

Financial-Related Audit

**Minnesota Veterans Home -
Fergus Falls**
July 1, 1996, through June 30, 2001



Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota State government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately fifty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year and one best practices review.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of Representatives and Senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

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Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Wayne M. Sletten, Chairman
Minnesota Veterans Home Board

Members of the Minnesota Veterans Home Board

Mr. Jon Skillingstad, Administrator
Minnesota Veterans Home – Fergus Falls

We have audited the Minnesota Veterans Home – Fergus Falls for the period July 1, 1996, through December 31, 2001. Our audit scope included: cost of care, payroll, resident trust accounts, designated contribution accounts, and selected operational expenditures. The audit objectives and conclusions are highlighted in the individual chapters of this report.

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

This report is intended for the information of the Legislative Audit Commission, the management of the Minnesota Veterans Home- Fergus Falls, and members of the Minnesota Veterans Home Board. This restriction is not intended to limit the distribution of this report, which was released as a public document on August 8, 2002.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: June 10, 2002

Report Signed On: July 31, 2002

Minnesota Veterans Home – Fergus Falls

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Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
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Minnesota Veterans Home – Fergus Falls

Report Summary

Overall Conclusions:

The Minnesota Veterans Home – Fergus Falls (home), adequately safeguarded and accurately reported its revenues, including resident maintenance fees, federal per diem receipts, resident deposits, and gift and donation receipts, in the accounting records. The home's payroll expenditures were accurately reported in the accounting records. For the items tested, the home properly disbursed and recorded resident withdrawals and expenditures from resident accounts and properly used gifts and donations for designated purposes. Operational expenditures were properly approved and accurately recorded in the accounting records, and assets were adequately safeguarded.

Background

The Minnesota Veterans Home – Fergus Falls is a skilled care residence that was constructed in 1997. The home's first resident was admitted in March 1998. The Minnesota Veterans Home – Fergus Falls provides 85 beds to veterans that meet eligibility and admission requirements.

The home is one of five veterans homes operating in the state under the jurisdiction of the Minnesota Veterans Homes Board. The other homes are located in Minneapolis, Silver Bay, Luverne, and Hastings. The home's daily management is the responsibility of its administrator. Mr. Jon Skillingstad has been the administrator of the home since its inception.

Financial-Related Audit Reports address internal control weaknesses and noncompliance issues found during our audits of state departments and agencies. The scope of our work at the Minnesota Veterans Home – Fergus Falls included: cost of care, payroll, resident trust accounts, designated contributions, and selected operational expenditures for the period July 1, 1996 through December 31, 2001.

Minnesota Veterans Home – Fergus Falls

Chapter 1. Introduction

The Minnesota Veterans Home – Fergus Falls (home) is a skilled care residence that was constructed in 1997. The home's first resident was admitted in March 1998. The home provides 85 beds to veterans that meet eligibility and admission requirements.

The home is one of five veterans homes operating in the state under the jurisdiction of the Minnesota Veterans Homes Board. The other homes are located in Minneapolis, Silver Bay, Luverne, and Hastings. The home's daily management is the responsibility of its administrator. Mr. Jon Skillingstad has been the administrator of the home since its inception.

The Minnesota Veterans Homes Board receives General Fund appropriations for the operation of the five homes. The board allocates and transfers a portion of the appropriations to each of the homes to fund their operations. The Fergus Falls Veterans Home maintains its operating account in the Special Revenue Fund. The home also receives federal per diem and resident maintenance payments, which are deposited into the operating account.

Table 1-1 shows the financial activity of the home by fund and account for fiscal year 2001.

Table 1-1
Financial Activity by Fund
Fiscal Year 2001

	Special Revenue Fund: <u>Operations</u>	Agency Fund: <u>Resident Trust</u>	Agency Fund: <u>Canteen</u>	Gift Fund: Estate and <u>Gift Donations</u>
Appropriation Allocation	\$2,174,000	\$ 0	\$ 0	\$ 0
Balance Forward In	1,122,287	21,214	776	135,156
Transfers In	0	0	0	1,792
Receipts	<u>3,159,672</u>	<u>46,178</u>	<u>329</u>	<u>101,918</u>
Total Amount Available	\$6,455,959	\$ 67,392	\$1,105	\$238,866
Expenditures	5,908,660	51,850	159	61,501
Transfers Out ⁽¹⁾	<u>0</u>	<u>846</u>	<u>946</u>	<u>0</u>
Balance Forward Out	<u>\$ 547,299</u>	<u>\$14,696</u>	<u>\$ 0</u>	<u>\$177,365</u>

Note (1): Transfers out represent interest earned on the resident trust account balances and canteen funds that the home transferred to its Gift Fund account.

Source: Minnesota Accounting and Procurement System (MAPS).

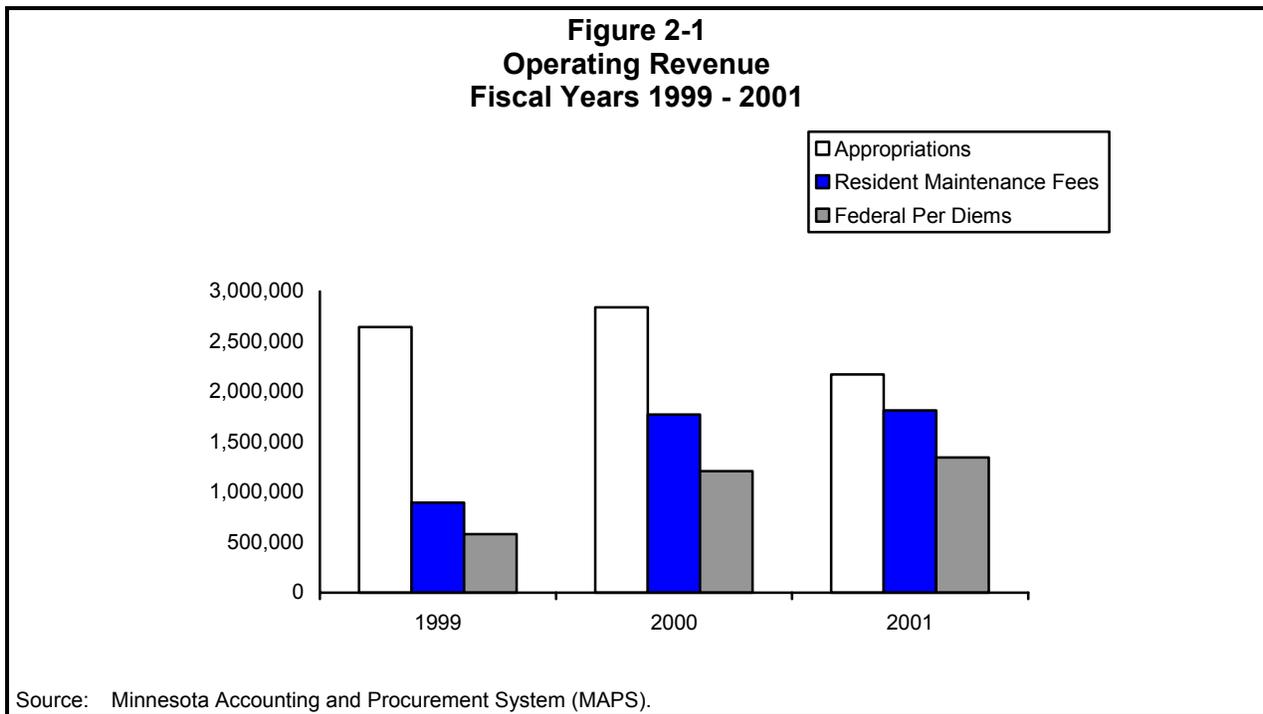
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Chapter 2. Cost of Care

Chapter Conclusions

The Minnesota Veterans Home – Fergus Falls properly collected, safeguarded, deposited, and recorded its maintenance fees and federal per diem receipts in the state’s accounting records. The home accurately calculated its resident cost of care in accordance with applicable legal provisions.

The home received funding for its operations from resident maintenance fees, federal per diem reimbursements, and state appropriations. Figure 2-1 shows amounts received from each source for fiscal years 1999 – 2001.



Minn. Stat. Section 198.03, Subd. 2, requires the home to calculate its cost of care rate on an annual basis. The daily cost of care rate represents the home’s average daily per resident cost of providing care. The calculation excludes the home’s capital expenditures. In fiscal year 2001, the daily cost of care rate was \$167.01.

A portion of the cost of care for residents is paid for by federal per diem reimbursements. For each eligible resident, the United States Department of Veterans Affairs pays a per diem to the home. For federal fiscal year 2001, the per diem rate was \$51.38 a day for nursing care

Minnesota Veterans Home – Fergus Falls

residents. Residents also pay a portion of the cost of care based on their ability to pay. For residents with a net worth exceeding \$3,000, the home charges maintenance fees equal to the full daily cost of care less any federal per diem. The home reduces the maintenance fees charged to residents with a net worth below \$3,000. The home's operating appropriation covers the difference between the full cost of care and the amount of federal per diems and maintenance fees collected.

Audit Objectives and Methodology

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

- Did the home accurately calculate the annual cost of care rates and assess resident maintenance fees in compliance with applicable legal provisions?
- Did the home properly collect, safeguard, deposit, and record maintenance fees and federal per diem receipts in the accounting records?

To answer these questions, we interviewed the home's staff to gain an understanding of the process to calculate the annual cost of care, assess maintenance fees, and collect and record resident maintenance fees and federal per diems. We reviewed the home's cost of care calculations for fiscal years 2001, 2002, and the proposed 2003 rate to determine if they were accurate. We also tested a sample of resident accounts to determine if the home accurately assessed and collected resident maintenance fees. In addition, we reviewed federal per diem reimbursements to determine if the home requested and collected the appropriate amounts. Finally, we tested receipts to determine if the home adequately safeguarded and properly deposited and recorded those receipts in the state's accounting system.

Conclusions

The Minnesota Veterans Home – Fergus Falls properly collected, safeguarded, deposited, and recorded its maintenance fees and federal per diem receipts in the state's accounting records. The home accurately calculated the resident cost of care in accordance with applicable legal provisions.

Chapter 3. Payroll

Chapter Conclusions

The Minnesota Veterans Home – Fergus Falls accurately reported its payroll expenditures in the accounting records and in compliance with applicable legal provisions and management’s authorization. In addition, for payroll expenditures tested, the home accurately paid employees in compliance with applicable legal provisions, bargaining unit agreements, and compensation plans.

During the period July 1, 1996, to December 31, 2001, the home had payroll expenditures of approximately \$15 million or 75 percent of the home’s total operating expenditures. The home has approximately 130 employees, with staff on hand 24 hours a day, seven days a week. Payroll expense totaled \$4.7 million in fiscal year 2001.

The home’s employees belong to one of the following compensation plans:

- American Federation of State, County, and Municipal Employees
- Middle Management Association
- Minnesota Association of Professional Employees
- Minnesota Nurses Association
- Managerial Plan
- Commissioners Plan

Audit Objectives and Methodology

Our audit of the home’s payroll expenditures focused on the following questions:

- Did the home’s internal controls provide reasonable assurance that payroll expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management’s authorization?
- Did the home pay employees in compliance with material finance-related legal provisions and applicable bargaining unit agreements and compensation plans?

To answer these questions, we interviewed the home’s staff to gain an understanding of the internal control structure over payroll and human resources processes. We tested employee timesheets for proper authorizations. We also sampled payroll expenditures, including pay rate adjustments, retroactive payments, vacation payoffs, severance payments, and achievement awards to determine if they were accurately calculated and properly recorded in the accounting

Minnesota Veterans Home – Fergus Falls

records. Finally, we reviewed human resource and payroll transactions to determine if they were processed in compliance with applicable legal provisions.

Conclusions

The home's internal controls provided reasonable assurance that payroll expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. In addition, for payroll expenditures tested, the home accurately paid employees in compliance with applicable legal provisions and bargaining unit agreements and compensation plans.

Chapter 4. Resident Trust Accounts

Chapter Conclusions

The Minnesota Veterans Home – Fergus Falls adequately safeguarded resident accounts. For the items tested, the home properly recorded receipts and expenditures in the resident accounts in accordance with resident authorizations. In addition, the home properly recorded resident trust account activities in the state’s accounting system.

The home maintains personal resident trust accounts for its residents. Residents deposit personal funds into their accounts with the home’s cashier and withdraw those funds as needed. The home deposits resident funds into its resident trust account in the state treasury where interest is earned. Until July 1, 2001, individual residents did not earn interest on their funds. Instead, Minn. Stat. Section 198.265 required that the home use interest earned in the account for the direct benefit of the residents. To fulfill that requirement, the home transferred the interest to its Gift Fund account for the intended benefit of the residents. In 2001, the legislature changed the statute to require the home to allocate interest earned to each individual resident account.

The home maintains subsidiary records of each resident’s account activity. In addition, the home maintains an imprest cash account of \$5,000 to satisfy resident withdrawal requests. The home retains a portion of the imprest cash in petty cash and the balance in a local checking account. The home reimburses the imprest cash account from funds in its resident trust account as needed.

Table 4-1 shows the financial activity of the resident trust accounts for fiscal years 1998 to 2001.

Table 4-1
Resident Trust Account Financial Activity
Fiscal Years 1998 - 2001

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Balance Forward In	\$ 0	\$3,693	\$ 7,856	\$21,214
Deposits	3,676	4,180	43,689	45,332
Interest Earned	<u>17</u>	<u>344</u>	<u>792</u>	<u>846</u>
Total Available	\$3,693	\$8,217	\$52,337	\$67,392
Withdrawals & Expenditures	0	0	30,331	51,850
Transfers Out ⁽¹⁾	<u>0</u>	<u>361</u>	<u>792</u>	<u>846</u>
Balance Forward Out	<u>\$3,693</u>	<u>\$7,856</u>	<u>\$21,214</u>	<u>\$14,696</u>

Note (1): Transfers out represent interest earned on the resident trust account balances that the home transferred to the Gift Fund account.

Source: Minnesota Accounting and Procurement System (MAPS).

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Audit Objectives and Methodology

Our audit of the home's resident trust fund focused on the following questions:

- Did the home's internal controls provide reasonable assurance that resident funds were adequately safeguarded and that receipts and expenditures were properly authorized and accurately recorded in the accounting records?
- Did the home comply with material finance-related legal provisions and resident authorizations regarding resident trust accounts?

To answer these questions, we interviewed the home's employees to gain an understanding of the process related to resident trust account activity. We tested receipts to determine if the home adequately safeguarded and properly deposited and recorded the receipts in the accounting records. We also tested expenditures to determine if the home properly disbursed funds in resident accounts to residents and properly recorded the disbursements in the accounting records. We also traced receipts and expenditures to individual resident accounts to determine if the home accurately maintained individual resident account records. In addition, we reviewed the home's imprest cash account bank reconciliations. Finally, we identified interest receipts earned on the resident trust account balance and determined if the home properly transferred those receipts to its designated contributions account, and also verified that the home properly allocated interest to resident accounts beginning in July 2001.

Conclusions

The home's internal controls provided reasonable assurance that resident funds were adequately safeguarded and that receipts and expenditures were properly authorized and accurately recorded in the accounting records. For the items tested, the home properly recorded receipts and expenditures in the resident accounts and complied with material finance-related legal provisions and resident authorizations regarding resident trust accounts.

Chapter 5. Designated Contributions

Chapter Conclusions

The Minnesota Veterans Home – Fergus Falls properly recorded its designated contributions account activities in the state’s accounting system. In addition, for the items tested, the home’s internal controls provided reasonable assurance that expenditures were made in accordance with the donor’s intentions.

Minn. Stat. Sections 198.16 and 198.161 authorize the home to accept gifts and donations, and to use the funds as directed by the donor. The home maintains monetary gifts and donations in its designated contributions account. The home established unique project codes in its internal records for the various purposes intended by donors. The codes were used by the home to track donations and related expenditures to help ensure that they were in accordance with the donor’s intentions. The home has a designated contribution committee to oversee gifts and donations and the related expenditures. Table 5-1 shows the designated contribution account activity for fiscal years 1997 through 2001.

Table 5-1
Designated Contribution Account Activity
Fiscal Years 1997 - 2001

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Balance Forward In	\$ 5,625	\$ 144,302	\$ 234,508	\$ 140,518	\$135,156
Gifts and Donations	138,677	160,874	60,936	121,432	89,882
Interest Earned	0	12,573	12,430	10,793	12,036
Transfers In ⁽¹⁾	<u>0</u>	<u>0</u>	<u>361</u>	<u>819</u>	<u>1,792</u>
Total Available	<u>\$ 144,302</u>	<u>\$ 317,749</u>	<u>\$ 308,235</u>	<u>\$273,562</u>	<u>\$238,866</u>
Transfers Out ⁽²⁾	0	0	0	1,000	0
Expenditures	<u>0</u>	<u>83,241</u>	<u>167,717</u>	<u>137,406</u>	<u>61,501</u>
Balance Forward Out	<u>\$ 144,302</u>	<u>\$ 234,508</u>	<u>\$ 140,518</u>	<u>\$135,156</u>	<u>\$177,365</u>

Note (1): Transfers in includes interest earned on the resident trust accounts and canteen account balances.

Note (2): Transfers out was to the home’s canteen.

Source: Minnesota Accounting and Procurement System (MAPS).

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Audit Objectives and Methodology

Our audit of the home's designated contributions focused on the following questions:

- Did the home's internal controls provide reasonable assurance that the designated contributions account activities were properly recorded in the state's accounting system?
- Did the home's internal controls provide reasonable assurance that expenditures out of the Gift Fund account were made in accordance with donor intentions?

To answer these questions, we interviewed the home's employees to gain an understanding of the processes related to the home's designated contribution account activities. We tested gift and donation receipts to determine if the home adequately safeguarded and properly deposited and recorded the receipts in the state's accounting records. We reviewed and tested the home's process of expending designated contribution funds to determine if the home used gifts and donations for authorized purposes and properly recorded the expenditures in the accounting records.

Conclusions

The home's internal controls provided reasonable assurance that the designated contributions account activities were properly recorded in the state's accounting system. In addition, for the items tested, the home's internal controls provided reasonable assurance that expenditures were made in accordance with the donor's intentions.

Chapter 6. Selected Operational Expenditures

Chapter Conclusions

The Minnesota Veterans Home - Fergus Falls properly authorized, adequately supported, and accurately reported its operational expenditures in the state's accounting records. In addition, for the items tested, the home complied with material finance-related legal provisions concerning operational expenditures.

During the period July 1, 1996, to December 31, 2001, the home had non-payroll operating expenditures of approximately \$5.1 million or 25 percent of the home's total operating expenditures. These expenditures included supplies and materials, drugs and pharmaceuticals, equipment and fixed assets, and travel expenses. The home accounts for operational expenditures in an account in the Special Revenue Fund in the state's accounting system. Table 6-1 summarizes the home's non-payroll operational expenditures.

Table 6-1
Non-Payroll Operational Expenditures
For the Five Fiscal Years Ended June 30, 2001

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Travel	\$14,007	\$ 25,404	\$ 21,350	\$ 27,453	\$ 26,337
Food Purchases	0	14,289	81,851	125,884	144,505
Supplies and Materials	16,356	271,340	359,072	325,994	345,307
Drugs/Pharmaceuticals	0	4,086	39,689	65,758	85,655
Utilities	0	57,786	125,218	158,396	169,010
Medical and Dental	43	6,103	58,711	70,380	93,216
Equipment	38,592	345,598	131,934	68,377	43,684
Other	<u>1,225</u>	<u>79,286</u>	<u>208,678</u>	<u>277,554</u>	<u>195,451</u>
Total	<u>\$70,223</u>	<u>\$803,892</u>	<u>\$1,026,503</u>	<u>\$1,119,796</u>	<u>\$1,103,165</u>

Source: Minnesota Accounting and Procurement System (MAPS).

During the period July 1, 1996, to December 31, 2001, the home spent a total of approximately \$122,000 on travel expenses. About 35 percent of the total was paid to outside parties for hotel vendors, and the remaining 65 percent was reimbursed to employees. The majority of the office's travel and employee expense reimbursements related to training and staff trips to board meetings in the metropolitan area.

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The home procured supplies and equipment using state contracts, Federal Veterans Administration contracts, or its local purchasing authority. The home maintained fixed asset records and conducted periodic physical inventories.

Audit Objectives and Methodology

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

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

To answer these questions, we gained an understanding of the internal control structure over the processing and recording of operational expenditures. We tested transactions to ensure that they were authorized and properly recorded on the accounting system. We discussed fixed asset records with the home's staff and reviewed the home's fixed asset records. We also tested travel reimbursements paid to employees and lodging costs paid to external vendors.

Conclusions

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