

Financial-Related Audit

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**Minnesota Veterans Home -  
Luverne**  
**July 1, 1998, through June 30, 2001**



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## 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.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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If you have comments about our work, or you want to suggest an audit, investigation, evaluation, or best practices review, please contact us at 651-296-4708 or by e-mail at [auditor@state.mn.us](mailto:auditor@state.mn.us)



**OFFICE OF THE LEGISLATIVE AUDITOR**  
State of Minnesota • James Nobles, Legislative Auditor

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Legislative Audit Commission

Members of the Legislative Audit Commission

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

Members of the Minnesota Veterans Homes Board

Ms. Pamela Barrows, Administrator  
Minnesota Veterans Home - Luverne

We have audited the Minnesota Veterans Home - Luverne for the three years ended June 30, 2001. Our audit scope included: payroll, resident maintenance fees, federal per diem reimbursements, supplies and material purchases, professional and technical service contracts, resident trust accounts, and designated contributions. We discuss our audit objectives and conclusions more fully 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 also require that we design the audit to provide reasonable assurance that the Minnesota Veterans Home - Luverne complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. The management of the Minnesota Veterans Home - Luverne is responsible for establishing and maintaining the internal control structure and for 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 – Luverne, and members of the Minnesota Veterans Homes Board. This restriction is not intended to limit the distribution of this report, which was released as a public document on 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: April 25, 2002

Report Signed On: July 31, 2002

# Minnesota Veterans Home – Luverne

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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
Steven Johnson, CPA, CISA	Auditor-in-Charge
April Snyder	Senior Auditor
Ching-Huei Chen	Staff Auditor

### Exit Conference

We discussed the results of our audit with the following staff of the Minnesota Veterans Home - Luverne on April 11, 2002:

Pamela Barrows	Administrator
Anne Stegenga	Business Manager
Sandra Kelm	Personnel Officer
Susan Schneekloth	Accounting Technician
Mary Rust	Supply Officer
Rebecca Vanderpoel	Account Clerk

# Minnesota Veterans Home – Luverne

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## Report Summary

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### Overall Conclusions:

The Minnesota Veterans Home - Luverne (home) adequately safeguarded and accurately reported its revenues, including maintenance fees, federal per diem receipts, resident deposits, and donated gifts in the accounting system. 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 for designated purposes.

### Background

The Minnesota Veterans Home - Luverne was founded in 1993 and is one of five homes operating under the general direction of the Minnesota Veterans Homes Board. The home provides skilled nursing care for veterans and spouses who meet eligibility and admission requirements. It is a licensed care facility and is currently operating at a full capacity of 85 beds. Ms. Pamela Barrows is the current administrator and has been since the home's 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 - Luverne included cost of care, payroll, resident trust accounts, and Gift Fund activity.

## **Minnesota Veterans Home – Luverne**

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# Minnesota Veterans Home – Luverne

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## Chapter 1. Introduction

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The Minnesota Veterans Home - Luverne (home) was founded in 1993 and is one of five homes operating under the general direction of the Minnesota Veterans Homes Board. The home provides skilled nursing care for veterans and spouses who meet eligibility and admission requirements. It is a licensed care facility and is currently operating at a full capacity of 85 beds. Ms. Pamela Barrows is the current administrator and has been since the home's inception.

The Minnesota Veterans Homes Board receives a General Fund appropriation for the operation of the five homes. The board allocates and transfers a portion of the appropriation to each of the homes to fund their operations. The Luverne 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. The home records donations in a Gift Fund account and maintains an Agency Fund account for resident money. Table 1-1 shows the financial activity of the home for fiscal year 2001.

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**Table 1-1**  
**Financial Activity by Fund**  
**Fiscal Year 2001**

	Special Revenue Fund: <u>Operations</u>	Agency Fund: Resident Trust	Gift Fund: Estate and <u>Gift Donations</u>
Appropriation Allocation	\$3,223,000	\$ 0	\$ 0
Balance Forward In	452,939	10,662	58,955
Transfers In	0	0	759
Receipts	<u>2,634,536</u>	<u>48,955</u>	<u>65,866</u>
Total Amount Available	\$6,310,475	\$59,617	\$125,580
Expenditures	5,962,599	51,951	74,605
Transfers Out	<u>0</u>	<u>759</u>	<u>0</u>
Balance Forward Out	<u>\$ 347,876</u>	<u>\$ 6,907</u>	<u>\$ 50,975</u>

Note: The Gift Fund includes the Estates and Bequests Account.

Source: Minnesota Accounting and Procurement System (MAPS).

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## **Minnesota Veterans Home – Luverne**

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## Chapter 2. Cost of Care

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### *Chapter Conclusions*

*The Luverne Veterans Home accurately calculated its annual cost of care rates and assessed resident maintenance fees in compliance with applicable legal provisions. For the items tested, the home properly collected, safeguarded, deposited, and recorded maintenance fees and federal per diem receipts in the accounting records.*

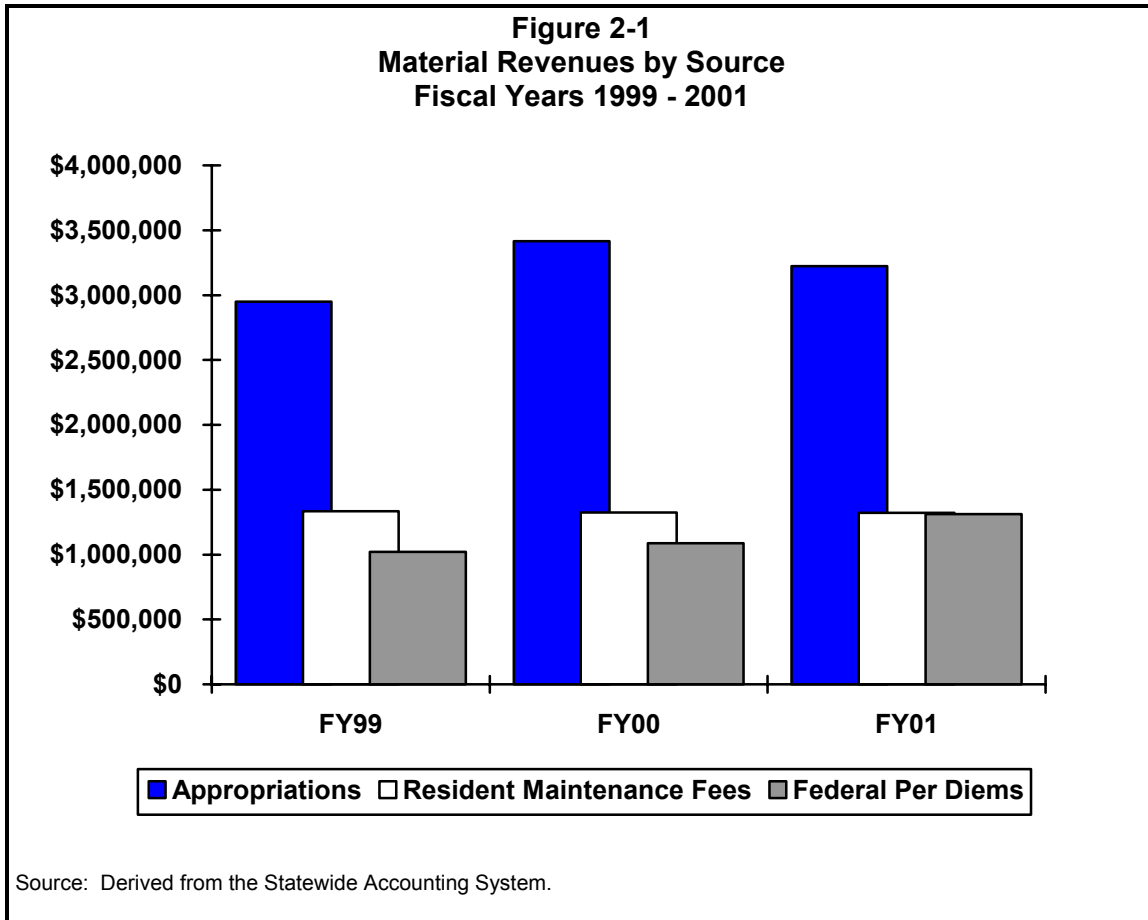
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Minn. Stat. Section 198.03, Subd. 2, requires the home to annually calculate its cost of care rate for residents. The daily cost of care rate represents the home's average daily per resident cost of providing care. For fiscal year 2001, the daily cost of care rate was \$171.35.

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 \$51.38. 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 covers the difference between the full cost of care and the amounts of federal per diems and maintenance fees collected.

Figure 2-1 shows the home's state appropriations, resident maintenance fees, and federal per diems collected in fiscal years 1999 to 2001.

## Minnesota Veterans Home – Luverne



### 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?
- For the items tested, 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 calculation for accuracy. We also tested resident fees 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 reviewed receipts to determine if the home adequately safeguarded and properly deposited and recorded those receipts in the accounting records.

## **Minnesota Veterans Home – Luverne**

### **Conclusions**

The home accurately calculated its annual cost of care rates and assessed resident maintenance fees in compliance with applicable legal provisions. For the items tested, the home properly collected, safeguarded, deposited, and recorded maintenance fees and federal per diem receipts in the accounting records.

## **Minnesota Veterans Home – Luverne**

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## Chapter 3. Payroll

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### *Chapter Conclusions*

*The Luverne Veterans 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. For the items tested, the home paid employees in compliance with material finance-related legal provisions and applicable bargaining unit agreements and compensation plans.*

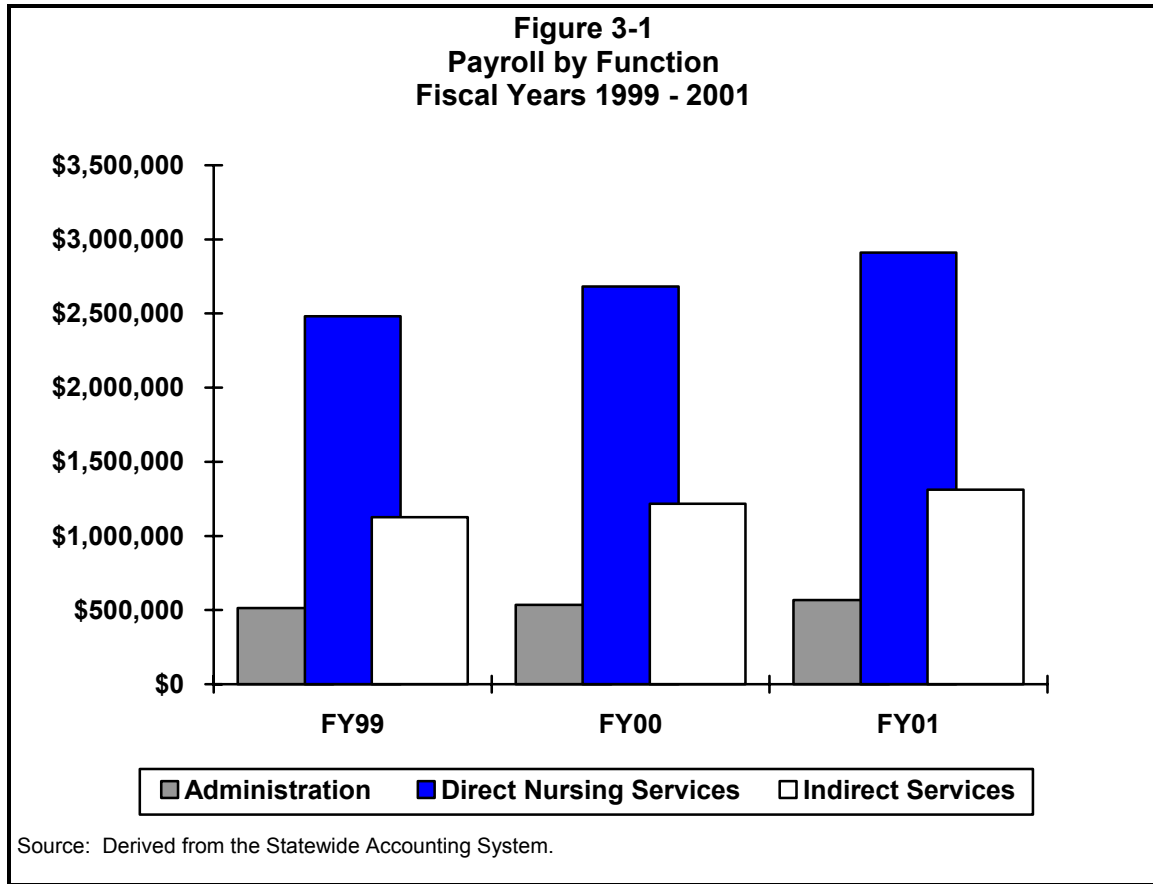
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The largest operational cost of the home is staff payroll. The home had payroll expenditures of approximately \$13.3 million during fiscal years 1999 to 2001, which comprised about 79 percent of the home's total expenditures. At full capacity the home has 157 employees, working three shifts to attend to the needs of its patients. 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
- Commissioner's Plan

Payroll costs were \$4,120,127 in fiscal year 1999, \$4,437,050 in fiscal year 2000, and \$4,790,752 in fiscal year 2001. Figure 3-1 shows the proportion of salaries in each fiscal year by functional area: administration, direct nursing services, and indirect services, such as pharmacy and dietary services.

## Minnesota Veterans Home – Luverne



### Audit Objectives and Methodology

Our audit of the home's payroll and employee reimbursement expenses focused on answering 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?
- For the items tested, 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 the 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.

## **Minnesota Veterans Home – Luverne**

### **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. For the items tested, the home paid employees in compliance with material finance-related legal provisions and applicable bargaining unit agreements and compensation plans.

## **Minnesota Veterans Home – Luverne**

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## Chapter 4. Resident Trust Accounts

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### *Chapter Conclusions*

*The Luverne Veterans Home’s internal controls provided reasonable assurance that resident funds were adequately safeguarded and that receipts and expenditures were authorized and accurately recorded in the accounting records. For the items tested, the home properly recorded resident receipts and expenditures in appropriate accounts in accordance with resident authorizations. In addition, the home properly transferred investment earnings to the Gift Fund during the audit period.*

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The residents of the Luverne Veterans Home may deposit personal funds with the home's business office and may 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 accounts of the individual resident balances. It has a small cash account on hand in the business office and has a local checking account used for larger withdrawals and to replenish the cash account. The home requests reimbursements of the checking account, as needed, from the funds on deposit with the state. Table 4-1 shows the financial activity of the resident trust accounts for fiscal years 1999 to 2001.

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**Table 4-1**  
**Resident Trust Account Financial Activity**  
**Fiscal Years 1999 - 2001**

	<u>1999</u>	<u>2000</u>	<u>2001</u>
Balance Forward In	\$15,942	\$ 8,903	\$10,662
Deposits	32,261	33,461	48,196
Interest Earned	706	744	759
Total Available	<u>\$48,909</u>	<u>\$43,108</u>	<u>\$59,617</u>
Withdrawals & Expenditures	39,300	31,700	51,951
Transfers Out <sup>(1)</sup>	<u>706</u>	<u>744</u>	<u>759</u>
Balance Forward Out	<u>\$ 8,903</u>	<u>\$10,662</u>	<u>\$ 6,907</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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# **Minnesota Veterans Home – Luverne**

## **Audit Objectives and Methodology**

Our audit of the home's resident trust fund accounts 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 authorized and accurately recorded in the accounting records?
- Did the home comply with material finance-related legal provisions 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 Gift Fund account

## **Conclusions**

The home's internal controls provided reasonable assurance that resident funds were adequately safeguarded and that receipts and expenditures were authorized and accurately recorded in the accounting records. For the items tested, the home properly recorded resident receipts and expenditures in appropriate accounts in accordance with resident authorizations. In addition, the home properly transferred investment earnings to the Gift Fund during the audit period.

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## Chapter 5. Designated Contributions

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### *Chapter Conclusions*

*The Luverne Veterans Home’s internal controls provided reasonable assurance that the designated contributions account activities were properly and accurately recorded in the state’s accounting system. For the items tested, the home’s internal controls provided reasonable assurance that expenditures were made in accordance with donor intentions.*

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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 Contribution account. The home keeps an electronic spreadsheet with separate account codes to record gifts and donations depending on the various purposes intended by donors. The home also established a Designated Contribution Committee to oversee gifts and donations and make decisions on the use of funds.

Table 5-1 summarizes the financial activity of the Designated Contribution Account for fiscal years 1999 to 2001.

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**Table 5-1**  
**Designated Contribution Account Activity**  
**Fiscal Years 1999 to 2001**

	<u>1999</u>	<u>2000</u>	<u>2001</u>
Balance Forward In	\$ 66,902	\$37,142	\$ 58,955
Gifts and Donations	46,634	53,133	61,486
Interest Earned	2,796	3,171	4,380
Transfers In <sup>(1)</sup>	706	744	759
Total Available	<u>\$117,038</u>	<u>\$94,190</u>	<u>\$125,580</u>
Expenditures	<u>79,896</u>	<u>35,235</u>	<u>74,605</u>
Balance Forward Out	<u>\$ 37,142</u>	<u>\$58,955</u>	<u>\$ 50,975</u>

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

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:

## **Minnesota Veterans Home – Luverne**

- 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 designated contributions account were made in accordance with donor intentions?

To answer these questions, we interviewed the home's employees to gain an understanding of the process related to the home's designated contribution activity. We tested 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 expenditures to determine if the home used gifts and donations for donor specified 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 and accurately recorded in the state's accounting system. For the items tested, the home's internal controls provided reasonable assurance that expenditures were made in accordance with donor intentions.

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## Chapter 6. Operational Expenditures

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### *Chapter Conclusions*

*The Luverne Veterans 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.*

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The Luverne Veterans Home is a skilled nursing facility. Its main operating costs are those required to maintain a skilled nursing staff and to provide residents with the food, medical care, and other services they require. The largest operational cost of the home is staff payroll, as discussed in Chapter 3. Other significant costs include supplies, materials, utilities, and technical and professional services.

Table 6-1 summarizes the total operating costs of the home during the period of our audit.

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**Table 6-1**  
**Operating Costs**  
**Fiscal Years 1999 - 2001**

<u>Expense Area</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Payroll	\$4,120,127	\$4,437,050	\$4,790,752
Supplies and Materials	567,393	577,516	666,763
Utilities / Maintenance	109,057	143,987	210,258
Professional and Technical Services	103,872	91,785	112,936
All Other	<u>365,607</u>	<u>261,771</u>	<u>308,446</u>
Totals	<u>\$5,266,056</u>	<u>\$5,512,109</u>	<u>\$6,089,155</u>

Source: Derived from the Statewide Accounting System.

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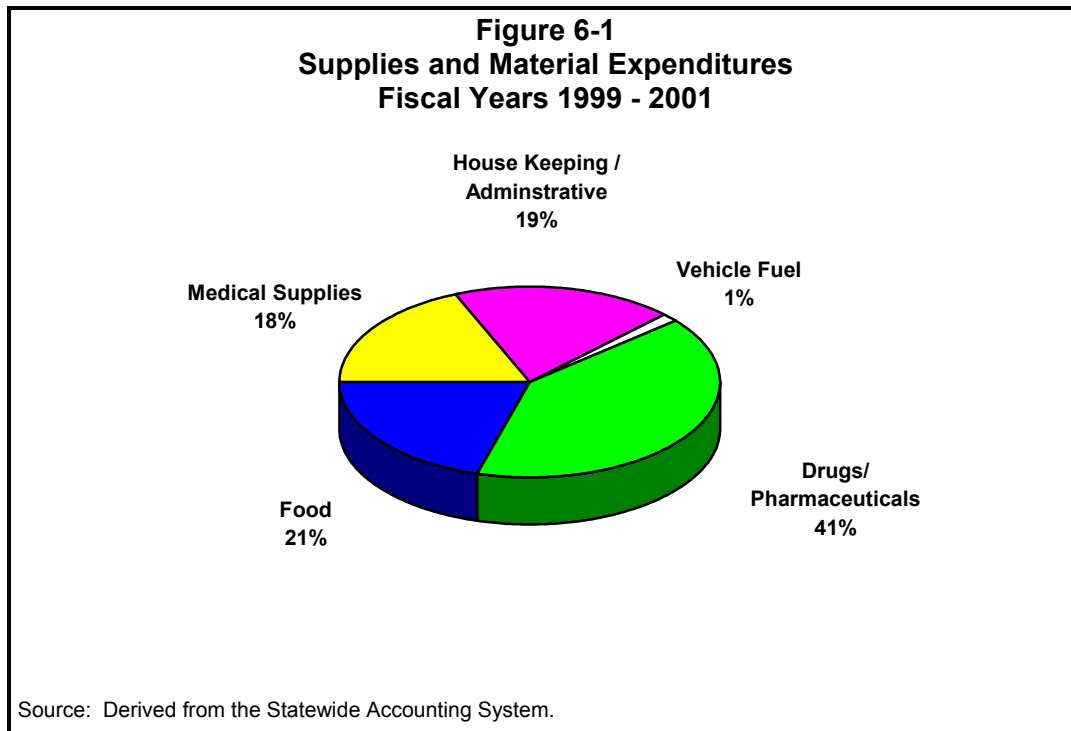
### **Supply and Material Purchases**

The home purchases supplies, materials, and parts from vendors across the country. Supplies and materials includes drugs and pharmaceuticals, food, medical, housekeeping and administrative supplies, and fuel. During the audit period, the home spent approximately \$1.8 million for supplies and materials. The Minnesota Department of Administration has established purchasing policies and procedures that direct how state agencies perform purchasing functions. Most purchases are for standard items that the home can obtain either through state or federal government contracts. For other items, policies require agencies to solicit bids from vendors

## Minnesota Veterans Home – Luverne

registered with the state. Bidding procedures vary depending on the amount of the purchase and the nature of the item purchased.

Figure 6-1 shows supply and material expenditure categories for fiscal years 1999, 2000, and 2001.



### Utilities/Maintenance

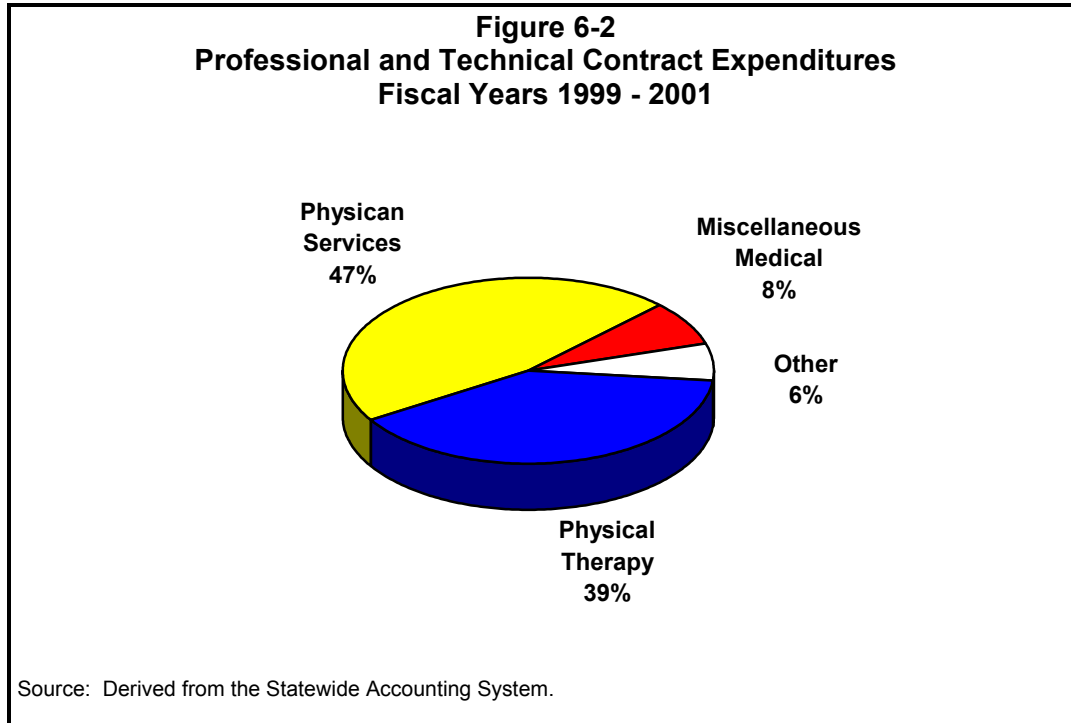
The home's utility and building maintenance expenditures of \$463,302 for the three fiscal years ending 2001 consisted primarily of expenditures to the city of Luverne for water and electricity and to a private vendor for heating.

### Professional and Technical Services

During the audit period, the home spent \$308,593 for professional and technical services. The majority of the expenditures were with contracted hospitals, physicians, and rehabilitation centers to provide medical services to the home's residents. The services are coordinated with the home's medical staff. At the end of each day's service, an invoice is completed and authorized by the director of nursing. The invoice is then forwarded to the business office for payment. The business office compares the invoice to the contract to verify charges prior to making the payment.

## Minnesota Veterans Home – Luverne

Figure 6-2 shows the categories of expenditures for professional and technical services:



### Audit Objectives and Methodology

Our audit of the home's selected 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 finance-related legal provisions?

To answer these questions, we interviewed the home's staff to gain an understanding of the controls in place over the processing and recording of operational expenditure transactions. We reviewed the home's policies and procedures in each area. We reviewed a sample of expenditure transactions in each area to determine if the home properly authorized, processed, and recorded the transactions. We also reviewed expenditures to determine if the home complied with finance-related legal provisions.

### 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.

## **Minnesota Veterans Home – Luverne**

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**Status of Prior Audit Issues  
As of April 25, 2002**

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**Legislative Audit Report 96-28**, issued in July 1996, covered the three fiscal years ending June 30, 1995. The audit scope included resident maintenance fees, federal per diem reimbursements, payroll, resident trust accounts, supplies and material purchases, fixed asset purchases, and designated contribution receipts and disbursements. There were no audit issues contained in the audit report.