at the Minnesota Veterans Home, Minneapolis (MVH, Mpls.). Two of the eight pharmaceutical purchases tested had invoice amounts greater than

MINNESOTA VETERANS HOME, HASTINGS

those indicated on their Department Purchase Orders. Payment documentation did not include any indication of whether invoice amounts were valid or if a credit memo should have been issued. MVH, Hastings does not maintain any records for credits that should be received on their pharmaceutical purchases.

The nature of ordering and receiving is such that many credit memos are generated. Procedures should be established and followed to reconcile discrepancies in invoice amounts and to verify that all credits on items purchased are received.

- During our testing we found that procedures and controls over the endowment and bequest, and designated contribution accounts are not adequate. Records are not sufficient to determine the proper disposition of the accounts. No one at MVH, Hastings is responsible for maintaining an overview of the account balance and disposition. The balance of \$2,056 in the endowment and bequest account was transferred to the designated contributions account simply because no one knew the specific purposes of the balance. Therefore, the endowments and bequests are not being spent for their particular purpose as required by Minn. Stat. Section 198.161. If written procedures documenting the purpose of and the steps to be taken for the endowment and bequests, and designated contributions accounts were available for employees' use, these situations may have been avoided.
- Our testing also disclosed that there are no procedures for preparing the quarterly federal aid reimbursement report. During the 21 months ending March 31, 1984 these U.S. Veterans Administration reimbursements for the cost of operations totaled \$646,398.

The lack of procedures may result in an inconsistent preparation of this report. Detailed written procedures should be developed which explain how to prepare the quarterly federal reimbursement report.

Detailed written procedures would also improve operations at MVH, Hastings in the following areas:

- the general operations of the canteen, gift shop and coffee shop including the selection of vendors, purchasing process and pricing policies;
- the follow up and disposition process used to resolve unpaid maintenance balances;
- the purchasing process for goods and services at MVH, Hastings, including the selection of vendors, the establishment of contracts, the completion of purchase orders and the proper use of the Local Purchase Authority;
- the processing and recording of mail receipts;

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- the operations of the cashier's office;
- the steps followed to balance the maintenance and resident account cards;
- the voiding of checks that have been outstanding beyond a reasonable length of time; and
- the controls over the food, pharmaceutical and variety store inventories.

RECOMMENDATIONS:

4. MVH, Hastings should review and revise existing procedures so that detailed directions are provided to employees expected to complete the tasks, to other employees in the absence of the responsible employee, and to new employees for training purposes.
5. After the procedures are revised, MVH, Hastings should distribute the appropriate procedures to those employees in charge of completing the various tasks, and develop an ongoing system for updating the procedures as necessary.

II SPECIFIC RECOMMENDATIONS

Profits from the operation of the canteen are not being properly calculated or transferred for use by the residents.

The canteen is comprised of the variety store, coffee shop, and vending operations. The residents run these operations and the business office controls the cash. Profits derived from the operation of the canteen and coffee shop are to be used only for the direct benefit of the residents of the home. Canteen profits have been transferred to the designated contributions account on only two occasions since 1978. Both of these transfers were based on MVH, Hastings business office estimates.

For the home to accurately determine profits from the operations, complete records need to be developed to document the financial operations and financial statements should be prepared. If statements are prepared on a quarterly basis, actual profits would be transferred to the designated contribution account more timely.

RECOMMENDATIONS:

6. Quarterly financial statements should be prepared for the canteen operations.

MINNESOTA VETERANS HOME, HASTINGS

7. Profits from the canteen should be transferred to the designated contribution account periodically.

The imprest cash funds at MVH, Hastings have not been established and operated pursuant to the required statutory and operating procedural requirements.

Minn. Stat. Section 15.191 provides in part that, "Before an imprest cash fund is established an application showing the need therefore shall be presented to the commissioner of finance who shall fix the amount of the fund for the department or agency...." MVH, Hastings maintains imprest cash funds of \$600, \$600, and \$200. Only one imprest cash fund of \$600 has been approved by the Department of Finance (DOF).

Also, the DOF Operating Procedure No. 06:06:05 requires that, "State agencies should reimburse their imprest cash funds to the full authorization amount at least monthly or as often as needed." The authorized imprest cash fund at MVH, Hastings is reimbursed only once a year. Optimum use of the imprest cash would require the maintenance of a lesser authorized balance reimbursed on a monthly or more frequent basis.

RECOMMENDATIONS:

8. MVH, Hastings should apply to the DOF for authorization for all imprest cash funds maintained at the home.
9. MVH, Hastings should review the imprest cash funds and determine an optimum authorized balance for them. The funds should be reimbursed on a monthly or more frequent basis.

Purchases are being made at MVH, Hastings over the Local Purchase Authority (LPA) Limit.

During fiscal year 1983, MVH, Hastings had local purchase authority of \$500. Total purchases from one food vendor during this period were \$40,902. Forty-six of the 87 orders placed with this vendor in fiscal year 1983 were over the LPA limit. During fiscal year 1984 MVH, Hastings had local purchase authority of \$1,000. During the nine months ending March 31, 1984, total purchases from this vendor were \$32,963. Eight of the 54 orders placed with this vendor in this period were over the \$1,000 limit.

The Department of Administration Manual Bulletin No. 7207, Section 2.8 specifies that miscellaneous materials and supplies may be purchased directly from vendors but the limit per order is their LPA limit. Agencies may be authorized to purchase commodities over their limit if they submit a request to the Director of Procurement specifying why they believe it is in the best interest of the state to not comply with Bulletin No. 7207. MVH, Hastings has not submitted written justification for these purchases over

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their LPA limit. The state may be losing monies by not establishing a contract with a vendor or may be jeopardizing the contractual relationship with another vendor already under contract for the same goods.

RECOMMENDATION:

10. MVH, Hastings should contact the Department of Administration, Division of Procurement to either establish a contract for purchases over their LPA limit or submit written justification for noncompliance with bulletin No. 7207.

MINNESOTA VETERANS HOME, HASTINGS

EXHIBIT A

UNAUDITED, FOR INFORMATIONAL PURPOSES ONLY, SEE NOTE 1

STATEMENT OF FINANCIAL RESOURCES, EXPENDITURES, ENCUMBRANCES
AND AVAILABLE BALANCE
Years Ended June 30, 1983 and 1984

	<u>Years Ended June 30</u>	
	<u>1983</u>	<u>1984</u>
<u>General Fund</u>		
State Appropriations - See Exhibit B	\$1,528,834	\$2,047,800
Appropriation Cancellations	(41,852)	-0-
Transfers In:		
Veterans Benefits	96,085	-0-
Salary Adjustments	<u>239,250</u>	<u>70,446</u>
 TOTAL RESOURCES AVAILABLE	 <u>\$1,822,317</u>	 <u>\$2,118,246</u>
Expenditures:		
Personal Services	\$1,222,795	\$1,294,543
Repair Services	14,938	31,415
Printing and Binding	1,349	2,286
Professional and Technical Services	31,121	31,226
Purchased Services	26,654	24,459
Communications	14,544	18,768
Travel and Subsistence	3,205	2,105
Utility Service	79,661	65,784
Supplies and Materials	401,387	373,366
Rents and Leases	4,745	2,538
Claims, Awards, and Indemnities	3,941	-0-
Capital Outlay - Equipment	13,855	3,900
Freight and Expenses	2,860	-0-
Other	<u>1,262</u>	<u>1,179</u>
 TOTAL EXPENDITURES	 <u>\$1,822,317</u>	 <u>\$1,851,569</u>
Encumbrances and Requisitions	-0-	<u>233,277</u>
 TOTAL EXPENDITURES AND ENCUMBRANCES	 <u>\$1,822,317</u>	 <u>\$2,084,846</u>
 AVAILABLE BALANCE - June 30	 <u>\$ -0-</u>	 <u>\$ 33,400</u>

MINNESOTA VETERANS HOME, HASTINGS

EXHIBIT A
(Con't)

	<u>Years Ended June 30</u>	
	<u>1983</u>	<u>1984</u>
<u>Gift Fund</u>		
Available Balance July 1	\$ 1,252	\$ 4,443
Receipts - Exhibit C	4,933	24,250
Transfers In:		
Canteen Profits	15,856	1,800
From Endowment Fund	<u>-0-</u>	<u>2,056</u>
TOTAL RESOURCES AVAILABLE	<u>\$22,041</u>	<u>\$32,549</u>
Expenditures:		
Personal Services	\$ -0-	\$ 1,191
Rents and Leases	575	237
Printing and Binding	2,671	-0-
Supplies and Materials	8,008	21,388
Repair Services	450	1,232
Capital Outlay, Equipment	5,686	-0-
Bonds and Insurance	-0-	5,824
Other	<u>208</u>	<u>59</u>
TOTAL EXPENDITURES	\$17,598	\$29,931
Encumbrances and Requisitions	<u>-0-</u>	<u>2,312</u>
TOTAL EXPENDITURES AND ENCUMBRANCES	<u>\$17,598</u>	<u>\$32,243</u>
AVAILABLE BALANCE - June 30	<u>\$ 4,443</u>	<u>\$ 306</u>
 <u>Endowment Fund</u>		
Available Balance - July 1	\$ 2,056	\$ 2,056
Transfers Out	<u>\$ -0-</u>	<u>\$ 2,056</u>
AVAILABLE BALANCE - June 30	<u>\$ 2,056</u>	<u>\$ -0-</u>

MINNESOTA VETERANS HOME, HASTINGS

EXHIBIT A
(Con't)

	Years Ended June 30	
	<u>1983</u>	<u>1984</u>
<u>Agency Fund</u>		
Available Balance July 1	\$27,324	\$ 4,155
Receipts - Exhibit C	<u>59,430</u>	<u>80,197</u>
TOTAL RESOURCES AVAILABLE	<u>\$86,754</u>	<u>\$84,352</u>
Expenditures:		
Supplies and Materials	\$60,171	\$67,116
Equipment	1,567	-0-
Repairs, Services	562	-0-
Other Expenditures	<u>66</u>	<u>-0-</u>
TOTAL EXPENDITURES	\$62,366	\$67,116
Encumbrances and Requisitions	-0-	7,289
Transfers Out	<u>15,856</u>	<u>1,800</u>
TOTAL EXPENDITURES, ENCUMBRANCES, AND TRANSFERS OUT	<u>\$78,222</u>	<u>\$76,205</u>
AVAILABLE BALANCE - June 30	<u>\$ 8,532</u>	<u>\$ 8,147</u>

MINNESOTA VETERANS HOME, HASTINGS

EXHIBIT F

UNAUDITED, FOR INFORMATIONAL PURPOSES ONLY

STATEMENT OF APPROPRIATIONS AND BUDGET REDUCTIONS
 Years Ended June 30, 1983 and 1984

	<u>Years Ended June 30</u>	
	<u>1983</u>	<u>1984</u>
<u>General Fund</u>		
Appropriations:		
Laws 1981, Chapter 356, Section 36	\$1,670,000	
Laws 1982, Chapter 641, Article I, Section 2, Subd. 5	66,100	
Laws 1983, Chapter 301, Section 37		\$2,047,800
Budget Reductions:		
Laws 1981, Chapter 356, Section 36	(63,000)	
Laws 1981, Third Special Session, Chapter 2, Article I, Section 2, Subd 1(ee)	(24,790)	
Laws 1982, Chapter 641, Article I, Section 2, Subd. 1(j)	(17,188)	
Laws 1982, Third Special Session, Chapter 1	<u>(102,288)</u>	
AVAILABLE APPROPRIATIONS	<u>\$1,528,834</u>	<u>\$2,047,800</u>

MINNESOTA VETERANS HOME, HASTINGS

EXHIBIT C

UNAUDITED, FOR INFORMATIONAL PURPOSES ONLY

STATEMENT OF REVENUE DEPOSITED WITH THE STATE TREASURER
 Years Ended June 30, 1983 and 1984

	Years Ended June 30	
	<u>1983</u>	<u>1984</u>
<u>General Fund</u>		
Care and Hospitalization of Persons	\$293,511	\$331,617
Federal Grant Revenue	373,278	373,767
Service Charges	43,030	41,897
Rental of Property	24,335	25,513
Reimbursements	8,669	728
Sales Tax	5,232	7,216
Other	576	723
TOTAL GENERAL FUND	<u>\$748,631</u>	<u>\$781,461</u>
 <u>Gift Fund</u>		
Gifts and Donations	\$ 4,933	\$ 24,250
TOTAL GIFT FUND	<u>\$ 4,933</u>	<u>\$ 24,250</u>
 <u>Agency Fund</u>		
Sale of Supplies	\$ 59,430	\$ 80,197
TOTAL AGENCY FUND	<u>\$ 59,430</u>	<u>\$ 80,197</u>

NOTE TO THE FINANCIAL STATEMENTS

NOTE 1: The financial statements do not represent financial position or results of operations in accordance with generally accepted accounting principles. The Statewide Accounting (SWA) reports were used in preparing these statements. Consequently, these statements were not prepared using the accrual basis of accounting.

Office Memorandum

DEPARTMENT

TO: COMMISSIONER WM. GREGG

DATE: September 24, 1984

FROM: Charles V. Turbitt, Administrator

PHONE:

SUBJECT: MVH-HASTINGS AUDIT REPORT - FACILITY RESPONSE

Attached is the recommended response to the Hastings-MVH Audit Report. All items except one are agreed to and have correction plans and dates stated.

We recommend the attached material become part of the department's response to the Legislative Audit Report.

CVT/db

Encls.

MINNESOTA VETERANS HOME-HASTINGS
RESPONSE TO LEGISLATIVE AUDIT REPORT

INTRODUCTION

The basic result of the Audit was an indication of weak controls in many of the Minnesota Veterans Home-Hastings modes of operation. We have broken this response down to generally follow the four (4) basic areas and general outline of the report.

A. PART I

I. "Duties are not adequately segregated at MVH, Hastings."

Recommendation: MVH, Hastings should review the organization and delegation of duties in the cashier's unit, the personnel office, the canteen and store, the inventory section, and the business office to identify incompatible functions. Duties should be redelegated so that incompatible functions are not performed by one individual or unit. Caution should be taken to ensure that new conflicts of duties are not created by the segregation of existing incompatible functions.

Comments: The staff of the Minnesota Veterans Home-Hastings agrees to the needed recommendation and the following eight (8) points highlight our action plan. All corrections have been made or will be by October 31, 1984.

TITLE OF PROBLEM: Segregation of duties of cashier in regard to the Resident Work Program.

Corrections to be completed: Determination is going to have to be made as to whom shall prepare (and receive) the actual payroll. A recommendation is that the actual preparation be done by the Personnel Aide, Sr. to provide the separation. This will be reviewed with the facility's Personnel Director for final action.

Expected completion date: October 31, 1984.

TITLE OF PROBLEM: Segregation of duties in Cashier's office. Handling and recording of activity in residents' accounts.

Corrections to date: Reconciliation of accounts and resident ledger cards is being done by the Accounting Supervisor.

Corrections to be completed: Accounting personnel will be providing the function of recording the transactions on the individual accounts, therefore, limiting the process being handled by the cashier.

Expected completion date: October 31, 1984.

TITLE OF PROBLEM. Segregation of cashier's office duties - calculation, posting and collection of maintenance charges and adjustments.

Corrections to date: All maintenance adjustments are reviewed and either approved or modified as needed by the Accounting Supervisor.

Corrections to be completed: Posting to resident maintenance cards and control cards will be done by accounting personnel.

Expected completion date: October 31, 1984.

TITLE OF PROBLEM: Segregation of duties of stores operation - Authorizing of purchasing, receiving, payment all by same person.

Corrections to date: All purchases are reviewed and approved by accounting supervisor or designee prior to purchase.

Corrections to be completed: Merchandise will be delivered to Central Stores and checked by them, signed for receiving, therefore, recommending payment and the supplies will then be issued to the variety store for stocking for sale.

Expected completion date: October 15, 1984.

TITLE OF PROBLEM. One person responsible for beer vending operations.

Corrections to date: Purchasing is being done by accounting supervisor. Supplies are being received, stocked, inventoried and issued by Central Stores. Machines are stocked by resident. Sales record made by cashier.

Corrections to be completed: A determination will be made of personnel that will remove cash proceeds from the machines and a schedule of these removals.

Expected completion date: October 15, 1984.

TITLE OF PROBLEM: Account Clerk prepared disbursements, authorizes payment and enters them onto SWA.

Corrections to date: Authorization of all payment transactions to be made by Accounting Supervisor or designee prior to entering onto SWA.

Expected completion date: Corrected.

TITLE OF PROBLEM: Segregation of duties - personnel.

Corrections to be completed. This will have to be coordinated with the personnel staff at the Minneapolis Home and the Personnel Director.

Expected completion date: October 31, 1984.

TITLE OF PROBLEM: Periodic physical counts of inventory should be taken by an independent employee of the custody.

Corrections to date: Periodic spot checks are being made at random of records vs. inventory by Accounting Supervisor or Account Clerk which will provide for a complete cycle check, a minimum of once each six months.

Expected completion date: Corrected.

II. "MVH, Hastings is not adequately safeguarding their assets."

Recommendation: The MVH, Hastings should develop and implement new procedures to ensure the direct and indirect safeguarding of all assets.

Comments: The staff of the MVH-Hastings agree with all points except one. The area of concern we do not agree with is in regard to the Stores Cash register control totals and reset key. The basic difference is in the design of the cash register. If we, in the future, purchase a new machine, we will review this again. The following nine (9) comments relate to recommendation #2 quoted above:

TITLE OF PROBLEM: Prompt deposits to state depository.

Corrections to date: Deposits are being made daily to the state depository whenever the amount exceeds \$250.00. This was corrected in March, 1984.

TITLE OF PROBLEM: Checks not stamped with restrictive endorsement.

Corrections to date: All checks are stamped with a restrictive endorsement upon receipt of the cashier's office for processing. This was also corrected at the time of the audit.

TITLE OF PROBLEM: Cashier's office left unattended and unlocked with key maintained in cash drawer.

Corrections to date: The office remains locked at all times that the monies are not locked in the safe. The safe is locked and the key to the cash drawer is removed also if the cashier leaves the office.

Expected completion date: Corrected.

TITLE OF PROBLEM. The store cash register control totals and reset key are not adequately protected.

Recommended corrections we do not agree with: The register is not equipped with a running control total. The machine is equipped with a transaction number for each time the register is activated and this verifies each operation of the day. All keys are turned into the cashier's office at the close of each business day and picked up at the beginning of the next day.

TITLE OF PROBLEM: Over/short accounts are not used in the store and canteen areas.

Corrections to be completed: A procedure for the handling of cash overages and shortages plus verification will be established.

Expected completion date: October 15, 1984.

TITLE OF PROBLEM: Receipts are not being reconciled to SWA on a monthly basis.

Corrections to date: All receipts deposited to the State Depository are verified each month within 7 day upon receipt of the reports.

TITLE OF PROBLEM: Employees' checks are being cashed using the Residents' Accounts Petty Cash.

Corrections to date: Employees' checks are only being taken for the amount of purchases in the case of meal tickets, hobby shop sales and variety store purchases. No check is accepted for cash or the amount over purchase.

TITLE OF PROBLEM: A reasonable balance is not being maintained for the Residents' Petty Cash Account.

Corrections to be completed: A review is being made of the actual needs for daily operations, reimbursements periods and excess will be invested in accordance with agreement with State Board of Investments.

Expected completion date: November 1, 1984.

TITLE OF PROBLEM: Beer issued is not reconciled to sales receipts.

Corrections to date: An inventory of all beer, etc., was taken on 7/1/84 and will be verified and reconciled every three months. The verification will be done on 9/30/84 for the last three months.

- III. "MVH, Hastings does not have an adequate records management system."

Recommendation: MVH, Hastings should establish a records management and documentation system that would ensure all business and resident related activities are adequately safeguarded.

Comments: The following seven (7) areas were agreed to by staff of the MVH-Hastings and the comments and planned corrections are as follows:

TITLE OF PROBLEM: Maintenance fee calculations are not supported by adequate documentation.

Corrections to be completed: Individual files are being prepared for each resident. These files will maintain all documentation of income, assets, and determination of maintenance charges.

Expected completion date: December 1, 1984.

TITLE OF PROBLEM: Residents are not given documentation of activity in their individual accounts.

Corrections to date: Statements were sent to all residents on the activity of their accounts in July, 1984. Any resident having activity during the periods will receive a statement in January, April, July and October of each year.

TITLE OF PROBLEM: Resident monies and valuables held in cashier's vault for prolonged periods of time without maintaining records.

Corrections to date: Resident monies are no longer being held in the safe. They are being deposited to the residents' account upon receipt. Effort is being made to have families assume responsibility for valuables.

Corrections to be completed: A record maintenance system will be established with a copy placed in the resident's administrative file of all valuables maintained in the cashier's vault.

Expected completion date: December 1, 1984.

TITLE OF PROBLEM: Problems in documenting the controls over the canteen and variety store.

Corrections to date: All canteen supplies are maintained on a perpetual inventory system and purchase orders are prepared for all supplies.

Corrections to be completed: A review of the operations of the variety store is in process with changes being made in the purchasing procedure for providing documentation and control.

Expected completion date: November 1, 1984.

TITLE OF PROBLEM: Need for numbering of deposits and withdrawal slips for residents depository account.

Corrections to be completed: Orders are in the process of being made for the printing of numbered withdrawal slips and numbered duplicate deposit slips for the depository account.

Expected completion date: December 15, 1984.

TITLE OF PROBLEM: Monitoring of designated contributions to ensure donations for specific purpose are expended in accordance with donor's intention.

Corrections to be completed: A ledger has been started of all donations and receipts to the designated contributions account and all receipts and expenditures will be recorded back to the beginning of the fiscal year.

Expected completion date: October 15, 1984.

TITLE OF PROBLEM: Comparing of meat and produce specifications of the contract with the goods received.

Corrections to date: Contact was made with Alice Turnwall of the Division of Procurement for copies of the specifications on the contract so that comparison can be made upon receipt of the merchandise.

Expected completion date: Upon receipt of specifications.

- IV. "Procedures at MVH, Hastings are not updated periodically or available for reference."

Recommendation: MVH, Hastings should review and revise existing procedures so that detailed directions are provided to employees expected to complete the tasks, to other employees in the absence of the responsible employee and to new employees for training purposes.

After the procedures are revised, MVH, Hastings should distribute the appropriate procedures to those employees in charge of completing the various tasks, and develop an ongoing system for updating the procedures as necessary.

Comments: The staff of the MVH, Hastings are in basic agreement with the Audit Report recommendations. The following eleven (11) points have been addressed as part of our correction effort.

TITLE OF PROBLEM: Deceased and discharged residents' accounts not disposed of in accordance with state statutes.

Corrections to date: Of the \$5,941.00 in inactive accounts, approximately \$900.00 has been expended to the former residents. An additional \$2,500.00 is for residents that also owe maintenance balances and authority to apply these funds has been requested from the Attorney General's Office.

Corrections to be completed: All remaining funds will be disposed of in accordance with statutes if the resident or next of kin can not be located.

Expected completion date: February 1, 1984.

TITLE OF PROBLEM: State Treasurer not notified by phone of all deposits in excess of \$1,000.00 to allow for investment of these funds.

Corrections to date: This was corrected as soon as mentioned by the auditors during their audit period.

TITLE OF PROBLEM: Written procedures are needed to describe, in detail, calculation of maintenance charges, by whom, and how documentation maintained.

Corrections to be completed: A committee has been established for reviewing the present maintenance policy and establishing or revising the present policy. Procedures will be written upon the change of the policy.

Expected completion date: March 1, 1985, or sooner.

TITLE OF PROBLEM: Written procedures for the resolution of invoice discrepancies and receipt of all credits on items purchased.

Corrections to date: The accounts payable clerk has been advised to verify the prices with the contract or in the case of pharmaceuticals with the pharmacy before payment or adjustment of discrepancies.

Corrections to be completed: A policy and procedure will be written to resolve the invoice discrepancies, application of credits or refunds of credit balances.

Expected completion date: December 15, 1984.

TITLE OF PROBLEM: Lack of procedures and controls of the endowments and bequests account and the designated contributions account.

Corrections to be completed: A procedure will be written for the proper handling and preparation of reports of activities of these accounts for the Administration to review the handling of these accounts.

Expected completion date: November 15, 1984.

TITLE OF PROBLEM: Lack of policy and procedures for the preparation of quarterly federal reimbursement reports.

Corrections to be completed: A policy and procedure will be written in conjunction with the preparation of the federal report for the period ending September 30, 1984.

Expected completion date: October 30, 1984.

TITLE OF PROBLEM: Lack of procedures for the general operations of the canteen, shop and coffee shop.

Corrections to be completed: Written procedures for the operations of all areas will be written to include vendor selection, purchasing and pricing.

Expected completion date: December 15, 1984.

TITLE OF PROBLEM: Lack of procedure for the follow-up and disposition process to resolve unpaid maintenance balances.

Corrections to be completed: A policy will be written regarding the process and reportability of follow-up done and achievements made.

Expected completion date: November 15, 1984.

TITLE OF PROBLEM: Lack of procedure for the purchasing of goods using local purchase authority.

Corrections to be completed: A policy and procedure will be developed in accordance with established regulations of the Division of Procurement in regard to the regulations and procedures in purchasing on local authority.

Expected completion date: October 31, 1984.

TITLE OF PROBLEM: Lack of procedure for recording of mail receipts in regard to invoices and statements.

Corrections to date: A date stamp for showing date of receipt has been ordered and will be stamped on all documents and/or envelopes upon receipt.

TITLE OF PROBLEM: Lack of policies and procedures for the operations of the cashier's office.

Corrections to be completed: Operating policies and procedures will be written for all areas of the cashier's office which will include the balancing of accounts, voiding outdated checks, etc.

Expected completion date: Partial by December 1, 1984 -
Complete by March 1, 1985.

B. PART II

- I. "Profits from the operation of the canteen are not being properly calculated or transferred for use by the residents."

Recommendation: Quarterly financial statements should be prepared for the canteen operations.

Profits from the canteen should be transferred to the designated contribution account periodically.

Comments:

TITLE OF PROBLEM: Preparation of financial statements and transfer of profits from canteen operations to designated contributions.

Corrections to date: Cash levels and inventory levels were established as of July 1, 1984. Reports will be prepared at the end of each quarter with the determination of profits from each area and these profits transferred to the designated contributions account. Actual transfer will not be until October, 1984.

- II. "The imprest cash funds are MVH, Hastings have not been established and operated pursuant to the required statutory and operating procedural requirements."

Recommendation: MVH, Hastings should apply to the DOF for authorization for all imprest cash funds maintained at the Home.

MVH, Hastings should review the imprest cash funds and determine an optimum authorized balance for them. The funds should be reimbursed on a monthly or more frequent basis.

Comments:

TITLE OF PROBLEM: Imprest cash funds without authorization of finance and determination of appropriate levels.

Corrections to date: The two imprest cash funds (\$200 and \$600) that were unauthorized under the designated contributions account and the canteen account were abolished and deposited with the Treasurer. Approval was received from the Dept. of Finance to increase the level of the other account to \$1,200.00.

- III. "Purchases are being made at MVH, Hastings over the Local Purchase Authority (LPA) Limit.

Recommendation: MVH, Hastings should contact the Department of Administration, Division of Procurement to either establish a contract for purchases over their LPA limit or submit written justification for noncompliance with bulletin No. 7207.

Comments:

TITLE OF PROBLEM: Purchase of items in excess of Local Authority Limit of \$500.00 in F.Y. 3 and \$1,000.00 in F.Y. 4.

Corrections to date: Purchase authority has been raised to \$1,500.00 for F.Y. 5 which should eliminate 99% of orders exceeding limit.

Corrections to be completed: Authorization will be requested from the Division of Procurement for the purchase of supplies for the canteen operations only in excess of the \$1,500.00 due to availability of vendors.

Expected completion date: November 1, 1984.

The staff of the Minnesota Veterans Home-Hastings wants to thank the Legislative Auditors for their helpfulness, courteous and professional manner in how they conducted the Audit and Exit Interview. Much needed direction was learned by MVH-Hastings staff.

Thank you,



CHARLES V. TURNBULL,
ADMINISTRATOR
Minnesota Veterans Home-Hastings

Audit Report

MINNESOTA VETERANS HOME, MINNEAPOLIS

Audit Period July 1, 1982 to March 31, 1984

Operating Under Minn. Stat.
Chapters 196, 197, and 198

OFFICE OF THE LEGISLATIVE AUDITOR
FINANCIAL AUDIT DIVISION

SEPTEMBER 1984



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Dick Welch, Chairman
Legislative Audit Commission,

Members of the Legislative Audit Commission,

William Gregg, Commissioner
Department of Veterans Affairs,

and

Charles Turnbull, Administrator
Minnesota Veterans Home, Minneapolis

We have completed a financial and compliance audit of the Minnesota Veterans Home, Minneapolis (MVH, Mpls.) for the year ended June 30, 1983 and the nine months ended March 31, 1984. Our audit was made in accordance with generally accepted auditing standards and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The objectives of the audit were to determine that:

- the MVH, Mpls. is maintaining effective control over revenues, expenditures, assets and liabilities;
- expenditures are made in accordance with applicable laws, regulations, and budget requirements;
- the MVH, Mpls. is complying with statutory requirements regarding regulatory and financial activities; and
- the MVH, Mpls. has properly satisfied the findings and recommendations contained in the audit reports issued in 1980 and 1982.

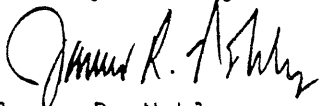
The recommendations included in this report are presented to assist you in improving accounting procedures and controls. Progress on implementing these recommendations will be reviewed during our next audit. Because of the importance of the recommendations contained in this report, we are tentatively planning to schedule an audit of the Minnesota Veterans Home, Minneapolis next year to review the progress made on these recommendations.

This audit report contains our recommendations developed during this audit and reiteration of our prior recommendations which have not been implemented. Prior audit recommendations specifically repeated in this text are denoted under the caption "PRIOR RECOMMENDATIONS NOT IMPLEMENTED" or "PRIOR RECOMMENDATION PARTIALLY IMPLEMENTED." Some of the prior audit recommendations are carried forward as part of our general-internal control recommendations and may not be specifically identified. For a summary of the progress on all prior audit recommendations see Section 4.

Representative Dick Welch, Chairman
Members of the Legislative Audit Commission,
William Gregg, Commissioner
and
Charles Turnbull, Administrator
Page 2

The financial statements shown in the exhibits are presented only for the general information of the reader and do not purport to represent financial position or results of operations in accordance with generally accepted accounting principles. The financial statements were not audited by us, and accordingly, we do not express an opinion on them. See Note 1 of the financial statements for an explanation of the basis of financial statement presentation.

Thank you for your cooperation during this audit.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

September 27, 1984

MINNESOTA VETERANS HOME, MINNEAPOLIS

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AUDIT PARTICIPATION

Staff from the Office of the Legislative Auditor:

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Cecile Ebacher, CPA, Auditor-in-Charge
David Polisen, Auditor
Lori Scott, CPA, Auditor
Alan Finlayson, Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Department of Veterans Affairs and the Minnesota Veterans Home, Minneapolis on September 14, 1984:

William J. Gregg, Commissioner
Jeffrey L. Olson, Deputy Commissioner
Charles Turnbull, Administrator, MVH, Mpls.
Jim Ertz, Assistant Administrator, MVH, Mpls.
Tom Barrett, Accounting Supervisor, MVH, Mpls.
Bob Jansen, Accounting, MVH, Mpls.
Cindy Valentine, Personnel, MVH, Mpls.
Roger Lindgren, Accounting Supervisor, MVH, Hastings
William Kelley, Controller, Department of Finance

MINNESOTA VETERANS HOME, MINNEAPOLIS

INTRODUCTION

The Minnesota Veterans Home, Minneapolis (MVH, Mpls.) was founded in 1887. The home operates in accordance with Minn. Stat. 198 and the rules and regulations of the Minnesota Department of Veterans Affairs, the U.S. Veterans Administration, and the Minnesota Department of Health. The home serves as a residence for veterans, their spouses and parents who meet the eligibility requirements as specified in the statutes. Many residents live at the home for medical and health-care related reasons.

Both domiciliary and nursing care are available for residents. The home is currently licensed for 250 beds of nursing care and 290 beds of domiciliary care. The conversion of building #16 to nursing care in the Fall of 1984 will result in 346 beds of nursing care and 194 beds of domiciliary care at MVH, Mpls. The trend towards providing more nursing care reflects the needs of the veteran population in Minnesota.

MVH, Mpls. is under the general management and control of the Commissioner of Veterans Affairs and the immediate supervision of an Administrator appointed by the Commissioner. Jean Donaldson was the administrator from January 20, 1981 to July 6, 1983. Marian Schnitker was the acting administrator from July 6, 1983 to February 1, 1984 and James Ertz was acting administrator from February 1, 1984 to July 11, 1984. Charles Turnbull assumed the administrator position on July 11, 1984. State appropriations, federal aid, and maintenance payments by residents finance the operations of MVH, Mpls.

MINNESOTA VETERANS HOME, MINNEAPOLIS

I. GENERAL INTERNAL CONTROL AREAS

Internal accounting controls are practices and policies developed by an organization's administration to provide assurance to themselves and to other interested and concerned parties, that operations are conducted as specified and authorized by the administration, and that the assets of the organization are protected against loss or misuse. In order to meet these objectives the controls should require that incompatible functions be segregated, adequate documentation be maintained, tasks and duties be described by detailed written procedures, and assets be safeguarded.

As a result of our audit, we found that the internal controls at the MVH, Mpls. need to be strengthened. The internal control weaknesses are severe and subject MVH, Mpls. to an abnormally high risk of errors and irregularities. Due to the pervasiveness of the internal control weaknesses, we have consolidated many different weaknesses into four general internal control areas. General recommendations are offered rather than specific ones because these problems must be addressed as a whole in order to achieve effective corrective action. We believe these problems must be given immediate attention and be seriously pursued. Solutions will require comprehensive changes to the MVH, Mpls. general financial management system and organization.

Duties are not adequately segregated at MVH, Mpls.

The segregation of incompatible functions is an essential element of accounting control. Incompatible functions are ones that if performed by one person would allow that person to make and conceal an irregularity or an error. When incompatible functions are not segregated, the likelihood that irregularities could occur without being detected increases greatly. Although our audit showed no evidence of any irregularities, it is important that MVH, Mpls. maintain controls to prevent or detect such occurrences in order to demonstrate to the Legislature, the residents of the home, and the public in general that state and resident assets are properly safeguarded. Segregation of duties will also help prevent errors that occur in the normal course of business by providing a review of each transaction by more than one person. Functions that should be separated are the custody of assets, the authorization of transactions, and the accounting for those transactions.

Custody is the physical control of assets. Authorization is the review and approval of transactions involving assets. Accounting is the organization and maintenance of records of transactions.

The custody, authorization, and accounting functions should be separated to prevent and detect irregularities and errors. Custody of assets should be separated from accounting. For example, the cashier should receive and disburse all cash, but the accounting department should post the transactions to the accounting control records. Periodically, the accounting records should be reconciled to the cash on hand by a person who does not

MINNESOTA VETERANS HOME, MINNEAPOLIS

have direct access to either the cash or the accounting records. This review of the transactions by different people will help detect any errors, and it will demonstrate to the public that no person is in a position to misuse the organization's funds. Without segregation of these functions, a person would be able to misuse funds and hide that misuse through manipulation of the accounting records. Custody of assets should also be separated from authorization of transactions. A cashier should not prepare and sign checks. The signing of checks (the authorization function) should be done by someone who does not have access to cash (the custodial function). This control is designed to protect against any intentional or unintentional misuse of cash by preventing one person from controlling all aspects of a transaction. Segregation of duties is also necessary within various units. In an accounting department, the person authorizing the payment of bills should be separate from the person posting to the accounting records. This provides a check that only legitimate bills are paid, the correct amount is paid, and no bill is paid more than once.

The MVH, Mpls, has responsibility for safeguarding resident and state assets. They also have the responsibility to use state assets efficiently by ensuring that only properly authorized transactions are processed. During our audit we found the following areas where internal control at MVH, Mpls. would be strengthened by proper segregation of duties. As stated before, we found no evidence of any misuse of assets, but these controls are important for MVH, Mpls. to demonstrate they are protecting state and resident funds. Without the existence of these controls detection of errors and irregularities is extremely difficult.

- The payroll and personnel functions are not segregated at MVH, Mpls. At present, the payroll is processed in the personnel office by the same people who have the authority to enter new employees on the personnel system and change pay rates. The state's payroll/personnel systems are designed so that payroll data cannot be changed by a payroll clerk unless the information has been properly authorized and input into the personnel system by the personnel clerk. When the payroll and personnel functions are not separated, it allows one person to submit changes to the personnel system and to generate a paycheck. For example, the personnel clerk could enter a fictitious employee onto the personnel system. Since that clerk also prepares the payroll and distributes the checks, no one would detect the presence of the fictitious employee on the payroll roster or the extra paycheck. To prevent this from occurring, MVH, Mpls. could assign the payroll function to specific persons who would not have the authority to process personnel transactions.
- The cashier should be completely segregated from the bookkeeping personnel. Currently, the accounting officer intermediate in the business office, has access to the accounting records, supervises the cashier, and has access to the cash. The accounting officer intermediate and other bookkeeping employees work in the cashier's office in the absence of the cashier. This practice would allow bookkeeping personnel to misuse cash and conceal that misuse in the accounting records. MVH, Mpls. could adequately segregate these duties by having the cashier report directly to

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the assistant administrator. In the cashier's absence his duties could be performed by personnel who do not have access to the bookkeeping function such as purchasing or accounts payable personnel.

- Duties should be segregated in two areas of the canteen operations. First, the same person authorizes purchases and payment of goods and has custody of goods when received. This would allow that person to purchase goods that are either inappropriate or for personal use and to authorize payment for those goods, thereby concealing the inappropriateness of the transaction. The authority to purchase goods and approve payment of these goods should be segregated and be the responsibility of employees not involved in the canteen operations. All delivery of goods should be made to a central receiving department.

Second, the person supervising the store operations also delivers receipts to the cashier and reconciles receipts to the cash register tape, making it possible for that person to conceal or adjust for any discrepancies. The daily reconciliation of receipts should be done by someone who does not have custody of the receipts, such as the business office personnel.

- One person in the business office prepares disbursements, authorizes payments, and enters them on the statewide accounting system (SWA). When these functions are not segregated, there is no verification of the propriety of the payment or the transaction codings. Disbursements should be reviewed and authorized by someone other than the person who prepares them before they are entered on SWA.
- The accounting officer intermediate in the business office has the ability to control all functions of the petty cash account. This person can approve disbursements from petty cash, prepare the check, sign as one of two required signatures, prepare reimbursement requests, and reconcile the bank statement. When one person is involved in all aspects of a transaction, a weakness exists since no one is in a position to routinely review and question that person's actions. Custody and preparation of the checks should be the responsibility of the cashier, but he should not have signature authority. Signature authority could be given to the assistant administrator and the accounting officer senior.

RECOMMENDATION:

1. MVH, Mpls. should review the organization and delegation of duties in the cashier's unit, the personnel office, the canteen, and the business office to identify incompatible functions. Duties should be redelegated so that incompatible functions are not performed by one individual or unit. Caution should be taken to ensure that new conflicts of duties are not created by the segregation of existing incompatible functions.

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MVH, Mpls. is not adequately safeguarding their assets.

An adequate system of internal control includes the safeguarding of assets against loss. This does not just refer to the physical security of money, desks, chairs, and other assets, but also to the protection against loss arising from intentional and unintentional errors in processing transactions.

Direct access is limited through the use of physical barriers (i.e. locked storage areas) and the control of keys to those areas. All storage facilities and cash holding areas should be locked and control of the keys should be assigned to an individual who would have the responsibility to see that only authorized personnel can obtain them. Indirect access to assets is controlled through management's authorizations of specific personnel to review and approve various transactions and through a proper segregation of duties to prevent one individual from perpetrating and concealing inappropriate activities. The responsibilities for the direct and indirect control or safeguarding of assets can be communicated to employees through formal delegations of authority, job descriptions, and policy and procedure manuals.

By instituting a system to safeguard assets MVH, Mpls. would have assurance that their assets are being protected. The system should provide sufficient controls to prevent errors or irregularities from occurring without being detected. The system would prevent unauthorized personnel from having access to areas and/or transactions that do not pertain to their work functions. This system would also assign responsibility for assets to various employees so that these individuals would be accountable for any discrepancies.

Without a logical system to safeguard assets, items may be stolen, lost, destroyed, or temporarily diverted. Also, the lack of such a system could lead to records being misused or altered by unauthorized personnel to the detriment of the home, its residents, its employees, or its vendors.

During our audit we identified many areas where the system to safeguard assets needs to be strengthened. Some of these items are highlighted below:

- There are problems in the cashier's unit. We found that controls over mail receipts were inadequate to properly safeguard those assets. The mailroom is located in the administration building and contains an open mail box for the cashier. On several occasions during our audit we observed checks in the cashier's box. Because this area is open to employees and residents, the checks could easily be taken out of the cashier's box without their absence being noticed.

Also, the cashier was not always making prompt deposits to the state depository. On one occasion we noted that a VA check for about \$400,000 was not deposited for five days. Minn. Stat. Section 16A.275 requires that all monies in excess of \$250 be deposited daily. The prompt depositing ensures the safeguarding of the money and allows the State Treasurer to earn interest on that money.

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In addition, we found that a complete, daily listing of receipts is not made. The cashier does prepare a listing, however, it does not include items such as VA pension checks, social security checks and activity refunds. We recognize that VA and social security checks addressed to residents cannot be opened by the home. However, the fact that the home has the responsibility to safeguard these assets for the residents highlights the need to document the presence of those checks in the business office. This could be accomplished by listing the resident's name and type of check received.

We also found that not all of the residents' funds are on the Statewide Accounting System (SWA). Day-to-day operations of the residents are transacted through the cashier's cage and a local bank account. Minn. Stat. Section 198.266 was revised in 1983 to allow the home to maintain the residents' funds on SWA and transact resident activities through an imprest cash fund. Maintaining these funds on SWA could better safeguard residents' assets, since all receipts would be deposited with the State Treasurer's Office and all withdrawals would be made from an imprest cash account established through the Department of Finance. Withdrawals would have to be supported by properly authorized vouchers in order to be reimbursed through SWA. The receipts on SWA could be balanced to the deposit slips and reconciled to postings on the residents' cards each month. Also, the cash on hand and in the bank, and the outstanding vouchers could be reconciled to the established petty cash balance.

Finally, the required second signer on checks drawn from the member depository and petty cash accounts does not usually review the supporting documentation. When a resident wants a check drawn from his resident depository account, the cashier prepares the withdrawal request, has the resident sign it, prepares the check, and acts as the first signer. When a check is drawn from the petty cash account, the custodian of the account reviews the documentation, approves it, prepares the check and acts as the first signer. For both types of checks, the second signer is only presented with the check for signing and not with any supporting documentation to review. The second signature on a check should provide assurance that the check was prepared for a legitimate purpose.

Many of the problems in the cashier's area could be alleviated if steps to safeguard assets were implemented. These steps would include hand delivering mail receipts to the cashier's cage, promptly depositing all receipts, preparing a complete daily listing of all cash and checks on hand in the cashier's cage, accounting for all resident funds on SWA, and having the second signer on the checking accounts review documentation supporting disbursements and withdrawals.

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- Problems were also observed in the business office. We found that the home made a donation to the Minnesota Historical Society of several unclaimed watches. This was in violation of Minn. Stat. Section 198.23 which states that residents' property that remains unclaimed for one year after his or her death shall be inventoried, appraised, and sold, and the proceeds thereof paid into the state treasury to the credit of the Minnesota veterans home endowment, bequest and devises fund from which all residents would benefit. This donation to the Historical Society was made by business office personnel without the authorization of the home's administration. Also, there are still a large number of watches and other artifacts stored in the cashier's safe. The residents' interest in these items is not being adequately safeguarded.

Our review also revealed that keys are kept in an unlocked cabinet on a wall in the business office. Some of the keys in the cabinet are for the cashier's office, canteen, and the business office. No one in the business office has the responsibility to control the use of the keys. This practice allows for keys to be obtained by persons who should not have access to the areas.

During the testing of residents' accounts it was learned that the posting machine used by the business office is not reliable. At times, the machine calculates and posts erroneous balances to residents' cards. To detect these erroneous balances each card would have to be manually recalculated, since output documentation from the posting machine does not provide the information necessary to verify the balances.

Finally, the fixed assets are not being adequately controlled. While location codes are assigned to all assets, our testing disclosed that the assets actual locations did not always correspond to the location code. One of the 19 assets tested was never found.

The business office could improve their control over state and resident assets by properly handling the unclaimed property of deceased residents, limiting the access to office and storage room keys, obtaining accurate and reliable office equipment, and assigning the responsibility for fixed assets in various areas to specific employees.

- We also observed problems in the canteen operations. The canteen operations consist of a gift shop, coffee shop, and a canteen (beer machines). We found that the cash register control totals and reset key are not adequately protected. The cash register in the gift shop is equipped with a reset key that allows access to a control total within the machine. If used properly, this control total acts as a verification of all register activity, thus ensuring that all receipts are accounted for. At present, the control total reset key is kept by the store manager, who also operates the register and delivers receipts for deposit. The integrity of the control total cannot be assured if the shop manager has the ability to reset or adjust the total.

MINNESOTA VETERANS HOME, MINNEAPOLIS

In addition to the areas highlighted above, we also noted the following situations where assets were not properly safeguarded:

- deposits of beer sale receipts are not reconciled to beer consumption;
- the safe combination is not changed periodically;
- authorized signature cards are not updated to reflect personnel changes;
- over/short accounts are not used in the cashier and canteen areas;
- unused checks from closed bank accounts are not voided to avoid misuse;
- bank reconciliations are not being done timely;
- timely reconciliations of residents' cards to control totals are not being done;
- receipts are not being reconciled to SWA on a monthly basis;
- daily receipts from the stores are not being deposited at the end of the day for safekeeping;
- reasonable cash register balances are not maintained for the gift shop and coffee shop; and
- availability of funds are not verified prior to the purchase of goods and/or services.

RECOMMENDATION:

2. The MVH, Mpls. should develop and implement new procedures to ensure the direct and indirect safeguarding of all assets.

MVH, Mpls. does not have an adequate records management system.

A soundly conceived and carefully maintained system of accounting records is necessary to provide reasonable accounting control over assets, liabilities, and expenses by maintaining all pertinent documentary information on file. The information kept on file should be of the quality and nature necessary to provide evidence and support for all transactions processed. The system should be established for all activities concerning operations of the home and care of the residents.

MINNESOTA VETERANS HOME, MINNEAPOLIS

An important aspect of a records management system is the establishment of a complete and organized filing system. Information needs to be readily accessible so that timely decisions can be made. Enough supporting documentation should be kept on file so that an independent person could reconstruct the transaction and review its propriety.

By implementing this system of records management, MVH, Mpls. would establish a reliable trail of all activity. There would be evidence of tasks completed and of the methods used to complete the tasks which would provide a framework within which new employees could more easily assume their duties. Overall, the control over transactions would be strengthened.

Lack of an organized filing system can result in lost or misplaced records. Files may be difficult to retrieve or may not contain all necessary information. Valuable time may be spent searching for and/or reconstructing the records. An environment such as this makes tasks appear overwhelming. Also, answering residents' questions becomes difficult. For example, support for changes made to files and maintenance fees may be missing or inadequately documented, causing residents to mistrust the business office's actions.

During our audit we identified many areas in which the MVH, Mpls. records management system needs improvement. Some of these areas are discussed below. Others are briefly mentioned at the end of this section.

- The MVH, Mpls. does not have a records retention schedule. This may result in many obsolete records being kept on file, making it difficult to find adequate storage space for required documentation. Also, required documentation may be destroyed. The Department of Administration could provide assistance in establishing a record retention schedule for MVH, Mpls.
- Many of the tasks completed in the MVH, Mpls. business office are not supported by adequate documentation. Several problems arise because of this situation. First, residents often have questions regarding the calculation of their maintenance fee. If adequate documentation to support the amounts used in the calculation is not found in the file, the question may not be answered completely and the resident may doubt the validity of the charge. A second problem is the inadequate documentation of the steps taken to properly distribute money in deceased or discharged resident accounts. The lack of documentation in the files and the absence of a master schedule indicating the stage that each file is at in the disposition process often results in unnecessary delays in the resolution of these accounts.

A final example of lack of adequate documentation in the business office relates to the reconciliation of the individual resident and maintenance account cards to their respective control cards. There usually is an indication on the control card that the reconciliation was done as of a certain date. However, since the supporting documentation is not retained there is no assurance that the reconciliation was done properly nor is there an example to follow when the next reconciliation is done. Efforts are often duplicated in trying to resolve these problems.

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Additionally, the records in the business office are often hard to locate. This causes great difficulty, especially for new employees trying to locate information and find examples of previously completed tasks. During the course of our audit, we also encountered many problems trying to locate information.

Many of these problems could be alleviated if adequate supporting documentation is kept of all activities in the business office. In order to be complete, residents files need to include support for all changes in maintenance calculations. Every step taken to distribute deceased and discharged residents' accounts needs to be fully explained in the residents' files. Reconciliations performed in the business office need to be fully documented so that there is evidence of the reconciliation process and the propriety of the reconciliation.

- The canteen, gift shop and coffee shop at MVH, Mpls. are all run by residents of the home. Control over cash and inventories in these shops rests with MVH, Mpls. During our review of the shops operations, we noted several problems in documenting the controls over these areas. Presently, purchase orders are not being used consistently when goods are ordered. Orders are often placed by telephone with no documentation on file as to vendor selection, items and quantities ordered, prices agreed to, or proper authorization by MVH, Mpls. Also, we found the supporting documentation for inventory counts to be inadequate. A consumable inventory system for control and reporting purposes would help provide adequate documentation.

There were also problems noted when the shops deposits were reviewed. Seven days deposits were selected for testing. Cash register tapes supporting the deposits are stored in boxes by month. However, tapes supporting five of the deposits could not be located. Additionally, we found MVH, Mpls. making daily adjustments for over and short amounts in the cash registers on the next days business rather than keeping records of the over and short amounts and depositing actual receipts. The adjustments are made by either ringing up a fictitious sale (without putting money in the cash register) if the previous day was over, or not ringing up sales (and putting the money received in the register) until they made up the previous days short amount.

These problem areas can be resolved if appropriate steps are taken to ensure that all activity in the shops is adequately documented. Verification that the goods received were actually ordered would be possible if purchase orders were used to document the vendors used, items ordered, and terms agreed upon. By establishing a consumable inventory record system, MVH, Mpls. would be able to reconcile purchases, sales, and cost-of-goods sold. Cash register tapes should be safeguarded and stored so that they are readily accessible for use in verifying deposits. By maintaining an over and short account, MVH, Mpls. could review trends in the over and short amounts and investigate ways to resolve any problems noted.

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- MVH, Mpls. is required by the Minnesota Department of Health to provide residents in the nursing care units with ". . . a minimum of two (2) hours of nursing personnel per patient per 24 hours, plus additional qualified nursing staff commensurate with the needs of the patients. . . ." The Assistant Director of Nurses is responsible for scheduling the appropriate number of registered nurses, licensed practical nurses, and human service technicians to handle the patient load.

Each day the Assistant Director of Nurses calculates the ratio of nursing personnel hours per patient by comparing the hours worked and yet to be worked in the 24 hour period (per the schedule and leave slips) against the patient count. Additional staff are called in as considered necessary.

Records are not kept of each day's ratio calculation. Even though all ratios can be recalculated by reviewing the schedule and time sheets applicable to any particular day, we feel that management would benefit from having a record of each day's calculation on hand. Trends in the ratio could be observed and investigated. Additionally, if the staffing level of nursing personnel is questioned by residents, their families, the Department of Health, or the nursing staff itself, documentation would be available to assure them that the requirement is met.

In addition to the areas highlighted above, we also noted the following areas where sufficient documentation was lacking:

- recording of when account statements are sent to residents;
- detailing the steps taken to resolve accounts receivable;
- tracking of records removed from files;
- supporting changes made to balances on beer inventory cards;
- supporting disbursements processed through the business office;
- numbering of receipt and withdrawal slips used for the resident depository accounts; and
- monitoring designated contributions to ensure and document that funds donated for specific purposes are expended in accordance with the donor's intentions.

RECOMMENDATION:

3. MVH, Mpls. should establish a records management and documentation system that would ensure all business and resident related activities are adequately supported.

MINNESOTA VETERANS HOME, MINNEAPOLIS

Procedures at MVH, Mpls. are not updated periodically or available for reference.

Adequate accounting control over transactions and assets includes the establishment and maintenance of relevant, up-to-date, written procedures. These procedures would establish the processing mechanics for operations at MVH, Mpls., defining which position is responsible for each task and exactly how the task is to be completed. This would enable MVH, Mpls. to run its business operations more smoothly.

Documenting methods of completing tasks strengthens internal control by providing reasonable assurance that those tasks are completed consistently and in accordance with all applicable statutes and policies. The procedures would outline the process management feels is necessary to conduct operations and make well-founded decisions. Written procedures would also provide a guideline for new employees to follow when trying to complete their assigned tasks. If the procedures are well-defined, many tasks could be completed with little guidance necessary from a supervisor. Procedures should be explicit so that tasks can be completed in the absence of the responsible employee. If the proper statutory or management authorities were cited within the procedures, anyone having a question could refer to the specific statute, law or regulation for further explanation. In order to ensure that procedures are not added, altered or deleted without management's approval, a system of reviewing, approving or disapproving proposed procedures or changes in procedures should be established.

Procedures are only useful to the extent they are updated and available for use. During our audit at MVH, Mpls., we did find written procedures; however, most were too general and outdated. They appeared to be policy statements more so than procedures. Procedures should detail all steps used to complete the various tasks. Also, there appeared to be only one copy of the procedures manual at the home. One copy could not sufficiently serve all employees at MVH, Mpls. The high turnover in the business office especially highlights the need for available and detailed procedures.

Without adequate, up-to-date, written procedures, management's policies may not be properly implemented and objectives may not be met. Employees are forced to rely on oral instructions and their memories for procedures, leading to improperly executed tasks. New employees find it difficult to assume their responsibilities in this environment.

Thoroughly reviewing the tasks and responsibilities assigned to different positions at MVH, Mpls. would be a starting point for establishing well-defined written procedures. Some tasks may need to be redefined and some responsibilities reassigned before accurate procedures can be written. To ensure that employees have adequate direction for completing tasks, all objectives need to be clear and goals need to be properly identified. Detailed steps of how each task is to be completed are necessary if adequate written procedures are to be established. Care must be taken to provide directions for how the tasks are to be completed and not just a general description of the tasks. In addition to detailing the steps for completion of the tasks, adequate procedures would direct the flow of information once the task is complete.

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During our audit we noted that procedures were not adequate to ensure proper operations in the following areas:

- The disposition of deceased and discharged resident's funds and personal property left at MVH, Mpls. is not adequately defined. As an example, one MVH, Mpls. procedure states, "All unclaimed items of value will be inventoried, appraised and sold by auction with the profits going into the Residents Designated Account which is used for the benefit of all residents." The procedure continues, "If it is determined that remaining property has an apparent commercial or historical value, it shall be turned over to the State Treasurer for safekeeping," to "the Historical Society or be disposed of." The manual stated that the accounting department was responsible for carrying out this procedure. Properly detailed procedures would have provided more guidance on how the inventory is to be done, who should appraise the property, and how to publicize and conduct the auction. The procedures should either reference to, or explain the procedures for depositing money into the Residents Designated Account. Also, the specific person/position responsible for this step needs to be stated rather than stating the accounting department as a whole.

Applicable statutes and laws need to be taken into consideration when developing these procedures. The procedure stated above seems to be in violation of Minn. Stat. 198.23 which clearly states that all unclaimed resident property is to be auctioned for the benefit of the residents. There is no mention of alternate treatment for items with "apparent commercial or historical value." Legal questions may arise and be hard to resolve if the procedures are not carefully derived from the statutes or other regulations and carefully followed by the designated employee.

- Also, state policy on the notification to the State Treasurer's Office (STO) that a deposit over \$1,000 has been made is not always adhered to. The policy is important because it allows the State Treasurer to act as soon as possible to get funds invested. We found that MVH, Mpls. was notifying the STO weekly by mail, rather than daily by phone as required by the Department of Finance policy number 06:06:01. MVH, Mpls.'s average daily deposits during March 1984 were \$10,650. Since the state's policies and procedures were not documented in any procedures used by MVH, Mpls., this policy was overlooked and the state was not able to maximize its investment income.

Undocumented procedures also led to improper processing of some disbursements. Several late payments were noted during our testing of disbursements at MVH, Mpls. Recent late payments arose because the new employee in the accounts payable unit did not have adequate procedures to follow, resulting in the processing of each transaction taking longer than necessary. Also, duplicate payments may occur due to the lack of procedures. We noted a duplicate payment that occurred during the transition of employees in the disbursement office. The payments were made off

MINNESOTA VETERANS HOME, MINNEAPOLIS

of different copies of the same invoice. There were no procedures clearly indicating how to accurately process the payments and which copy of the invoice to use when making the payments.

We also found that the new disbursement officer was not comparing the fees charged by physicians for various services rendered against the maximum allowable fee schedule. Although none of the maximum allowable fees were exceeded, the potential did exist for overpayment since the individual in charge of disbursements did not know he was responsible for comparing these charges. Adequate procedures would have provided him with this knowledge.

A final business office example is the lack of written procedures describing in detail how maintenance charges are to be calculated, who is to perform the calculations, how and when the calculations are to be reviewed and revised, and what documentation is to be maintained to support the calculations and revisions. Detailed written procedures would help to ensure that all maintenance calculations are done consistently and accurately for this sensitive area.

- A second major area where detailed written procedures would improve the flow of transactions is in the processing of receipts in the cashier's office. The processing of quarterly Veterans Administration reimbursements and activity refunds is not always done on a timely basis due to the lack of procedures. Presently, the cashier has to wait for the business office to provide the proper coding for the VA reimbursements. Since the codings are on the request for reimbursement submitted to the VA, procedures could be written to stipulate that the cashier be provided with a copy of the request. This would enable him to have immediate access to the proper codings when the VA check arrives.

The processing of activity refunds is also often delayed because the cashier does not know how to process them. Again, the business office personnel are relied upon to provide the information needed to complete the task. The absence of key personnel in the business office results in delays in depositing refunds since the cashier does not know what information is needed or where it can be located. Since this is a frequently recurring task, it appears that procedures instructing the cashier how to obtain the needed information would be beneficial.

Detailed written procedures would also improve operations at MVH, Mpls. in the following areas:

- the overall operations of the business office;
- the follow up and disposition process used to resolve unpaid maintenance balances;
- The steps followed to balance the maintenance and resident account cards;

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- the purchasing process for goods and services at MVH, Mpls., including the selection of vendors and the establishment of contracts;
- the recognition of the VA Estate Limitation when calculating maintenance fees;
- the general operations of the canteen, gift shop and coffee shop including the selection of vendors, purchasing process and pricing policies; and
- the steps followed to compute the daily 2.0 required hours of nursing staff per patient per 24 hour period.

RECOMMENDATIONS: _____

4. MVH, Mpls. should review and revise existing procedures so that detailed directions are provided to employees expected to complete the tasks, to other employees in the absence of the responsible employee, and to new employees for training purposes.
5. After the procedures are revised, MVH, Mpls. should distribute the appropriate procedures to those employees in charge of completing the various tasks, and develop an ongoing system for updating the procedures as necessary.

II. SPECIFIC RECOMMENDATIONS

The MVH, Mpls. went beyond their statutory authority for resident funds.

Minn. Stat. 198.265 states that the Commissioner of Veterans Affairs may accept resident funds "for safekeeping purposes to be returned to such residents on demand." The MVH, Mpls. has approximately \$362,000 of resident funds which it maintains either on hand, in a local bank account, or at the State Board of Investment. In effect, the home is acting as a bank for the residents, and has no more authority over the deposit or withdrawal of these funds than a bank would have.

During our audit we noticed a few instances where the home appears to go beyond their statutory authority. The first of these involved the repayment of loans between residents. We found that the MVH, Mpls. has approved and made payments from discharged residents work program earnings to another resident or individual who claimed that they loaned the resident money. Documentation or substantiation of the loan is often not available. The home acts on the word of the creditor, without authorization for such payments from the discharged resident.

MINNESOTA VETERANS HOME, MINNEAPOLIS

Another problem arises in the way the MVH, Mpls. handles the funds of deceased residents. We found that the home often pays the funeral bills for such residents without obtaining authorization from the personal representative of the estate or the resident's next of kin. The home's concern is that if the funeral bill is not paid by the estate or family of the deceased resident, the state will have to pay the bill as specified in the admission's agreement. By paying the bill from the resident's account, which is part of the deceased resident's estate, they were trying to minimize the state's liability. In addition to overriding the authority of the personal representative or the wishes of the next of kin, this practice may result in the payment of unsubstantiated claims or the duplicate payment of bills, once by the home and again by the next of kin.

We feel that in these two situations the home's administration went beyond the safekeeping function. This may result in greater liability to the home should a payment be contested by a discharged resident or the heirs of a deceased resident.

RECOMMENDATION:

6. The MVH, Mpls. should limit their involvement with resident funds to the safekeeping of those funds, as provided by statute.

PRIOR RECOMMENDATION NOT IMPLEMENTED: Residents at MVH, Mpls. are not given a calculation of their monthly maintenance fee.

Residents are charged a monthly maintenance fee for living at MVH, Mpls. This fee reimburses the home for some of the cost of operations. Residents are charged an amount based on their income or net worth. The amount of the fee is recalculated if income changes or net worth is reduced below a certain dollar amount. Upon admission, each resident signs a financial statement showing the calculation of this fee. However, if the fee is adjusted due to a change in income or net worth, the resident is not notified. Disputes over the amount of the monthly maintenance fee arise because residents are unaware of the basis for any change in the fee. Disputes would occur less often and be more easily resolved if residents were given a calculation of their maintenance fee.

RECOMMENDATION:

7. Residents should be given a calculation of their maintenance fee whenever it is changed.

The MVH, Mpls. business office is not paying bills promptly.

Non-payroll disbursements at MVH, Mpls totaled \$1,608,000 and \$1,488,000 for fiscal years 1983 and 1984, respectively. We randomly tested 43 invoices supporting these expenditures and found that for 12 of these payments, over 30 days had elapsed between the time the goods or services were

MINNESOTA VETERANS HOME, MINNEAPOLIS

provided and payment was made. These late payments occurred throughout our audit period and are therefore not entirely attributable to the recent short staffing in the business office.

Bills for ambulance service for the residents were consistently paid late. These bills were generally paid two to three months late. Part of the delay in payment is because the home must first request reimbursement from Medicare before paying the vendor. However, a delay of two to three months appears to be excessive. We were unable to determine at what step the delay is occurring, however, the Travelers Insurance Company, the Medicare agent for the MVH, Mpls. informed us that it usually takes them three weeks to process the reimbursement claims once they are received by their office. This indicates that the delay in processing these reimbursements is occurring at the home.

Prompt payments to vendors are essential for cash control. Delay in making payments can result in lost discounts, lost invoices, dissatisfied vendors and duplicate payments. Also, effective July 1, 1984 a new law allows vendors to assess an interest charge of one percent per month on balances outstanding for more than 30 days. Thus, late payments will now result in added expenditures to the home.

In some instances, late payments contributed to the business office making duplicate payments. We tested nine payments that appeared to be duplicates and found that three actually were duplicate payments. We also observed, through memos from the Department of Finance and SWA reports, that other duplicates were made. This type of error occurs when payment is made on both the original invoice and subsequent invoices sent by the vendor when the account is past due. Although many of these errors were eventually detected and corrected, the fact that they occurred shows that a weakness exists. We also noted instances where more than one copy of the same invoice was paid. Care should be taken so that only the original invoice is paid, and all other copies are voided.

RECOMMENDATIONS:

8. The MVH, Mpls. business office should pay all invoices on a timely basis.
9. The business office should review the Medicare reimbursement process to determine where the delay is occurring.

PRIOR RECOMMENDATION NOT IMPLEMENTED: MVH, Mpls. does not adequately monitor accounts receivable.

Minn. Stat. Section 198.03 provides that the residents with some means of support shall pay the State of Minnesota reasonable compensation for their care, support, and maintenance in the home. Such residents are charged a maintenance fee at the beginning of each month which is computed by the home based on their income and net worth. An accounts receivable arises when the fees are not promptly paid by the resident, or when a resident dies or is discharged from the home leaving an outstanding balance.

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During our audit we reviewed the maintenance accounts receivable at March 31, 1984. We found that the total accounts receivable balance was undeterminable since the control total had not been updated for months, and the individual resident cards had not been balanced to the control total since February 1984. We understand that personnel turnover is partly the reason for this situation, however, lack of adequate procedures on how to update the control total and how to reconcile the resident cards to the control total would have greatly assisted intermittent and new employees in accomplishing these tasks (for a thorough discussion about the necessity of detailed written procedures, see recommendations #4 and 5).

We also found that the accounts receivable from deceased or discharged residents are handled in various ways without the reasons for those actions being adequately explained or documented. For example, some of the accounts were written off on the authority of the MVH, Mpls. assistant administrator. There was no evidence that these accounts were submitted to the Executive Council for write off approval, which is required by Minn. Stat. Sections 10.12 and 10.15. Other apparently similar receivables were submitted to the Department of Revenue for collection under the Revenue Recapture Act. Current staff were unable to explain the reason for this difference in treatment.

Without a basic, reliable system to identify and verify accounts receivable, and a logical collection process, the home can not efficiently or effectively monitor the accounts receivable.

RECOMMENDATIONS:

10. MVH, Mpls. should develop a system, including detailed written procedures and retention of sufficient documentation, to ensure that accounts receivable are identified on a timely basis and that adequate and appropriate steps are taken to collect on the accounts.
11. MVH, Mpls. should not write off accounts except in accordance with Minn. Stat. Sections 10.12 and 10.15 which require that such action must be approved by the Executive Council.

PRIOR RECOMMENDATION PARTIALLY IMPLEMENTED: MVH, Mpls. is not preparing adequate financial statements for the canteen operations.

The canteen is comprised of the gift shop, coffee shop, and beer vending machines. The residents run the store's operations and the business office controls the cash and inventories.

In our 1980 audit report we recommended that the business office prepare financial statements summarizing the operating results of the canteen. The statements subsequently prepared by the business office are not adequate since the cost of goods sold (beginning inventory, plus purchases, less ending inventory) is not considered, and no actual profit or loss is determined. The information needed to determine the cost of goods sold should

MINNESOTA VETERANS HOME, MINNEAPOLIS

be available from the inventory section and from SWA. Since the inventory section is required to take quarterly physical inventory counts, the business office could prepare financial statements quarterly, rather than monthly. These reports would be more useful to management, since they would provide a more accurate reflection of the canteen's operations.

RECOMMENDATION:

12. The business office should prepare quarterly reports which adjust income for the cost-of-goods sold.

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EXHIBIT A

UNAUDITED, FOR INFORMATIONAL PURPOSES ONLY, SEE NOTE 1

STATEMENT OF FINANCIAL RESOURCES, EXPENDITURES, ENCUMBRANCES,
TRANSFERS OUT, AND AVAILABLE BALANCE
Years Ended June 30, 1983 and 1984

<u>General Fund</u>	<u>Year Ended June 30</u>	
	<u>1983</u>	<u>1984</u>
State Appropriations - See Exhibit B	\$4,767,656	\$6,090,900
Appropriation Cancellations	(70,144)	
Transfers In:		
Veterans Benefits	202,266	
Salary Adjustments	<u>751,023</u>	<u>240,671</u>
 TOTAL RESOURCES AVAILABLE	 <u>\$5,650,801</u>	 <u>\$6,331,571</u>
Expenditures:		
Personal Services	\$4,274,393	\$4,676,650
Repair Services	24,934	30,816
Printing and Binding	6,061	2,059
Professional and Technical Services	92,660	95,315
Purchased Services	134,764	92,503
Communications	28,078	24,566
Travel and Subsistence	9,060	8,354
Utility Service	165,166	138,962
Supplies and Materials	886,767	874,645
Aid to Nongovernment Organizations		9,512
Capital Outlay - Equipment	10,581	4,617
Other	<u>6,131</u>	<u>6,657</u>
 TOTAL EXPENDITURES	 \$5,638,595	 \$5,964,656
Encumbrances and Requisitions	116	373,857
Transfers Out	<u>12,090</u>	<u></u>
 TOTAL EXPENDITURES, ENCUMBRANCES, AND TRANSFERS OUT	 <u>\$5,650,801</u>	 <u>\$6,338,513</u>
 AVAILABLE BALANCE - June 30	 <u>\$ -0-</u>	 <u>\$ (6,942)</u>

MINNESOTA VETERANS HOME, MINNEAPOLIS

EXHIBIT A
(con't)

<u>Gift Fund</u>	<u>Year Ended June 30</u>	
	<u>1983</u>	<u>1984</u>
Available Balance - July 1	\$ 166,356	\$ 115,539
Receipts - Exhibit C	23,508	10,699
Transfers In:		
Investment Income - Resident Funds	29,108	42,055
Canteen Profits	<u>20,000</u>	<u>10,000</u>
 TOTAL FINANCIAL RESOURCES	 \$ <u>238,972</u>	 \$ <u>178,293</u>
Expenditures:		
Repair Services		\$ 6,711
Printing and Binding	\$ 1,503	1,841
Professional and Technical Services	5,000	
Purchased Services		2,000
Rents and Leases	3,231	3,160
Grants and Subsidies	19,888	
Resident Activities		42,573
Supplies and Materials	17,390	18,048
Capital Outlay:		
Building Improvements	51,145	
Equipment	22,480	3,004
Other	<u>955</u>	<u>95</u>
 TOTAL EXPENDITURES	 \$ 121,592	 \$ 77,432
Encumbrances and Requisitions	<u>1,841</u>	<u>3,641</u>
 TOTAL EXPENDITURES AND ENCUMBRANCES	 \$ <u>123,433</u>	 \$ <u>81,073</u>
 AVAILABLE BALANCE - June 30	 \$ <u>115,539</u>	 \$ <u>97,220</u>
 <u>Endowment Fund</u>		
Available Balance - July 1	\$ 1,253	\$ 15,943
Receipts - Exhibit C	<u>14,690</u>	<u>447</u>
 AVAILABLE BALANCE - June 30	 \$ <u>15,943</u>	 \$ <u>16,390</u>

MINNESOTA VETERANS HOME, MINNEAPOLIS

EXHIBIT A
(con't)

<u>Canteen</u>	Year Ended June 30	
	<u>1983</u>	<u>1984</u>
Available Balance - July 1	\$ 12,769	\$ 12,015
Receipts - Exhibit C	<u>141,669</u>	<u>149,968</u>
TOTAL RESOURCES	<u>\$ 154,438</u>	<u>\$ 161,983</u>
Expenditures:		
Supplies and Materials	\$ 122,423	\$ 121,892
Repair Services		302
Communications		<u>410</u>
TOTAL EXPENDITURES	\$ 122,423	\$ 122,604
Encumbrances and Requisitions		3,540
Transfers Out	<u>20,000</u>	<u>10,000</u>
TOTAL EXPENDITURES, ENCUMBRANCES, AND TRANSFERS OUT	<u>\$ 142,423</u>	<u>\$ 136,144</u>
AVAILABLE BALANCE - June 30	<u>\$ 12,015</u>	<u>\$ 25,839</u>

MINNESOTA VETERANS HOME, MINNEAPOLIS

EXHIBIT B

UNAUDITED, FOR INFORMATIONAL PURPOSES ONLY, SEE NOTE 1

STATEMENT OF APPROPRIATIONS AND BUDGET REDUCTIONS
Years Ended June 30, 1983 and 1984

<u>General Fund</u>	<u>Year Ended June 30</u>	
	<u>1983</u>	<u>1984</u>
Appropriations:		
Laws 1981, Chapter 356, Section 36	\$5,152,400	
Laws 1982, Chapter 641, Article I, Section 2, Subd. 5	250,000	
Laws 1983, Chapter 301, Section 37		\$6,116,200
Budget Reductions:		
Laws 1981, Chapter 356, Section 36	(77,100)	
Laws 1981, Third Special Session, Chapter 2, Article I, Section 2, Subd. 1(ee)	(99,670)	
Laws 1982, Chapter 641, Article I, Section 2, Subd. 1(j)	(35,974)	
Laws 1982, Third Special Session, Chapter 1	(422,000)	
Laws 1983, Chapter 216, Article II, Section 23		(25,300)
	<u> </u>	<u> </u>
AVAILABLE APPROPRIATIONS	<u>\$4,767,656</u>	<u>\$6,090,900</u>

MINNESOTA VETERANS HOME, MINNEAPOLIS

EXHIBIT C

UNAUDITED, FOR INFORMATIONAL PURPOSES ONLY, SEE NOTE 1

STATEMENT OF REVENUE DEPOSITED WITH THE STATE TREASURER
Years Ended June 30, 1983 and 1984

<u>General Fund</u>	<u>Year Ended June 30</u>	
	<u>1983</u>	<u>1984</u>
Care and Hospitalization of Persons	\$2,911,723	\$2,889,825
Federal Grant Revenue	1,310,482	1,514,762
Service Charges	6,141	4,882
Sales Tax	5,989	6,504
Sale of Usable Equipment	1,972	1,507
Reimbursements	1,285	2,069
Other	46	
	<u>46</u>	<u> </u>
TOTAL GENERAL FUND	<u>\$4,237,638</u>	<u>\$4,419,549</u>
<u>Gift Fund</u>		
Gift and Donations	\$ 17,417	\$ 4,390
Investment Income	6,091	6,163
Other		146
	<u> </u>	<u> </u>
TOTAL GIFT FUND	<u>\$ 23,508</u>	<u>\$ 10,699</u>
<u>Endowment Fund</u>		
Bequests	\$ 14,690	\$ 100
Investment Income		347
	<u> </u>	<u> </u>
TOTAL ENDOWMENT FUND	<u>\$ 14,690</u>	<u>\$ 447</u>
<u>Canteen</u>		
Sales	\$ 141,268	\$ 149,942
Other	401	24
	<u> </u>	<u> </u>
TOTAL CANTEEN	<u>\$ 141,669</u>	<u>\$ 149,966</u>

NOTE TO THE FINANCIAL STATEMENTS

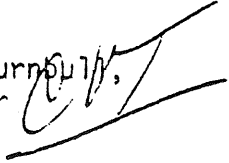
NOTE 1: The financial statements do not represent financial position or results of operations in accordance with generally accepted accounting principles. The Statewide Accounting (SWA) reports were used in preparing these statements. Consequently, these statements were not prepared using the accrual basis of accounting.

Office Memorandum

DEPARTMENT

TO: COMMISSIONER WM. GREGG

DATE: September 24, 1984

FROM: Charles V. Turnbull,
Administrator 

PHONE:

SUBJECT: MATERIAL FOR RESPONSE TO
LEGISLATIVE AUDIT REPORT

The Legislative Audit Report of the Audit conducted in the Spring of 1984 for July 1, 1982 - March 31, 1984, appears to the Minnesota Veterans Home-Minneapolis staff to be thorough and an accurate reflection of what was happening during that period of time. The final "Report" requires a response from the Minnesota Veterans Home-Minneapolis and the Department of Veterans Affairs. This report is our recommended response.

CVT/db

Encls.

MINNESOTA VETERANS HOME-MINNEAPOLIS

RESPONSE TO LEGISLATIVE AUDIT REPORT

INTRODUCTION

The basic result of the Audit was an indication of weak controls in many of the Minnesota Veterans Home-Minneapolis modes of operation. We have broken this response down to generally follow the four (4) basic areas and general outline of the report.

A. PART I

I. "Duties are not adequately segregated at MVH, Mpls."

Recommendation: MVH, Mpls. should review the organization and delegation of duties in the cashier's unit, the personnel office, the canteen, and the business office to identify incompatible functions are not performed by one individual or unit. Caution should be taken to ensure that new conflicts of duties are not created by the segregation of existing incompatible functions.

Comments: The Minnesota Veterans Home-Minneapolis will correct these deficiencies as recommended above in the following ways. The timetable for the total correction varies from October 1, 1984, to December 31, 1985. See specifics below.

- TITLE OF PROBLEM: Inadequate separation of duties within Personnel/Payroll Section - Minneapolis Home.

Explain corrections to date: Personnel Aide Sr. processes appointments/transactions/forms; Clerk Typist III prepares the payroll.

Explain corrections to be completed: Payroll Certificate totals will be matched by Personnel Director to Audit trail and verified by List 06. Quarterly spot checks of time sheets to payroll will be done by Accounting staff.

Expected completion date: October 1, 1984.

- TITLE OF PROBLEM: Segregation of duties - Cashier area.

Explain corrections to date: Developed new forms for reconciliation of accounts and acknowledgement of responsibility (i.e. cash disbursements will be signed by employee making disbursements).

Explain corrections to be completed: Implementation of cash reconciliation procedures including monthly trail balances independent of Statewide Accounting (SWA).

Expected completion date: October 31, 1984

Explain recommended corrections we do not agree with: With the new method of reconciliation and trail balance procedure, the cashier position would not have to be supervised by the Assistant Administrator.

• TITLE OF PROBLEM: Segregation of duties - Canteen.

Explain corrections to date: Preliminary steps have been taken in transferring the operation/supervision of the canteen to a manager who is separate from Business Office.

Explain corrections to be completed: The operations/management of the Canteen will be done in accordance to established procedures for the purchase of goods, receipt of funds and reconciliation of operations.

Expected completion date: December 31, 1984.

• TITLE OF PROBLEM: Segregation of duties - Business Office and authorization of payments.

Explain corrections to date: Invoices are approved for payment by a person other than the person who prepares them for SWA entry.

Explain corrections to be completed: Policies involving the purchase and subsequent payment of goods/service will be established in accordance with the Department of Finance Policy and Procedures.

Expected completion date: December 31, 1984.

• TITLE OF PROBLEM: Segregation of duties - control of petty cash disbursements.

Explain corrections to date: Petty cash disbursements are reviewed by supervisor of accounting officer interm pending the implementation of an imprest cash account with SWA reconciliation.

Explain corrections to be completed: Develop policy and implement procedures for the proper handling and requesting of petty cash and ensure sufficient audit trails are established.

Expected completion date: December 31, 1984.

Explain recommended corrections we do not agree with: Signature authority should not be limited to only two people as suggested. The new procedure would also dictate the various approvals needed depending upon situation.

II. "MVH, Mpls. is not adequately safeguarding their assets."

Recommendation: The MVH, Mpls. should develop and implement new procedures to ensure the direct and indirect safeguarding of all assets.

Comments: We agree to the above recommendation and see it being corrected between October 31, 1984 and June 30, 1985. We will address the specifics in the following ways:

- TITLE OF PROBLEM: Safeguarding of assets - mail receipt of checks.

Explain corrections to date: Checks delivered by mail are now given to cashier directly.

Explain corrections to be completed: A new procedure involving the receipt of checks and subsequent deposit will be implemented.

Expected completion date: December 31, 1984

- TITLE OF PROBLEM: Safeguarding of assets - prompt deposits.

Explain corrections to date: Deposits are now made on a daily basis with notifications to State Treasurer via phone involving deposits over \$1,000.00.

Explain corrections to be completed: Implementation of revised procedures for receipt and deposit of funds with independent reconciliations of receipts.

Expected completion date: December 31, 1984.

- TITLE OF PROBLEM: Safeguarding of Assets - local bank transactions.

Explain corrections to date: All funds are now deposited with State Treasurer.

Explain corrections to be completed: To establish an authorized imprest cash account so that transactions can be reconciled with SWA and individual resident accounts.

Expected completion date: October 31, 1984.

- TITLE OF PROBLEM: Safeguarding of assets - supporting documentation for petty cash requests.

Explain corrections to date: Petty cash requests are reviewed by Accounting Supervisor Sr. pending implementation of new Petty Cash request procedures.

Explain corrections to be completed: Policy developed to include the explanations of necessary documentations/audit trails to support P.C. requests.

Expected completion date: December 31, 1984

- TITLE OF PROBLEM: Safeguarding of Assets - donation (without approval) of watches to Historical Society.

Explain corrections to be completed: A list of donated watches will be obtained and approval for the "transfer" sought. Further transactions involving personal property will be handled per MS Sec. 198.23.

Expected completion date: June 30, 1985.

- TITLE OF PROBLEM: Safeguarding of Assets - key cabinet in Business Office.

Explain corrections to date: Keys in cabinet have been inventoried and a "Key Box" requested for placement in Business Office safe.

Explain corrections to be completed: Key box will be kept in safe with restricted authorization.

Expected completion date: October 31, 1984

- TITLE OF PROBLEM: Safeguarding of Assets - residents' accounts - posting machine.

Explain corrections to date: Survey of various "machines" that could replace current machine.

Explain corrections to be completed: Acquisition of new "Monroe Accounts Receivable Posting Machines".

Expected completion date: October 31, 1984.

- TITLE OF PROBLEM: Safeguarding of Assets - Fixed assets and location coding.

Explain corrections to be completed: Assign specific fixed asset inventory control duties to a "responsible person" and develop policies and procedures to reflect control.

Expected completion date: June 30, 1985.

- TITLE OF PROBLEM: Safeguarding of Assets - Canteen operation/cash control.

Explain corrections to be completed: Management of Canteen will be independent of the Business Office, but cash controls will be implemented and monitored/audited by Business Office.

Expected completion date: December 31, 1984.

- TITLE OF PROBLEM: Safeguarding of Assets - Beer sales.

Explain corrections to be completed: Beer sales will be reconciled to machine stock/consumption.

Expected completion date: December 31, 1984.

- TITLE OF PROBLEM: Safe combinations.

Explain corrections to be completed: Safe combinations will be changed.

Expected completion date: October 31, 1984.

• TITLE OF PROBLEM: Signature cards.

Explain corrections to be completed: Signature cards will be updated to reflect change in authorization, consistent with policy.

Expected completion date: December 31, 1984.

• TITLE OF PROBLEM: Over/short Account

Explain corrections to be completed: An over/short account will be established for each imprest cash account.

Expected completion date: October 31, 1984.

• TITLE OF PROBLEM: Unused checks - voiding.

Explain corrections to be completed: Any surplus/unused checks will either be destroyed or voided.

Expected completion date: October 31, 1984.

• TITLE OF PROBLEM: Bank reconciliations.

Explain corrections to date: Accounts are beginning to be reconciled.

Explain corrections to be completed: Monthly reconciliation will be done within 1 week upon receipt of bank statements.

Expected completion date: December 31, 1984

• TITLE OF PROBLEM: Reconciliations of resident accounts to control.

Explain corrections to date: Requested new posting machine to aid in reconciliations.

Explain corrections to be completed: Monthly trial balances will be performed to ensure proper reconciliation.

Expected completion date: December 31, 1984.

- TITLE OF PROBLEM: S.W.A. Reconciliations

Explain corrections to date: New receipt books have been ordered to aid in recording of deposits.

Explain corrections to be completed: All receipts will be deposited with State Treasurer and reconciled monthly to S.W.A.

Expected completion date: December 31, 1984.

- TITLE OF PROBLEM: Daily Store/Canteen deposits.

Explain corrections to date: Deposits are now made daily.

Explain corrections to be completed: Deposits will be receipted and recorded for each operation.

Expected completion date: December 31, 1984.

- TITLE OF PROBLEM: Cash register balances.

Explain corrections to be completed: Cash register totals/balances will be maintained in accordance to new procedures instituted by new manager.

Expected completion date: December 31, 1984.

- TITLE OF PROBLEM: Availability of funds prior to purchase.

Explain corrections to date: Inservice training to staff - policies developed.

Explain corrections to be completed: Full implementation of new procurement process.

Expected completion date: December 31, 1984.

III. "MVH, Mpls. does not have an adequate records management system."

Recommendation: MVH, Mpls. should establish a records management and documentation system that would ensure all business and resident related activities are adequately supported.

Comments: We are evaluating all records (both resident and administrative records) and plan to complete changes in practice between 10/31/84 and 3/31/85 for our administrative and by 6/30/85 for our resident medical records. The following specifics are being followed:

- TITLE OF PROBLEM: Records retention schedule.

Explain corrections to date: As an interim step a records retention schedule has been distributed for modification.

Explain corrections to be completed: A record management program will be established which will identify all records, storage location, retention time, responsibility (who's), etc.

Expected completion date: April 1, 1985.

- TITLE OF PROBLEM: Records management - Business Office.

Explain corrections to date: Verbal instructions to staff regarding audit "trails".

Explain corrections to be completed: Implement policy for various record management in Business Office. Review current records for insufficient documentation.

Expected completion date: December 31, 1984.

- TITLE OF PROBLEM: Reconciliation of maintenance and resident account balances.

Explain corrections to date: Begin to "reconstruct" accounts and balance with local bank.

Explain corrections to be completed: Implement new posting/reconciliation system. Develop policies pertaining to proper accounting procedures.

Expected completion date: March 31, 1985.

- TITLE OF PROBLEM: Tracking of files (removed).

Explain corrections to be completed: Institute a new filing procedure consistent with records management system.

Expected completion date: March 31, 1984.

- TITLE OF PROBLEM: Documentation of operation for Canteen, Shop-N-Round and Coffee Shop.

Explain corrections to be completed: To transfer management of operations to a separate area for segregation and aid in inventory control.

Expected completion date: March 31, 1985.

- TITLE OF PROBLEM: Record of Resident Account Statements.

Explain corrections to be completed: Records will be kept on file in Business Office reflecting each statement and date of report.

Expected completion date: December 31, 1984.

- TITLE OF PROBLEM: Resolution to Accounts Receivable.

Explain corrections to date: Reviewed home's laws pertaining to outstanding/aging receivables. Established "Revenue Recaptures".

Explain corrections to be completed: Implement new procedure for reporting and reconciling aging receivables.

Expected completion date: December 31, 1984.

- TITLE OF PROBLEM: Change of BEER inventory cards.

Explain corrections to date: Consolidation of stock (one location).

Explain corrections to be completed: Management of BEER inventory (Canteen) will be segregated from Business Office. Inventory reconciliation will be separate.

Expected completion date: December 31, 1984.

- TITLE OF PROBLEM: Support for disbursements in business office.
Explain corrections to date: New purchase procedure established.
Explain corrections to be completed: Payments will be supported by sufficient documentation for request and subsequent payment.
Expected completion date: October 31, 1984.

- TITLE OF PROBLEM: Numbering system for receipts/withdraw requests from resident accounts.
Explain corrections to date: New receipt books ordered. New voucher (disbursement) system ready.
Explain corrections to be completed: Full implementation of resident banking and reconciliation.
Expected completion date: October 31, 1984.

- TITLE OF PROBLEM: Monitoring of Designated Contributions.
Explain corrections to date: Begin to reconcile available funds and request detail on investments.
Explain corrections to be completed: Establish a monthly reporting system including reconciliation of requests/disbursements made.
Expected completion date: December 31, 1984.

- TITLE OF PROBLEM: Maintaining 2.0 hours of care per patient, per 24 hours, Nursing Care Unit.
Explain corrections to date: Staff has been instructed per Union contract as to how we meet our requirements.
Explain corrections to be completed: We are in the process of reviewing our staffing requirements in an attempt to come up with a uniform staffing level on a daily basis. In addition, we are reviewing all indirect service areas in an attempt to secure additional positions for direct care.
Expected completion date: Currently in compliance.

- IV. "Procedures at MVH, Mpls. are not updated periodically or available for reference."

Recommendation: MVH, Mpls. should review and revise existing procedures so that detailed directions are provided to employees expected to complete the tasks, to other employees in the absence of the responsible employee, and to new employees for training purposes.

After the procedures are revised, MVH, Mpls. should distribute the appropriate procedures to those employees in charge of completing the various tasks, and develop an ongoing system for updating the procedures as necessary.

Comments: Procedures and policies for the facility will be totally reviewed and updated between now and June 30, 1985. This will include the development of where we need to locate them for proper reference on the campus.

- TITLE OF PROBLEM: Disposition of deceased/discharged residents funds and personal property.

Explain corrections to be completed: Attempt to locate resident or next of kin with aid of social services. Develop policy for proper disposition.

Expected completion date: March 31, 1985.

- TITLE OF PROBLEM: Prompt deposit of funds with State Treasurer.

Explain corrections to date: Deposits are made daily and reported when in excess of \$1,000.00.

Explain corrections to be completed: Establish Policy and Procedure regarding timely deposits with Treasurer.

Expected completion date: March 31, 1985.

- TITLE OF PROBLEM: Improper Disbursements.

Explain corrections to date: Supporting documentation required prior to disbursement of funds.

Explain corrections to be completed: Develop Policy and Procedure explaining payment procedures in accordance with SWA.

Expected completion date: December 31, 1984.

- TITLE OF PROBLEM: Fee Examiner.

Explain corrections to date: Invoices are reviewed for proper charges/fees.

Explain corrections to be completed: Maintain a resource file (for contracts, fee schedules, etc.) to be used for verifications.

Expected completion date: December 31, 1984.

- TITLE OF PROBLEM: Maintenance Charge Policy.

Explain corrections to be completed: Develop "revised" policy for the calculation of maintenance charges.

Expected completion date: November 31, 1984.

- TITLE OF PROBLEM: Procedure for processing receipts and refunds.

Explain corrections to be completed: Develop Policy and Procedure depicting proper procedure for the recording and depositing of all receipts.

Expected completion date: October 31, 1984.

- TITLE OF PROBLEM: Overall operations of Business Office.

Explain corrections to date: Reviewed employees current responsibilities. Instituted minor changes.

Explain corrections to be completed: Revise Position Descriptions, develop policies in accordance with SWA - train employees.

Expected completion date: March 31, 1985.

- TITLE OF PROBLEM: Disposition/followup of unpaid maintenance balances.

Explain corrections to date: Sought assistance from Revenue Recapture Law. Correspondence with family/guardian.

Explain corrections to be completed: Draft Policy and Procedure regarding the proper handling of unpaid balances.

Expected completion date: March 31, 1985.

• TITLE OF PROBLEM: Purchasing Process

Explain corrections to date: Established new policy and format for procurement of goods/services.

Explain corrections to be completed: Monitor procedures, maintain records of contracts.

Expected completion date: October 31, 1984.

• TITLE OF PROBLEM: Recognition of VA Estate Limitation.

Explain corrections to date: List of residents exceeding VA limits.

Explain corrections to be completed: Include in new policy the aspect of VA limits. Reflect change in maintenance fee.

Expected completion date: December 31, 1984.

• TITLE OF PROBLEM: General operations of Canteen, Shop N Round and Coffee Shop.

Explain corrections to be completed: Transfer management of operation, develop Policy and Procedure for use by residents/employees.

Expected completion date: March 31, 1985.

• TITLE OF PROBLEM: Steps followed to compute the daily 2.0 required hours of nursing staff per patient 24 hour period.

Explain corrections to date: The Officer of the Day or the Administrative Supervisor of Nursing have been instructed on how to properly calculate our requirements, 2.0 hours of Nursing Care. A record of this is kept in the office of the Administrative Supervisor of Nursing.

Expected completion date: Currently in compliance.

B. PART II SPECIFIC RECOMMENDATIONS

- I. The MVH, Mpls. went beyond their statutory authority for resident funds.

Recommendation: The MVH, Mpls. should limit their involvement with resident funds to the safekeeping of those funds, as provided by statute.

Comments:

- TITLE OF PROBLEM: Exceeded authority regarding resident funds.

Explain corrections to be completed: Access to funds will be restricted and any disbursement/transactions will have supporting documents approved by resident or guardian.

Expected completion date: October 31, 1984.

- II. Residents at MVH, Mpls. are not given a calculation of their monthly maintenance fee.

Recommendation: Residents should be given a calculation of their maintenance fee whenever it is changed.

Comments:

- TITLE OF PROBLEM: Statement of maintenance fee.

Explain corrections to be completed: Statements will be distributed quarterly with supporting documentation for any charge or change in charge.

Expected completion date: December 31, 1984.

- III. The MVH, Mpls. business office is not paying bills promptly.

Recommendation: The MVH, Mpls. business office should pay all invoices on a timely basis.

The business office should review the Medicare reimbursement process to determine where the delay is occurring.

Comments: The following specifics apply for the above:

- TITLE OF PROBLEM: Prompt payment of bills.

Explain corrections to date: Payment of all past due bills that have been received/acknowledged.

Explain corrections to be completed: Implement new payment procedure.

Expected completion date: December 31, 1984.

- TITLE OF PROBLEM: Medicare reimbursement.

Explain corrections to be completed: Contact vendors to bill Medicare first. Home would then pay any balance. Develop revised policy.

Expected completion date: December 31, 1984.

IV. MVH, Mpls. does not adequately monitor accounts receivable.

Recommendations: MVH, Mpls. should develop a system, including detailed written procedures and retention of sufficient documentation, to ensure that accounts receivable are identified on a timely basis and that adequate and appropriate steps are taken to collect on the accounts.

MVH, Mpls. should not write off accounts except in accordance with Minn. Stat. Sections 10.12 and 10.15 which require that such action must be approved by the Executive Council.

Comments: The following two comments apply to the above two recommendations:

- TITLE OF PROBLEM: Monitoring of Accounts Receivable.

Explain corrections to date: Corresponded with resident/guardian. Developed monthly listing of aging receivables.

Explain corrections to be completed: Implement new system to monitor aging receivables.

Expected completion date: December 31, 1984.

- TITLE OF PROBLEM: Writing off accounts/references.

Explain corrections to be completed: Seek Executive Council approval when situation exists to write off balance owed. Develop Policy and Procedure.

Expected completion date: December 31, 1984.

- V. MVH, Mpls. is not preparing adequate financial statements for the canteen operations.

Recommendation: The business office should prepare quarterly reports which adjust income for the cost-of-goods sold.

Comments:

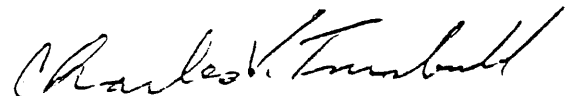
- TITLE OF PROBLEM: Financial statements of operation of Canteen, Shop N Round, Coffee Shop.

Explain corrections to be completed: Transfer management of operation to separate responsibility center. Institute a reporting system to monitor operations.

Expected completion date: March 31, 1985.

The Staff of the Minnesota Veterans Home-Minneapolis appreciates the courteous Audit and Exit Interview by the Auditors. We feel we can meet the above timelines and bring the MVH-Mpls. into a sound operational "mode". The audit report and suggestions will help us as we redirect this facility over the next year or two.

Thank you,



CHARLES V. TURNBULL,
ADMINISTRATOR
Minnesota Veterans Home-Minneapolis

DEPARTMENT OF VETERAN'S AFFAIRS
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STATUS OF PRIOR AUDIT RECOMMENDATIONS
and
PROGRESS TOWARD IMPLEMENTATION

This section contains the status of prior audit recommendations from our audit of the Department of Veteran's Affairs (DVA) and the Minnesota Veterans Home, Minneapolis (MVH, Mpls.) for the years ended June 30, 1978 and 1979. Recommendations partially implemented or modified are included in the DVA or MVH, Mpls. reports in the previous sections. Several of the recommendations are included in the five general internal control area section recommendations instead of being specifically identified.

Also included in this section is the status of recommendations from our financial and compliance review of the resident and gift monies of the Minnesota Veterans Home for the years ended June 30, 1980 and 1981. This was a very limited review and was not an audit of the entire home. Recommendations not implemented are included in the MVH, Mpls. report in the previous section.

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STATUS OF PRIOR AUDIT RECOMMENDATIONS
and
PROGRESS TOWARD IMPLEMENTATION

Report for the Years Ended June 30, 1978 and 1979

DVA lacks fully developed written policies and procedures directing the general operations of the central office, veterans homes in Minneapolis and Hastings, and Big Island Veterans Camp.

1. Policies setting forth definitive guidelines should be established in writing by the DVA Commissioner to direct the general operations of the central office, veterans homes in Minneapolis and Hastings, and Big Island Veterans Camp.

RECOMMENDATION MODIFIED. See current DVA recommendation #1.

2. Procedures should be established in writing, and kept current by the administrators of the veterans homes and camp, to implement the policies of the Commissioner.

RECOMMENDATION NOT IMPLEMENTED: See current MVH, Mpls. recommendations #4 and 5 and MVH, Hastings recommendations #4 and 5.

An analysis of the cost of care at the Minneapolis and Hastings veterans homes indicates some differences requiring investigation by management.

3. The DVA central office should review the cost of care for residents at the Minneapolis and Hastings veterans homes to determine the most efficient and effective ratio of care.

RECOMMENDATION IMPLEMENTED.

Administration is inadequate to control the operations of MVH.

4. The Commissioner of DVA should contact the Department of Administration management analysis division for assistance in the proposed reorganization of DVA to establish the necessary controls for safeguarding the cash and other property of the state and residents of MVH.

RECOMMENDATION MODIFIED. See current DVA recommendation #1.

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DVA failed to examine the positions in the MVH business office to determine if more beneficial use could be made of existing employees or whether additional staff were necessary.

5. We recommend that DVA review the positions in the MVH business office and consider training for employees, upgrading of positions, and additional staffing if necessary.

RECOMMENDATION MODIFIED. See current DVA recommendation #1.

Administration of medical services at MVH requires strengthening to provide the necessary care to the residents in compliance with state and federal rules and regulations.

6. Continued efforts must be made by DVA and MVH to correct deficiencies of medical services, to comply with state and federal guidelines, and to provide adequate medical care to the residents.

RECOMMENDATION PARTIALLY IMPLEMENTED. See current MVH, Mpls. recommendations #3, 4 and 5.

Monitoring adherence to medical services contract provisions is inadequate to support payments made.

MVH staff should:

7. Collect the overpayment to the eye clinic of \$4,196.

RECOMMENDATION PARTIALLY IMPLEMENTED. See current MVH, Mpls. recommendation #3.

8. Collect the overpayment to the dentist of \$1,591. In addition, staff should calculate the amount overpaid for the period July 1, 1973 to February 6, 1979, and request that this amount also be refunded.

RECOMMENDATION PARTIALLY IMPLEMENTED. See current MVH, Mpls. recommendation #3.

9. Establish systems to monitor and control payments for all contractual medical services to insure that amounts paid are in compliance with the contract provisions.

RECOMMENDATION PARTIALLY IMPLEMENTED. See current MVH, Mpls. recommendations #4 and 5.

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10. Institute a system to monitor payments for contract services to the eye clinic and dentist in accordance with the welfare fee schedule.

RECOMMENDATION PARTIALLY IMPLEMENTED. See current MVH, Mpls. recommendations #4 and 5.

11. Establish a record to document the emergency calls to the medical director to substantiate hours claimed on each monthly invoice. Periodically, the staff should compare the record of calls to the invoice to ensure propriety of the payments.

RECOMMENDATION IMPLEMENTED.

Pharmacy systems require improvements to properly account for pharmaceuticals and to increase control over drug usage.

12. A perpetual inventory system should be established in the pharmacy for all pharmaceuticals. A computerized system should be considered.

RECOMMENDATION IMPLEMENTED.

13. An employee from the business office should periodically compare the perpetual inventory records to a physical count of items on hand.

RECOMMENDATION IMPLEMENTED.

14. A computerized system for the patient drug profiles should be considered.

RECOMMENDATION IMPLEMENTED.

15. A computerized drug interaction program to monitor drug usage should also be considered.

RECOMMENDATION IMPLEMENTED.

Controls to safeguard the cash and receipts of the state and residents are inadequate.

16. An analysis by the auditors of cash withdrawals indicated that daily cash on hand should be reduced to no more than \$10,000.

RECOMMENDATION IMPLEMENTED.

17. Management should investigate the expansion of the armored car service to five days a week to facilitate the daily deposit of receipts and reduce the accumulation of receipts at MVH.

RECOMMENDATION IMPLEMENTED.

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18. The preparation of deposits and the verification of receipts should be segregated.

RECOMMENDATION PARTIALLY IMPLEMENTED. See current MVH, Mpls. recommendation #1.

19. To increase security in the cashier's office the door should be kept locked at all times, the door to the vault should not be left open, and cash should not be left unattended on desks in the cashier's office.

RECOMMENDATION IMPLEMENTED.

20. Management should investigate the need for the transportation of cash to nonambulatory residents and institute procedures to confine resident transactions to the cashier's office.

RECOMMENDATION IMPLEMENTED.

Controls over resident accounts require strengthening.

21. All resident funds should be deposited in the state treasury, excess funds should be invested by the State Board of Investment, and an imprest fund should be used for normal demand withdrawal. If necessary, DVA should seek a rider to the appropriation laws for authority to establish an imprest fund for normal demand withdrawal requests of the residents.

RECOMMENDATION PARTIALLY IMPLEMENTED. See current MVH, Mpls. recommendation #2.

22. A trial balance of resident accounts should be taken monthly and reconciled to the cash control account.

RECOMMENDATION PARTIALLY IMPLEMENTED. See current MVH, Mpls. recommendations #2, 3, 4 and 5.

23. The duties involving the receipt, recording, and depositing of resident funds should be segregated.

RECOMMENDATION PARTIALLY IMPLEMENTED. See current MVH, Mpls. recommendation #1.

24. A schedule reconciling resident funds deposited in the state treasury with funds invested, interest income earned, and interest income withdrawn should be maintained.

RECOMMENDATION PARTIALLY IMPLEMENTED. See current MVH, Mpls. recommendations #4 and 5.

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Deceased members' funds are inadequately administered.

25. DVA and MVH should seek directives and guidelines from the Attorney General's Office for executing the wills of deceased residents and accounting for unclaimed funds in accordance with probate laws and other applicable laws of the state.

RECOMMENDATION MODIFIED. See current MVH, Mpls. recommendations #4 and 5.

26. Based on the directives and guidelines received from the Attorney General's Office, DVA and MVH should institute policies and procedures to insure that the disposition of deceased and discharged members' funds will be adequately documented and disposed of in accordance with applicable state laws.

RECOMMENDATION NOT IMPLEMENTED. See current MVH, Mpls. recommendations #4 and 5.

27. Each of these open accounts should be reviewed, and any disposition or decision for future action should be documented and filed in the member's file.

RECOMMENDATION PARTIALLY IMPLEMENTED. See current MVH, Mpls. recommendation #2.

Maintenance charges to MVH residents are unauditable.

In order to adequately substantiate the charges for maintenance:

28. A policy disclosing appropriate reasons and amounts for adjustments to resident income should be established in writing by the Commissioner, in accordance with Minn. Stat. Section 198.03 and 198.06.

RECOMMENDATION MODIFIED. See current DVA recommendation #1.

29. Procedures to implement the Commissioner's policy should be established in writing by the MVH administrator to insure compliance with Minn. Stat. Section 193.03 and 198.06.

RECOMMENDATION NOT IMPLEMENTED. See current MVH, Mpls. recommendations #4 and 5.

30. Approval and documentation listing current income, adjustments, and the corresponding rate for each resident should be kept on file. The documentation should be signed by either the resident or a person responsible for the resident.

RECOMMENDATION NOT IMPLEMENTED. See current MVH, Mpls. recommendation #3.

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31. Each resident file should be reviewed regularly and any changes to income documented and signed by the resident or person responsible for the resident.

RECOMMENDATION NOT IMPLEMENTED. See current MVH, Mpls. recommendations #3 and 7.

32. Maintenance rates should be set for one year, or as circumstances require, and reviewed and changed as the time specified has elapsed. When changed, the new rate should be supported by a statement signed by a responsible person.

RECOMMENDATION IMPLEMENTED.

Controls over accounts receivable for residents' maintenance are inadequate.

33. A written policy, providing guidelines for monitoring collections and writing off accounts receivable, should be established by the Commissioner of DVA in accordance with Minn. Stat. Section 198.03 and 198.06.

RECOMMENDATION PARTIALLY IMPLEMENTED. See current DVA recommendation #1.

34. Written procedures that implement the policy and ensure compliance with Minn. Stat. Sections 10.12 and 10.15 should be established by the MVH administrator.

RECOMMENDATION NOT IMPLEMENTED. See current MVH, Mpls. recommendations #4 and 5.

35. An accounts receivable reconciliation showing beginning accounts receivable, charges, collections, and ending accounts receivable should be prepared monthly.

RECOMMENDATION NOT IMPLEMENTED. See current MVH, Mpls. recommendation #10.

36. Outstanding accounts receivable should not be removed from the maintenance control total until paid or approved for write off by the Executive Council.

RECOMMENDATION NOT IMPLEMENTED. See current MVH, Mpls. recommendation #11.

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The accuracy of payroll is undeterminable due to inconsistencies and inaccuracies in time sheets, inconsistent use of leave requests, lack of current time and leave records, and unapproved overtime.

37. DVA and MVH should determine, in conjunction with the Attorney General's Office, if the remaining payroll overpayments discovered during the prior audit are collectible and document their decision on the disposition of the outstanding refunds.

RECOMMENDATION PARTIALLY IMPLEMENTED. See DVA current recommendation #10.

38. Employees should be instructed to uniformly and accurately complete their time sheets. Supervisors should check the accuracy of time sheets before signing time sheets for all employees.

RECOMMENDATION IMPLEMENTED.

39. Personnel and payroll functions should be segregated.

RECOMMENDATION NOT IMPLEMENTED. See current MVH, Mpls. recommendation #1.

40. Overtime should be documented as to description of work performed, amount, and approval for all employees.

RECOMMENDATION IMPLEMENTED.

41. "A" schedule employees should be paid overtime only for project work as defined in article VI, section 9 of the union agreement.

RECOMMENDATION IMPLEMENTED.

42. VA should establish an imprest fund for resident payroll and if necessary, seek a rider to the appropriation laws for authority to establish the account for MVH resident work programs.

RECOMMENDATION WITHDRAWN. Alternate procedures have been developed.

Documentation is inadequate to support annual and sick leave paid to MVH employees.

43. Employee time and leave records should be maintained currently for all employees.

RECOMMENDATION IMPLEMENTED.

44. Leave requests should be retained for audit purposes.

RECOMMENDATION IMPLEMENTED.

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45. Leave requests should be signed by supervisors.

RECOMMENDATION IMPLEMENTED.

\$14,570 in carpeting was purchased by MVH outside of the procurement procedures governing state operations.

46. We recommend that state procedures be adhered to by processing all transactions in accounts in the state treasury.

RECOMMENDATION IMPLEMENTED.

47. We recommend that MVH discontinue transferring funds from accounts in the state treasury to local bank accounts for expenditure without statutory authority.

RECOMMENDATION IMPLEMENTED.

48. We recommend that funds for the Hastings and Minneapolis Veterans Homes be accounted for in separate accounts to ensure proper usage of these funds.

RECOMMENDATION IMPLEMENTED.

49. Only one individual should be assigned responsibility for the issuance of purchase orders and requisitions.

RECOMMENDATION MODIFIED. See current MVH, Mpls. recommendation #1.

50. Staffing should be realigned to provide segregation of duties between purchasing and inventory responsibility.

RECOMMENDATION MODIFIED. See current MVH, Mpls. recommendation #1.

51. Available funding should be confirmed prior to issuance of purchase orders and requisitions.

RECOMMENDATION NOT IMPLEMENTED. See current MVH, MPLS. recommendation #2.

52. Purchasing procedures should be developed so that telephone orders will not be necessary except in an emergency.

RECOMMENDATION NOT IMPLEMENTED. See current MVH, Mpls. recommendations #4 and 5.

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53. Employees should purchase gas at stations listed on the state contract list, or request stations they wish to use to be approved and added to the contract list.

RECOMMENDATION NOT IMPLEMENTED. See current MVH, Mpls. recommendations #4 and 5.

Fixed asset inventory procedures and internal control systems are not adequate to safeguard the property of MVH from loss, theft, or misuse.

54. A complete physical inventory should be completed.

RECOMMENDATION IMPLEMENTED.

55. Updating the state property inventory listing for additions should be processed according to the fixed asset inventory management users manual, section 78-320.

RECOMMENDATION IMPLEMENTED.

56. Disposal of fixed assets should be processed according to procedures obtainable from the fixed asset inventory section.

RECOMMENDATION IMPLEMENTED.

57. All fixed assets should be assigned specific locations.

RECOMMENDATION PARTIALLY IMPLEMENTED. See current MVH, Mpls. recommendation #2.

58. Responsibility for fixed assets at all locations should be assigned.

RECOMMENDATION PARTIALLY IMPLEMENTED. See current MVH, Mpls. recommendation #2.

59. A checkout list should be required to indicate location of fixed assets when in use.

RECOMMENDATION NOT IMPLEMENTED. See current MVH, Mpls. recommendation #2.

60. Transfers of fixed assets should comply to materials management procedures 78-330 of the fixed asset inventory management users manual.

RECOMMENDATION PARTIALLY IMPLEMENTED. See current MVH, Mpls. recommendation #2.

61. Electrical and plumbing supplies and gasoline should be included on the perpetual inventory records.

RECOMMENDATION IMPLEMENTED.

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62. Staffing should be realigned to provide segregation of duties between maintaining inventory records and testing the physical inventory.

RECOMMENDATION MODIFIED. See current MVH, Mpls. recommendation #1.

Control over canteen and related activities requires strengthening.

63. Financial statements for canteen related activities should be prepared.

RECOMMENDATION PARTIALLY IMPLEMENTED. See current MVH, Mpls. recommendation #12.

64. Money for canteen operations should be accounted for in separate appropriation accounts for both homes.

RECOMMENDATION IMPLEMENTED.

65. The cash register reset key should not be available to cash register operators.

RECOMMENDATION NOT IMPLEMENTED. See current MVH, Mpls. recommendation #2.

66. Register dials should be accumulated for verification of receipts.

RECOMMENDATION NOT IMPLEMENTED. See current MVH, Mpls. recommendation #2.

67. A daily cashier reconciliation should be prepared to accompany the daily remittances from the gift shop and the coffee shop.

RECOMMENDATION NOT IMPLEMENTED. See current MVH, Mpls. recommendation #3.

68. A cash over and short account should be used to record overages and shortages on daily sales.

RECOMMENDATION NOT IMPLEMENTED. See current MVH, Mpls. recommendations #2 and 3.

69. All receipts should be transported to the business office in locked bags.

RECOMMENDATION IMPLEMENTED.

70. Receipts should be counted promptly upon collection.

RECOMMENDATION IMPLEMENTED.

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71. Physical inventories should be taken and used to reconcile cost of goods sold, sales, and profit.

RECOMMENDATION NOT IMPLEMENTED. See current MVH, Mpls. recommendations #4 and 12.

72. Residents should not be allowed to make charge sales at the gift shop.

RECOMMENDATION IMPLEMENTED.

Records and supporting documents are not maintained to show the proper disposition of contributions for general and designated purposes.

73. Records should be maintained to show the disposition of the contributions.

RECOMMENDATION NOT IMPLEMENTED. See current MVH, Mpls. recommendation #3.

74. Supporting documents should be maintained to show the purposes specified by the donators.

RECOMMENDATION IMPLEMENTED.

The use of the imprest fund requires monitoring and the accountability for the fund needs improvement.

75. The imprest cash account should be balanced regularly. Cash on hand, cash in the checking account, and unreimbursed vouchers should equal the fund balance.

RECOMMENDATION IMPLEMENTED.

76. A cash over and short account should be used to record daily overages and shortages in accordance with Department of Finance operating policy and procedure No. 06:06:09.

RECOMMENDATION NOT IMPLEMENTED. See current MVH, Mpls. recommendation #3.

77. The duties of signing checks and approving SWA payment batches should be segregated.

RECOMMENDATION NOT IMPLEMENTED. See current MVH, Mpls. recommendation #1.

78. Restrictions on the use of the imprest fund should be observed. License fees, dues, and tuition should be processed through the SWA system.

RECOMMENDATION IMPLEMENTED.

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79. Management should determine and document the disposition of the \$300 in the Soldier's Relief Fund.

RECOMMENDATION IMPLEMENTED.

Accountability for meal sales is insufficient.

80. Meal sales should be reconciled to a physical inventory of meal tickets periodically.

RECOMMENDATION IMPLEMENTED.

81. All employees and guests purchasing meals should be required to purchase meal tickets at a separate location, such as the switchboard, and turn them in at the cafeteria when used.

RECOMMENDATION IMPLEMENTED.

82. All complimentary meals should be accounted for.

RECOMMENDATION IMPLEMENTED.

83. Meal prices should be increased to cover the cost of meals.

RECOMMENDATION IMPLEMENTED.

The central office does not have adequate procedures for the collection of accounts receivable for veterans benefits.

84. The Commissioner of DVA should prepare written procedures for the collection of accounts receivable for veterans benefits and assign the collection duties to appropriate personnel.

RECOMMENDATION PARTIALLY IMPLEMENTED. See current DVA recommendation #9.

85. The benefit section inspector should make personal visitations on accounts when acknowledgement is not received.

RECOMMENDATION NOT IMPLEMENTED. See current DVA recommendation #9.

86. Uncollected accounts should be submitted to the Attorney General for further collection effort.

RECOMMENDATION NOT IMPLEMENTED. See current DVA recommendation #9.

87. Amounts determined uncollectible should be submitted to the Executive Council for cancellation as provided by Minn. Stat. Sections 10.12 and 10.15.

RECOMMENDATION NOT IMPLEMENTED. See current DVA recommendation #9.

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REVIEW OF THE RESIDENT AND GIFT MONIES

Audit Report for the Years Ended June 30, 1980 and 1981

The Minnesota Veterans Home (MVH) has not processed the personal estates of deceased or unlocated discharged residents in an expedient and consistent manner.

1. The Department of Veterans Affairs should consult with the Attorney General's office in order to probate the current and future estates in a timely and reasonable manner.

RECOMMENDATION PARTIALLY IMPLEMENTED. See current MVH, Mpls. recommendations #4 and 5.

2. A consolidation of deceased estates into one account should be completed to provide consistent accounting and recording of interest for all estates.

RECOMMENDATION IMPLEMENTED.

3. The monies being held for unlocated discharged residents should be disposed of in a more expedient manner by developing procedures to reduce or close out these accounts as soon as possible, including seeking various means of locating these residents. Any balances that remain unclaimed for seven years should then be forwarded to the State Treasurer's office in compliance with the Unclaimed Property Act.

RECOMMENDATION PARTIALLY IMPLEMENTED. See current MVH, Mpls. recommendations #4 and 5.

The MVH must modify their policies and procedures to improve the handling and return on investments.

4. The Department of Veterans Affairs should seek clarifying language in the statutes authorizing them to invest any excess gift monies.

RECOMMENDATION IMPLEMENTED.

5. An excess cash balance within the Designated Contributions Account should be invested directly by that account without transferring excess cash to the Investment Account.

RECOMMENDATION IMPLEMENTED.

6. The non-interest earning checking account should be converted to an interest earning account.

RECOMMENDATION IMPLEMENTED.

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The methods of accounting for the cash accounts needs to be improved in order to provide proper accounting records.

7. Consideration should be given to implementing a computer system for replacement of the manual accounting system.

RECOMMENDATION NOT IMPLEMENTED. See current MVH, Mpls. recommendation #2.

8. The excess balance of \$949 as of June 30, 1981, should be removed from the Members Depository Account; and, any excess or deficiency balances in the future should be netted out against investment earnings on an annual basis.

RECOMMENDATION PARTIALLY IMPLEMENTED. See current MVH, Mpls. recommendations #4 and 5.

9. The records supporting specific donations should be improved to comply with the statute.

RECOMMENDATION PARTIALLY IMPLEMENTED. See current MVH, Mpls. recommendation #3.