



FINANCIAL AUDIT DIVISION REPORT

**Minnesota Veterans Home
Board**

Internal Control and Compliance Audit

July 1, 2004, through June 30, 2008

November 26, 2008

Report 08-33

FINANCIAL AUDIT DIVISION

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

November 26, 2008

Representative Rick Hansen, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Clark Dyrud, Commissioner
Department of Veterans Affairs

Gilbert Acevedo, Deputy Commissioner
Department of Veterans Affairs - Veterans Health Care

This report presents the results of our internal control and compliance audit of the Minnesota Veterans Home Board for fiscal years 2005 through 2008 (July 1, 2004, through June 30, 2008). Governor Pawlenty dissolved the Veterans Home Board on November 19, 2007, and transferred the board's responsibilities to the Department of Veterans Affairs.

Our fieldwork ended on July 28, 2008, and we discussed the results of the audit with department staff on November 19, 2008. The audit was conducted by Michael Hassing, CPA, CISA, (Audit Manager) and Laura Peterson, CPA, CISA (Auditor-in-Charge), assisted by auditors Tracia Gimbut, Melanie Greufe, and Paul Thompson.

We received the full cooperation of the department 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

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Report Summary

Conclusions

Generally, the Minnesota Veterans Home Board (the board) accurately recorded its financial activities in the state's accounting systems and accurately paid employees and vendors in accordance with management's authorizations. However, the board did not sufficiently review certain payroll and travel expense reimbursements and did not actively monitor its fixed assets.

For the items we tested, the board generally complied with finance-related legal requirements over its financial activities. However, the board did not comply with certain requirements related to some travel and overtime payments.

Key Findings

- The board reimbursed the interim executive director for ineligible travel expenditures and provided inappropriate compensation for personal time related to an out-of-state conference that resulted in an overpayment of \$161. ([Finding 1, page 7](#))
- The board did not adequately manage one employee's overtime pay, resulting in an overpayment of \$129. ([Finding 2, page 7](#))
- The board did not have accurate fixed asset inventory records to ensure a complete transfer of assets to the Department of Veterans Affairs. ([Finding 4, page 9](#))

Audit Objectives and Scope

Objectives

- Recording Financial Activity
- Safeguarding Assets
- Compliance

Period Audited

Fiscal Years 2005 through 2008
(July 1, 2004, through June 30, 2008)

Programs Audited

- Payroll Expenditures
- Administrative Expenditures

Background

The Minnesota Veterans Home Board provided management oversight for the operations of the five veterans homes in Minnesota. The board consisted of nine members appointed by the Governor and included representatives from the health care field and veterans organizations. In November 2007, the Governor abolished the board and transferred its responsibilities to the Minnesota Department of Veterans Affairs. In fiscal year 2007, the last complete fiscal year the board operated, it spent about \$950,000 for payroll costs and \$460,000 for other administrative costs.

Minnesota Veterans Home Board

Agency Overview

In 1988, the Minnesota Legislature established the Veterans Home Board to take over the administration of the state's five veterans homes, which had been administered by the Department of Veterans Affairs. The Veterans Home Board consisted of nine directors appointed by the Governor. The board was charged with restructuring the veterans homes along the lines of the medical model of operations and turning them into high quality health care facilities while also taking into consideration the special needs of the veteran population. To accomplish this dual focus, the board's membership consisted of representatives from the health care field and veterans organizations. The Minnesota Veterans Home Board operated under *Minnesota Statutes 2007*, Chapter 198.

Through November 2007, the Minnesota Veterans Home Board oversaw the homes' operations. In February 2007, due to concerns over resident care at the Minneapolis home, Governor Pawlenty created the Veterans Long Term Care Advisory Commission to provide recommendations on long term care operations, administration, management, and governance models for the homes.¹ In November 2007, the Governor acted on the commission's recommendation to transfer the Veterans Home Board's duties and responsibilities back to the Department of Veterans Affairs.²

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 provides administrative management and oversight to the state's five veterans homes located in Fergus Falls, Hastings, Luverne, Minneapolis, and Silver Bay.

Governor Pawlenty also created the Veterans Health Care Advisory Council.³ The council is an advisory group to provide 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.

During its existence, the Veterans Home Board used General Fund appropriations for its internal operations. State law allowed the veterans board to transfer its General Fund appropriation to its special revenue fund account.⁴ Table 1 summarizes the board's expenditures for the period July 1, 2004, through June 30, 2008.

¹ Executive Order 07-02.

² Governor's Reorganization Order 194.

³ Executive Order 07-20.

⁴ *Minnesota Laws* 2005, First Special Session, Chapter 4, Article 9, Sec. 4, and *Minnesota Laws* 2007, Regular Session, Chapter 147, Article 19, Sec. 5.

Table 1
Appropriations and Expenditures
July 1, 2004, through June 30, 2008

	Fiscal Year ¹			
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u> ²
Appropriations	\$2,048,000	\$1,419,500	\$1,828,178	\$1,853,525
Expenditures:				
Payroll	\$1,119,500	\$1,124,764	\$947,570	\$1,242,087
Supplies	19,144	67,405	13,479	24,130
Professional/Technical Contracts ³	152,974	508,267	181,149	170,193
Space Rental, Maintenance, & Utilities	59,601	56,021	66,350	65,599
Equipment	17,499	36,687	14,834	35,482
Communication	80,085	72,320	35,313	108,324
Travel	33,228	42,292	34,356	28,152
Other ⁴	<u>20,518</u>	<u>73,299</u>	<u>115,805</u>	<u>47,134</u>
Total Expenditures	<u>\$1,502,550</u>	<u>\$1,981,055</u>	<u>\$1,408,856</u>	<u>\$1,721,101</u>

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

²Although the board was dissolved in November 2007, the Minnesota Department of Veterans Affairs continued to use the veterans board's accounts and coding structure in the statewide accounting system for the new Veterans Health Care Division of the department. Thus, the fiscal year 2008 figures above include expenditures for the Veterans Health Care Division through June 30, 2008.

³The large professional and technical contract in fiscal year 2006 was the Health Dimensions contract for assessment and monitoring of veterans care.

⁴Other expenditures include indirect costs, employee development, employee settlements, printing, and advertising. Fiscal year 2007 also includes an incorrectly recorded professional/technical contract of \$10,400.

Source: Minnesota Accounting and Procurement System.

Objectives, Scope, and Methodology

Our audit focused on payroll and administrative expenditures and addressed the following audit objectives for the period of July 1, 2004, through June 30, 2008:

- For the items tested, did the board safeguard its assets and accurately record its employee payroll and administrative expenditures in the state's accounting systems?
- For the items tested, did the board comply with significant finance-related legal requirements over its financial activities, including state laws, regulations, contracts, and applicable policies and procedures?

To answer these questions, we interviewed board staff to gain an understanding of the policies and procedures applicable to the board's financial operations during the audit period. In determining our audit approach, we considered the risk of errors in the accounting records and potential noncompliance with relevant legal requirements. We analyzed accounting data to identify unusual transactions or significant changes in financial operations for further review. In addition, we selected a sample of financial transactions and reviewed supporting documentation to test whether the transactions complied with laws, regulations, policies, and contract provisions.

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 assess internal controls and compliance. We used, as our criteria to gain an understanding of agency controls, the guidance contained in the *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission.⁵ We used state statutes and laws, state policies and procedures, state labor contracts, and the department's internal policies and procedures as criteria over compliance.

Conclusions

Generally, the Veterans Home Board accurately recorded its financial activities in the state's accounting systems. However, the board was missing some authorization forms and two personnel files. The board also did not adequately account for its fixed assets.

For the items we tested, the Veterans Home Board generally complied with finance-related legal requirements over its financial activities. However, the board did not always comply with travel and overtime requirements.

⁵ 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.

Findings and Recommendations

The Veterans Home Board reimbursed the interim executive director for ineligible travel expenditures and provided inappropriate compensation for personal time related to an out-of-state conference.

Finding 1

The board reimbursed the interim executive director for lodging and meals related to personal time during an out-of-state trip. In July 2007, the interim executive director attended the National Association of State Veterans Homes conference in New Orleans, but extended his stay by one day for personal reasons. The director claimed, and the board reimbursed, \$119 for an extra night of lodging and \$42 in meals related to costs incurred on the personal day. In addition, the interim executive director recorded the personal day as a regular work day and did not use vacation time. In order for the state to pay for travel costs, the director's compensation plan⁶ required him to be in travel status conducting the state's business.

In addition, the board's management did not approve out-of-state travel in advance. The board could not provide authorizing documentation for the three out-of-state travel reimbursements tested. State policy⁷ requires all out-of-state travel have advanced written approval. By not obtaining advanced written approval, the board could not ensure the travel costs were reasonable for state business and provided benefit to the state.

Recommendation

- *The Department of Veterans Affairs should recover \$161 from the former interim executive director and decrease his vacation leave balance by eight hours.*

The Veterans Home Board did not adequately manage one employee's overtime pay.

Finding 2

The board paid overtime to one employee at the wrong rate; it paid the employee at time and one-half rather than at straight time, resulting in an overpayment of \$129. In addition, the board allowed this employee to accrue 540 hours of compensatory time-off throughout fiscal years 2005 through 2008.⁸ The board

⁶Managerial Plan, July 1, 2007, through June 30, 2009, Chapter 15.

⁷Department of Finance Policy PAY0021.

⁸Compensatory time is time-off in exchange for extra hours worked.

was unable to show that the employee worked on a special project or had advance approval to earn either overtime or compensatory time.

The state classified the employee's position as being exempt from the provisions of the federal Fair Labor Standards Act. Because of this classification, the employee was only eligible to earn overtime or compensatory time for special projects beyond normal work assignments. The state requires that any overtime or compensatory time be approved in advance. The employee's bargaining agreement specified that overtime would be paid at straight time.⁹

Recommendations

- *The Department of Veterans Affairs should recover the \$129 overpayment of overtime.*
- *The Department of Veterans Affairs should review and analyze the compensatory time this employee earned to ensure the propriety of the additional compensation. If the employee was not working on a special assignment, the department should recover any overpayments and adjust vacation leave and compensatory time balances accordingly.*

Finding 3

The Veterans Home Board could not find two personnel files.

The board was unable to locate two employee personnel files. Without the personnel files, the board could not support that it made appropriate personnel decisions in compliance with statutes and state policies, including that it had established and authorized the right starting wage for one employee and had correctly determined severance payment eligibility for the other employee. In addition, the board did not adequately protect the employees' private data.

*Minnesota Statutes*¹⁰ require all officers and agencies of the state to maintain records necessary to provide full and accurate documentation of official activities. Preserving public financial records is an important responsibility – it allows management to demonstrate its appropriate use of public resources and protects employees from accusations of error, illegality, and noncompliance. Without supporting documentation, the board was unable to demonstrate that it managed its human resources in accordance with statutory and state provisions.

⁹ Minnesota Association of Professional Employees 2005-2007, Article 27.

¹⁰ *Minnesota Statutes* 2007, 15.17, subd. 1 and 2.

Recommendation

- *The Department of Veterans Affairs should locate the missing personnel files and notify the affected employees of the potential disclosure of private information.*

The Veterans Home Board did not have accurate fixed asset inventory records to ensure a complete transfer of assets to the Department of Veterans Affairs.**Finding 4**

The board did not have a fixed asset inventory system to track its equipment, including computers, printers, and other sensitive items.¹¹ In December 2007, the board's employees listed equipment in their work areas, including 36 sensitive items, such as computers, printers, servers, and sound equipment. Without a historical inventory system, the Department of Veterans Affairs could not verify that it took possession of all the board's assets and did not have information about the original cost of the items.

Recommendations

- *The Department of Veterans Affairs should identify the board's equipment that was transferred to its control, record the items on a fixed asset inventory system, and determine the cost and value of those assets.*
- *The Department of Veterans Affairs should review equipment purchases made by the board to ensure that it is not missing any significant assets.*

¹¹ Sensitive items are equipment whose value is not large but are highly susceptible to theft.



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November 24, 2008

Mr. James Nobles
Legislative Auditor
Office of the Legislative Auditor
Centennial Office Building
St. Paul, MN. 55155

Dear Mr. Nobles:

We have received the draft audit report for the Minnesota Veterans Home Board. This is in response to the audit and the exit interview held at the Veterans Home Minneapolis on Wednesday, November 19, 2008.

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

Finding 1

The Veterans Home Board reimbursed the interim executive director for ineligible travel expenditures and provided inappropriate compensation for personal time related to an out-of-state conference.

Recommendation;

The Department of Veterans Affairs should recover \$161 from the former interim executive director and decrease his vacation leave balance by eight hours.

Response:

The Department concurs with this recommendation and will take action towards recovering \$161.00 in January 2009.

Finding 2

The Veterans Home Board did not adequately manage one employee's overtime pay.

Recommendation;

The Department of Veterans Affairs should recover \$129 overpayment of overtime.

Response:

The Department concurs with this recommendation and will take action towards recovering \$129.00 in January 2009.

Finding 3

The Veterans Home Board could not find two missing personnel files.

Recommendation;

The Department of Veterans Affairs should locate the missing personnel files and notify the affected employees of the potential disclosure of private information.

Response:

The Department concurs with this recommendation. A search for the missing record will continue, in the meantime the affected employees will be notified through appropriate correspondence in accordance with Minnesota statute.

Finding 4

The Veterans Home Board did not have accurate fixed asset inventory records to ensure a complete transfer of assets to the Department of Veterans Affairs.

Recommendation;

The Department of Veterans Affairs should identify the board's equipment that was transferred to its control, record the items on a fixed asset inventory system, and determine the cost and value of those assets.

The Department of Veterans Affairs should review equipment purchases made by the board to ensure that it is not missing any significant assets.

Response:

The Department concurs with the recommendation. The Department of Veterans Affairs will work in conjunction with the Minneapolis Veterans Home to officially transfer and record the fixed assets assigned to the Minnesota Veterans Board Office. Once the transfers are complete the Business Office at the Minneapolis Home will create an expenditure report that will compare purchases made for items that would be classified as fixed assets and compare the expenditure report to the fixed asset reports and resolve any discrepancies.

Our thanks to your audit team for their courtesy and professionalism during the audit. The feedback we get is always helpful and reassuring. If you have further questions on the responses, please contact Patty Ryan, Administrative Assistant.

Sincerely,

/s/ Gilbert Acevedo

Gilbert Acevedo
Deputy Commissioner
Department of Veterans Affairs – Veterans Health Care

CC: Clark Dyrod, Commissioner Department of Veterans Affairs