OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Minnesota Veterans Home - Hastings

July 1, 1997, through June 30, 2001

FEBRUARY 21, 2002 **02-10**

Financial Audit Division

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Members of the Legislative Audit Commission

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

Members of the Minnesota Veterans Home Board

Mr. Charles Cox, Administrator
Minnesota Veterans Home - Hastings

We have audited the Minnesota Veterans Home - Hastings for the period July 1, 1997, through June 30, 2001. Our audit scope included: cost of care, payroll (including resident payroll), leases and shared services receipts, resident trust accounts, gift fund activity, canteen operations and fixed assets. We discuss our audit objectives and conclusions more fully in the individual chapters of this report.

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

This report is intended for the information of the Legislative Audit Commission and the management of the Minnesota Veterans Home - Hastings. This restriction is not intended to limit the distribution of this report, which was released as a public document on February 21, 2002.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: August 15, 2001

Report Signed On: February 15, 2002

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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
Thomas Donahue, CPA	Audit Manager
Scott Tjomsland, CPA	Auditor-in-Charge
Connie Stein	Senior Auditor
Mike Willis, CPA	Senior Auditor

Exit Conference

We discussed the findings and recommendations with the following representatives of the Minnesota Veterans Home Board Office and the Minnesota Veterans Home – Hastings at an exit conference on February 6, 2002:

Minnesota Veterans Home Board Office:	
Stephen Musser	Executive Director
Doug Rickabaugh	Financial Management Director
Jerry Jarosch	Principal Auditor
Minnesota Veterans Home – Hastings:	
Charles Cox	Administrator
Mark Kryzer	Business Manager

Report Summary

Overall Conclusions:

The Minnesota Veterans Home – Hastings, adequately safeguarded and accurately reported its revenues, including resident maintenance fees, federal per diem receipts, lease and shared services receipts, resident deposits to resident accounts, gift and donation receipts, and canteen sales 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.

Key Findings:

- The home gave excessive lump sum performance based salary increases to its part-time medical director. We recommended that the home prorate lump sum salary increases based on actual hours worked. (Finding 1, page 6)
- Prior Finding Partially Resolved: The home needs to improve controls over resident employee paychecks. We recommended that the business office independently review the resident paycheck log and undistributed paychecks. (Finding 2, page 6)
- Prior Finding Not Resolved: The home incorrectly calculated its cost of care rate for fiscal years 2000, 2001, and 2002. The home should establish procedures to ensure that it accurately calculates annual cost of care rates. (Finding 3, page 10)
- The home needs to improve controls over its imprest cash account. We recommended that the home reimburse its imprest cash account daily and use a single petty cash drawer from its imprest cash account for its Resident Trust Fund activities and resident activities funded by the Gift Fund account. The home should establish procedures to ensure that the imprest cash account is appropriately reimbursed by the Gift Fund account, and that the overall balance in its imprest cash account does not exceed the $20,000 authorized limit. (Finding 6, page 16)
- Prior Finding Not Resolved: The home did not transfer all interest earned on resident trust accounts to the Gift Fund account in a timely manner. The home should transfer the interest earned of $2,528 to its Gift Fund account. (Finding 7, page 18)

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 - Hastings included: cost of care, payroll (including resident payroll), leases and shared services receipts, resident trust accounts, Gift Fund activity, canteen operations, and fixed assets. The Minnesota Veterans Home – Hastings' response to our recommendations is included in the report.

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Chapter 1. Introduction

The Minnesota Veterans Home – Hastings has operated as a domiciliary residence for veterans since 1978. The Minnesota Veterans Home – Hastings (home) now provides 200 domiciliary beds to veterans that meet eligibility and admission requirements. As of August 27, 2001, the home had 189 residents. With the assistance of a federal grant, the home also owns and operates a house in Hastings to provide transitional housing for up to four qualified veterans. The home began operating the transitional house in August 2001, and had three residents as of August 27, 2001.

The home is one of five veterans homes operating in Minnesota under the jurisdiction of the Minnesota Veterans Homes Board. The other homes are located in Minneapolis, Silver Bay, Luverne, and Fergus Falls. The home's daily management is the responsibility of its administrator. Mr. Charles Cox has been the administrator of the home since November 2000 and also served as the interim administrator from March to July 2000. Mr. Randy Snyder was the interim administrator from July to November 2000. The former administrator, Mr. Andrew Vinson, held the position until March 2000.

The Minnesota Veterans Homes Board receives General Fund appropriations for the operation of the veterans homes. The board allocates and transfers the appropriations to the Hastings Veterans Home and the other homes to fund their operations. The home maintains its operating account in the Special Revenue Fund. The home also receives federal per diem and resident maintenance payments, which are also deposited into the operating account. In addition, the home maintains a second account in the Special Revenue Fund for receipts from leased property and shared service contracts, which also fund its operations.

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:		Miscellaneous Agency Fund:		Gift Fund:
	Operating	Lease	Resident Trust	Canteen	Donations
Appropriation Allocation	$2,760,000	$ 0	$ 0	$ 0	$ 0
Balance Forward In	990,751	206,159	20,982	33,402	178,935
Transfers In	0	0	0	0	1,515
Receipts	2,600,046	500,543	453,496	118,353	154,670
Total Sources	6,350,797	706,702	474,478	151,755	335,120
Expenditures	5,279,745	503,518	448,215	104,718	139,392
Transfers Out	0	0	1,515	0	0
Total Uses	5,279,745	503,518	449,730	104,718	139,392
Balance Forward Out	$1,071,052	$203,184	$24,748	$47,037	$195,728

Source: Minnesota Accounting and Procurement System.

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Chapter 2. Payroll

Chapter Conclusion

The Minnesota Veterans Home – Hastings, accurately reported its payroll expenditures in the accounting records. In addition, for payroll transactions tested, the home accurately paid employees and residents in compliance with applicable legal provisions and bargaining unit agreements. However, the home gave two excessive lump sum performance based salary increases to its part-time medical director. In addition, the home needs to improve controls over resident employee pay checks.

The home had payroll expenditures of approximately $15.2 million during fiscal years 1998 to 2001, which comprised about 63 percent of the home's total expenditures. The home has approximately 100 employees, with certain staff on hand 24 hours a day, seven days a week. In addition, the home employs about 60 residents in its resident employment program. Participating residents work part-time, performing various duties at the home. 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, and
- Commissioners Plan.

Audit Objectives and Methodology

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

- Did the home accurately report payroll expenditures in the accounting records, and were they properly authorized and processed in compliance with applicable legal provisions and management's authorization?

- Did the home pay employees and residents in compliance with material finance-related legal provisions and applicable bargaining unit agreements?

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 payrate adjustments, retroactive payments, vacation payouts, severance payments, and achievement awards to determine if they were accurately calculated and properly recorded in the accounting records. Finally, we reviewed human resource and payroll transactions to determine if they were processed in compliance with applicable legal provisions.

Conclusions

The Minnesota Veterans Home-Hastings accurately reported its payroll expenditures in the accounting records. In addition, for payroll transactions tested, the home accurately paid employees and residents in compliance with applicable legal provisions and bargaining unit agreements. However, as discussed in Finding 1, the home gave excessive lump sum performance based salary increases to its part-time medical director. In addition, the home needs to improve controls over resident employee pay checks, as discussed in Finding 2.

1. The home gave excessive lump sum performance based salary increases to its part-time medical director.

The home paid its part-time medical director excessive lump sum performance based salary increases of $4,416 and $6,494 in fiscal years 2000 and 2001, respectively. In each year, the home paid lump sum payments to the home's part-time medical director as if he was a full-time medical director. For fiscal years 2000 and 2001, the maximum annual salary for the medical director position was $162,400. However, the home's part-time medical director's annual compensation for fiscal years 2000 and 2001 was $24,695 and $20,884, respectively. As a result, the lump sum payments of $4,416 and $6,494 represented approximately 18 and 31 percent of the employee's total compensation in fiscal years 2000 and 2001.

The Commissioner's Plan provides for lump sum performance based salary increases of up to five percent of the total salary base for medical directors and specialists, but does not specifically address part-time employees and the proration of the increases. However, prorating lump sum performance based salary increases for part-time employees provides the most reasonable and equitable method of awarding those increases.

Recommendation

- *The home should prorate lump sum performance based salary increases for its part-time medical director based on actual hours worked.*

2. Prior Finding Partially Resolved: The home needs to improve controls over resident employee paychecks.

Our prior audit finding recommended that the home maintain a log of resident employee pay checks, that residents sign the log at the time they pick up their checks, and that the business office periodically review the log to monitor unclaimed checks. Currently, the home maintains a log for residents to sign at the time they receive and cash their paychecks. However, the business office had not periodically reviewed the log to ensure that all paychecks were accounted for.

The home's cashier receives and holds all resident employee paychecks in a locked safe until residents sign and cash them. However, residents do not always promptly sign and cash their paychecks. Since the cashier had custody of the paychecks and the log, the home had no assurance that it distributed all resident paychecks to appropriate residents.

Recommendation

- *The home's business office should perform independent reviews of the resident employee paycheck log and undistributed paychecks to ensure that all paychecks are accounted for.*

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Chapter 3. Cost of Care

Chapter Conclusion

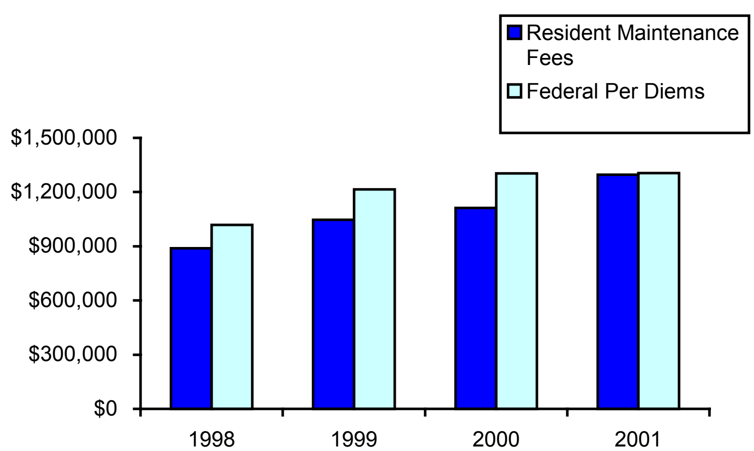
The Minnesota Veterans Home - Hastings accurately assessed resident maintenance fees and properly collected, safeguarded, deposited, and recorded maintenance fees and federal per diem receipts in the accounting records. However, the home did not accurately calculate its cost of care rates.

Minn. Stat. Section 198.03, Subd. 2 requires the home to annually calculate its cost of care rate for residents. The daily cost of care rate represents the home's average daily per resident cost of providing care. For fiscal year 2001, the daily cost of care rate was $75.78.

A portion of the cost of care for residents is covered by federal per diem reimbursements. For each eligible resident, the United States Department of Veterans Affairs (VA) pays a per diem to the home. For federal fiscal year 2001, the per diem rate was $22.93. 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. Those residents pay their monthly chargeable income, which is a calculated portion of their monthly gross income. The home's operating appropriation and lease revenue cover the difference between the full cost of care and the amounts of federal per diems and maintenance fees collected.

Figure 3-1 shows the resident maintenance fees and federal per diems collected in fiscal years 1998 to 2001.

Figure 3-1
Resident Maintenance Fees and Federal Per Diems
Fiscal Years 1998 to 2001



Source: Minnesota Accounting and Procurement System.

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 2000, 2001, and 2002 to determine if they were accurate. We also tested a sample of residents to determine if the home accurately assessed and collected resident maintenance fees. In addition, we reviewed a sample of federal per diem reimbursements to determine if the home requested and collected the appropriate amounts. Finally, we reviewed samples of receipts to determine if the home adequately safeguarded and properly deposited and recorded those receipts in the accounting records.

Conclusions

The home accurately assessed resident maintenance fees and properly collected, safeguarded, deposited, and recorded maintenance fees and federal per diem receipts in the accounting records. However, the home did not accurately calculate its cost of care rates as discussed in Finding 3.

3. Prior Finding Not Resolved: The home incorrectly calculated its cost of care rate for fiscal years 2000, 2001, and 2002.

The home did not accurately calculate its cost of care rate for fiscal years 2000, 2001, and 2002. The calculated daily cost of care rate for fiscal year 2000 was overstated by $1.04, while the fiscal years 2001 and 2002 daily cost of care rates were understated by $3.45 and $1.54, respectively. The home calculates its cost of care rate for each fiscal year based on its operating expenditures from the previous March 1 through February 28. The fiscal year 2000 error occurred because the home mistakenly included over $67,000 in encumbrances in the calculation. Encumbrances would not be included in the cost of care calculations, and the home appropriately excluded them from its fiscal years 2001 and 2002 calculations. However, the fiscal year 2001 and 2002 errors occurred because the home inadvertently ommitted approximately $219,000 and $90,000, respectively, in expenditures that it should have included in the calculations. As a result, the home may have charged erroneous amounts to residents who had the ability to pay for their full cost of care.

Recommendation

- *The home should establish procedures to ensure that it accurately calculates annual cost of care rates in compliance with applicable legal provisions.*

Chapter 4. Lease and Shared Services Receipts

Chapter Conclusion

The Minnesota Veterans Home - Hastings collected lease receipts in accordance with valid lease agreements. Except for overcharges of $1,318 and undercharges of $8,370, the home collected shared services receipts in accordance with valid service contracts and collected the proper amounts for meal ticket sales. In addition, the home adequately safeguarded lease and shared services receipts and properly deposited and recorded those receipts in the accounting records. However, the home did not require the Dakota County Receiving Center to make monthly rent payments by the due date specified in the lease. Also, the home needs to improve controls over meal ticket sales.

During fiscal years 1998 to 2001, the home collected approximately $1.86 million in lease and shared services contract receipts. The home collected most of those receipts from the Dakota County Receiving Center (DCRC). The home leases three buildings on its campus to DCRC for a detoxification center and a halfway house. In addition, the home has a shared services contract with DCRC to provide meals to DCRC residents.

The home also has leases with the Minnesota Department of Transportation (Mn/DOT), the Metropolitan Radio Board, and the United States Coast Guard. These leases provide utility services to Mn/DOT's South Region Station located in Hastings, a radio tower located on the home's campus, and for a radio antenna on one of the home's buildings. Through a service contract with the Fort Snelling National Cemetery, a crew of the home's residents provided on-site grounds maintenance work and related services at the cemetery. Finally, the home sells meal tickets for its cafeteria to staff and visitors.

Audit Objectives and Methodology

Our audit of the home's leases and shared services receipts focussed on the following questions:

- Did the home collect lease and shared services receipts in accordance with valid lease agreements or service contracts and collect the proper amount for meal ticket sales?

- Did the home adequately safeguard lease and shared services receipts and properly deposit and record those receipts in the accounting records?

To answer these questions, we interviewed the home's staff to gain an understanding of the process to lease surplus space and enter into service contracts, sell meal tickets, and collect and record lease and shared services receipts. We reviewed lease receipts to determine if the home collected appropriate amounts in accordance with valid lease agreements. We also tested samples of shared services and meal ticket receipts to determine if the home collected the proper amounts. Finally, we reviewed samples of receipts to determine if the home adequately safeguarded and properly deposited and recorded those receipts in the accounting records.

Conclusions

The home collected lease receipts in accordance with valid lease agreements. However, as noted in Finding 4, the home did not require DCRC to make monthly rent payments by the due date specified in the lease. Except for overcharges and undercharges discussed in Finding 4, the home collected shared services receipts in accordance with valid service contracts and collected the proper amounts for meal ticket sales. In addition, as discussed in Finding 5, the home needs to improve controls over meal ticket sales. The home adequately safeguarded lease and shared services receipts and properly deposited and recorded those receipts in the accounting records.

4. The home did not collect accurate amounts of receipts from service contracts.

The home did not accurately charge DCRC and the Fort Snelling National Cemetery for services provided in accordance with service contracts. During the audit period, the home collected approximately $1.65 million from DCRC and $43,500 from Fort Snelling National Cemetery. Errors included the following:

- The home undercharged DCRC by $7,398 for meals provided to DCRC residents from July through September 1998. For those months, the home did not calculate the meal charges to DCRC using the meal rates included in the service contract effective July 1998. Instead, the home used the meal rates from the prior service contract.

- The home undercharged DCRC by $972 for meals provided to DCRC residents during several months. For those months, the home did not accurately calculate the number of meals provided to DCRC residents. The home's business office used the cafeteria's meal log to calculate the monthly meal charges to DCRC. However, it did not compare the log to support documentation to verify the accuracy of the log. For each meal, DCRC staff ordered the number of meals it needed delivered, and the home's cafeteria staff collected tickets from DCRC residents that ate meals in the cafeteria. Cafeteria staff recorded the number of meals provided on its monthly meal log. At month end, cafeteria staff sent the meal log and the DCRC order slips and tickets to the business office. We found several instances where the number of meals listed on the meal log did not match the support documentation. As a result, the home did not charge DCRC for a total of 193 meals provided.

- The home overcharged DCRC by $810 for grounds services provided for the leased buildings. The service contract with DCRC, effective July 1998, did not include any provisions for DCRC to pay the home for grounds services. However, for each month during fiscal years 1999 to 2001, the home charged DCRC the flat fee for grounds services that was included in the prior service contract.

- The home overcharged the Fort Snelling National Cemetery by $508 for services provided. The service contracts provided for the cemetery to pay the home at specified hourly rates for resident and supervisor hours worked. However, for one-third of the line item charges for supervisor hours on invoices during fiscal years 1998 to 2001, the home did not accurately calculate the number of supervisor hours worked. As a result, the home overcharged the cemetery $477 for supervisor hours. We also found one instance where the home double charged the cemetery for six resident hours, which resulted in an overcharge of $31.

- Finally, the home did not require DCRC to make rent payments on the first day of each month as specified in the lease agreement. Instead, the home allowed DCRC to make the payments several days after the due date. During fiscal years 1998 to 2001, the home received each monthly payment from DCRC at least 24 days after the due date. The delays in collecting the payments caused the state to lose potential interest income on the receipts.

Recommendations

- *The home should work with the Attorney General to resolve the undercharges and overcharges.*
- *The home should establish procedures to verify the accuracy of meal counts used to calculate meal charges to the Dakota County Receiving Center.*
- *The home should establish procedures to ensure it charges the Fort Snelling National Cemetery for the correct number of resident and supervisor hours worked.*
- *The home should establish procedures to ensure it collects monthly rent payments from the Dakota County Receiving Center on the due date specified in the lease.*

5. The home needs to improve controls over meal ticket sales.

The home did not monitor meal ticket sales to ensure it collected, deposited, and recorded appropriate amounts for meal ticket sales. A single employee maintained custody of meal tickets, sold the tickets, and collected, deposited, and recorded the meal ticket sales receipts. However, no other employee reviewed meal ticket sales and recorded receipts. Without an independent review of meal ticket sales records and recorded receipts, meal tickets and meal ticket sales receipts could be misappropriated without detection.

Recommendation

- *The home should establish procedures to monitor meal ticket sales to ensure it collects, deposits, and records appropriate amounts of meal ticket sales receipts.*

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Chapter 5. Resident Trust Accounts

Chapter Conclusion

For the items tested, the Minnesota Veterans Home - Hastings adequately safeguarded and properly deposited and recorded resident deposits to resident accounts, properly disbursed and recorded resident withdrawals and expenditures from resident accounts, and accurately maintained individual resident account records. However, the home needs to improve controls over its imprest cash account. Finally, the home did not transfer all interest earned on resident trust account balances to the Gift Fund account on a timely basis.

The home maintains personal resident trust accounts for each resident. 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. During our audit period, 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 a designated project in its Gift Fund account for the intended benefit of the residents.

The home maintains subsidiary account records of each resident's account activity. In addition, the home maintains an imprest cash account of $20,000 to satisfy resident withdrawal requests. The home retains a portion of the imprest cash in a petty cash drawer in the cashier's office 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 5-1 shows the financial activity of the resident trust accounts for fiscal years 1998 to 2001.

Table 5-1
Resident Trust Account Financial Activity
Fiscal Years 1998 to 2001

	1998	1999	2000	2001
Balance Forward In	$ 25,773	$ 36,595	$ 21,432	$ 20,982
Deposits	350,378	360,697	416,259	451,981
Interest Earned	2,024	1,712	1,360	1,515
Total Available	$378,175	$399,004	$439,051	$474,478
Withdrawals & Expenditures	341,580	374,285	417,273	448,215
Transfers Out (1)	0	3,287	796	1,515
Balance Forward Out	$ 36,595	$ 21,432	$ 20,982	$ 24,748

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

Source: Minnesota Accounting and Procurement System (MAPS).

Audit Objectives and Methodology

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

- Did the home adequately safeguard resident deposits in resident trust accounts and properly deposit and record those receipts in the accounting records?
- Did the home properly disburse funds in resident accounts to residents on demand and properly record those disbursements in the accounting records?
- Did the home accurately maintain individual resident account records?
- Did the home comply with applicable legal provisions over 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 samples of receipts to determine if the home adequately safeguarded and properly deposited and recorded the receipts in the accounting records, and samples of 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 the samples of 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 Gift Fund account in compliance with applicable legal provisions.

Conclusions

For the items tested, the home adequately safeguarded and properly deposited and recorded resident deposits to resident accounts, properly disbursed and recorded resident withdrawals and expenditures from resident accounts, and accurately maintained individual resident account records. However, as discussed in Finding 6, the home needs to improve controls over its imprest cash account. Finally, as noted in Finding 7, the home did not transfer interest earned on resident trust account balances to the Gift Fund account on a timely basis.

6. The home needs to improve controls over its imprest cash account.

During our review of the resident trust and Gift Fund account activities, we noted that each activity negatively impacted the home's imprest cash account. For example, in our review of the resident trust accounts, the home did not reimburse its imprest cash account daily, causing the cash account at times to be low. In addition, current practice for funding certain resident activities out of the Gift Fund account placed the imprest cash account at a balance higher than authorized. Finally, we noted that the home had not reconciled the imprest cash account bank balance to the accounting records for the final three months of fiscal year 2001.

Minnesota Veterans Home – Hastings

Currently, the home maintains an imprest cash account of $20,000 authorized by the Department of Finance to satisfy resident withdrawal requests and other short-term cash needs. The home retains a portion of the imprest cash in a petty cash drawer in the cashier's office and the balance in a local checking account. However, the home did not consistently reimburse its imprest cash account on a daily basis. Instead, the home regularly made the reimbursements every two or three days. The added delay in the home's processing of the vouchers caused the daily balance in the imprest cash account to remain low. In fact, the daily balance of the account in the accounting records occasionally went negative, and we identified one instance where the home had to pay $50 in overdraft charges to the bank.

In addition, the home could use its imprest cash account more effectively for certain resident activities funded by the Gift Fund account. Currently the home draws a check against its Gift Fund account for $1,350 each month and deposits the voucher into the imprest cash account, cashes the check from the imprest cash account, and provides the cash to its resident therapists to be used as needed for resident activities. The home's resident therapists receive cash of $1,350 at the beginning of each month to pay for specific resident activities. However, when the home deposits and cashes the Gift Fund checks in the imprest cash account, its actual imprest cash held outside the state treasury exceeds its authorized limit by $1,350.

The home also did not require its resident therapists to return unused cash and expenditure receipts immediately after a planned activity. The home allowed the therapists to keep the cash until after the end of the month when the cash and expenditure receipts were turned in to the cashier. The cashier would then deposit the cash back into the Gift Fund account. Allowing staff to maintain custody of cash for extended periods of time increases the risk of cash being misappropriated or lost.

Finally, during the last three months of our audit period, we noted that the home had not reconciled the imprest cash account bank balance to the accounting records. This is an important reconciliation that the home should perform monthly to ensure that its imprest cash account activities are adequately safeguarded and appropriately accounted for.

Recommendations

- *The home should reimburse its imprest cash account daily to replenish resident trust fund activity.*
- *The home should use a single petty cash drawer from its imprest cash account for its resident trust fund activities and resident activities funded by the Gift Fund account. The home should establish procedures to ensure that the imprest cash account is appropriately reimbursed by the Gift Fund account and that the overall balance in its imprest cash account does not exceed the $20,000 authorized limit.*
- *The home should require its resident therapists to return unused petty cash and expenditure receipts to the cashier as soon after an approved activity as possible.*
- *The home should reconcile the imprest cash account bank balance to its accounting records on a monthly basis.*

7. Prior Finding Not Resolved: The home did not transfer all interest earned on resident trust accounts to the Gift Fund account in a timely manner.

The home did not transfer all interest earned on its resident trust accounts to its Gift Fund account, and did not make the transfers timely. During fiscal years 1998 to 2001, the home earned $6,611 in interest on its resident accounts. However, the home transferred just $4,083 of the interest to its Gift Fund account. In addition, the home made only one transfer in fiscal years 2000 and 2001, and no transfers in fiscal year 1998.

During our audit period, Minn. Stat. Section 198.265 required the home to use the interest earned on its resident trust accounts for the direct benefit of the residents, and that the interest be available at least twice each year. Effective July 1, 2001, the 2001 Legislature amended Minn. Stat. Section 198.265 to provide that each resident account of more than $100 must be credited with interest earned on a quarterly basis.

Recommendation

- *The home should transfer the remaining $2,528 in interest earned during fiscal years 1998 to 2001 to its Gift Fund account.*

Chapter 6. Gift Fund Activity

Chapter Conclusion

For the items tested, the Minnesota Veterans Home - Hastings adequately safeguarded and properly deposited gift and donation receipts, maintained adequate records of donations in compliance with applicable legal provisions, and used gifts and donations for appropriate purposes. However, the home did not properly monitor receipts and expenditures recorded in its Gift Fund account. As a result, it did not identify several recording errors. The home also needs to improve controls over its woodshop. Finally, the home did not consistently deposit receipts in a timely manner.

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 Gift Fund account. Within the account, the home established unique project codes for the various purposes intended by donors, and used those codes to record gifts and donations in the accounting records. The home also established a Designated Contribution Committee to oversee gifts and donations and make decisions on the use of funds.

One project within the account was used for the home's woodshop operation. The woodshop began as a resident therapy project, but over the last few years evolved into an enterprise activity for the home. The woodshop produces items such as flag cases, television stands, and coat racks, which the home markets and sells. Table 6-1 shows the financial activity of the Gift Fund account for fiscal years 1998 to 2001.

Table 6-1
Gift Fund Account Activity
Fiscal Years 1998 to 2001

	1998	1999	2000	2001
Balance Forward In	$106,939	$ 86,873	$136,754	$178,935
Gifts and Donations	68,427	100,828	156,690	142,187
Interest Earned	5,629	5,997	9,286	12,483
Transfers In (1)	0	31,182	796	1,515
Total Available	$180,995	$224,880	$303,526	$335,120
Expenditures	94,122	88,126	124,591	139,392
Balance Forward Out	$ 86,873	$136,754	$178,935	$195,728

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

Source: Minnesota Accounting and Procurement System (MAPS).

Audit Objectives and Methodology

Our audit of the home's Gift Fund activity focused on the following questions:

- Did the home adequately safeguard gifts and donations and properly deposit and record those receipts in the accounting records?
- Did the home maintain adequate records of donations in compliance with applicable legal provisions?
- Did the home appropriately spend gifts and donations according to donor intentions, and were those expenditures properly recorded in the accounting records?

To answer these questions, we interviewed the home's employees to gain an understanding of the process related to the home's Gift Fund activity. We tested samples of gift and donation receipts to determine if the home adequately safeguarded and properly deposited and recorded the receipts in the accounting records, and maintained adequate records of donations in compliance with applicable legal provisions. We also tested samples of expenditures to determine if the home used gifts and donations for appropriate purposes and properly recorded the expenditures in the accounting records. Finally, we performed analytical procedures on the home's woodshop activity.

Conclusions

For the items tested, the home adequately safeguarded and properly deposited gift and donation receipts, maintained adequate records of donations in compliance with applicable legal provisions, and used gifts and donations for appropriate purposes. However, as discussed in Finding 8, the home did not properly monitor receipts and expenditures recorded in its Gift Fund account. As a result, it did not identify several recording errors. The home also needs to improve controls over its woodshop, as discussed in Finding 9. Finally, as noted in Finding 10, the home did not consistently deposit receipts in a timely manner.

8. The home did not properly monitor receipts and expenditures recorded in its Gift Fund account.

The home did not perform certain key monitoring procedures over recorded activity in its Gift Fund account. For example, the home did not compare actual gift and donation receipt records to receipts recorded in the accounting records to ensure it deposited all receipts into the correct account and properly recorded them with appropriate project codes. In addition, the home did not review recorded expenditures from its Gift Fund account to verify it charged the expenditures to the correct account and recorded them with the appropriate project codes. Finally, the home did not reconcile reports generated from the accounting records that showed cash balances of each Gift Fund account project code to the actual cash balance in the account to ensure the accuracy of the reports and of the recorded receipts and expenditures.

Although we did not find that receipts had been lost or stolen, it is possible that gift and donation receipts could be misappropriated without detection. In addition, without the above monitoring procedures in place, the home cannot ensure it recorded receipts and expenditures to the appropriate project codes and, therefore, cannot ensure it used gifts and donations as directed.

We identified the following recording errors that the home would have found had it performed the reconciling procedures described above:

- The home recorded $31,363 in receipts and $4,433 in expenditures in its Gift Fund account without any project codes.
- The home recorded receipts totaling $5,045 and expenditures totaling $4,692 from its other accounts with Gift Fund account project codes.
- The home incorrectly deposited $905 in receipts and charged $363 in expenditures to its Gift Fund account.
- The home incorrectly charged a $112 revenue reduction transaction to another account that it should have charged to its Gift Fund account.
- The home intended to transfer $3,000 from one Gift Fund account project code to another, but instead transferred the funds from the latter to the former.
- The home incorrectly deposited a $400 lease receipt to its Gift Fund account and recorded it with a Gift Fund account project code.
- The home incorrectly recorded a $50 donation with the wrong project code.
- The home incorrectly recorded a $1,350 Gift Fund account expenditure with the wrong project code.

Recommendations

- *The home should correct the identified recording errors.*

- *The home should monitor receipts and expenditures recorded in its Gift Fund account to ensure the completeness and accuracy of the recorded activity.*

9. The home needs to improve controls over its woodshop activity.

Currently, the woodshop coordinator oversees all aspects of the woodshop operation, including authorizing expenditures, maintaining custody of supplies and finished products, taking and shipping sales orders, and collecting some sales receipts. Another employee had responsibility for depositing and recording the receipts. The home has not established any mitigating controls to monitor the woodshop's activity.

The woodshop hours are 10 a.m. to 12 p.m. Monday through Thursday. The resident workers build flag cases, display cases, plaques, shadow boxes, coat racks, and banks. Also, the woodshop will build any project that a customer requests. The woodshop's biggest selling item is its flag cases. During the audit period, revenues from woodshop sales were $88,984. Expenditures for the same period were $55,042.

As a result of the lack of separation in the cash handling and recording of receipts, the home is vulnerable to loss of receipts through errors or misappropriation of funds. To the extent possible, the home needs to strengthen its controls over the woodshop activity. This can be done either through establishing a separation of duties between the cash handling function and the record keeping function within the woodshop activity, or the business office becoming more involved in monitoring the woodshop's activities.

Recommendation

- *The home should either separate the cash handling duties within the woodshop activity from the record keeping duties or establish procedures to monitor the woodshop's overall activities.*

10. The home did not consistently deposit receipts in a timely manner.

The home did not always daily deposit receipts in excess of $250, as required by Minn. Stat. Section 16A.275. Instead, the home only deposited receipts on Mondays, Wednesdays, and Fridays. In addition, various staff that collected receipts did not consistently deliver the receipts to the cashier the same day. We found several instances where the home deposited receipts exceeding $250 from two to several days after collection.

Recommendation

- *The home should daily deposit receipts exceeding $250.*

Chapter 7. Canteen

Chapter Conclusion

For the items tested, the Minnesota Veterans Home - Hastings properly collected, safeguarded, deposited, and recorded its canteen sales receipts in the accounting records. However, the home did not properly reconcile recorded canteen sales receipts. The home adequately safeguarded its inventory and accurately maintained its canteen inventory records.

Minn. Stat. Section 198.261 authorizes the home to operate a canteen. The home's canteen provides snack food, beverages, cigarettes, movie rentals, and other small items to its residents. The canteen is open every day of the week. It has three shifts staffed by the resident workers. Each shift starts with $100 in the cash drawer. At the end of each shift, the resident worker takes an inventory of the cigarettes, closes the cash register by running the "Z" tape, which provides total sales, counts the cash drawer, and fills out the Canteen Shift Reconciliation sheet showing sales for the shift.

Table 7-1 shows the financial activity of the canteen for fiscal years 1998 to 2001.

Table 7-1
Canteen Financial Activity
Fiscal Years 1998 to 2001

	1998	1999	2000	2001
Balance Forward In	$ 27,212	$ 36,649	$ 23,494	$ 33,402
Receipts	76,480	100,035	106,599	115,822
Interest Earned	1,964	1,795	1,958	2,531
Total Available	$105,656	$138,479	$132,051	$151,755
Expenditures	69,007	87,089	98,649	104,718
Transfers Out (1)	0	27,896	0	0
Balance Forward Out	$ 36,649	$ 23,494	$ 33,402	$ 47,037

Note (1): Transfers out represent canteen profits and interest earned on the canteen account balances that the home transferred to its Gift Fund account.
Source: Minnesota Accounting and Procurement System (MAPS).

Audit Objectives and Methodology

Our audit of the home's canteen operation focused on the following questions:

- Did the home properly collect, safeguard, deposit, and record its canteen sales receipts in the accounting records?

- Did the home adequately safeguard its inventory and accurately maintain its canteen inventory records?

To answer these questions, we interviewed the home's employees to gain an understanding of the canteen operation. We tested samples of transactions to determine if the home collected and deposited accurate amounts of sales receipts and properly recorded them in the accounting records. We also reviewed the home's process to safeguard canteen resale items and sales receipts. Finally, we reviewed canteen inventory records to determine if the home accurately maintained and monitored canteen inventory.

Conclusions

For the items tested, the home properly collected, safeguarded, deposited, and recorded its canteen sales receipts in the accounting records. However, as discussed in Finding 12, the home did not properly monitor recorded canteen sales receipts. The home adequately safeguarded its inventory and accurately maintained its canteen inventory records.

11. The home did not properly monitor recorded canteen sales receipts.

The home did not monitor recorded canteen sales receipts to ensure it properly deposited and recorded all receipts. Currently, the home does not reconcile the amount of cash receipts taken in for the day to the sales recorded on the cash register tape. At the end of each shift, a resident worker closes out the cash register and posts the sales total as shown on the cash register tape to a cash reconciliation sheet. The resident worker in the canteen prepares the cash reconciliation sheet after his shift. Since no one other than the resident worker compares the actual cash register tape to the cash reconciliation sheet, the home is vulnerable to a misappropriation of its canteen receipts. We should note however, that we did not find any misappropriation of canteen receipts.

Recommendation

- *The home should establish procedures to monitor recorded canteen sales receipts to ensure it properly deposits and records all receipts.*

Chapter 8. Fixed Assets

Chapter Conclusion

The Minnesota Veterans Home - Hastings did not timely record acquisitions or disposals of assets in the fixed asset records.

According to the home's fixed asset records as of August 2001, the home had fixed assets valued at approximately $850,000. The home's fixed assets included office, kitchen, entertainment, recreation, grounds, maintenance, and health care equipment. The home also owned several vehicles, including buses, vans, and trucks. The home uses the Fixed Asset Inventory System. Each fixed asset is set up in a department, and includes a fixed asset number, acquisition date, asset description, asset life, purchase price, and price with betterments. However, May 2000 was the last time the Fixed Asset Inventory System was updated.

Audit Objective and Methodology

Our audit of the home's fixed assets focussed on the following question:

- Did the home maintain accurate fixed asset records?

To answer this question, we discussed fixed asset records with the home's staff and reviewed the homes fixed asset records.

Conclusion

The home, as discussed in Finding 12, did not timely record acquisitions or disposals of assets in the records.

12. The home did not timely record asset acquisitions or disposals in the fixed asset records.

The home had not recorded any asset acquisitions or disposals in the fixed asset records since May 2000. The home indicated that the last physical inventory taken was in April of 2000. Delays in recording activity in the fixed assets records increases the risk of inaccurate records. Without accurate fixed asset records, assets or receipts from the disposal of assets could be misappropriated or lost without detection.

Recommendations

- *The home should update its fixed asset records for all asset acquisitions and disposals.*

- *The home should timely record asset acquisitions and disposals in the fixed asset records.*

Status of Prior Audit Issues
As of August 15, 2001

Legislative Audit Report 98-46, issued in August 1998, covered the three fiscal years ending June 30, 1997. The audit scope included cost of care, payroll, lease receipts, operational expenditures, and resident trust accounts. The home resolved eight of the twelve findings contained in the audit report.

In that audit, we found that the home did not accurately calculate its cost of care rate for one fiscal year. We repeat that issue for three subsequent fiscal years as Finding 3 of this report. Another issue, that the home needs to improve controls over resident employee paychecks, is repeated as Finding 2 of this report. Finally, the home again did not properly transfer interest earned on its resident trust accounts, repeated as Finding 7 in this report.

In addition, a prior issue identified two instances where the home incorrectly adjusted the leave balances of employees. In its response, the home stated that it had corrected the errors identified. However, the home could not provide any documentation to support that statement. We recommend that the home research the issue to determine if the corrections were actually made and provide documentation of the corrections. Otherwise, the home should now correct those errors.

State of Minnesota Audit Follow-up Process

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

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STATE OF MINNESOTA
VETERANS HOMES BOARD
MINNESOTA VETERANS HOME – HASTINGS
1200 EAST 18TH STREET
HASTINGS, MINNESOTA 55033
(651) 438-8500

February 13, 2002

Mr. James Nobles
Legislative Auditor
Office of the Legislative Auditor
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles,

We have received and reviewed the draft audit report for the Hastings Veterans Home for the four years ending June 30,2001. We appreciate the time and effort given by your audit team to produce this report and welcome the opportunity to respond to the findings detailed in this document.

Finding #1. The home gave excessive lump sum performance based salary increases to its part-time medical director.

Response: We have reviewed the findings and recommendations regarding lump sum performance based payments. We agree that a pro-rated lump sum performance base salary increase for part time medical personnel should be based upon hours worked. Future increases will be paid in this manner. In addition, we will review payments made annually at all facilities to ensure that this practice is followed.

Finding #2. The home needs to improve controls over resident employee paychecks.

Response: The home implemented a new procedure February 1, 2002 for an independent review of resident payroll checks by business office staff.

Finding #3. The home incorrectly calculated its cost of care rate for fiscal years 2000, 2001, and 2002.

Response: Board Rules do not permit collection of the additional maintenance fees. The home and board office will more rigorously review the calculations in the future to minimize calculation errors.

Finding #4. The home did not collect accurate amounts of receipts from service contracts.

Response: The home will pursue resolution of the contracted charges and will work with the Attorney General as necessary. The home implemented new procedures on December 1, 2001 to verify the accuracy of meal counts used to calculate charges to Dakota County Receiving Center, to ensure it charges Fort Snelling National Cemetery for the correct resident and supervisor hours worked, and to ensure that timely billing and collection of rent from Dakota County Receiving Center occur.

Finding #5. The home needs to improve controls over meal ticket sales.

Response: The home implemented a new procedure on January 1, 2002 to monitor meal ticket sales and deposits.

Finding #6. The home needs to improve controls over its impress cash account.

Response: The home will request reimbursement for imprest cash on a daily basis. The home will consult with the Department of Finance in developing a procedure that appropriately controls the Gift Fund activities, anticipating completion by March 31, 2002. The home implemented a procedure for the resident therapist to return unused cash to the cashier. The home will reconcile the imprest cash account balance to its accounting records on a monthly basis.

Finding #7. The home did not transfer all interest earned on resident trust accounts to the Gift Fund account in a timely manner.

Response: The home has transferred the $2,528 interest earned to the Gift Fund account. Beginning in July 2001, Minnesota statutes were changed to require interest to be credited directly to the resident funds. This change has eliminated the need for this transfer in the future.

Finding #8. The home did not properly monitor receipts and expenditures recorded in its Gift Fund account.

Response: The home has completed correction of the identified coding errors. The procedure of reviewing the receipts and expenditures to ensure they are completely and accurately recorded has been assigned to business office staff.

Finding #9. The home needs to improve controls over its woodshop activity.

Response: The home has drafted a policy regarding the woodshop activity. The policy should be finalized by February 28, 2002.

Finding #10. The home did not consistently deposit receipts in a timely manner.

Response: The home is depositing receipts on a daily basis.

Finding #11. The home did not properly monitor recorded canteen receipts.

Response: The home will implement a new procedure on March 1, 2002 to monitor recorded canteen sales receipts.

Finding #12. The home did not timely record asset acquisitions or disposals in the fixed asset records.

Response: The home completed a review and update of the fixed asset records on January 31, 2002. The home will implement a new procedure on March 1,2002 to ensure timely asset record maintenance.

As always, the OLA staff who participated in this audit was highly competent and professional in all areas. We appreciate their assistance and the opportunity to respond to their findings.

Sincerely,

/s/ Charles Cox

Charles Cox
Administrator