OLA

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

Minnesota Veterans Home - Hastings

July 1, 2001, through June 30, 2004

September 14, 2005 **05-50**

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.

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

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If you have comments about our work, or you want to suggest an audit, investigation, or evaluation, please contact us at 651-296-4708 or by e-mail at auditor@state.mn.us

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

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. Frank W. Budd, Chairman
Minnesota Veterans Homes Board

Members of the Minnesota Veterans Homes Board

Mr. Charles Cox, Administrator
Minnesota Veterans Home – Hastings

We have audited selected areas of the Minnesota Veterans Home – Hastings for the period July 1, 2001, through June 30, 2004. Our audit scope included: cost of care receipts, payroll expenditures (including resident payroll), resident trust accounts, lease and shared services receipts, and gift fund activity. Our objectives focused on a review of the home's internal controls over these financial activities and its compliance with applicable legal provisions.

The enclosed Report Summary highlights our overall audit conclusions. The specific audit objectives and conclusions for each area are contained in the individual chapters of this report.

We would like to thank staff from the Minnesota Veterans Home – Hastings for their cooperation during this audit.

/s/ James R. Nobles	*/s/ Claudia J. Gudvangen*
James R. Nobles Legislative Auditor	Claudia J. Gudvangen, CPA Deputy Legislative Auditor

End of Fieldwork: May 9, 2005

Report Signed On: September 8, 2005

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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
Pat Ryan	Auditor
Stacey Anderson	Auditor

Exit Conference

We discussed the results of the audit with the following representatives of the Minnesota Veterans Homes Board and the Minnesota Veterans Home – Hastings at an exit conference on August 30, 2005:

<u>Minnesota Veterans Home – Hastings:</u>

Charles Cox	Administrator
Mark Kryzer	Business Manager
Kim Lechner	Management Analyst

<u>Minnesota Veterans Homes Board Office:</u>

Doug Rickabaugh	Financial Management Director

Report Summary

Overall Conclusion:

Except as discussed in the three findings included in this report, the Minnesota Veterans Home – Hastings' internal controls were adequate, and the home complied with material finance-related legal provisions.

Findings:

- The home overpaid two employees for retroactive salary increases. (Finding 1, page 6)
- The home did not record some local checking account activity in the accounting records. (Finding 2, page 10)
- The home established an unauthorized imprest cash account used primarily for resident activities. (Finding 3, page 14)

The report contained three findings related to internal control and legal compliance. The home fully resolved eight and partially resolved one prior audit findings.

Audit Scope:

Audit Period:
July 1, 2001, to June 30, 2004

Programs Audited:

- Payroll
- Cost of Care
- Resident Trust Accounts
- Lease and Service Contract Receipts
- Gift Fund Activity

Agency Background:

The Minnesota Veterans Home – Hastings operates as a domiciliary residence for eligible veterans. The home has a capacity of 199 residents at its campus and another six residents in a transitional house it owns in the city of Hastings.

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Chapter 1. Introduction

The Office of the Legislative Auditor selected the Minnesota Veterans Home – Hastings (home) for audit based on an annual assessment of state agencies and programs. We used various criteria to determine the entities to audit, including the size and type of each agency's financial operations, length of time since the last audit, changes in organizational structure and key personnel, and available audit resources. It had been three years since our last audit of the home.

Agency Overview

The home has operated as a domiciliary residence for veterans since 1978. The home now provides 199 domiciliary beds to veterans that meet eligibility and admission requirements. The home also owns and operates a house in Hastings to provide transitional housing for up to six qualified veterans. The home began operating the transitional house in August 2001.

The home is one of five facilities operating in Minnesota under the jurisdiction of the Minnesota Veterans Homes Board. The other veterans homes are located in Minneapolis, Silver Bay, Luverne, and Fergus Falls. The home's daily management is the responsibility of its administrator. In November 2000, the Minnesota Veterans Homes Board appointed Mr. Charles Cox as the home's administrator. Mr. Cox also served as the interim administrator from March to July 2000.

The Minnesota Veterans Homes Board received General Fund appropriations for the operation of the five homes. The board allocated and transferred a portion of the appropriation to each home to fund its operations. The Hastings home maintained its operating account in the Special Revenue Fund. To fund the remainder of its operations, the home collected federal per diem and resident maintenance payments, receipts from leased property and service contracts, and resident rent and federal receipts for the transitional house. In addition, the home maintained two separate accounts in the Miscellaneous Agency Fund: one to operate a canteen for residents and one to maintain resident trust accounts. Finally, the home maintained an account in the Gift Fund for designated contributions from donors.

Table 1-1 shows the financial activity of the home by fund for fiscal year 2004.

Table 1-1
Financial Activity by Fund
Fiscal Year 2004

	Special Revenue Fund	Federal Fund	Miscellaneous Agency Fund	Gift Fund
Appropriation Allocation	$3,259,016	$ 0	$ 0	$ 0
Balance Forward In	476,773	0	71,564	113,181
Transfers In (Note 1)	0	0	0	45,000
Receipts	3,430,373	42,473	686,586	124,175
Total Sources	$7,166,162	$42,473	$758,150	$282,356
Expenditures	$6,604,418	$35,805	$672,817	$214,505
Transfers Out (Note 1)	0	0	45,000	0
Balance Forward Out	561,744	6,668	40,333	67,851
Total Uses	$7,166,162	$42,473	$758,150	$282,356

Note 1: Profits from canteen operations in the agency fund were transferred to the gift fund for resident activities.

Source: Minnesota Accounting and Procurement System.

Audit Approach

Our audit was conducted in accordance with *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of the home's internal controls relevant to the audit objectives. We used the guidance contained in *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission, as our criteria to evaluate the homes controls. The standards also require that we plan the audit to provide reasonable assurance that the home complied with financial-related legal provisions that are significant to the audit. In determining the home's compliance with legal provisions, we considered requirements of laws, regulations, contracts, and grant agreements.

To meet the audit objectives, we gained an understanding of the home's financial policies and procedures. We considered the risk of misstatements in the accounting records and noncompliance with relevant legal provisions. We analyzed accounting data to identify unusual trends or significant changes in financial operations. We examined a sample of evidence supporting the home's internal controls and compliance with laws, regulations, contracts, and grant provisions.

Chapter 2. Payroll

Chapter Conclusions

The Minnesota Veterans Home - Hastings' internal controls provided reasonable assurance that payroll expenditures were properly authorized and processed in compliance with applicable legal provisions and management's authorization and were accurately recorded in the accounting records.

For the items tested, except for the two overpayments described in Finding 1, the home paid employees and residents in compliance with material finance-related legal provisions and applicable bargaining unit agreements.

Audit Objective

The primary objective of our audit of payroll expenditures was to answer the following questions:

- Did the home's internal controls provide reasonable assurance that payroll expenditures were properly authorized, processed in compliance with applicable legal provisions and management's authorization, and accurately recorded in the accounting records?

- For the items tested, did the home pay employees and residents in compliance with material finance-related legal provisions and applicable bargaining unit agreements?

Background

The home had payroll expenditures of approximately $14.5 million during fiscal years 2002 to 2004, which comprised about 65 percent of its total expenditures. Payroll expenditures included full-time, part-time, premium, overtime, and seasonal pay and other benefits. The home employs approximately 100 full and part-time employees, with staff on hand 24 hours a day, seven days a week. Employees belong to various bargaining units and compensation plans, including the American Federation of State, County, and Municipal Employees, Middle Management Association, Minnesota Association of Professional Employees, Minnesota Nurses Association, Managerial Plan, and Commissioner's Plan. In addition, the home employs about 70 residents in its resident employment program. Participating residents work part-time, performing various duties at the home.

Minnesota Veterans Home - Hastings

Current Finding and Recommendations

1. The home overpaid two employees for retroactive salary increases.

The home overpaid one employee $445 and another $208 for retroactive salary increases. The first employee received a large retroactive payment as compensation for multiple pay rate increases the employee had been entitled to but did not receive. The home accurately calculated total retroactive pay of $4,059 owed to the employee for the missed rate increases, but did not reduce that amount by $445 in retroactive pay that it had already paid the employee. The other employee received retroactive pay for a pay rate increase granted in May 2004 that was retroactively effective January 2004. However, the home included an extra pay period in the retroactive period it used to calculate the retroactive pay owed.

Recommendations

- *The home should recover the overpayments from each employee.*
- *The home should establish procedures to ensure it accurately calculates and pays retroactive payments.*

Chapter 3. Cost of Care

Chapter Conclusions

The Minnesota Veterans Home - Hastings accurately calculated the 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.

Audit Objective

The primary objective or our audit of cost of care was to answer 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?

Background

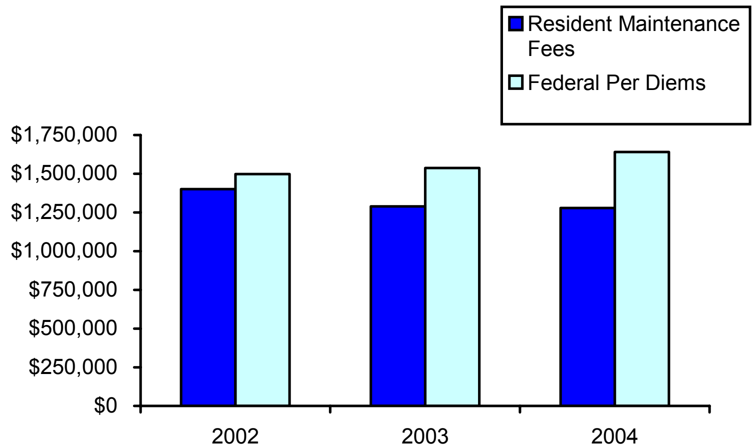
Minnesota Statutes, Section 198.03, subd. 2, requires the home to annually calculate its cost of care rate for residents. The daily cost of care rate represents the home's average daily cost per resident of providing care. For fiscal year 2004, the daily cost of care rate was $91.21.

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 pays a per diem to the home. For federal fiscal year 2004, the per diem rate was $26.95. Residents also pay a portion of the cost of care based on their financial position. 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 amount of federal per diem and maintenance fees collected.

Minnesota Veterans Home - Hastings

Figure 3-1 shows the resident maintenance fees and federal per diems collected in fiscal years 2002 to 2004.

Figure 3-1
Resident Maintenance Fees and Federal Per Diems
Fiscal Years 2002 to 2004



Source: Minnesota Accounting and Procurement System.

There were no findings in the cost of care area.

Chapter 4. Resident Trust Accounts

Chapter Conclusions

The Minnesota Veterans Home - Hastings adequately safeguarded and properly processed and recorded deposits and withdrawals for resident accounts and complied with applicable legal provisions over its resident trust accounts.

However, the home did not record certain activity for the local checking account used for its resident trust imprest cash account in the accounting records.

Audit Objective

The primary objective of our audit of the resident trust accounts was to answer the following questions:

- Did the home adequately safeguard deposits to resident trust accounts and properly process the receipts and record them 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?

Background

The home maintains trust accounts for each resident and records account activity in its Long Term Care System. Residents deposit personal cash and checks into their accounts through the cashier, and the home directly deposits payroll earnings into the account from its resident employment program. Residents can withdraw money from their accounts on demand, either by requesting cash from the cashier or by authorizing the cashier to disburse a check from their account to an external party.

The home retains $20,000 of the total resident trust account balance in an imprest cash account for resident withdrawals, and the remaining balance is held in the state treasury, where it deposits all resident deposits. The home keeps a portion of the imprest cash in a petty cash drawer in the cashier's office and the balance in a local checking account. Each day the home reimburses the imprest cash account from its state treasury account for amounts withdrawn. Both the resident trust state treasury account and the local checking account earn interest. After a law change effective for fiscal year 2002, the home now allocates the interest earned on the balance in the resident trust state treasury account proportionally to resident accounts based on the average daily balance of each resident account. The home retains the nominal interest earned by the local checking account and uses it to offset the costs of maintaining the account, such as the purchase of new checks.

Table 4-1 shows the financial activity of the resident trust accounts for fiscal years 2002 to 2004.

Table 4-1
Resident Trust Account Financial Activity
Fiscal Years 2002 to 2004

	2002	2003	2004
Balance Forward In	$ 24,748	$ 18,767	$ 26,245
Deposits	493,212	537,513	541,615
Interest Earned	901	670	310
Total Available	$518,861	$556,950	$568,170
Withdrawals and Expenditures	497,566	530,705	543,702
Transfers Out (1)	2,528	0	0
Balance Forward Out	$ 18,767	$ 26,245	$ 24,468

Note (1) The transfers out transferred interest earned prior to fiscal year 2002 to the home's Gift Fund account.

Source: Minnesota Accounting and Procurement System (MAPS).

Current Finding and Recommendation

2. The home did not record some local checking account activity in the accounting records.

The accounting records did not include monthly interest earnings on the local checking account balance, occasional service charges to the account, and voided checks written from the account. Although the home identified the unrecorded activity as part of its monthly bank reconciliations, it did not record that activity in the accounting records. As of March 2005, the unrecorded activity caused the account balance in the accounting records to be understated by about $622. The home reimbursed the imprest cash account from its resident trust state treasury account daily to restore the balance in the imprest cash account to the $20,000 limit authorized by the Department of Finance. Since the home determined the reimbursement amount to the imprest cash account based on the recorded activity, the unrecorded activity caused the balance of the imprest cash account to exceed the authorized limit.

Recommendation

- *The home should record all activity in the accounting records for the local checking account used for its resident trust imprest cash account. The home should establish procedures to ensure that the balance in the imprest cash account does not exceed the $20,000 authorized limit.*

Chapter 5. Lease and Service Contract Receipts

Chapter Conclusions

The home collected lease and service contract receipts in accordance with established agreements and collected the proper amounts for meal ticket sales. The home adequately safeguarded lease and service contract receipts and properly deposited and recorded those receipts in the accounting records.

Audit Objective

The primary objective or our audit of lease and service contract receipts was to answer the following questions:

- Did the home collect lease and service contract 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 service contract receipts and properly deposit and record those receipts in the accounting records?

Background

During fiscal years 2002 to 2004, the home collected approximately $1.5 million in lease and service 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 service contract with DCRC to provide meals to DCRC residents. The home also sells meal tickets for its cafeteria to staff and visitors. Other leases or service contracts include:

- A service contract with the Minnesota Department of Transportation (Mn/DOT) to provide utility services to Mn/DOT's South Region Station located in Hastings.
- A lease with the Metropolitan Radio Board for a radio tower on the home's campus.
- A lease with the United States Coast Guard for a radio antenna on one of the home's buildings.
- A lease with the Mendota Mdewakanton Dakota Community to allow an annual Pow Wow on the home's campus.
- A service contract with the Fort Snelling National Cemetery to provide a crew of the home's residents to perform on-site grounds maintenance work and related services at the cemetery.

There were no findings in the lease and service contract area.

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Chapter 6. Gift Fund Activity

Chapter Conclusions

The Minnesota Veterans Home - Hastings adequately safeguarded and properly deposited and recorded gifts and donations and used the funds for appropriate purposes. In addition, the home properly recorded gift and donation receipts and expenditures in the accounting records.

However, the home established an unauthorized imprest cash account for resident activities.

Audit Objective

The primary objective of our audit of the Gift Fund activity was to answer the following questions:

- Did the home adequately safeguard gifts and donations and properly deposit and record receipts and expenditures in the accounting records?

- Did the home spend gifts and donations in accordance with donor intentions?

Background

Minnesota Statutes, Section 198.16, authorizes the home to accept gifts and donations and to use the assets as directed by the donor. The home maintains monetary gifts and donations in its Gift Fund account in the state treasury. 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 the assets.

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 2002 to 2004

	2002	2003	2004
Balance Forward In	$195,641	$ 196,634	$113,181
Gifts and Donations (1)	125,866	162,258	122,632
Interest Earned	10,233	4,503	1,543
Transfers In (2)	2,528	7,817	45,000
Total Available	$334,268	$371,212	$282,356
Expenditures (1)	137,634	258,031	214,505
Balance Forward Out	$ 196,634	$113,181	$67,851

Note (1) These totals included receipts of $95,774 and expenditures of $99,758 for the home's woodshop operation, which we did not audit. The home established a separate Miscellaneous Agency Fund account for the woodshop operation beginning in fiscal year 2005.

Note (2) The transfer in during fiscal year 2002 was from the home's resident trust account, and the transfers in during fiscal years 2003 and 2004 were from the home's canteen account.

Source: Minnesota Accounting and Procurement System (MAPS).

Current Finding and Recommendations

3. Prior Finding Partially Resolved: The home established an unauthorized imprest cash account used primarily for resident activities.

The home established an imprest cash account, without formal authorization from the Department of Finance (DOF), to provide cash from its Gift Fund treasury account for various resident activities. *Minnesota Statutes,* Section 15.191, and DOF policy 0608-01 requires agencies to obtain approval from DOF to establish imprest cash accounts. As of April 2005, the home had $3,107 in the unauthorized imprest cash account.

In addition, the home processed cash requests for resident activities directly from its Gift Fund treasury account instead of its imprest cash account. As a result, DOF guidelines were not followed, and the home had to process and record more transactions in the accounting records. Currently, when staff request cash for resident activities, such as golf or fishing, the home disburses funds from the Gift Fund treasury account to the local checking account. The local checking account is then used to disburse the cash to staff to pay for the activity. After the activity, staff provided receipts for the cash spent on the activity and any remaining cash to the cashier, who deposited the cash back into the treasury account. DOF guidelines provide that cash requests for resident activities should be processed from the imprest cash account. After the activity, staff should provide receipts for the cash spent and return the remaining cash to the cashier. The Gift Fund treasury account should then reimburse the local account for the cost of the resident activity. This would replenish the account to its authorized limit.

Finally, the home did not reconcile the local bank account to the accounting records. Although the home performed a few monthly reconciliations during calendar year 2002, it had not performed reconciliations from calendar year 2003 through April 2005. Monthly bank reconciliations are important to ensure the accuracy of the accounting records and to ensure that all cash is accounted for.

Recommendations

- *The home should seek to obtain formal authorization from the Department of Finance for its imprest cash account for resident activities.*
- *The home should establish procedures to process cash requests for resident activities in accordance with Department of Finance guidelines.*
- *The home should perform monthly bank reconciliations for the local bank account used for the imprest cash account for resident activities.*

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Status of Prior Audit Issues
As of May 9, 2005

Legislative Audit Report 02-10, issued in February 2002, covered the four fiscal years ending June 30, 2001. The audit scope included payroll, cost of care, resident trust accounts, lease and service contract receipts, Gift Fund activity, canteen operations, and fixed assets. The report contained 12 audit findings. One of the findings included several recommendations, one of which involved procedures to process cash requests for resident activities. While we found that the home adequately resolved the other recommendations in the finding, it did not resolve the issue regarding cash requests, which is repeated in Finding 3 in this report. We found that the home adequately resolved eight other findings related to audit areas included in the scope of this audit. We did not review the status of three findings that related to areas not included in the audit scope for this audit.

State of Minnesota Audit Follow-Up Process

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

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September 2, 2005

Mr. James Nobles
Legislative Auditor
Office of the Legislative Auditor
658 Cedar Street
St. Paul, MN 55155-1603

Dear Mr. Nobles,

I have received and reviewed the draft audit report for the period July 1, 2001 through June 30, 2004, for the Minnesota Veterans Home – Hastings. I welcome the opportunity to respond to the three findings detailed in this report.

Finding #1 The Home overpaid two employees for retroactive salary increases.

Response:
- The two overpayments to staff identified in the report involve a current employee, and a former employee. The current employee is in the process of repayment. The facility has made contact with the former employee in an attempt to make repayment arrangements.
- The overpayment to the current employee was partially caused by a coding error that has since been removed from the electronic time keeping system.
- The facility will make salary adjustments timely to avoid retroactive payments to employees.

Finding #2 The Home did not record some local checking account activity in the accounting records.

Response:
- The facility reviewed the resident trust imprest cash account, and monthly bank reconciliation. Necessary corrections have been made to bring the account into compliance.
- The policy and procedure has been updated to reflect this change in practice.

Finding #3 The Home established an unauthorized imprest cash account, which was used primarily for resident activities.

Response:

- The facility has received formal authorization from the Department of Finance for the imprest cash account for resident activities.
- The facility has tightened the procedure for processing and reconciliation of cash requests for resident activities.
- The facility reviewed the imprest cash account and monthly bank reconciliation. Necessary corrections have been made to bring the account into compliance.
- The policy and procedure has been updated to reflect this change in practice.

I appreciate the time and effort given by your audit team to produce this report. I also want to thank you and your audit team for the professional manner in which the audit and exit conference was conducted.

Sincerely,

/s/ Charles Cox

Charles Cox
Administrator

Enc.

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