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STATE OF MINNESOTA

FINANCIAL AUDIT DIVISION REPORT

Minnesota Veterans Home at Hastings

Internal Control and Compliance Audit

July 1, 2006, through March 31, 2009

September 24, 2009 **Report 09-32**

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State of Minnesota • James Nobles, Legislative Auditor

September 24, 2009

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Minnesota Department of Veterans Affairs – Veterans Health Care Division

Mr. Charles Cox, Administrator
Minnesota Veterans Home at Hastings

This report presents the results of our internal control and compliance audit of the Minnesota Veterans Home at Hastings for the period July 1, 2006, through March 31, 2009.

Our fieldwork ended on June 26, 2009, and we discussed the results of the audit with the Department of Veterans Affairs on September 9, 2009. The audit was conducted by Michael Hassing, CPA, CISA (Audit Manager) and Melanie Greufe (Auditor-in-Charge), assisted by auditors Jamie Majerus and Chau Nguyen.

We received the full cooperation of the Department of Veterans Affairs and Hastings Veterans Home's staff while performing this audit.

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Report Summary

Conclusion

The Minnesota Veterans Home at Hastings (home) generally had adequate internal controls to ensure it safeguarded assets, accurately paid employees or vendors in accordance with management's authorizations, produced reliable financial information, and complied with finance-related legal requirements. However, the home had some internal control and noncompliance deficiencies.

For the items we tested, the home generally complied with finance-related legal requirements for depositing cash receipts, calculating cost of care, processing certain payroll transactions, and executing contracts. However, the home did not consistently comply with certain finance-related legal requirements.

The home resolved three prior findings related to payroll, resident trust accounts, and gifts and donations.

Key Findings

- The home did not identify, analyze, and document its internal controls related to its business operations. (Finding 1, page 7)

- The home did not accurately calculate the daily cost of care rate for fiscal years 2007 and 2008. (Finding 2, page 8)

- The home did not have adequate controls to ensure that it maintained accurate records of amounts owed by residents. (Finding 3, page 8)

Audit Objectives and Scope

Objectives
- Internal Controls
- Compliance

Period Audited
July 1, 2006, through March 31, 2009

Audited Areas
- Resident Cost of Care
- Resident Accounts
- Gifts and Donations
- Lease Revenue
- Payroll Expenditures
- Administrative Expenditures
- Canteen and Woodshop Revenue

Minnesota Veterans Home at Hastings

Agency Overview

The Minnesota Veterans Home at Hastings was established in 1978 and is a domiciliary care facility for eligible veterans and their dependents. The home has approximately 175 domiciliary care residents. The home is one of five veterans homes within the state; the other homes are located in Fergus Falls, Luverne, Minneapolis, and Silver Bay. The Minnesota veterans homes operate under *Minnesota Statutes* 2008, Chapter 198. *Minnesota Rules* 2008, Chapter 9050, outlines the process for determining resident eligibility, maintenance charges, and calculating the cost of care. Through November 2007, the Minnesota Veterans Homes Board provided oversight of the homes' operations.

In response to serious concerns about the care and management being provided at the Minneapolis Veterans Home, Governor Tim Pawlenty, in February 2007, created the Veterans Long Term Care Advisory Commission to provide recommendations on long term care operations, administration, management, and governance models for the veterans homes.[1] In November 2007, based on the commission's recommendations, the Governor abolished the Veterans Homes Board and transferred the board's functions, powers, duties, and responsibilities to the Minnesota Department of Veterans Affairs.[2] In January 2008, the Department of Veterans Affairs created the Veterans Health Care Division to manage the state's veterans homes and appointed Deputy Commissioner Gilbert Acevedo to oversee the division.

In November 2007, Governor Pawlenty also created the Veterans Health Care Advisory Council as an advisory group to provide the commissioner with information and professional expertise on any and all aspects of the delivery of quality long-term care to veterans.[3] The Governor finalized appointments to the council in April 2008.

Charles Cox is the administrator of the Hastings Veterans Home. From October 2006 through February 2008, Mr. Cox also served as the interim executive director of the Veterans Homes Board.

The Veterans Health Care Division of the Department of Veterans Affairs received General Fund appropriations for the operation of the veterans homes. The department allocated and transferred the appropriations to the individual homes to fund a portion of their operations. In addition, the home collected

[1] Executive Order 07-02.
[2] Reorganization Order 194.
[3] Executive Order 07-20.

federal per diem and resident maintenance payments, receipts from leased property and service contracts, and rent from tenants living in an off-site supportive house. The home also maintained three accounts in the state's agency fund - one for individual resident trust accounts and the other two to record operations of the woodshop and the on-site resident canteen. Finally, the home accepted monetary and non-monetary gifts for general use or as designated by the donors. Table 1 summarizes the home's revenues and expenditures for the period July 1, 2006, through March 31, 2009.

Table 1
Minnesota Veterans Home at Hastings
Revenues and Expenditures
July 1, 2006 – March 31, 2009

	Fiscal Years		
Revenue:[1]	**2007**	**2008**	**2009**[2]
Cost of Care[3]	$3,455,941	$3,440,156	$2,611,595
Lease Revenue[4]	620,552	324,624	157,409
Resident Trust Account Deposits[4]	615,063	528,501	422,406
Canteen and Woodshop[4]	185,956	186,747	152,785
Gifts and Donations[4]	71,796	51,724	121,354
Total Revenue	$4,949,308	$4,531,752	$3,465,549
Expenditures			
Payroll	$5,777,668	$6,006,753	$4,522,945
Supplies	1,036,107	1,019,693	835,429
Space Rental, Maintenance, & Utilities	646,555	699,383	467,139
Resident Trust Account Withdrawals	648,917	543,666	424,953
Uses of Gifts and Donations	43,513	43,711	32,250
Equipment	68,473	57,529	40,348
Repairs, Alterations, & Maintenance	67,505	59,269	38,869
Professional/Technical Contracts	56,806	57,465	36,888
Communications	52,398	49,302	24,919
Other Expenditures[5]	174,142	184,227	155,212
Total Expenditures	$8,572,084	$8,720,998	$6,578,952

[1] The home also received appropriations of $3,407,243 in 2006, $4,084,478 in 2008, and $4,256,826 in 2009.

[2] Our scope included fiscal year 2009 activity through March 31, 2009.

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

[4] These amounts include interest earned.

[5] Other expenditures include travel, employee development, printing and advertising, computer and system services, communication, agency indirect cost, loans and advances, and building and land improvements.

Source: Minnesota Accounting and Procurement System.

Objectives, Scope, and Methodology

Our audit of the Minnesota Veterans Home at Hastings included cost of care, resident trust accounts, gifts and donations, lease revenue, canteen and woodshop revenue, payroll, and other administrative expenditures and focused on the following audit objectives for the period of July 1, 2006, through March 31, 2009:

- 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 authorizations, 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?

- Did the home resolve prior audit recommendations?[4]

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 requirements. We analyzed accounting data to identify unusual trends or significant changes in financial operations. In addition, we selected a sample of financial transactions and reviewed supporting documentation to test whether the controls were effective and if the transactions complied with laws, regulations, policies, and grant 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 the guidance contained in the *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission, as our criteria to evaluate the home's internal controls.[5] We used state and federal laws, regulations, and contracts, as well as policies and

[4] Office of the Legislative Auditor's Financial Audit Division Report 05-50, *Minnesota Veterans Home – Hastings*, issued September 14, 2005.
[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.

procedures established by the departments of Management and Budget[6] and Administration and the board's internal policies and procedures as evaluation criteria over compliance.

Conclusions

The Minnesota Veterans Home at Hastings generally had adequate internal controls to ensure that it safeguarded assets, accurately paid employees or vendors in accordance with management's authorizations, produced reliable financial information, and complied with finance-related legal requirements. However the home had some internal control weaknesses and noncompliance related to processing payroll, calculating of cost of care, processing accounts receivable, tracking fixed assets, monitoring system security access, and depositing receipts.

For the items we tested, the home generally complied with finance-related legal requirements for depositing cash receipts, calculating cost of care, processing certain payroll transactions, and executing contracts. However, the home did not consistently comply with certain finance-related legal requirements, as described in the findings.

The home resolved the three prior findings related to payroll, resident trust accounts, and gifts and donations.

The following *Findings and Recommendations* further explain the exceptions noted above.

[6] In October 2008, the merged departments of Finance and Employee Relations were renamed the Department of Management and Budget.

Findings and Recommendations

Finding 1

The home did not identify, analyze, and document its internal controls related to its business operations.

The home did not have a comprehensive approach to the design of its internal controls over compliance and business operations. The home had an increased likelihood of control deficiencies, because it did not clearly document and communicate to all staff its risks, control activities, and monitoring policies and procedures.

State policy stipulates that each agency head has the responsibility to identify, analyze, and manage business risks that impact an entity's ability to maintain its financial strength and the overall quality of its products and government services.[7] This policy also requires communication of the internal control policies and procedures to all staff so they understand what is expected of them and the scope of their freedom to act. This policy also requires follow-up procedures that, at a minimum, should include ways to monitor results and report significant control deficiencies to individuals responsible for the process or activity involved, including executive management and those individuals in a position to take corrective action.

The home is aware of certain risks, has many control activities in place, and performs selected internal control monitoring functions. However, the home has not comprehensively identified and analyzed the risks, designed its controls to address significant risks, or developed monitoring procedures to ensure the controls are in place and are effective to reduce the significant risks identified.

Recommendation

- *The home should regularly review, clearly document, and communicate to staff its risks, control activities, and internal control monitoring functions for its key business processes.*

[7] Department of Management and Budget Policy Number 0102-01.

Finding 2

The home did not accurately calculate the daily cost of care rate for fiscal years 2007 and 2008.

The home did not correctly calculate the cost of care rate for fiscal years 2007 and 2008. Statutes require the home to annually determine the amount it will charge residents for staying at the home.[8] Typical expenditures that make up the home's annual cost of care rate include direct costs for providing services to the residents and an allocation of certain administrative costs.

In fiscal year 2007, the home understated the total allowable expenditures used for its cost of care calculation by $52,487. As a result, the home undercharged residents paying the full cost of care $326 for fiscal year 2007 (or 89 cents per day). In fiscal year 2008, the home overstated the total allowable expenditures used for cost of care calculation by $44,481. As a result, it overcharged residents paying the full cost of care $254 for fiscal year 2008 (or 70 cents per day). The home correctly calculated its cost of care rate for fiscal year 2009.

Because of the complexity of cost of care calculations and the direct impact to the individual residents, the home needs to ensure the accuracy of the calculation.

Recommendations

- *The home should accurately calculate the cost of care rate by including only allowable costs.*
- *The home should analyze and determine whether the fiscal year 2007 and 2008 errors have significant impact on an individual resident basis before providing refunds or adjustments to the residents' accounts receivable balances for maintenance fees.*

Finding 3

The home did not have adequate controls to ensure that it maintained accurate records of amounts owed by residents.

The home did not manage its resident accounts in accordance with statutory provisions or good financial management practices. As a result, the accounts receivable balances were not accurate. The home used a resident maintenance fee and accounts receivable subsystem to track the status of residents' accounts and balances due. At March 31, 2009, the system had 77 accounts and outstanding accounts receivable of about $103,000.

[8] *Minnesota Statutes* 2008, Chapter 198.03.

The home had the following deficiencies in its administration of resident accounts receivable:

- The home did not adequately control employee access to the home's resident maintenance fee and accounts receivable subsystem to ensure that it did not allow employees access to perform incompatible duties. Three of the six employees with access to the subsystem also had responsibilities for daily cash receipts and the daily reconciliation to the system. These duties are incompatible, because the employees have access to cash and the ability to adjust accounts receivable records, while reconciling the accounts. The home had not designed effective detective controls to mitigate the risk of errors or inappropriate transactions resulting from the incompatible access.

- The home did not always refer past due accounts to the Department of Revenue for collection when the debt became 121 days past due, as required by statute.[9] Only 4 of the 29 past due accounts receivable we tested were referred to the Department of Revenue when the debt became 121 days past due. Of the 25 past due accounts, 13 were from 130 to 465 days past due before they were referred to the Department of Revenue, and 12 had not yet been referred. Referring accounts to the Department of Revenue when required by statute may result in better success in collecting past due accounts.

- The home did not always reconcile its resident maintenance fee and accounts receivable subsystem with the state's accounting system, which is updated for amounts the Department of Revenue collected on past due accounts. The Department of Revenue collected $38,998 of the home's outstanding receivables and directly recorded those amounts into the state's accounting system. However, the home did not always timely record those collections in its subsystem. In one case, the home made a lump sum transaction to record 25 collections from a resident over three years. The home's accounts receivable records did not always match the monthly balances reported from the Department of Revenue. The home made adjustments to four accounts to agree with Revenue without determining the reasons for the discrepancies.

- The home did not correctly charge interest to residents' past due accounts. It started assessing interest on a past due account after it discharged a resident rather than when the bill became due, as required by *Minnesota Rules*.[10] The home had not charged interest to 25 of 38 past due accounts we tested, because the account holders were current residents. The home

[9] *Minnesota Statutes* 2008, 16D.04.
[10] *Minnesota Rules* 2008, 9050.0520.

undercharged $284 interest on the remaining 14 accounts we tested because they based the charges on the discharge date rather than the date the bill was due. According to the home's records at March 31, 2009, there were 38 past due accounts totaling approximately $88,900.

- The home did not obtain written approvals from its administrator before writing off $152,840 of uncollectible accounts during calendar years 2006 through 2008. The home's policy requires that the write off request for each calendar year must be submitted to the home administrator for review and approval.[11]

- The home did not report to the Department of Management and Budget the $43,795 of accounts receivable it wrote off in 2008, as required by statute.[12]

Recommendations

- *The home should periodically review employee access to its resident maintenance fee and accounts receivable subsystem to ensure that it does not allow for incompatible duties. If the home determines that an employee needs access to incompatible duties, it needs to design detective controls to mitigate the increased risk of errors and inappropriate transactions.*

- *The home should refer all overdue accounts to the Department of Revenue for collection within 121 days after the due date.*

- *The home should accurately and promptly record all transactions related to resident accounts, including accounts receivable collections from the Department of Revenue.*

- *The home should reconcile its resident maintenance accounts recorded on its resident maintenance fee and accounts receivable subsystem to the state's accounting system on a regular basis and resolve any differences.*

- *The home should charge interest on all resident accounts not paid when due.*

- *The home should obtain the appropriate approvals for all write off requests and submit the authorization to the Department of Management and Budget.*

[11] Hastings Veterans Home policy 14:02 – Collection of Maintenance Charges.
[12] *Minnesota Statutes* 2008, 16D.09.

Finding 4

The home did not reconcile funds it held in trust for residents to the state's accounting system or to bank statements.

The home had not reconciled residents' trust accounts, maintained on a subsidiary accounting system, to the state's accounting system or to the external bank account's statements from at least July 2006 through March 2009.

In addition, it had not accurately allocated monthly interest earnings to the residents. For 9 of the 15 monthly interest allocations we tested, the interest the home allocated to the residents differed from the interest the account earned. The home did not have documentation to support 7 out of 9 months that had interest allocation variances.

As of March 31, 2009, the home's records showed that it held about $49,400 in trust accounts for residents and annually processed approximately $600,000 of deposits and withdrawals on behalf of the residents. The home deposited the majority of the funds held in trust with the state treasury. The state invested these funds through the State Board of Investment. The state credited the account each month with its interest earnings. It was the home's responsibility to allocate the account's monthly earnings to the individual residents. In addition, the home kept about $20,000 on hand in a local checking account for daily resident needs.

A monthly reconciliation between the home's resident trust subsystem, the state's accounting system, and the bank statement should have identified these interest and account differences. Monthly account reconciliations are a fundamental internal control to ensure that the accounting balances in the state's accounting system and the home's subsidiary records agree to the amounts on deposit in the state treasury and the local checking account. This reconciliation would also assure that the home accurately allocated interest earnings to the individual resident accounts. By not performing these reconciliations, the home had an unacceptable risk of errors and fraud.

Recommendations

- *The home should perform monthly reconciliations between the financial activity recorded on the home's resident trust subsystem and the state's accounting system.*

- *The home should ensure that it accurately allocates monthly interest earned to the individual resident accounts.*

Finding 5

The home had weaknesses in its internal controls over payroll.

The home's internal controls did not ensure that it accurately recorded and documented all payroll expenses and complied with applicable state policies and collective bargaining unit agreements. State statutes, the home's policies, and collective bargaining agreements established criteria and procedures for paying employees. The home was responsible to design and implement internal controls for paying employees to ensure that it properly recorded payroll expenses and accurately paid employees in compliance with those policies and procedures.

The home had the following internal control weaknesses and noncompliance in its payroll process:

- The home was reviewing the payroll register report; however, the home did not have an employee independent of the payroll process reviewing the report. An independent review would help prevent or deter a payroll employee from making unauthorized changes to payroll data.

- The home's payroll staff told us that sometimes employees were paid based on timesheets that the employees' supervisors had not approved. State policy requires that supervisors approve their employees' timesheets.[13] The home's exceptions usually occurred when the payroll clerk needed to process unapproved timesheets to pay employees, but did not follow up with the direct supervisors to verify the accuracy of the hours worked for that period.

- The home incorrectly allowed shift differential payments in 3 out of 15 sample items we tested, resulting in overpayments totaling $106. The collective bargaining agreements specify when an employee is eligible for this additional compensation, usually based on working evening and nighttime hours. An important responsibility of a supervisor's review of an employee's timesheet is to ensure that the employee met the shift differential criteria before authorizing payment.

- The home paid 17 of 22 sampled employees for overtime hours without documentation of advance approval. For ten of those employees, supervisors signed overtime requests after the overtime was worked. For the other seven employees, no overtime requests or documentation of approval was available. State policy[14] requires advanced approval for overtime, and the home's record retention policy indicates that the home should retain documents for the three most recent fiscal years and the current fiscal year, or until the records are audited. The home's overtime costs averaged about $54,000 annually or approximately one percent of

[13] SEMA4 Policy PAY0017.
[14] SEMA4 Policy 0012.

the home's total payroll expenditures. Although the home's total overtime costs are not significant, the home needs to change its overtime approval process to reduce the risk of unauthorized payments.

Recommendation

- *The home should improve its internal controls over payroll by:*
  - -- *Having an employee independent of the payroll process review the payroll register report.*
  - -- *Ensuring that direct supervisors review and approve their employees' timesheets to ensure the accuracy of the reported hours agrees with actual hours worked, including any overtime hours.*
  - -- *Reviewing and analyzing its shift differential payments and practices to ensure that it accurately and consistently applies shift differential criteria.*
  - -- *Adhering to its record retention policy and maintaining documentation to support its overtime and employee leave transactions.*
  - -- *Complying with the state's overtime policy by documenting its advance approval of requests for overtime.*

Finding 6

The home set initial pay for some employees higher than allowed by state personnel rules.

During fiscal years 2007 through 2009, the home set initial pay for three of five new employees tested higher than allowed by state personnel rules. The home did not adequately seek proper approval from the Department of Management of Budget for compensating newly hired employees above the allowed amount set by state personnel rules.[15] The home relied on the authorization under delegated authority from the former human resources director at the Veterans Home Board.[16] However, that authority only applied to licensed practical nurse positions. Two of the five tested were licensed practical nurses, for which the home had delegated authority, and was able to provide appropriate

[15] *Minnesota Rules* 2008, Chapter 3900.2100, subd. 2, limits initial pay for new employees at 12 percent above the bottom of the range for the position or at the third step in the range, unless authorized by the commissioner of the Department of Management and Budget.
[16] The former human resources director at the Veterans Home Board had obtained delegation of authority from the Department of Management and Budget to hire LPN 1 and LPN 2 positions above the limits established in personnel rules. This authority was applicable to all of the state's veterans homes. However, this authority did not apply to other positions. The authority was not documented in writing.

documentation. The home exceeded its delegation of authority, however, for the three other employees we tested.

Recommendations

- *The home should set initial compensation within the limits of state personnel rules, except in cases where it obtains specific approval from the Department of Management and Budget to set a higher compensation rate.*

- *The home should work with the Department of Management and Budget to determine whether it needs to adjust employee compensation or seek repayment because it lacked authority when it set the initial compensation rates.*

Finding 7

The home did not manage its fixed assets, as required by state policy.

The home did not have effective controls in place for its fixed asset and sensitive item inventory.[17] Effective controls would ensure that the home accurately recorded all fixed assets and sensitive items, identified those fixed assets with State of Minnesota fixed asset tag numbers, and complied with the state's fixed asset policy.[18]

The home had the following deficiencies in its fixed asset management:

- The home did not conduct a full physical inventory of fixed assets and sensitive items during the period from July 2006 through the end of March 2009. State policy requires the home to conduct a physical inventory for fixed assets and sensitive items at a minimum, biennially.[18.]

- The home had not recorded 3 of 11 fixed assets we tested on its fixed asset inventory list. The home also had not assigned a State of Minnesota fixed asset tag number to these assets. According to state policy, the home must label fixed assets over $5,000 and sensitive items as property of the State of Minnesota and maintain these assets on an inventory system.[18] The policy states that the home should assign the fixed asset identification number at the time it creates the purchase order.

[17] Sensitive items, such as personal computers, cameras, and power tools, are generally for individual use, could be easily sold, and are often subject to theft or misuse.
[18] Department of Administration Policy FMR-1G-01.

Recommendations

- *The home should conduct a complete physical inventory of its fixed assets and sensitive items at least biennially. The home should adjust its fixed asset system for any discrepancies identified during the physical inventory.*

- *The home should ensure all equipment and fixed assets are properly labeled with a State of Minnesota asset identification number and included in the fixed asset inventory system.*

Finding 8

The home reimbursed some employees for travel expenditures that did not comply with applicable policies.

The home did not ensure that employees had adequately documented travel expense reimbursement requests or complied with applicable state policies and collective bargaining unit agreements. State policies and collective bargaining agreements establish the criteria and procedures for reimbursing employees for expenses incurred while conducting state business.[19] The home was responsible to ensure that it reimbursed employees in compliance with those policies and procedures. The home paid travel reimbursements to employees totaling approximately $18,600 from July 1, 2006, through March 31, 2009.

The home had the following weaknesses in its employee travel reimbursement process:

- The home did not have documentation to support travel reimbursements paid to a Minneapolis Veterans Home employee who performed pharmacy duties at the Hastings Veterans Home under an interagency agreement. The Minneapolis Veterans Home entered these reimbursements into the state's accounting system, using the Hastings Veterans Home's budget accounts. However, neither home could find documentation to support these transactions. The pharmacist was reimbursed a total of $452 from July 2006 through March 2009.

- The home reimbursed an employee without verifying that required specific information was on the travel expense reimbursement form. State policy requires employees to provide specific locations and times of all trips and to separate trip and local mileage claimed for reimbursement. The home provided the highest amount of travel reimbursements during the audit period to the volunteer coordinator totaling $5,390. Two travel reimbursement requests we tested for this employee totaling $902 did not

[19] Department of Management and Budget Policy PAY0021 and Department of Administration Policy FMR-4C-01.

contain the specific locations visited, did not separate the trip and local miles, and did not provide the times of travel. Without this required information, the home cannot ensure the validity of the claim.

- The home overpaid one employee $48 for meals incurred while at a conference that had provided the meals as part of the conference fee. Except in unusual circumstances, the state does not allow meal reimbursements to employees for meals provided as part of the conference fee.

Recommendations

- *The home should strengthen its controls over employee travel reimbursements to ensure compliance with state policies and bargaining agreements.*
- *The home should recover the $48 overpayment.*

Finding 9

The home did not properly identify the liability date for some expenditure transactions recorded in the state's accounting system.

For 13 of 47 sample expenditure transactions we tested, the home did not properly record in the state's accounting system the date the state incurred a liability. The home often recorded the invoice date rather than the date the home received the goods or services.

State policy requires the home to record the date that the state became liable for an expenditure; the policy explains that this is typically the date when the home received the goods or services. The state uses the liability date to determine the proper financial reporting period for the expenditure.[20] By using the wrong liability date, the home's transactions may accrue to the wrong fiscal year.

Recommendation

- *The home should ensure that it accurately records the date of liability in the state's accounting system.*

Finding 10

The home did not fully execute contracts before providing services for some lease contracts.

The home provided services under some lease contracts before it fully executed the contracts. *Minnesota Statutes* require that agencies fully execute contracts

[20] Department of Management and Budget Policy 0901-01.

prior to providing services.[21] In four of seven lease contracts we tested, the home provided services before executing the contract and did not notify the Department of Administration of the noncompliance. A fully executed contract protects the state's interests by ensuring both parties have agreed to the terms and conditions of the contract before the services are provided. The state contracting manual requires that if violations occur with statutory requirements, agency management must submit a violation memo to the Department of Administration.[22] The violation memo documents the circumstances that resulted in the noncompliance and the necessary corrective action to prevent future noncompliance.

Recommendation

- *The home should ensure compliance with all statutory requirements for contracts. If exceptions occur, the home must file the required violation memo with the Department of Administration.*

Finding 11

The home did not deposit certain receipts in a timely manner.

Minnesota Statutes require the home to deposit receipts greater than $250 within one day.[23] The home did not deposit any of the 5 canteen receipts we tested and 4 of the 21 gift and donation receipts we tested within the statutory timeline. The deposits tested ranged from $400 to $3,175.

Recommendation

- *The home should promptly deposit receipts in accordance with statutory requirements.*

Finding 12

The home did not adequately segregate incompatible duties related to its woodshop receipts.

The home did not have adequate segregation of duties for its woodshop receipt process. One employee was responsible for receiving the order forms for woodshop products, collecting the receipts, recording the receipts in the home's internal accounting system, managing accounts receivable, and supervising the woodshop activity.

Segregation of duties is a fundamental internal control designed so that no single individual has control over all phases of a transaction or operation. It is used to ensure that errors or irregularities are prevented or detected on a timely basis by employees in the normal course of business. In those instances where the home

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[21] *Minnesota Statutes* 2008, 16C.05, subd. 2.
[22] Department of Administration's Professional/Technical Services Contract Manual, Section 7.
[23] *Minnesota Statutes* 2008, 16A.275.

cannot fully segregate incompatible duties, it must establish detective controls, such as supervisory authorizations of certain transactions or review of reconciliations, designed to mitigate the risk of errors or irregularities.

Recommendation

- *The home should adequately separate incompatible duties in its woodshop receipts process.*

Finding 13

The home used some funds in the gift and donation account without proper authorization from the designated contribution committee.

The home paid 3 of 16 gift fund expenditures tested without authorization from the home's designated contribution committee. Board policy requires each home to establish a designated contribution committee to administer the receipt and distribution of funds donated for the benefit of residents.[24] The committee is comprised of residents, employees, and management. The committee did not authorize two transactions that totaled $7,213. In the third exception, the committed approved an expenditure of $7,243, but the home actually paid $9,243, which exceeded the committee's authorized amount by $2,000. The home risked spending its gifts and donated funds for unallowable activities and not in accordance with the donor's specifications without the prior approval of the committee or a review of actual expenditures.

Recommendation

- *The home should ensure the designated contribution committee approves and reviews all gift fund expenditures.*

Finding 14

The home did not properly review the cashier's deposits of unspent cash advances for resident recreational activities.

The home did not have an adequate separation of incompatible duties to ensure that it properly safeguarded cash advanced to employees for resident recreational activities. The cashier maintained a spreadsheet to track the cash advanced to employees for resident recreational activities and unspent cash those employees returned after the activity. The cashier reconciled the receipts for cash spent and the cash returned to the original amount advanced. The cashier then prepared a deposit slip for the returned cash and recorded the deposit in the state's accounting system. These duties are incompatible, because the same person

[24] Minnesota Veterans Home Board, Agency Operating Policy, Donations for the Benefits of the Residents; Designated Contributions, AOP-07-001, reissued February 24, 2005.

should not have access to cash and be responsible for reconciling accounts. The home had not designed effective detective controls to mitigate this risk.

Without adequate separation of duties or effective detective controls, the home could not ensure that the cashier deposited all returned cash and properly recorded the transactions in the accounting system.

Recommendation

- *The home should either separate the incompatible duties or design effective detective controls to mitigate the increased risk of errors or inappropriate transactions.*

STATE OF MINNESOTA DEPARTMENT OF VETERANS AFFAIRS
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September 16, 2009

James R. Nobles
Legislative Auditor
Office of the Legislative Auditor
658 Cedar Street
Room 140, Centennial Building
St. Paul, MN 55155-1603

Dear Mr. Nobles,

I have received and reviewed the draft audit report for the period January 1, 2006, through March 31, 2009, for the Minnesota Veterans Home – Hastings. I welcome the opportunity to respond to the fourteen (14) findings detailed in this report.

Finding #1: The home did not identify, analyze, and document in its internal controls related to its business operations.

Response:

- The MN Department of Veterans Affairs Central Office has begun reviewing the policies and procedures relating to internal controls.
- A risk assessment of the key areas identified in the audit report will be completed by the Business Manager by January 1, 2010, and reported to the Administrator, and the MN Department of Veterans Affairs Financial Manager.

Finding #2: The home did not accurately calculate the daily cost of care rate for fiscal year 2007 and 2008.

Response:

- The MN Department of Veterans Affairs Central Office has now developed a system-wide process to accurately determine the cost of care.
- The Business Manager will recalculate and analyze the impact of the miscalculations in 2007 and 2008 using the new system-wide process by September 30, 2009.

Finding #3: The home did not have adequate controls to ensure that it maintained accurate records of amounts owed by residents.

Response:

- The Business Manager reviewed employee access to the home's resident maintenance fee and accounts receivable subsystem, and made adjustments to incompatible duties.
- The Account Clerk Senior will refer all overdue accounts to the Department of Revenue within 121 days after the due date.
- All transactions relating to resident accounts will be recorded by the Account Clerk Senior accurately as notified.
- Beginning September 1, 2009, the Accounting Officer began reviewing and reconciling accounts, and this will be completed at the end of each month.
- Beginning October 1, 2009, the Account Clerk Senior will charge interest on all resident maintenance accounts not paid when due.
- Administrator has approved all write-off requests, and will approve all future write-off requests timely.

Finding #4: The home did not reconcile funds it held in trust for residents to the state's accounting system or to bank statements.

Response:

- On September 1, 2009, the Accounting Officer began performing monthly reconciliations, and reporting his findings.
- The MVH-Hastings, in conjunction with the MN Department of Veterans Affairs Central Office, will create a standardized process regarding the allocation of resident interest by January 1, 2010. The Account Clerk Senior will distribute interest to the resident accounts accurately each month.

Finding #5: The home had weaknesses in its internal controls over payroll.

Response:

- On May 26, 2009, the Accounting Officer began an independent review of the payroll process.
- Beginning September 16, 2009, the department supervisor will be responsible for the review and approval of their employee's timesheets. The Account Clerk Senior will review, and notify the Business Manager of any unapproved employee timesheets.
- Beginning September 16, 2009, the department supervisor will be responsible for the approval of shift differential according to the respective union contract.

- Administration will ensure that all employees review and adhere to the record retention policy by September 16, 2009.
- Beginning September 16, 2009, all overtime will be approved per the state's policy.

Finding #6: The home set initial pay for some employees higher than allowed by state personnel rules.

Response:

- The Human Resource Director, in conjunction with the MN Department of Veterans Affairs Human Resource Director, will work with the Department of Management and Budget to resolve the compensation rates and delegated authority by October 1, 2009.

Finding #7: The home did not manage its fixed assets, as required by state policy.

Response:

- A physical inventory will be completed by October 31, 2009, by the Accounting Officer, and then at least biennially.
- The Accounting Officer will ensure that all equipment and fixed assets are properly labeled with a State of Minnesota asset identification number by October 31, 2009.

Finding #8: The home reimbursed some employees for travel expenditures that did not comply with applicable policies.

Response:

- Employees have been advised to complete the expense reimbursement request in its entirety. The Business Manager will review the expense reimbursement request for compliance prior to any payments.
- The overpayment of $48 was recovered on September 15, 2009.

Finding #9: The home did not properly identify the liability date for some expenditure transactions recorded in the state's accounting system.

Response:

- The Cashier was trained on September 9, 2009, and will accurately date all future expenditure transactions.

Finding #10: The home did not fully execute contracts before providing services for some lease contracts.

Response:

- The Business Manager will review all contracts and dates to ensure compliance by September 30, 2009.

Finding #11: The home did not deposit certain receipts in a timely manner.

Response:

- The Cashier began depositing receipts daily on June 1, 2009. The Accounting Officer began reconciling to ensure compliance on June 1, 2009.

Finding #12: The home did not adequately segregate incompatible duties related to its woodshop receipts.

Response:

- The Business Manager and Recreation Program Supervisor will develop a policy and procedure to segregate incompatible duties by October 31, 2009.

Finding #13: The home used some funds in the gift and donation account without proper authorization from the Designated Contribution Committee.

Response:

- The current policy will be changed by October 1, 2009, which will require that the Chair of the Designated Contributions Committee, in conjunction with the Administrator or Business Manager, approve all expenditure requests outside of the Designated Contributions Committee. The Chair will then bring the expenditure request to the next Designated Contributions Committee meeting for approval.

Finding #14: The home did not properly review the cashier's deposits of unspent cash advances for resident recreational activities.

Response:

- The incompatible duties were separated on September 8, 2009. The Cashier will forward documentation to the Accounting Officer for reconciliation.

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

Cc: Commissioner Clark Dyrud
Deputy Commissioner Gilbert Acevedo
Senior Director, Pam Barrows
Charles Cox, Administrator
Mark Kryzer, Business Manager