



**OFFICE OF THE LEGISLATIVE AUDITOR**  
STATE OF MINNESOTA

Financial Audit Division Report

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**Minnesota Veterans Home – Silver Bay**  
**July 1, 2003, through June 30, 2006**



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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 forty 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.

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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## 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

Mr. Jeff Johnson, Chairman  
Minnesota Veterans Homes Board

Members of the Minnesota Veterans Homes Board

Mr. Michael Bond, Administrator  
Minnesota Veterans Home – Silver Bay

We have audited selected areas of the Minnesota Veterans Home – Silver Bay for the period July 1, 2003, through June 30, 2006. Our audit scope included cost of care receipts, payroll expenditures, resident trust accounts, gift fund activity, and purchasing and administrative expenditures. 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 – Silver Bay for their cooperation during this audit.

*/s/ James R. Nobles*

James R. Nobles  
Legislative Auditor

*/s/ Cecile M. Ferkul*

Cecile M. Ferkul, CPA, CISA  
Deputy Legislative Auditor

End of Fieldwork: June 30, 2006

Report Signed On: November 16, 2006

# Minnesota Veterans Home – Silver Bay

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### Audit Participation

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

Cecile Ferkul, CPA, CISA	Deputy Legislative Auditor
Thomas Donahue, CPA	Audit Manager
Michael Hassing, CPA, CISA	Auditor-in-Charge
Scott Tjomsland, CPA	Auditor
David Westlund	Auditor

### Exit Conference

We discussed the results of the audit with the following representatives of the Minnesota Veterans Home Board Office and the Minnesota Veterans Home – Silver Bay at an exit conference on October 30, 2006:

#### Minnesota Veterans Homes Board Office:

Charles Cox	Acting Executive Director
Doug Rickabaugh	Financial Management Director

#### Minnesota Veterans Home – Silver Bay:

Michael Bond	Administrator
Daniel McNamee	Business Manager

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## Report Summary

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### Key Findings:

The Minnesota Veterans Home – Silver Bay (Home) did not reconcile recorded resident cost of care payments with actual receipts collected and deposited. (Finding 1, page 6)

The Home did not pursue the collection of delinquent receivable balances from former residents. (Finding 2, page 7)

The Home did not adequately segregate incompatible duties in the area of resident accounts. (Finding 3, page 10)

The Home did not always promptly deposit gift receipts. (Finding 4, page 12)

The Home did not reconcile gift receipts recorded on its internal accounting system with the state's accounting system. (Finding 5, page 12)

The report contained six findings related to internal control and legal compliance.
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### Audit Scope:

#### Audit Period:

July 1, 2003 to June 30, 2006

#### Programs Audited:

- Cost of Care
  - Resident Trust Accounts
  - Gift Fund Activity
  - Payroll
  - Purchasing and Administrative Expenditures
- 

### Agency Background:

The Minnesota Veterans Home – Silver Bay operates as a skilled nursing care facility for eligible veterans. The Home has a capacity of 87 residents. The Home had available operating resources of \$7.7 million during fiscal year 2006 and spent \$7.1 million.

## **Minnesota Veterans Home – Silver Bay**

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## Chapter 1. Introduction

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The Office of the Legislative Auditor selected the Minnesota Veterans Home – Silver Bay (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 nine years since our last audit of the Home.

### Agency Overview

The Minnesota Veterans Home – Silver Bay has operated as a skilled nursing care facility for veterans and spouses since October 1991. The Home provides 87 beds to veterans that meet eligibility and admission requirements, including a 25-bed unit for patients with dementia and Alzheimer's disease.

The Silver Bay Veterans Home is one of five homes operating in Minnesota under the jurisdiction of the Minnesota Veterans Homes Board. The other homes are located in Minneapolis, Hastings, Luverne, and Fergus Falls. Each home is managed by an administrator. Mr. Michael Bond has been the administrator of the Silver Bay Veterans Home since March 2003.

The Minnesota Veterans Homes Board receives General Fund appropriations for the operation of the veterans homes. The board allocates and transfers the appropriations to Silver Bay and the other homes to fund a portion of their operations. To fund the remainder of its operations, the Home receives a federal per diem for each veteran and charges a resident maintenance fee based on the veterans' ability to pay. In addition, the Home maintains resident trust accounts and a gift account for designated contributions from donors.

Table 1-1 shows the financial activity of the Home by account for fiscal year 2006.

## Minnesota Veterans Home – Silver Bay

**Table 1-1**  
**Financial Activity by Account**  
**Fiscal Year 2006**

	Operating Account	Resident Account	Gift Account
Appropriation Allocation	\$3,954,833	\$ 0	\$ 0
Balance From FY 2005	503,961	15,245	72,793
Receipts	3,279,899	63,551	70,213
Total Sources	<u>\$7,738,693</u>	<u>\$78,796</u>	<u>\$143,006</u>
Expenditures	\$7,148,678	\$70,716	\$ 54,166
Transfers Out <sup>Note 1</sup>	300,000	0	0
Balance To FY 2007	290,015	8,080	88,840
Total Uses	<u>\$7,738,693</u>	<u>\$78,796</u>	<u>\$143,006</u>

Note 1: The Minnesota Veterans Homes Board transferred various amounts from all the homes to help meet increased staffing needs at the Minneapolis Veteran's Home.

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,<sup>1</sup> as our criteria to evaluate agency 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 errors 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 documents supporting the Home's internal controls and compliance with laws, regulations, contracts, and grant provisions.

<sup>1</sup> The Treadway Commission and its Committee of Sponsoring Organizations (COSO) were established in the mid-1980s by the major national associations of accountants. One of the primary tasks was to identify the components of "internal control" that organizations should have in place to prevent inappropriate financial activity.



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## Chapter 2. Cost of Care

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### *Chapter Conclusions*

*The Minnesota Veterans Home – Silver Bay accurately calculated the annual cost of care rates and properly collected, safeguarded, deposited, and recorded maintenance fees and federal per diem receipts in the accounting records.*

*The Home did not, however, reconcile maintenance fee receipts posted to resident receivable accounts to actual amounts received. In addition, the Home did not adequately pursue the collection of delinquent accounts of former residents.*

*For the items tested, the Home assessed resident maintenance fees in compliance with applicable legal provisions.*

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### **Audit Objectives**

The primary objectives of our audit of cost of care were to address 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*, 2005, 198.03, subd. 2, requires the Home to annually calculate its cost of care rate for residents. The daily cost of care rate is the Home's average daily per resident cost of providing care. For fiscal year 2006, the Home's daily cost of care rate was \$247.62.

The United States Department of Veterans Affairs pays a portion of the cost of care for residents through per diem reimbursements to the Home. For federal fiscal year 2006, the federal government's per diem reimbursement rate was \$63.40. Residents also pay a portion of the cost of care based on their ability to pay. The Home's operating appropriation covers the difference between the full cost of care and the amount of federal per diem reimbursement and residents' cost of care payments.

Figure 2-1 shows the resident maintenance fees and federal per diems collected in fiscal years 2004 to 2006.

## Minnesota Veterans Home – Silver Bay

**Figure 2-1**  
**Resident Maintenance Fees and Federal Per Diems**  
**Fiscal Years 2004 to 2006**



Source: Minnesota Accounting and Procurement System.

### Current Findings and Recommendations

**1. The Home did not reconcile recorded resident cost of care receipts with actual receipts collected and deposited.**

The Home did not perform an independent reconciliation of maintenance fee receipts posted to the resident receivable accounting system to actual maintenance fee receipts collected and deposited. The Home maintains an accounts receivable subsystem to account for those residents that are responsible for a portion of their cost of care. The Home manually posts these maintenance fee receipts to the appropriate resident accounts in the subsystem and deposits the fees.

Although separate employees normally deposit the fees and post the receipts to resident receivable accounts, the employee responsible for posting receipts also had access to the receipts and occasionally performed both functions. To the extent possible, the handling of cash and the record keeping functions should be kept separate. In addition, a reconciliation between the maintenance fee receipts taken in and deposited and the receipts posted to the individual resident accounts should be performed by an individual not having any responsibility for either the deposit or the posting to the resident accounts. That important reconciliation was never done during the audit period. Without an independent reconciliation, errors or irregularities could occur without detection.

In addition, we have identified the separation of duties issue more fully within Finding 3, presented in Chapter 3, concerning the resident trust accounts.

## Minnesota Veterans Home – Silver Bay

### *Recommendation*

- *The Home should periodically perform a reconciliation of maintenance fee receipts posted to resident receivable accounts to actual receipts recorded on the state's accounting system. This reconciliation should be performed by someone independent of the depositing and recording functions.*

### **2. The Home did not adequately pursue the collection of receivable balances of four former residents.**

The Home did not adequately pursue the collection of delinquent accounts of four of its former residents. In addition, the Home did not assess any interest charges to those accounts. As of May 31, 2006, the Home's accounts receivable aging report showed five residents that had balances outstanding for more than 90 days totaling \$124,764. One of those delinquent accounts, (amounting to \$4,171) belonged to a current resident, and the Home has appropriately established a repayment plan. Although the Home established repayment agreements for two of its former residents, it had not collected any payments for those accounts since April 2005 and September 2005, respectively. The Home sent a letter in September 2003 to an attorney representing the third account, but did not receive a response. On the final account, the Home did not document any collection efforts since it discharged the resident in August 2004.

The Home did not refer any of the four delinquent accounts to the Minnesota Department of Revenue's Collection Division for collection, as specified in *Minnesota Statutes* 2005, 16D.04 subd. 2(b), that were over 121 days past due. In addition, *Minnesota Rules* Chapter 9050.0520 provides that the Home must charge interest to the delinquent accounts if the resident willfully fails to pay the bill by its due date. Timely collection efforts and referrals to the Department of Revenue are important because the chance of collecting delinquent balances decreases over time.

Except for the four former resident accounts discussed above, the Home is current with its billings and collections. The Home may want to consider establishing a process for writing off delinquent accounts of former residents as prescribed in *Minnesota Statutes* 2005, 16D.09.

### *Recommendation*

- *The Home should pursue the collection of delinquent resident account balances of former residents in accordance with Minnesota Statutes 2005, 16D.04, subd.2 (b). In addition, the Home should charge interest to delinquent accounts as outlined in Minnesota Rules, Chapter 9050.0520.*

## **Minnesota Veterans Home – Silver Bay**

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## Chapter 3. Resident Trust Accounts

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### *Chapter Conclusions*

*Minnesota Veterans Home – Silver Bay promptly deposited receipts, recorded all receipts and withdrawals in the resident account system, and reconciled the local bank account. However, the Home did not adequately safeguard resident receipts since it did not sufficiently separate duties over the processing of resident trust account financial activity.*

*For the items tested, the Home properly disbursed funds from resident accounts and recorded those disbursements in the accounting records. In addition, for the items tested, the Home accurately maintained individual resident account records and complied with applicable legal provisions over its resident trust accounts.*

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### **Audit Objectives**

The primary objectives of our audit of the resident trust accounts were to answer the following questions:

- Did the Home adequately safeguard deposits to resident trust accounts and properly process and record the receipts in the accounting records?
- Did the Home properly disburse funds from resident accounts 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 a trust account for each resident and records account activity in its Resident Account System. Residents can deposit cash and checks into their accounts through the cashier. 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 maintains a local checking account as an imprest cash account for resident withdrawals, and the remaining balance is held in the state treasury. The Home deposits all

## Minnesota Veterans Home – Silver Bay

resident trust fund receipts in the state treasury account. The Home periodically reimburses the imprest cash account from its state treasury account for amounts withdrawn. Both the state treasury account and the local account earn interest. The Home allocates the interest earned on the 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 3-1 shows the financial activity of the resident trust accounts for fiscal years 2004 to 2006.

<b>Table 3-1</b>			
<b>Resident Trust Account Financial Activity</b>			
<b>Fiscal Years 2004 to 2006</b>			
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Balance Forward In	\$22,969	\$ 17,140	\$ 15,245
Deposits	75,634	57,305	62,922
Interest Earned	<u>237</u>	<u>450</u>	<u>630</u>
Total Available	\$98,840	\$74,895	\$78,797
Withdrawals and Expenditures	81,700	59,650	70,716
Balance Forward Out	<u>\$17,140</u>	<u>\$15,245</u>	<u>\$ 8,081</u>

Source: Minnesota Accounting and Procurement System.

## Current Finding and Recommendation

### **3. The Home did not separate duties over resident accounts to ensure that receipts and accounts were adequately safeguarded.**

The Minnesota Veterans Home – Silver Bay did not adequately separate duties over the cashiering and recording functions of the resident trust accounts. The Home delegated the duties of cashiering and recording resident account activity to one individual. This individual was also responsible for preparing the daily deposit to the local checking account and reconciling the bank account at the end of the month. There are no mitigating controls, such as an independent review of account balances or the monthly bank account reconciliation to ensure the propriety of those transactions.

Good internal controls require that duties be separated so a person who has access to cash cannot both post receipts to an account and adjust the balance or amount due. If management decides not to separate these duties, they should design effective mitigating controls and, at a minimum, an independent person should review the propriety of adjustments and credits to resident accounts and the monthly bank reconciliation.

#### *Recommendation*

- *The Home should separate the cashiering duties over the resident trust accounts from the record keeping and reconciliation duties.*

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## Chapter 4. Gifts and Donations

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### *Chapter Conclusions*

*Minnesota Veterans Home – Silver Bay properly recorded gift and donation revenues and expenditures in the accounting system. However, the Home did not reconcile its gift and donation accounts to the state’s accounting system and did not promptly deposit donations.*

*For the items tested, the Home maintained adequate donor records and used gifts and donations in accordance with donor intentions.*

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### **Audit Objectives**

The primary objectives of our audit of gift and donation activities were to answer the following questions:

- Did the Home adequately safeguard gifts and donations and properly deposit and record those receipts in the accounting system?
- Did the Home maintain adequate records of donations in compliance with legal provisions?
- Did the Home appropriately use gifts and donations according to the donors’ intentions, and were those expenditures properly recorded in the accounting system?

### **Background**

*Minnesota Statutes 2005, 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 Gifts and Donations Fund account in the state treasury. The Home uses its volunteer tracking system, VolTrack, to maintain records on the donations and intentions of the donors. The Home established a Designated Contribution Committee to make decisions on the use of the assets to best meet the needs of its residents. The Home uses the donations for recreational activities, personal needs, and for other benefits of its residents.*

## Minnesota Veterans Home – Silver Bay

Table 4-1 shows the financial activity of the Home's gifts and donations account for fiscal years 2004 through 2006.

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**Table 4-1**  
**Gifts and Donations Account Activity**  
**Fiscal Years 2004 to 2006**

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Balance Forward In	\$40,220	\$ 51,906	\$ 72,793
Gifts and Donations	47,950	61,967	65,958
Interest Earned	<u>588</u>	<u>1,608</u>	<u>4,255</u>
Total Available	\$88,758	\$115,481	\$143,006
Expenditures	<u>36,852</u>	<u>42,688</u>	<u>54,166</u>
Balance Forward Out	<u>\$51,906</u>	<u>\$ 72,793</u>	<u>\$ 88,840</u>

Source: Minnesota Accounting and Procurement System.

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### Current Findings and Recommendations

#### 4. The Home did not always promptly deposit receipts.

The Home did not always promptly deposit its receipts for gift and donation activities. Six of twelve transactions tested were deposited between three and nine days after the date of receipt. *Minnesota Statutes* 2005, 16A.275 requires deposit of receipts daily when totaling more than \$250.

When the Home receives gifts, it routes the checks to the volunteer service coordinator. The volunteer service coordinator holds the checks until the intentions of the donors have been determined and a letter of acceptance is issued to the donors. This process may take a couple of days after which the checks are returned to the business office for deposit. By not promptly depositing receipts, the receipts are more susceptible to loss or theft.

#### *Recommendation*

- *The Home should deposit receipts daily when the receipts are greater than \$250, as required by statute.*

#### 5. The Home did not perform key reconciliations of its gift and donation accounts to the state's accounting system.

The Home did not reconcile its gift and donation accounts to the state's accounting system. The Home uses an internal tracking system, VolTrack, to record and monitor gifts and donations. The system allows the Home to record donor receipts and intentions for how the money is to be spent. The Home's VolTrack system had several discrepancies from the deposit amounts



## Minnesota Veterans Home – Silver Bay

recorded in the state's accounting system. By not reconciling the two systems, the Home cannot detect errors and improprieties in a timely manner.

### *Recommendation*

- *The Home should perform periodic reconciliations of the gift and donation activities recorded in the volunteer tracking system to the revenues recorded in the state's accounting system.*

## **Minnesota Veterans Home – Silver Bay**

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## Chapter 5. Payroll

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### *Chapter Conclusions*

*The Minnesota Veterans Home – Silver Bay’s internal controls provided 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, the Home paid employees in compliance with material finance-related legal provisions and applicable bargaining unit agreements.*

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### **Audit Objectives**

The primary objectives of our audit of payroll expenditures were 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?
- Did the Home pay employees in compliance with material finance-related legal provisions and applicable bargaining unit agreements?

### **Background**

Payroll is a significant expenditure for the State of Minnesota and the Minnesota Veterans Home – Silver Bay. The Home incurred payroll expenditures of approximately \$16.7 million during fiscal years 2004 to 2006. Payroll was the Home’s largest expenditure category and represented about 80 percent of its total expenditures. Payroll expenditures were for full-time, part-time, and seasonal employees, as well as overtime and other benefits. The Home employs approximately 130 full and part-time employees to operate the facility 24 hours a day, seven days a week.

The Home processed its payroll on the state’s payroll system. The Home uses the Veterans Home Board’s Time Trak electronic timekeeping system. Employees enter their start and end times into Time Trak on their computers or by swiping their badges across a reader. Each pay period, after supervisors approve timesheets, the approved hourly data from Time Track interfaces into the state’s payroll system.

Personnel and payroll responsibilities are shared by the Home and two central oversight agencies: the departments of Employee Relations and Finance, which maintain the central

## **Minnesota Veterans Home – Silver Bay**

personnel and payroll system used by all state agencies. This computer system has many edits that ensure personnel and payroll transactions comply with legal provisions and terms in compensation plans. The system also has extensive on-line policies and procedures to help state agencies record their decisions. However, the Home's personnel officers and payroll staff are ultimately responsible for understanding and complying with compensation plan terms and other pertinent legal provisions.

The conclusions reached in this report are based solely on work done at the Minnesota Veterans Home – Silver Bay.

There were no findings in this area.

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## Chapter 6. Purchasing and Nonpayroll Administrative Expenditures

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### *Chapter Conclusions*

*The Minnesota Veterans Home – Silver Bay’s internal controls provided reasonable assurance that it adequately safeguarded supplies and equipment, accurately paid vendors for nonpayroll administrative expenditures, and properly recorded these expenditures in the accounting system. However, the Home entered incorrect record dates in the accounting system.*

*For the items tested, the Home followed state policies when procuring and paying for goods and services.*

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### **Audit Objectives**

The primary objectives of our review of nonpayroll administrative expenditures were to answer the following questions:

- Did the Home’s internal controls provide reasonable assurance that it adequately safeguarded assets, accurately paid vendors, and properly recorded these expenditures in the accounting system?
- Did the Home comply with the state’s significant finance-related legal provisions related to procuring goods and services?

### **Background**

Administrative expenditures for the Minnesota Veterans Home – Silver Bay during the three fiscal years ending June 30, 2006, excluding payroll, were approximately \$3.96 million. As shown in Table 6-1, the largest administrative expenditure categories were for supplies, utilities, professional services, and equipment. The largest expenditure category was supplies, which were about 55 percent of all administrative expenditures. Supplies included food and medical supplies for the residents, plus general office supplies. Professional and technical services accounted for about 11 percent of administrative expenditures, while communications and equipment costs were about 4 percent each.

## Minnesota Veterans Home – Silver Bay

**Table 6-1**  
**Minnesota Veterans Home – Silver Bay Administrative Expenditures**  
**For the Three Fiscal Years Ended June 30, 2006**

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Supplies	\$ 770,950	\$ 712,799	\$ 713,775
Space Rent and Utilities	153,293	158,488	188,916
Professional and Technical Services	129,915	145,230	153,458
Other Purchased Services	70,569	77,301	78,955
Equipment	54,733	62,591	54,012
Communications	49,556	57,192	62,379
Travel and Subsistence	24,586	27,322	29,302
Repairs and Maintenance	5,206	20,772	14,001
Computer and Systems Services	6,097	18,111	7,831
Other	<u>27,843</u>	<u>33,284</u>	<u>48,344</u>
Total	<u>\$1,292,748</u>	<u>\$1,313,090</u>	<u>\$1,350,973</u>

Source: Minnesota Accounting and Procurement System as of September 7, 2006.

The Home followed the procurement policies established by the Department of Administration. Once the need for goods and services was identified, business office employees contacted multiple vendors to obtain bid quotations when required. The business office was responsible for preparing contracts or purchase orders and paying the invoices after the goods or services were received. The Home processed all payments for administrative expenditures through the state's accounting system.

### Current Finding and Recommendation

**6. The Minnesota Veterans Home – Silver Bay did not enter proper record dates for some of its administrative expenditures in the state's accounting system.**

For 9 of 24 administrative expenditure transactions tested, the Home incorrectly recorded the date that the state was obligated for the purchase. Generally, the obligation date is the date the goods or services were received. Instead, the Home used the invoice date because they did not have packing slips or a documented date that the goods actually arrived or the services were performed. The Department of Finance relies on accurate record dates to determine the state's outstanding liabilities at year-end for financial reporting purposes. Entry of improper dates could result in unreported obligations.

#### *Recommendation*

- *The Home should ensure it documents the record date for all goods and services received and properly enters that date into the accounting system.*

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## Status of Prior Audit Issues

### As of June 30, 2006

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**Legislative Audit Report 97-40**, issued in August 1997, covered the period July 1, 1994, to March 31, 1997. The audit scope included cost of care, resident trust accounts, and operating expenditures. The report contained two audit findings related to separation of duties over payroll processing and restricting system access to assigned responsibilities within the payroll and human resources areas. Due to the length of time since the last audit, we did not specifically follow up on these findings. As part of our current audit, we reviewed internal controls and system access rights for processing payroll at the Home and did not identify any concerns. In Chapter 5 we conclude that current controls over payroll processes are adequate.

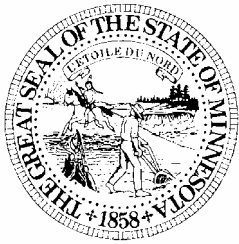
#### State of Minnesota Audit Follow-Up Process

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.

## **Minnesota Veterans Home – Silver Bay**

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**STATE OF MINNESOTA**  
VETERANS HOMES BOARD  
**MINNESOTA VETERANS HOME – SILVER BAY**  
45 BANKS BOULEVARD  
SILVER BAY, MINNESOTA 55614  
(218) 226-6300

November 1, 2006

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

Dear Mr. Nobles:

We have received the draft audit report for the Minnesota Veterans Home – Silver Bay. This is in response to the audit and the exit interview held on Monday, October 30, 2006.

Listed below are our responses that indicate the actions we have or will be taking to implement your recommendations.

**Finding 1:**

The Home did not reconcile recorded resident cost of care receipts with actual receipts collected and deposited.

**Response:**

The facility agrees with this finding. Beginning November 2006, the Business Manager will perform monthly reconciliation of the maintenance fee receipts posted to resident receivable accounts to actual receipts recorded on the state's accounting system.

**Finding 2:**

The Home did not adequately pursue the collection of receivable balances of four former residents.

**Response:**

The facility agrees with this finding. Beginning November 2006, the Business Manager will document his monthly review of accounts receivable, including all collection actions taken. Beginning December 2006, we will charge interest on all delinquent accounts. The four specific accounts noted will be reviewed and collection efforts made and documented per Minnesota Statutes, Minnesota Rules, and Agency policy. Accounts determined to be uncollectible will be written off per Agency policy. Beginning November 2006, the facility Administrator will review accounts and collection efforts monthly.

**Findings 3:**

The home did not separate duties over resident accounts to ensure that receipts and accounts were adequately safeguarded.

**Response:**

The facility agrees with this finding. Due to staffing levels, the facility is not able to adequately separate duties. Therefore, we will place mitigating controls in place. Beginning November 2006, the Business

Manager will review and document the propriety of adjustments and credits to the resident accounts and the monthly reconciliation each month.

Finding 4:

The Home did not always promptly deposit receipts.

Response:

The facility agrees with this finding. The Home will revamp the process of receiving the checks for gifts and donations by depositing the checks and routing a log to the volunteer service coordinator. This process will begin December 2006 and will be subject to the same mitigating controls established for finding three.

Finding 5:

The Home did not perform key reconciliations of its gifts and donation accounts to the state's accounting system.

Response:

The facility agrees with this finding. Prior to the monthly donations meeting, the report of the deposits in the state's accounting system will be given to the volunteer service coordinator for reconciliation to the VolTrack system. A feedback loop to the Business Manager documenting that the records balance will be developed. This process will begin December 2006.

Findings 6:

The Home did not enter proper record dates for some of its administrative expenditures in the state's accounting system.

Response:

The facility agrees with this finding. The Home will retrain the accounts payable personnel to enter the proper record date in the state accounting system by December 2006.

The Minnesota Veterans Homes Board understands the importance of an independent review of its operations and appreciates the time, effort and professionalism of your staff.

Sincerely,

*/s/ Michael Bond*

Michael Bond  
Administrator

C: Jeff Johnson, Chairman, Minnesota Veterans Homes Board  
Charles Cox, Acting Executive Director  
Douglas Rickabaugh, Financial Management Director