



Financial Audit Division Report

**Minnesota Veterans Home –
Fergus Falls
Internal Control and Compliance Audit
July 1, 2004, through June 30, 2007**

July 31, 2008

Report 08-17

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

July 29, 2008

Representative Rick Hansen, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Clark Dyrud, Commissioner
Minnesota Department of Veterans Affairs

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

This report presents the results of our internal control and compliance audit of the Minnesota Veterans Home – Fergus Falls for the period July 1, 2004, through June 30, 2007.

Our fieldwork ended on May 9, 2008, and we discussed the results of the audit with the home's administrator and staff at that time. The audit was conducted by Michael Hassing, CPA, CISA (Audit Manager) and Melanie Greufe (Auditor-in-Charge), assisted by auditors Lat Anantaphong and Chau Nguyen.

We received the full cooperation of the home's staff while performing this audit.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

Table of Contents

| | <u>Page</u> |
|--|-------------|
| Report Summary | 1 |
| Agency Overview | 3 |
| Objectives, Scope, and Methodology | 4 |
| Conclusions | 5 |

Report Summary

Conclusions

The Minnesota Veterans Home – Fergus Falls had adequate internal controls to ensure that it safeguarded receipts and other assets, accurately paid employees and vendors in accordance with management’s authorization, produced reliable financial information, and complied with finance-related legal requirements. For the items tested, the home complied with finance-related legal requirements over its financial activities.

Audit Objectives and Scope

Objectives

- Internal Controls
- Compliance

Period Audited

July 1, 2004, through June 30, 2007

Programs Audited

- Payroll and Other Administrative Expenditures
- Resident Trust Accounts
- Cost of Care
- Gifts and Donations

Background

The Minnesota Veterans Home – Fergus Falls operates as a skilled nursing care facility for eligible veterans. The home has the capacity for 85 residents. The home receives General Fund appropriations for its operations, which are recorded in a Special Revenue Fund account established specifically for the home. The home also collects receipts for the cost of care of its residents, deposits those receipts in the operations account, and uses them for operations.

Minnesota Veterans Home – Fergus Falls

Agency Overview

The Minnesota Veterans Home – Fergus Falls is a skilled care residence that was constructed in 1997. The home's first resident was admitted in March 1998. The home provides 85 beds to veterans (or spouses of veterans) that meet eligibility and admission requirements. The home is one of five veterans homes operating in the state. The other homes are located in Minneapolis, Silver Bay, Luverne, and Hastings. The Minnesota Veterans Homes operate under *Minnesota Statutes* 2007, chapter 198. *Minnesota Rules* 2007, chapter 9050 outlines the process for determining resident eligibility, maintenance charges, and calculating the cost of care. The home's administrator is responsible for the daily management of the home. Mr. Jon Skillingsstad has been the administrator of the home since its inception.

Through November 2007, the Minnesota Veterans Homes Board oversaw the home's operations. In February 2007, under Executive Order 07-02, Governor Pawlenty created the Veterans Long Term Care Advisory Commission. The commission was established to provide recommendations to the Governor on long term care operations, administration, management, and governance models for the veterans homes. The Veterans Long Term Advisory Commission issued a report with the recommendations to transfer the duties and responsibilities of the Veterans Home Board to the Department of Veterans Affairs.

In November 2007, based on the commission's recommendations, Reorganization Order 194 abolished the Veterans Homes Board and transferred the board's functions, powers, duties, and responsibilities to the Department of Veterans Affairs. In January 2008, the Department of Veterans Affairs created the Veterans Health Care Division and appointed Deputy Commissioner Gilbert Acevedo to oversee the division. The Veterans Health Care Division manages and oversees the state's five veterans homes.

During this time, Governor Pawlenty, under Executive Order 07-20, created the Veterans Health Care Advisory Council. The council is intended as an advisory group with a mission of providing the commissioner of Veterans Affairs with information and professional expertise on any and all aspects of the delivery of quality long term care to veterans.

The home received General Fund appropriations for its operations. The Fergus Falls Veterans Home maintains its operating account in the Special Revenue Fund. The home also receives federal per diem and resident maintenance payments, which are deposited into the operating account. In addition, the home maintains resident trust accounts and a gift account for designated contributions from donors. Table 1 summarizes the home's revenues and expenditures for the period July 1, 2004, through June 30, 2007.

Table 1
Revenues and Expenditures
July 1, 2004, through June 30, 2007

| Revenues² | Fiscal Years¹ | | |
|---|---------------------------------|--------------------|--------------------|
| | 2005 | 2006 | 2007 |
| Cost of Care ³ | \$3,655,385 | \$3,640,521 | \$3,794,895 |
| Resident Trust Accounts ⁴ | 49,102 | 43,589 | 41,460 |
| Gifts and Donations ⁴ | 77,507 | 85,705 | 90,308 |
| Total | <u>\$3,781,994</u> | <u>\$3,769,815</u> | <u>\$3,926,663</u> |
| Expenditures | | | |
| Payroll | \$5,498,287 | \$5,778,024 | \$6,047,978 |
| Supplies | 625,584 | 664,917 | 717,131 |
| Space Rental, Maintenance, & Utilities | 191,765 | 226,758 | 228,107 |
| Professional/Technical Contracts | 141,173 | 104,994 | 50,504 |
| Equipment | 92,796 | 126,562 | 51,275 |
| Resident Activities (Designated Gift Fund and Resident Trust Account Expenditures) | 46,556 | 53,442 | 48,427 |
| Communication | 30,833 | 32,782 | 32,923 |
| Repairs, Alterations, & Maintenance | 18,915 | 33,409 | 38,287 |
| Other ⁵ | 191,779 | 187,268 | 202,450 |
| Total | <u>\$6,837,688</u> | <u>\$7,208,156</u> | <u>\$7,417,082</u> |

¹The state's fiscal year is July 1 through June 30.

²The home also received appropriations of \$3,230,000 in 2005, \$2,880,856 in 2006, and \$3,934,386 in 2007.

³This amount includes maintenance charges to residents and federal per diems.

⁴These amounts include interest earned.

⁵Other expenditures include travel, employee development, printing and advertising, and building and land improvements.

Source: Minnesota Accounting and Procurement System as of May 8, 2008.

Objectives, Scope, and Methodology

Our audit of the Minnesota Veterans Home – Fergus Falls' cost of care, resident trust accounts, gifts and donations, payroll, and other administrative expenditures focused on the following audit objectives for the period of July 1, 2004, to June 30, 2007:

- Were the home's internal controls adequate to ensure that it safeguarded receipts and other assets, accurately paid employees and vendors in accordance with management's authorization, produced reliable financial information, and complied with finance-related legal requirements?

- For the items tested, did the home comply with significant finance-related legal requirements over its financial activities, including state and federal laws, regulations, contracts, and applicable policies and procedures?

To answer these questions, 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 samples of transactions and evidence supporting the agency's internal controls and compliance with laws, regulations, policies, and contracts.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

We used various criteria to evaluate internal control and compliance. We used as our criteria to evaluate agency controls the guidance contained in the *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission.¹ We used state and federal laws, regulations, and contracts, as well as policies and procedures established by the departments of Finance and Administration and the department's internal policies and procedures as evaluation criteria over compliance.

Conclusions

The home's internal controls were adequate to ensure that it safeguarded receipts and other assets, accurately paid employees and vendors in accordance with management's authorization, produced reliable financial information, and complied with finance-related legal requirements. For the items tested, the home complied with finance-related legal requirements over its financial activities.

¹ The Treadway Commission and its Committee of Sponsoring Organizations were established in 1985 by the major national associations of accountants. One of their primary tasks was to identify the components of internal control that organizations should have in place to prevent inappropriate financial activity. The resulting *Internal Control-Integrated Framework* is the accepted accounting and auditing standard for internal control design and assessment.