



FINANCIAL AUDIT DIVISION REPORT

Department of Veterans Affairs

**Minnesota Veterans Home at
Minneapolis**

Internal Control and Compliance Audit

July 1, 2007, through April 30, 2010

October 14, 2010

Report 10-33

FINANCIAL AUDIT DIVISION

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State of Minnesota • James Nobles, Legislative Auditor

October 14, 2010

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Mr. Michael Pugliese, Commissioner
Department of Veterans Affairs

Ms. Pam Barrows, Acting Administrator
Minnesota Veterans Home at Minneapolis

This report presents the results of our internal control and compliance audit of the Minnesota Veterans Home at Minneapolis (home) for the period July 1, 2007, through April 30, 2010. We also followed up on the home's progress toward implementing the findings and recommendations identified in our prior audit report issued in November 2008.

While we conclude that the home's internal controls have improved since our last audit, the home continues to have weaknesses with some fundamental financial control processes, and there is a substantial risk that the home may not be able to sustain the improvements it has made unless it is able to maintain consistent administrative leadership, and its business office is fully staffed with knowledgeable, experienced personnel.

We discussed the results of the audit with the department and the home at an exit conference on September 28, 2010. This audit was conducted by Michael Hassing, CPA, CISA (Audit Manager) and Laura Wilson, CPA, CISA (Auditor-in-Charge), assisted by auditors Lat Anantaphong, CPA, Melanie Greufe, Bridgette Leonard, Jamie Majerus, CPA, and Kathy Rootham.

This report is intended for the information and use of the Legislative Audit Commission and the management of the Department of Veterans Affairs and the Minnesota Veterans Home at Minneapolis. This restriction is not intended to limit the distribution of this report, which was released as a public document on October 14, 2010.

We received the full cooperation of the staff from the Department of Veterans Affairs and Minnesota Veterans Home at Minneapolis while performing this audit.

James R. Nobles
Legislative Auditor

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

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Report Summary

Conclusion

The Department of Veterans Affairs' Minnesota Veterans Home at Minneapolis generally had adequate internal controls to ensure that it safeguarded its financial resources, accurately paid employees and vendors in accordance with management's authorizations, complied with finance-related legal provisions, and created reliable financial data. Since our last audit in November 2008, the home has improved its internal controls. In particular, the home made significant improvements to control its largest expenditure, payroll, and reduce the amount of overtime paid to employees. However, the home continued to have weaknesses in some fundamental financial control processes. There is a substantial risk that the home may not be able to sustain the improvements it has made unless it is able to maintain consistent administrative leadership and its business office is fully staffed with knowledgeable, experienced personnel.

For the items tested, the home generally complied with financial-related legal requirements. However, the home had noncompliance with certain finance-related legal requirements.

The home made significant progress to resolve the prior audit findings. It fully resolved 7 and partially resolved 8 of the 18 prior audit findings. However, it continued to have weaknesses in some areas.

Key Findings

- Prior Finding Not Resolved: The Minnesota Veterans Home at Minneapolis did not adequately assess its business risks or monitor the effectiveness of its internal controls over its key financial activities. ([Finding 1, page 9](#))
 - The home did not adequately separate duties in certain functions. ([Finding 2, page 11](#))
 - Prior Finding Partially Resolved: The home did not adequately restrict employees' access to the accounting systems. ([Finding 3, page 12](#))
 - Prior Finding Partially Resolved: The home did not successfully reconcile its internal accounting systems to the state's accounting system. ([Finding 4, page 14](#))
 - The home charged some residents incorrect maintenance fees. ([Finding 7, page 17](#))
 - Prior Finding Not Resolved: The home did not accurately calculate the annual cost of care rate for fiscal years 2008 and 2009. ([Finding 8, page 18](#))
 - The home did not adequately follow up on outstanding accounts receivable balances. ([Finding 9, page 20](#))
 - The home paid some employees the wrong amounts. ([Finding 12, page 24](#))
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Audit Objectives and Scope

The objective of this audit was to examine internal controls and compliance for resident cost of care, resident accounts, gifts and donations, payroll, and other administrative expenditures and fixed assets for the period July 1, 2007, through April 30, 2010, and to determine whether the home adequately resolved the prior audit findings and recommendations.¹

¹ Office of the Legislative Auditor, Financial Audit Division, Report 08-32, *Minnesota Veterans Home at Minneapolis*, issued November 26, 2008.

Department of Veterans Affairs Minnesota Veterans Home at Minneapolis

Agency Overview

The Department of Veterans Affairs oversees the operation of five state veterans homes, including the Minnesota Veterans Home at Minneapolis.² The Minnesota Veterans Home at Minneapolis (home) is the oldest and largest of the veterans homes; it was established in 1887 and has approximately 50 domiciliary and 300 skilled nursing care residents.

The Department of Veterans Affairs became responsible for the oversight of the veterans homes in November 2007, when the Governor abolished the Minnesota Veterans Homes Board and transferred the board's functions, powers, duties, and responsibilities to the department.³ The action was prompted by serious concerns about health care issues of veterans at the Minneapolis home and was based on the recommendations of the Veterans Long-Term Care Advisory Commission. Deputy Commissioner Gilbert Acevedo oversees the department's Veterans Health Care Division, which includes the five veterans homes. The veterans homes operate under *Minnesota Statutes* 2009, Chapter 198. *Minnesota Rules* 2009, Chapter 9050, outlines the process for determining resident eligibility, maintenance charges, and calculating the cost of care.

In November 2008, we issued an internal control and compliance report of the home's financial management.⁴ That report included serious weaknesses in the home's financial operations that showed lack of proper administrative oversight and an unacceptable level of financial management controls.

The department received General Fund appropriations that it allocated to the homes to fund a portion of their financial operations. The Minneapolis home maintains its operating account on the state's accounting system. The home also received federal per diem and resident maintenance payments that it deposited into the operating account. In addition, the home maintains resident trust accounts and a gift account for designated contributions from donors. The home keeps a portion of these funds in local bank accounts to meet the daily cash demands of the residents. Table 1 summarizes the home's revenues and expenditures for the period July 1, 2008, through June 30, 2010.

² The other homes are located in Fergus Falls, Hastings, Luverne, and Silver Bay.

³ Reorganization Order 194 and Executive Order 07-20.

⁴ Office of the Legislative Auditor, Financial Audit Division, Report 08-32, [Minnesota Veterans Home at Minneapolis](#), issued November 26, 2008

Table 1
Revenues and Expenditures
July 1, 2008, through June 30, 2010¹

<u>Receipts²</u>	<u>2008</u>	<u>2009</u>	<u>2010³</u>
Cost of Care ⁴	\$14,145,866	\$15,019,384	\$17,400,815
Resident Trust Account Deposits ⁵	668,295	619,753	642,656
Gifts and Donations ⁵	186,693	92,976	296,918
Other Revenue ⁶	306,990	317,246	293,851
Total Receipts	<u>\$15,307,844</u>	<u>\$16,049,359</u>	<u>\$18,634,240</u>
<u>Expenditures</u>			
Payroll	\$29,912,100	\$32,586,595	\$31,672,007
Supplies	2,806,441	3,062,133	3,295,145
Professional/Technical Contracts ⁷	1,345,679	815,044	277,892
Space Rental, Maintenance, & Utility	1,001,712	995,508	860,430
Resident Trust Withdrawals	687,975	648,732	618,244
Equipment	290,440	135,471	171,539
Communication	190,361	229,564	261,477
Repairs, Alterations, and Maintenance ⁸	128,057	71,158	1,831,058
Other expenditures ⁹	815,175	823,025	701,807
Total Expenditures	<u>\$37,177,940</u>	<u>\$39,367,230</u>	<u>\$39,689,599</u>

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

² The home also received appropriations of \$21,101,788 in 2008, \$22,254,885 in 2009, and \$22,253,059 in 2010.

³ Although we show all of fiscal year 2010 activity for comparison purposes, our audit scope only went through April 30, 2010.

⁴ Cost of care includes federal per diems and maintenance charges to residents. Beginning in fiscal year 2010 and retroactive to March 2007, Public Law 109-461 directed the US Department of Veterans Affairs to pay state veteran homes either the prevailing rate or actual cost of care (whichever is less) for veterans who are 70 percent or more disabled from service-connected injuries. As a result, the home received more than \$3 million in fiscal year 2010 from this directive.

⁵ Resident trust accounts and gifts and donations also include interest earned.

⁶ Other Revenue includes facility rental income and canteen sales.

⁷ Professional/Technical Contracts decreased significantly because the home hired additional permanent nursing staff and no longer needed the services of a nursing staff service contractor.

⁸ In fiscal year 2010, the home received federal grants to renovate several of its buildings.

⁹ Other expenditures include indirect costs paid to the state, employee development, travel, printing, and advertising.

Source: Minnesota Accounting and Procurement System as of June 30, 2010.

Objectives, Scope, and Methodology

Our audit of the Minnesota Veterans Home at Minneapolis included cost of care, resident trust accounts, gifts and donations, payroll, fixed assets, procurement, and other administrative expenditures and focused on the following audit objectives for the period of July 1, 2007, through April 30, 2010:

- Were the home's internal controls adequate to ensure that it safeguarded its financial resources, accurately paid employees and vendors in accordance with management's authorizations, created reliable financial data, and complied with finance-related legal provisions?
- Did the home comply with significant finance-related legal requirements?
- Did the home resolve prior audit findings?

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 potential noncompliance with relevant legal requirements. We analyzed accounting data to identify unusual trends or significant changes in financial operations. We examined samples of financial transactions and reviewed supporting documentation to test whether the home's controls were effective and if the transactions complied with laws, regulations, policies, and grant and contract provisions. We concentrated our detailed testing on fiscal year 2010 to gain the most current assessment of the home's progress at resolving the prior findings and recommendations.

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 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 controls.⁵ We used state and federal laws, regulations, and contracts, as well as policies and procedures established by the departments of Management and Budget, Administration, and Veterans Affairs and the home as evaluation criteria over compliance.

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.

Conclusion

The Department of Veterans Affairs' Minnesota Veterans Home at Minneapolis generally had adequate internal controls to ensure that it safeguarded its financial resources, accurately paid employees and vendors in accordance with management's authorizations, complied with finance-related legal provisions, and created reliable financial data. Since our last audit in November 2008, the home has improved its internal controls. In particular, the home made significant improvements to control its largest expenditure, payroll, and reduce the amount of overtime paid to employees. However, the home continued to have weaknesses in some fundamental financial control processes. There is a substantial risk that the home may not be able to sustain the improvements it has made unless it is able to maintain consistent administrative leadership and its business office is fully staffed with knowledgeable, experienced personnel.

For the items tested, the home generally complied with financial-related legal requirements. However, the home had noncompliance with certain finance-related legal requirements.

The home made significant progress to resolve the prior audit findings. It fully resolved 7, and partially resolved 8 of the 18 prior audit findings. However, it continued to have weaknesses in some areas. Table 2 on page 7 shows the status of the prior audit findings and provides a crosswalk to the findings repeated in this report.

The *Findings and Recommendations* section of the report provides further explanation about the exceptions noted above.

Table 2
Minnesota Veterans Home at Minneapolis
Status of Prior Findings ^(Note A)

Prior Finding #	Prior Finding	Status	New Finding #
1	The home did not fulfill its financial management responsibilities to control its financial activities and ensure that transactions complied with state requirements and internal policies.	Not Resolved	1
2	<i>Prior Finding Not Resolved</i> (Note B): The home did not adequately safeguard its receipts.	Partially Resolved	10
3	<i>Prior Finding Not Resolved</i> : The home did not reconcile its internal accounting systems to the state's accounting system or to bank statements.	Partially Resolved	4
4	<i>Prior Finding Not Resolved</i> : The home did not adequately restrict employees' access to the accounting systems.	Partially Resolved	3
5	The home could not locate numerous documents to support certain financial activities.	Partially Resolved	5
6	<i>Prior Finding Not Resolved</i> : The home did not verify that supervisors approved their employees' timesheets.	Partially Resolved	11
7	<i>Prior Finding Not Resolved</i> : The home did not adequately manage its employee overtime costs.	Resolved	
8	The home did not adequately manage its personnel function.	Resolved	
9	The home did not adequately manage its fixed assets.	Partially Resolved	13
10	The home's pharmacy did not adequately manage its noncontrolled prescription drugs and other pharmaceutical supplies.	Resolved	
11	The home did not always solicit vendor bids for purchase of supplies and equipment.	Resolved	
12	The home did not require employees to account for cash advanced from the gift and donation account for resident recreational activities.	Resolved	
13	The home used funds in the gift and donation account without authorization from the designated contribution committee.	Resolved	
14	The home did not track nonmonetary gifts and donations on its accounting subsystem.	Not Resolved	Note C
15	<i>Prior Finding Not Resolved</i> : The home did not adequately manage residents' funds it held in trust.	Partially Resolved	4 & 10
16	The home did not accurately allocate interest earned income to the resident trust accounts.	Partially Resolved	4
17	<i>Prior Finding Not Resolved</i> : The home did not accurately calculate the annual cost of care rate for fiscal years 2005 and 2007.	Not Resolved	8
18	The home did not record collections of past due maintenance fee accounts receivable in its resident accounts receivable subsystem.	Resolved	

Note A: Office of the Legislative Auditor, Financial Audit Division, Report 08-32, *Minnesota Veterans Home at Minneapolis*, issued November 26, 2008.

Note B: *Prior Findings Not Resolved* in Table 2 are from Office of the Legislative Auditor, Financial Audit Division Report 05-43, *Minnesota Veterans Home at Minneapolis*, issued July 22, 2005.

Note C: The home did not attempt to resolve this prior finding so we did not perform audit work related to this finding. However, finding 13 addresses donations that are capital assets or sensitive items.

Source: Auditor prepared.

Findings and Recommendations

Finding 1

Prior Finding Not Resolved: The Minnesota Veterans Home at Minneapolis did not adequately assess its business risks or monitor the effectiveness of its internal controls over its key financial activities.

The home had not comprehensively assessed its financial management risks, including risks to the home's ability to protect its financial resources from unauthorized disbursements, accurately record financial activity, protect and properly account for residents' personal funds, and comply with finance-related legal requirements. The home had not established effective strategies to ensure that important controls (such as separation of duties, reconciliations, and accurate accounting for resident funds) did not deteriorate over time or during periods of high staff turnover. The home had also not established effective monitoring strategies to ensure that management was aware whether staff had performed important duties promptly and correctly.

Although the home made improvements to address the prior audit findings and to strengthen internal controls, it still had weaknesses in its fundamental internal controls of separation of duties, system access, account reconciliations, documentation and data integrity, as described in Findings 2 through 6. It also had specific control weaknesses and noncompliance issues identified in Findings 7 through 13.⁶

The home continued to have a high level of turnover in administrative and business office positions, including the following:

- Since 2008, the home has had four administrators. As of September 2010, the department had not named a permanent administrator. Carol Gilbertson served as the interim administrator during our prior audit through July 2008. Pam Barrows was named the interim administrator at the Minneapolis home from August 2008 through October 2008, when the department hired Judy Kurki-Coleman to be the permanent administrator. In October 2009, Ms. Kurki-Coleman resigned, and Daniel Steen became the permanent administrator. Mr. Steen resigned in June 2010, and Pam Barrows resumed the interim administrator role.
- Since July 2009, the business office has had significant turnover, including several key managerial and supervisory staff: The accounts receivable

⁶ We also observed other weaknesses that presented additional financial risks, including recording incorrect liability dates in the state's accounting system, having outdated policies and procedures, specifically related to fixed assets and accounts receivable, and not having a written agreement with the Minnesota Veterans Home – Hastings for shared pharmacy services.

supervisor resigned in October 2009; the assistant business manager resigned in March 2010; and the business manager retired in June 2010. The home has been working to fill these vacancies and is reassessing the organizational structure and responsibilities of several positions in the business office. As of September 2010, 8 of 16 employees in the business office are new to the home or in a new position since May 2010, including the business manager, assistant business manager, and two lead workers for accounts receivable and payable accounts.

Maintaining continuity in the home's administrator and knowledgeable and experienced staff in the business office are critical factors to sustaining the progress to date and in developing a solid control environment for fulfilling its fiduciary responsibilities. The amount of turnover resulted in the loss of experience and institutional knowledge, increased individual employees' workloads, and increased supervisory demands on more experienced personnel. Some internal control improvements, such as following up on accounts receivable and prompt reconciliations, deteriorated when positions became vacant. In this environment, there is an increased risk that errors and fraud could occur without detection. The home could have difficulty attracting and retaining qualified staff because of job classifications and compensation levels not matching the size, complexity, and risk environment of the home's operations.

In January 2010, the Department of Veterans Affairs hired an internal auditor. One of the internal auditor's first assignments was to assist the home with assessing financial risks and monitoring internal controls. While the auditor had begun to document the home's risks and procedures within the receipting area, he did not monitor whether the home implemented procedures to effectively prevent or detect errors and fraud. The internal auditor's work was interrupted when, due to the significant turnover in the home's business office, he was assigned to perform various reconciliations between accounting systems and process limited financial transactions for the home, which were regular duties that business office staff should have performed. These additional responsibilities diminished the internal auditor's availability to complete the risk assessments for other major financial processes and monitor internal controls.

The state's policy on internal controls requires that each agency head identify, analyze, and manage business risks that impact the entity's ability to maintain its financial strength and the overall quality of government services.⁷ The policy further requires follow-up procedures that, at a minimum, should include ways to monitor controls and report significant weaknesses to individuals responsible for the process or activity involved, including executive management and those individuals in a position to take corrective action.

⁷ Department of Management and Budget Policy 0102-01 *Internal Control*.

Had the home developed and implemented procedures to comprehensively assess risks and monitor the effectiveness of its controls over its financial operations, it could have designed controls to prevent or detect and correct the significant weaknesses identified in Findings 2 through 13. The home will continue to struggle to establish appropriate financial management controls and to sustain changes it has made until it has consistent administrative oversight and establishes continuity of experienced business office staff.

Recommendations

- *The home should work with the departments of Veterans Affairs and Management and Budget to develop a comprehensive risk assessment for all financial control cycles of the home and monitor the effectiveness of its internal controls.*
- *The Department of Veterans Affairs should consider reassessing the home's organizational structure and job classifications, including individual job responsibilities, position qualifications, and compensation.*

The Minnesota Veterans Home at Minneapolis did not adequately separate duties in certain functions.

Finding 2

The home did not adequately separate the responsibilities over the cashiering and the associated recordkeeping functions for accounts receivable, resident trust, and designated contributions. In addition, the home did not separate the fixed asset recordkeeping and receiving functions. In each case, the home did not develop and implement effective mitigating controls.

Due to employee turnover in the spring of 2010, the home assigned one person the responsibility to record resident maintenance fee activity in the home's accounts receivable subsystem, residents' deposits and withdrawals in the home's internal resident trust accounts subsystem, and cash receipt activity in the state's accounting system. This employee also performed cashiering duties when the regular cashier was not available. Finally, this same employee had the ability to create, print, and sign checks from the home's resident trust and recreational activity checking accounts. This employee had the ability to control both the cash receipting and check writing processes and could manipulate records to conceal errors or fraud.

The home also allowed the fixed asset coordinator to receive goods, including fixed assets, from suppliers and vendors, update the inventory records, and conduct physical inventories of the home's assets. These duties performed by one employee increased the risk of fraud not being detected.

State policy requires agencies to have proper internal controls, including segregation of duties.⁸ Segregation of duties is a basic, key internal control designed so that no single individual has control over all phases of a transaction or operation. In those instances where duties cannot be fully segregated, mitigating controls must be established. Mitigating controls are additional procedures designed to reduce the risk of errors or fraud. The employees' ability to handle assets, including cash, and record transactions without sufficient mitigating controls provided greater opportunity for errors and fraud to occur and not be detected.

Recommendation

- *The home should separate incompatible duties to ensure no one employee has control over an entire process to help eliminate risks of errors and fraud. If incompatible access cannot be segregated, the home should design, document, and implement effective mitigating control reviews.*

Finding 3

Prior Finding Partially Resolved: The Minnesota Veterans Home at Minneapolis did not adequately restrict employees' access to the accounting systems.

The home allowed some employees to have access to the accounting systems in excess of what is required for their job responsibilities and also allowed some employees to have incompatible access. In addition, the home did not adequately review access to its accounting systems to ensure the access granted to employees was appropriate. Since November 2008, the home eliminated the incompatible access to the state's accounting system for the employees cited in the prior audit report, but did not establish a sufficient monitoring process for system access. As of May 2010, the following deficiencies existed in the home's administration of employees' access to various accounting systems:

- The home's security profiles for the resident maintenance fee accounts receivable subsystem did not allow for adequate separation of duties. The accounts receivable security role within the subsystem allowed users the ability to establish accounts receivable, adjust accounts, and apply resident payments. The home did not develop adequate mitigating controls, such as a review of the account for any questionable activity due to the incompatible access. Of the three employees with update access to the subsystem in May 2010, one resigned in March 2010, another was the cashier who only required view access, and the third employee performed back-up cashiering responsibilities. Having access to cash receipts along with the ability to adjust accounts creates incompatible functions.

⁸ Department of Management and Budget Policy 0102-01, *Internal Control*.

- The home did not delete a former employee's access to write and print checks from the resident trust and recreational activity checking accounts when that employee resigned.
- The resident trust accounting system's security profile allowed access to create data records, change or update existing information, and enter deposit or withdrawal transactions. Two of the three employees with update access to the system also handled cash, which increased the risk of fraud, and the home did not establish effective mitigating controls. The other employee transferred to a new position at the home and no longer required access to this subsystem, but was not removed from the security access profile.
- The home gave six employees excessive access to the state's accounting system. The home did not demonstrate a need for these employees to have the level of access provided to perform their assigned duties. Four of these employees had unnecessary access to the invoicing and receiving functions, one had unnecessary access to the disbursement and receiving functions, and another had access to all the department's data rather than just the home's data.
- The home gave six employees excessive access to the state's payroll system. Four of these employees could access the data for the entire department rather than just the home's data, one human resources employee could update employee leave balances, and an information technology employee had unnecessary access to view employee personnel and payroll data, including not public data like employee direct deposit information. The employees did not need the level of access provided for their job responsibilities.

State policies require agencies to limit employees' update privileges to functions that are essential to the position responsibilities, eliminate incompatible access, and review the access continually.⁹ If avoiding incompatible access is not feasible, the policies require agencies to develop and implement effective mitigating controls. The home increased the risk of errors and fraud by allowing incompatible and excessive access to the home's various accounting systems and not establishing mitigating controls.

Recommendations

- *The home should restrict computer system access for incompatible functions. If the home is unable to eliminate incompatible access because of limitations within the system, it*

⁹ Department of Minnesota Management and Budget Policy 1101-07, *Security and Access* and HR045 *SEMA4 Security*.

should develop and document effective detective controls, such as periodic and independent review of the employees' work to mitigate the risks.

- *The home should periodically review employees' access to its accounting systems to ensure the access is required to perform current job responsibilities and to immediately remove access rights of former employees.*

Finding 4

Prior Finding Partially Resolved: The Minnesota Veterans Home at Minneapolis did not successfully reconcile its internal accounting systems to the state's accounting system.

The home did not successfully reconcile three of its internal accounting subsystems to the state's accounting system. During the last audit, the home had not attempted to reconcile several of its subsystems to the state's accounting system. The home made progress toward performing these reconciliations, but continued to have the following weaknesses:

- The home had not successfully reconciled its internal resident trust accounts subsystem to the state's accounting system and resident trust checking accounts. When the home again attempted to perform this reconciliation in March 2010, the balance on the state's accounting system was about \$11,200 higher than the \$204,270 total in the internal resident trust accounts subsystem. The home's reconciliations did not detect or correct the following errors:
 - \$44 of interest earned in fiscal year 2009 but not recorded in the internal resident trust accounts subsystem.
 - \$1,854 total bank fees that were charged from the resident trust checking account and not reimbursed with the home's operating funds; we reported \$1,302 of these bank fees in our prior audit report, but the home had not reimbursed the resident trust account in the state's accounting system nor identified it as a reconciling item.
 - In 2009, the home began performing quarterly reconciliations of the maintenance fees posted to its resident maintenance fee accounts receivable subsystem and certain revenues recorded on the state's accounting system. However, the home did not include about \$370 of the Department of Revenue's Collection Division receipts from January 2009 through March 2010 in the reconciliations. By not reconciling the total activity in the subsystem to the state's accounting system, the home would not be able to detect errors related to the accounts receivable collections performed by the Department of Revenue's Collection Division.
-

- The home did not successfully reconcile its designated contribution database to the state's accounting system. The home used the designated contribution database for reporting to the designated contribution committee the donations received and the use of those donations. The home attempted this reconciliation but was unable to reconcile the two systems and had varying reconciling differences each month.

By not accurately completing periodic reconciliations, the home could not ensure the accuracy of the accounting subsystems and could not promptly detect errors or unauthorized transactions.

Recommendation

- *The home should accurately complete its periodic reconciliations between the state's accounting system and its subsystems for resident trust accounts, maintenance fees accounts receivable, and designated contributions.*

Prior Finding Partially Resolved: The Minnesota Veterans Home at Minneapolis did not have documentation to support certain financial activities.

Finding 5

The home was unable to provide sufficient documentation to support the propriety of certain financial transactions, management's authorizations of the activity, or to ensure that transactions were properly recorded in the appropriate accounting system. Following are items selected for audit for which the home was unable to provide sufficient documentation:

- The home could not find documentation to support 7 of 12 adjustments made in the state's accounting system related to maintenance fees and federal per diem receipts. All seven transactions moved funds between the skilled nursing and domiciliary revenue codes. These adjusting transactions ranged between \$1,000 and \$553,000 and totaled more than \$1 million. Without the documentation, the home was unable to explain the nature of these transactions.
 - The home was missing key documentation to support 3 of 10 designated contribution payments to vendors. Although the designated contribution committee approved one \$11,300 payment, the home could not provide an expenditure request, purchase order, or invoice to identify the nature of the expenditure; for a \$100 payment for an entertainer, the home could not provide an expenditure request form. In addition, a \$460 payment for lodging had no evidence that it had been approved by the designated contribution committee.
-

- We tested 3 pay periods for 13 employees with overtime paid during fiscal year 2010. The home could not provide approved overtime forms for 20 of 670 hours of overtime paid to these employees for these pay periods.

The home did not comply with its record retention policy. *Minnesota Statutes* require all officers and agencies of the state to maintain records necessary to provide full and accurate documentation of official activities.¹⁰ Statutes further require that the chief administrative officer of each agency preserve the agency's records connected to the transaction of public business, including protecting these records from deterioration, mutilation, loss, or destruction. State policies reinforce this requirement.¹¹ 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, abuse, and noncompliance with legal requirements.

Recommendations

- *The home should document justification and management's authorizations to support its current financial activities.*
- *The home should adhere to the record retention policy and maintain documentation to support its financial records.*

Finding 6

The Minnesota Veterans Home at Minneapolis did not adequately protect not public data on individuals and the home's local checking accounts.

The home did not sufficiently protect not public data on resident bank accounts. The cashier and business office retained copies of checks showing residents' bank accounts and routing numbers. Although the home securely stored these records, retaining this not public data created an unnecessary risk.

The home also recorded its local bank account numbers in unsecured fields in the state's accounting system, which was then stored in the state's information warehouse. Anyone with access to commonly used tables in the state's information warehouse could view this not public data.

Not public data includes any government data that is classified by statute, federal law, or temporary classification as confidential, private, nonpublic, or protected nonpublic.¹² State policy categorizes accounting system data as public and

¹⁰ *Minnesota Statutes* 2009, 15.17, subd. 1 and 2.

¹¹ For example, Department of Management and Budget Policies 0803-05 - *Three Way Match Requirement For All Procurement Component Payments* and PAY0012 – *Requesting and Reporting Overtime*.

¹² *Minnesota Statutes* 2009, 13.02.

specifically instructs state agencies that names and certain information on individuals should not be included.¹³

Recommendations

- *The home should destroy bank account data no longer needed for business operations.*
- *The home should not record its local bank account numbers or other not public data in unprotected fields in the state's accounting system.*
- *The home should work with the Department of Management and Budget to remove or restrict access to the not public data in the state's information warehouse.*

The Minnesota Veterans Home at Minneapolis charged some residents incorrect maintenance fees.

Finding 7

The home did not always enter the correct maintenance fees in the resident maintenance fee accounts receivable subsystem. The maintenance fee is the amount the home charged an individual resident to stay at the home. The home billed 3 out of 30 residents tested a different maintenance fee than the amount originally calculated by the home. The home did not have an effective review process to detect and identify these errors, which resulted in the following overcharges:

- The home double billed one resident twice each month for two months, resulting in \$2,689.66 in overcharges.
- The home incorrectly entered the monthly maintenance fee into the accounts receivable subsystem for one resident. The home billed the resident \$1,591.20 each month rather than \$1,521.90 and overcharged the first month's prorated fee by \$2.27. In total, the home overcharged the resident \$418.07.
- The home incorrectly entered a cost of care adjustment for another resident, resulting in \$61.21 in overcharges. This resident's monthly income decreased, but the home incorrectly increased the maintenance fee rather than decreasing it.

In addition, the home did not adequately monitor the status of real property owned by a newly admitted resident. The home initially included the real property as

¹³ Department of Management and Budget Policy 0803-01.

being available to offset the cost of the resident's care and charged the resident the full maintenance fee. Because the home did not monitor the resident's efforts to sell the property, the home did not subsequently exclude the property from the maintenance fee calculation when the property met the definition of "unsalable" property, as stated in *Minnesota Rules*.¹⁴ Excluding the real property from the maintenance fee calculation would have reduced the resident's maintenance fee. The home potentially overcharged the resident as much as \$14,500. State rules require the home to calculate the maintenance fee based on residents' ability to pay, reducing the fee for residents with less than \$3,000 in assets, and charging full cost of care for residents with more than \$3,000 in assets.¹⁵

Recommendations

- *The home should ensure it charges residents the correct maintenance fees.*
- *The home should review the fiscal year 2010 maintenance fees it billed residents and correct any amounts it overcharged.*

Finding 8

Prior Finding Not Resolved: The Minnesota Veterans Home at Minneapolis did not accurately calculate the annual cost of care rate for fiscal years 2008 and 2009.

The home did not correctly calculate the cost of care rate for fiscal years 2008 and 2009. A secondary review of the calculations by the central office did not identify these errors. The calculations had the following errors for those residents paying the full cost of care:¹⁶

- In fiscal year 2008, the home inappropriately included \$3,421 in transitional housing expenditures in the domiciliary cost of care rate calculation.¹⁷ The home also notified and billed domiciliary residents a different cost of care rate than the rate calculated. As a result, each domiciliary resident paying the full cost of care was overcharged \$65.88 (or 18 cents per day) in fiscal year 2008.
- In fiscal year 2009, the home did not correctly allocate the exclusion of \$328,217 of capital expenditures between domiciliary care and skilled

¹⁴ *Minnesota Rule* 2009, 9050.0600, Subp. 2E(2), states that a property is considered unsalable after "an actual good faith sale attempt was made at a price not more than an estimate of the highest current market value, . . . but no offer to purchase was received."

¹⁵ *Minnesota Rule* 2009, 9050.0560.

¹⁶ The full cost of care is only charged to residents with the financial ability to pay. Approximately five percent (19 of 343) of the home's residents paid full cost of care as of September 2010.

¹⁷ The home pays for transitional housing expenditures from federal grant funds. *Minnesota Rules* 2009, 9050.0500, Subp.2C, excludes federal funds from cost of care calculations.

nursing care.¹⁸ The home also included \$17,586 of unallowable capital expenditures in the calculation and included \$290 of unallowable transitional housing expenditures in the calculation. As a result, each domiciliary resident paying the full cost of care was overcharged \$160.60 per year (or 44 cents per day), and each skilled nursing care resident paying the full cost of care was undercharged \$32.85 per year (or 9 cents per day).

In addition, for fiscal years 2008, 2009, and 2010, the home had not reevaluated the percentages it used to allocate some direct costs between domiciliary and skilled nursing care in determining the final cost of care rates. By not periodically reassessing the allocation percentages, the home may not be charging the residents correctly based on a reasonable estimate of the costs of services provided.

The home also miscoded some fiscal year 2010 expenditures in the state's accounting systems; it coded \$36,430 of expenditures to the wrong expenditure types and \$1,650 to the wrong appropriation. Because the home relies on the accuracy of costs recorded in the accounting system for the rate calculation, these errors may cause inaccurate cost of care rates in fiscal year 2011.

The cost of care rate calculation, defined in statute, is the average cost of providing services to residents and is the basis for determining the amount to charge individual residents. Specifically, the statute requires the home to determine its charges based on "the average cost per resident taking into account, but not limited to, administrative cost of the homes, the cost of services available to the resident, and food and lodging costs. These average costs must be calculated separately for domiciliary and nursing care residents."¹⁹ The home calculated its annual cost of care rate based on its operating expenditures from the previous March 1 through the end of February for each year. Small variances in accounts used in the formula caused the rate to be incorrect, which result in the veterans being charged an incorrect rate.

Although the cost of care calculation is complex with many variables, the home needs to ensure the accuracy of the calculation. Our prior audits identified that the home had incorrectly calculated the cost of care charges for seven earlier years.²⁰

¹⁸ The fiscal year 2010 cost of care calculation also incorrectly accounted for capital equipment costs, but because the 2010 capital equipment purchases were less than the 2009 purchases, the error resulted in only a \$0.01 overcharge per day for residents paying the full cost of care.

¹⁹ *Minnesota Statutes* 2009, 198.03.

²⁰ Incorrect cost of care calculations in 1997, 1998, 2000, 2001, 2003, 2005, and 2007.

Recommendations

- *The home should accurately calculate the cost of care rate by including only allowable costs, coding expenditures correctly, and reevaluating the allocation percentages of actual costs of services between domiciliary and nursing care types.*
- *The home should analyze and determine whether these errors are significant enough on an individual resident basis to provide refunds or to adjust the residents' accounts receivable balances.*

Finding 9

The Minnesota Veterans Home at Minneapolis did not adequately follow up on outstanding accounts receivable balances.

The home did not adequately manage its resident maintenance fee accounts receivable. During our testing, we found the following weaknesses:

- The home did not make adequate attempts to collect delinquent accounts before submitting the accounts to the Department of Revenue's Collection Division. State policy requires agencies to take all appropriate and cost-effective actions to collect their accounts receivable debt.²¹ Four out of six overdue accounts tested did not have documentation on file to show the home's attempt to collect the debt before sending the account to the Department of Revenue.
- The home did not charge interest on any of the 12 past due accounts we reviewed. *Minnesota Rules* require the home to charge six percent interest on delinquent accounts if the residents willfully refuse or fail to pay the bill by the due date.²²
- The home did not reduce its accounts receivable records by \$320,737 for nine deceased residents whose estates were insufficient to pay the balance on the account. According to state policy, when debt is determined by an agency to be uncollectible, the debt may be written off from the state's financial accounting records and no longer recognized as an account receivable for financial reporting.²³ The department's write-off policy was outdated and required the former veterans home board of directors to approve all accounts written off; the board ceased to exist, however, in November 2007.

²¹ Department of Management and Budget, Policy 0505-01, *Receivable Collection Process and Actions*.

²² *Minnesota Rules* 2009, 9050.0520.

²³ Department of Management and Budget, Policy 0507-01, *Writing-off Uncollectible Accounts*.

- The home did not discharge residents whose accounts were delinquent (residents who willfully refused or willfully failed to pay their maintenance fees by the due date). *Minnesota Rules* require the homes to institute discharge proceedings when a resident's account becomes delinquent.²⁴

The home had employee turnover and vacancies in key accounts receivable positions that likely contributed to the above weaknesses.

Recommendations

- *The home should diligently pursue all delinquent accounts receivable, charge interest on overdue accounts, write off accounts deemed uncollectible, and begin discharge proceedings for residents with delinquent accounts.*
- *The department should update its uncollectible accounts receivable write-off policy.*

Prior Finding Partially Resolved: The Minnesota Veterans Home at Minneapolis did not adequately manage its local checking accounts.

Finding 10

The home did not adequately safeguard resident and recreational funds it held locally.²⁵ The Department of Management and Budget, in coordination with the Department of Veterans Affairs' central office, authorized the home to retain locally \$25,000 to facilitate residents' personal cash needs and \$20,000 to pay for various recreational therapy activities for the residents. The home retained a portion of these authorizations in the cashier's office as cash on hand and the balance in local checking accounts.

The home had the following weaknesses in its oversight of its local bank accounts used for resident and recreational funds:

- The home did not keep current the bank's list of employees authorized to sign checks for its local checking accounts. The lists on file with the bank in May 2010 included two business office employees who had resigned in October 2009 and March 2010, respectively, and one business office employee who had been assigned other incompatible business office duties, as explained in Finding 2.

²⁴ *Minnesota Rules* 2009, 9050.0520.

²⁵ The home holds the majority of resident funds in the state treasury and accounts for these funds on the state's accounting system.

- The home did not close its checking accounts at one bank when it opened new accounts at another bank. The home opened the new accounts in May 2009, but kept the accounts at the former bank open to allow outstanding checks to clear. However, as of April 30, 2010, the home had over \$10,000 in the resident funds account with under \$50 of outstanding checks remaining, and about \$8,500 in the recreational activities account with no outstanding checks remaining. By keeping these accounts open, the risk of theft and abuse increased, especially considering former employees continued to have authority to make withdrawals as mentioned above.
- The home exceeded its authorized limit for both local accounts. On May 25, 2010, we verified that cash on hand plus the balance in the accounting records for the resident trust account totaled \$25,891, which exceeded the \$25,000 authorized amount. On the same day, the recreational activities account totaled \$21,672, which exceeded the \$20,000 authorized limit. Since the 2008 audit, the home began counting the daily cash on hand, but did not verify the total account to the authorized amounts.²⁶ The home did not periodically verify that these accounts stayed under the authorized limit. During our last audit, the home exceeded its authorized limit for the resident trust account by \$48.
- Beginning in April 2010, the home did not record the reimbursements to the local checking accounts in the resident trust and recreational activities accounting subsystem. The employee responsible for recording these reimbursements resigned in April 2010, and the home's business office did not ensure that someone continued the existing procedure.

Without appropriately restricting access to the local bank account, maintaining the account balance within the authorized limits, and accurately recording the accounts' financial transactions, the home has not sufficiently met its statutory fiduciary responsibility for residents' personal funds.²⁷

Recommendations

- *The home should periodically review and evaluate employees' check signing authority on the local checking accounts, especially when employees resign or job duties change.*
- *The home should close the former checking accounts and cancel or reissue any outstanding checks.*

²⁶ The total account should equal the amount per the accounting records, plus cash on hand and any cash in transit from the bank.

²⁷ *Minnesota Statutes* 2009, 198.265.

- *The home should ensure it does not exceed the authorized limits for its local checking accounts by periodically calculating the amount held outside the state treasury.*
- *The home should consistently record the daily transactions in the resident trust and recreational activities checking account subsystem to minimize errors.*

Prior Finding Partially Resolved: The Minnesota Veterans Home at Minneapolis did not require all supervisors to approve timesheets.

Finding 11

The home did not follow up and obtain supervisors' authorizations on timesheets electronically approved by the payroll staff. The payroll staff approved about 3.5 percent of all employees' timesheets during fiscal year 2010 through April 2010. While this was a substantial improvement (the 2008 audit found that direct supervisors did not approve any of the nursing staff's timesheets, which were about 46 percent of the home's staff), there is a risk to the validity and accuracy of the payroll transactions when direct supervisors do not review and approve timesheets.

State policy requires that supervisors approve their employees' timesheets.²⁸ Generally, supervisors and others at the home approved timesheets using the home's electronic time-keeping system. If supervisors were unavailable to electronically approve their employees' timesheets, the payroll staff approved the timesheets to ensure the employees got paid. The payroll staff did not, however, follow up with the direct supervisors to ensure the hours reported on the timesheets were accurate. Without evidence of supervisory review and approval, the home could not ensure employees were paid for the actual hours worked, including approved overtime hours, vacation and sick leave usage, and any compensatory time taken.

Recommendation

- *The payroll staff should follow up with direct supervisors to obtain proper approval on all timesheets payroll staff electronically approved.*

²⁸ SEMA4 Policy PAY0016, *Biweekly Time Reporting by Employees*.

Finding 12

The Minnesota Veterans Home at Minneapolis paid some employees the wrong amounts for holiday, overtime, or shift differential hours.

The home paid many part-time employees the wrong number of hours for holidays, paid certain employees the wrong overtime and shift differential rates, and, in some cases, did not have advance supervisory approval for overtime. The home had the following errors in the transactions we tested:

- The home did not always pay its part-time employees the correct number of hours for holiday pay. Part-time state employees earned prorated holiday pay based on the number of hours worked during the pay period as provided in their respective union contract or compensation plan. The home made numerous holiday pay errors throughout the audit period, including errors to regular and floating holidays. It overpaid several employees an estimated \$31,000 and underpaid others an estimated \$3,000.
- The home overpaid 6 of its 16 registered nurse supervisors and one of its four pharmacists a total of \$4,802 during fiscal years 2008 through 2010 by paying the wrong rate for overtime hours worked. These employees' respective union contracts and compensation plans only allowed them to earn overtime at straight time.²⁹ However, the home paid overtime hours worked for these employees at a rate of time and one half.
- On 8 of 29 timesheets we tested for 13 employees, the home paid an additional 15 minute increment of overtime that the employees' direct supervisors did not authorize. The home paid overtime hours based on the time the employee clocked in and out rather than the hours authorized on the approved overtime form. The home's electronic time tracking subsystem gives employees 15 minutes of overtime if the employees clock in seven minutes before or after their regular scheduled shift. The home's scheduling staff did not adjust the electronic timesheets for these employees tested to agree with the approved overtime form and did not follow through with the supervisors to ensure these employees actually worked the extra time and should be entitled to the additional compensation.
- The home paid 11 of its 16 registered nurse supervisors the wrong shift differential rate during fiscal years 2008 through 2010. Shift differential, as provided in the union contracts, is additional compensation per hour for employees whose assigned shifts begin before 6:00 a.m. or end at or after 7:00 p.m. For fiscal years 2008 through 2010, the supervisor shift differential rate was \$0.65 per hour. However, the home underpaid some

²⁹ Middle Management Association contract and the Commissioners Plan.

supervisors in fiscal year 2008 by about \$100 total by paying them a shift differential rate of \$0.60 per hour and overpaid some supervisors in fiscal years 2009 and 2010 a total of \$520 by paying \$0.70 per hour.

Multiple reviews did not detect and correct the errors noted above. Various staffing levels, including supervisors and scheduling and payroll staff reviewed bi-weekly timesheets and should have identified errors in hours reported. Payroll staff should have identified pay rate errors. The salary provisions in the union contracts and compensation plans are complex and diverse for state facilities that operate 24 hours a day and 7 days a week. A thorough understanding of the salary provisions at all levels of management reviewing timesheets is essential to ensure the accuracy of payroll compensation and compliance with the regulations.

In addition, the home did not consistently review the payroll register, as required by state policy.³⁰ Six out of ten fiscal year 2010 payroll register reports we tested were reviewed three to four months after the pay period ended, and the other four reports were never reviewed. The payroll register shows the payroll transactions processed each pay period. Prompt review of the payroll register ensures that the agency accurately input hours, amounts, lump sum payments, and other adjustments into the state's payroll system. State policy requires agencies to review the payroll register report each pay period. Had the home adequately reviewed the payroll register, it could have detected many of the above errors.

Recommendations

- *The home should promptly review the payroll register each pay period to ensure the accuracy of holiday, overtime, and shift differential payments in accordance with the provisions in union contracts and compensation plans.*
- *The home should ensure all overtime hours paid are authorized by supervisors.*
- *The home should review overtime, shift differential, and part-time employees' holiday payments during fiscal year 2008 through 2010 and recover funds from employees overpaid and provide additional compensation to those employees underpaid.*

³⁰ Department of Management and Budget Policy PAY0028, *Agency Verification of Payroll and Human Resource Transactions*.

Finding 13

Prior Finding Partially Resolved: The Minnesota Veterans Home at Minneapolis did not adequately track fixed assets.

The home's fixed asset inventory records contained errors and were not complete. In addition, the home did not disseminate the fixed assets disposition forms to proper authorities. During the 2008 audit, the home could not locate many assets and had inaccurate fixed asset inventory records. The home worked toward resolving the prior audit finding by hiring a fixed asset coordinator and conducting a complete physical inventory; however, the home still had the following inaccuracies in its asset inventory records:

- The home did not include donated capital assets and donated sensitive items in the inventory records.³¹ State policy requires agencies to record donated assets at fair market value at the time the agency received the donation.³² The home increased the risk of theft and abuse by not tracking donated assets on the inventory records.
- The home did not always include purchased sensitive items in its inventory records, including one iPod and two cell phones that were part of asset purchases we tested. State policy requires agencies to track sensitive items, such as cell phones and other electronic devices.³³
- The home recorded 3 of the 14 assets we tested at the wrong purchase amount. When the home purchased several assets using one purchase order – sometimes 2 to 50 assets on one order – the home erroneously used the total purchase order amount as the value of the first asset. The home properly included all the assets in the inventory records but did not assign the correct value to the first asset; the home properly valued the other assets. State policy requires agencies to report accurate and complete capital asset information to the Department of Management and Budget for inclusion in the state's financial statements.³⁴ By recording assets at the incorrect amount, the home misreported the value of its assets to the Department of Management and Budget.
- The home did not always update the location of the assets on its inventory records. Although the home was able to locate all fourteen assets we tested, two were not in the location specified in the inventory records, and

³¹ Fixed assets include capital assets and sensitive items. Capital assets include property that costs \$5,000 or more, has a normal useful life expectancy exceeding two years, and maintains its identity while in use. Sensitive items are generally for individual use and are often subject to theft or misuse, such as computers and laptops, cell phones, cameras, portable projectors, and other electronic devices.

³² Department of Management and Budget Policy 0106-00, *Capital Asset Reporting*.

³³ Department of Administration *Property Management Guide*.

³⁴ Department of Management and Budget Policy 0106-00, *Capital Asset Reporting*.

one was erroneously on the disposition list, even though it was still in use. State policy requires agencies to include the location of the assets in the inventory records.³⁵ By not keeping the location of the assets current in the inventory records, it is difficult for the home to identify and track individual assets during a physical inventory.

The home did not report lost, stolen, and damaged assets to the proper authorities. The home completed the required *Stolen, Lost, Damaged or Recovered Property Report* but did not submit the forms to the department's human resources director, the Department of Administration, or to the Office of the Legislative Auditor, as required by state statute and policy.³⁶

Finally, the home's asset policy did not agree with the Department of Veterans Affairs' central office policy. The home's threshold for recording capital assets was \$5,000, and the central office's threshold was \$2,000. Due to the threshold discrepancy, the home did not identify or track capital assets between \$2,000 and \$5,000.

The definitions of sensitive items also differed between the two policies. The home's policy specifically included personal computers and weapons as sensitive items, and the central office policy included personal computers (both desktop and portable models) and computer accessories that are detachable (printers, modems, external disk drives, tape backup systems); ergonomic, specially built or modified pieces of office furniture; cameras; tape recorders; and cellular phones. These discrepancies likely contributed to certain sensitive items not being recorded in the home's inventory records.

State policy requires each agency to establish departmental policies that account for assets consistently with the statewide policy.³⁷ Agencies must ensure that internal controls are sufficient to provide reliable financial and operational information, comply with legal requirements, and ensure that assets are safeguarded. Without consistent policies, the home and central office cannot ensure they adequately managed their assets.

Recommendations

- *The home should ensure its asset inventory records are accurate and complete, including donated and sensitive assets, asset values, and asset location.*

³⁵ Department of Minnesota Management and Budget Policy 0106-00, *Capital Asset Reporting* and the Department of Administration *Property Management Guide*.

³⁶ *Minnesota Statutes* 2009, 609.456, subd. 2 and Department of Administration *Property Management Guide*.

³⁷ Department of Administration *Property Management Guide*.

- *The home should report lost, stolen, and damaged assets to the proper authorities.*
- *The Department of Veterans Affairs' central office and the home should work together to align their asset policies with each other and state policy.*



STATE OF MINNESOTA
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October 8, 2010

Mr. James Noble, Legislative Auditor
Office of the Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles,

This letter conveys the Minnesota Veterans Home – Minneapolis' responses to the Office of the Legislative Auditor's Internal Control and Compliance report. The Minnesota Department of Veterans Affairs (MDVA) and the Home strives for continuous improvement to better serve Minnesota Veterans and Veteran Home Residents. We view the audits performed by your Office as valuable opportunities for an independent assessment of our financial processes and a means to evaluate our progress against Department goals and objectives. We appreciate the staff resources you dedicated to the Home and the professional analysis.

By in large, the audit report accurately reflects the state of financial affairs at the Home. We are proud of the progress the Home has made in the past three years, not only improving internal controls, but more importantly improving the quality of care provided to our Veterans, who deserve our very best. Both the MN Department of Health and the US Department of Veterans Affairs have noted steady improvement on each subsequent survey they have conducted. The Minneapolis Veterans Home recently received the Governor's Lean Productivity and Efficiency Award for their work in improving the admissions process and customer satisfaction. As illustrated in your report, the Home has improved internal controls, but needs to evolve further in the maturity of its control processes. Detailed responses to each of the 13 findings in the report are provided on the following pages. The Home agrees or partially agrees with each of your Office's findings, and has detailed corrective action plans to implement each recommendation.

As we shared with your staff at our exit conference on September 28, 2010, the Home disagrees with the portrayal of some of the circumstances described as the underlying causes of the findings noted. In particular, the Home disagrees with the report's cause of staffing issues in the Business Office and the Administrator's Office.

From October 2009 to June of 2010, the Home did have considerable turnover in the Business Office. This included the resignation of the Assistant Business Manager in March, 2010 followed by the retirement of the Business Manager in June. Your staff was present for fieldwork during parts of April, May, and June, 2010 during the peak of the staffing shortage. The turnover included two retirements and one unfortunate death of an employee who had been out on health related leave for an extended period of time. Nevertheless, the Home concurs that staffing levels and

experience in the Business Office contributed to the state of internal controls during time period under audit.

The Home disagrees that turnover in its Administrator position contributed to the deficiency of internal controls. From your last audit to present, there have been no significant changes to the Home's business environment to include the business manager or business operating policies. As your report notes, I have served as the interim Administrator on a couple occasions over the past 2 ½ years. When I haven't been the Administrator, my position has been the Senior Director of Veteran's Health Care, working with all five Minnesota Veterans Homes. An important part of my job is providing senior leadership to the Veterans Homes. Having my office on the Minneapolis campus allows me to play a more direct operational support role for the Administrator of the Minneapolis Home. In addition, Deputy Commissioner Gilbert Acevedo also has an office on the Minneapolis campus and has been present for the same time period. As you can see, despite the change of Administrators, senior leadership has been very strong, stable and consistent.

Finally the Home also disagrees with the report's implication that staff turnover caused control deterioration. There has been considerable progress between your Office's last report (Report 08-32) and this report. The Home believes turnover is often a necessary step for ultimate growth and progress. Although the home lost many years of institutional knowledge and experience, this has created tremendous opportunities to recruit new talent and fresh ideas. Just in the past six months the Home has added a Business Manager with over 20 years financial accounting leadership experience, a buyer also with over 20 years experience in State government procurement, as well as a mix of private and public sector experience. The Business Office now has a renewed emphasis on teamwork, communications, accountability and process improvement. This could not have happened without new staff, which the Home was able to recruit despite the report's questioning of job classifications, qualifications and compensation in finding 1. Although the improvements are a work in progress, the evidence that the plan is working is shown by the control improvements from the last report.

The following pages detail our responses to the findings in your report. Thank you again for your audit report and the opportunity for this formal response. Be assured that the Minnesota Department of Veterans Affairs and the Home will continue to implement best practices for internal controls and financial management as we serve our Veteran residents.

Sincerely,



Pamela K Barrows

Minnesota Veterans Home – Minneapolis Interim Administrator, and
Senior Director of Veterans Health Care

CC Mr. Michael Pugliese, Commissioner
 Mr. Gilbert Acevedo, Deputy Commissioner of Veterans Health Care
 Ms. Karen Onken, Acting Business Manager

Finding 1

Prior Finding Not Resolved: The Minnesota Veterans Home at Minneapolis did not adequately assess its business risks or monitor the effectiveness of its internal controls over its key financial activities.

Recommendations:

- *The home should work with the departments of Veterans Affairs and Management and Budget to develop a comprehensive risk assessment for all financial control cycles of the home and monitor the effectiveness of its internal controls.*
- *The Department of Veterans Affairs should consider reassessing the home's organizational structure and job classifications, including individual job responsibilities, position qualifications, and compensation.*

MVH-M Response: **Partially Agree**

The process to develop risk and control documentation for all major financial process cycles will continue. The documentation will comply with MMB Operating Policy and Procedure 0102-01 - Internal Control.

As a prudent business practice, the Home periodically reassesses job responsibilities, qualifications and compensation, but this process is maintained on an ongoing basis.

Responsible Person: MDVA Internal Auditor, MVH-M Administrator and Business Manager

Estimated Completion Date: June 30, 2011

Finding 2

The Minnesota Veterans Home at Minneapolis did not adequately separate duties in certain functions.

Recommendation:

- *The home should separate incompatible duties to ensure no one employee has control over an entire process to help eliminate risks of errors and fraud. If incompatible access cannot be segregated, the home should design, document, and implement effective mitigating control reviews.*

MVH-M Response: **Agree**

The Home has separated incompatible job responsibilities within its cash receipts, resident accounting, trust accounting, and impressed checking maintenance areas. The Home will implement a monitoring compensating control over fixed asset additions to include independent review and

reconciliation.

Responsible Person: MVH-M Assistant Business Manager

Estimated Completion Date: March 31, 2011

Finding 3

Prior Finding Partially Resolved: The Minnesota Veterans Home at Minneapolis did not adequately restrict employees' access to the accounting systems.

Recommendations:

- *The home should restrict computer system access for incompatible functions. If the home is unable to eliminate incompatible access because of limitations within the system, it should develop and document effective detective controls, such as periodic and independent review of the employees' work to mitigate the risks.*
- *The home should periodically review employees' access to its accounting systems to ensure the access is required to perform current job responsibilities and to immediately remove access rights of former employees.*

MVH-M Response: **Agree**

The Home has and is in the process of restricting access to computer systems to prevent excessive or incompatible access privileges. The Home implemented independent reconciliations on its subsidiary accounting ledgers where inherent limitations prevent appropriate access restrictions. Finally, the Home is currently reviewing demonstrations and preparing an RFP for replacement of two of its subsidiary ledgers. Security requirements will be included in the proposal criteria.

The Home plans to expand the practice of periodically reviewing MAPS and SEMA4 access to include the subsidiary ledgers as well.

Responsible Person: MVH-M Assistant Business Manager

Estimated Completion Date: March 31, 2011

Finding 4

Prior Finding Partially Resolved: The Minnesota Veterans Home at Minneapolis did not successfully reconcile its internal accounting systems to the state's accounting system.

Recommendation:

- *The home should accurately complete its periodic reconciliations between the state's accounting system and its subsystems for resident trust accounts, maintenance fees accounts receivable, and designated contributions.*

MVH-M Response: **Partially Agree**

The Home agrees that monthly reconciliations are a critical business function to ensure a high standard of accountability over Resident funds, maintenance received and designated contributions. The reconciliation of Resident trust accounts has revealed there are excess funds over the total of all Resident accounts. The management team will meet in the near future to determine the fair disposition of the funds. Although collections on the Home's behalf by the Department of Revenue's Collection Division represents less than one-tenth of one percent of the annual maintenance collection, the current process is monthly reconciliation to the subsidiary ledger. The reconciliation of designated contributions has not been 100% successful to date, and the Home is reconsidering how it maintains its subsidiary ledger.

The Home disputes that the reconciliation is not adequate to detect errors like those noted in the OLA's finding. The Home made a prudent business decision to only reconcile the Resident trust and designated contributions accounts beginning with fiscal year 2010 and going forward monthly. This was a wise decision because the cost of reconciling older and older records begins to outweigh the benefits obtained. The examples cited by the OLA occurred in fiscal year 2009. Had the Home reconciled fiscal year 2009, those errors would have been detected.

Responsible Person: MVH-M Accounts Receivable Lead Worker and Assistant Business Manager

Estimated Completion Date: June 30, 2011

Finding 5

Prior Finding Partially Resolved: The Minnesota Veterans Home at Minneapolis did not have documentation to support certain financial activities.

Recommendations:

- *The home should document justification and management's authorizations to support its current financial activities.*
- *The home should adhere to the record retention policy and maintain documentation to support its financial records.*

MVH-M Response: **Agree**

The Home is developing a process within its Business Office for document review and approval of all adjustments to the general ledger, with those records subject to the same retention requirements as other revenue and expenditure documents. The Home will reemphasize with all supervisors the continued importance of retaining leave documentation as business records. Finally, the Home's process for documenting designated contribution expenditures is adequate to comply with applicable standards. The missing records were a result of business office staff turnover, which resulted in considerable effort locating the records. The Home has since located the records in question.

Responsible Person: MVH-M Administrator, Business Manager and Assistant Business Manager

Estimated Completion Date: December 31, 2010

Finding 6

The Minnesota Veterans Home at Minneapolis did not adequately protect not public data on individuals and the home's local checking accounts.

Recommendations:

- *The home should destroy bank account data no longer needed for business operations.*
- *The home should not record its local bank account numbers or other not public data in unprotected fields in the state's accounting system.*
- *The home should work with the Department of Management and Budget to remove or restrict access to the not public data in the state's information warehouse.*

MVH-M Response: **Partially Agree**

Because the Home has the fiduciary obligation to its Residents to maintain accurate balances as well as substantiation of activities for Resident trust and Resident accounting, the Home believes it is necessary to maintain photocopies of checks received for its Residents. For many of the Residents, the Home also serves as representative and payee and receives and deposits checks to maintenance and trust accounts on the Resident's behalf. Many of the Home's Residents are vulnerable adults and/or are not capable of doing this for themselves. For this reason, maintaining copies of deposited items better serves the Residents and fulfills the fiduciary duty.

The requirement to enter local bank account numbers into an invoice number field was not the Home's choice. This was a requirement by the State contracted financial institution the Home utilizes. Also, as OLA is aware this is a statewide, systemic issue affecting many agencies.

However, the Home has implemented the following changes to its processes:

- The Home no longer photocopies the account and routing transit information on checks,
- The Home shreds photocopied checks older than six months,
- The Home is working with MMB to determine if another payment mechanism can be utilized that does not require inclusion of the bank account number into the data warehouse, and,
- The Home will follow guidance issued by MMB to ensure this issue is permanently resolved.

Responsible Person: MVH-M Assistant Business Manager and Accounts Receivable lead worker

Estimated Completion Date: December 31, 2010

Finding 7

The Minnesota Veterans Home at Minneapolis charged some residents incorrect maintenance fees.

Recommendations:

- *The home should ensure it charges residents the correct maintenance fees.*
- *The home should review the fiscal year 2010 maintenance fees it billed residents and correct any amounts it overcharged.*

MVH-M Response: **Agree**

The Home is slightly revising the process by which maintenance fees are set, adjusted or credits processed. Three Business Office employees will be involved in the process. The first employee will calculate and make the maintenance determination. The second will enter into the subsidiary ledger and the third will review and validate. Only the second employee will be able to alter the billing system in the subsidiary ledger. This revised process should detect or prevent the types of errors noted from occurring in the future.

The Home has already provided credits and/or refunds to the affected residents.

Responsible Person: MVH-M Accounts Receivable Lead Worker and Assistant Business Manager

Estimated Completion Date: March 31, 2011

Finding 8

Prior Finding Not Resolved: The Minnesota Veterans Home at Minneapolis did not accurately calculate the annual cost of care rate for fiscal years 2008 and 2009.

Recommendations:

- *The home should accurately calculate the cost of care rate by including only allowable costs, coding expenditures correctly, and reevaluating the allocation percentages of actual costs of services between domiciliary and nursing care types.*
- *The home should analyze and determine whether these errors are significant enough on an individual resident basis to provide refunds or to adjust the residents' accounts receivable balances.*

MVH-M Response: **Partially Agree**

The Home makes every effort to calculate the annual cost of care accurately and fairly, in compliance with Minnesota Rule 2009, 9050.0500. In addition to the complexity of the calculation, the Rules require careful interpretation and application of materiality. Although the situations highlighted by OLA in the finding would cause slight differences in the daily rate, the Home disagrees with OLA in certain interpretations and severity.

The miscoding of object codes does not impact the calculation unless capital expenditures are

involved. OLA differs from the Home's interpretation by including cell phones in capital expenditures, when the Home does not capitalize cell phones. Usually, miscoding of expenditures is a financial reporting issue. The vast majority of all costs incurred by the Home are included in the Resident's cost of care, however OLA's findings were not material enough to report as financial reporting issues. The Home questions why this was questioned in the context of cost of care, but not in the context of financial reporting. Finally, OLA correctly discloses that a small percentage of residents are impacted by cost of care miscalculations; only 19 of 343 residents at present. In addition to this fact, the Home includes approximately \$39 million of annual costs in the calculation. The costs questioned by OLA in the finding totals approximately \$90,000 over two fiscal years, or about one-tenth of one percent of the total cost. When completing the cost of care calculation, Home management makes every reasonable effort to produce accurate results, but must make business decisions about the minutia of detail the review encompasses.

The Home agrees that greater effort can be made to ensure accuracy in the cost of care calculation and has implemented, or will be implementing the following changes:

- Beginning with fiscal year 2011, the revised process has the cost of care calculation prepared independently by the Business Manager and Assistant Business Manager. Once in agreement, the MDVA Internal Auditor independently reviews the calculation prior to releasing the notification letter to the residents.
- The Home will complete a cost allocation plan with sustainable, measurable factors to ensure costs are fairly allocated between Skilled Nursing and Domiciliary residents.

Responsible Person: MVH-M Business Manager

Estimated Completion Date: June 30, 2011

Finding 9

The Minnesota Veterans Home at Minneapolis did not adequately follow up on outstanding accounts receivable balances.

Recommendation:

- *The home should diligently pursue all delinquent accounts receivable, charge interest on overdue accounts, write off accounts deemed uncollectible, and begin discharge proceedings for residents with delinquent accounts.*
- *The department should update its uncollectible accounts receivable write-off policy.*

MVH-M Response: **Agree**

The uncollectable accounts noted by the OLA were appropriately written-off as of June 30, 2010. The Home is implementing the following changes in its maintenance accounts receivable processes:

- The Accounts Receivable lead worker will be responsible for reviewing delinquent accounts receivable monthly, sending written notices to the responsible parties, and documenting the correspondence in the resident's financial file.
- The Home will resume charging six percent interest on all accounts defined as delinquent by

Minnesota Rule 2009 9050.0520 on a monthly basis.

- After the resident has been appropriately notified of delinquent account status and given an opportunity to make the account current, the Business Office will initiate the involuntary discharge procedures required by Minnesota Rule 2009 9050.0220.
- After a reasonable, documented effort has been made to collect delinquent accounts, accounts will be turned over to the Collections Division of the Minnesota Department of Revenue.
- The Home will revise and update its uncollectable accounts receivable write-off policy and ensure compliance with Minnesota Rules 9050 and conformance with other Veterans Homes Policies.

Responsible Person: MVH-M Accounts Receivable Lead Worker and Assistant Business Manager

Estimated Completion Date: June 30, 2011

Finding 10

Prior Finding Partially Resolved: The Minnesota Veterans Home at Minneapolis did not adequately manage its local checking accounts.

Recommendations:

- *The home should periodically review and evaluate employees' check signing authority on the local checking accounts, especially when employees resign or job duties change.*
- *The home should close the former checking accounts and cancel or reissue any outstanding checks.*
- *The home should ensure it does not exceed the authorized limits for its local checking accounts by periodically calculating the amount held outside the state treasury.*
- *The home should consistently record the daily transactions in the resident trust and recreational activities checking account subsystem to minimize errors.*

MVH-M Response: **Agree**

The Home has completed or will complete the following:

- The Home has decreased the number of authorized check signers to three managers with no access to recording accounting transactions. The Home will periodically review the list of check signers and maintain a current list at all times.
- The former checking accounts were closed in June of 2010.
- The Home will decrease the amount of money held on an impressed basis below the authorized level for both accounts. As part of the monthly bank reconciliation, the Home will determine that the impressed level is being maintained steady and recommend actions to correct errors noted.

- Beginning in June 2010, the Home has an account clerk independent of cash and check handling recording checking account transactions into the subsidiary ledger daily.

Responsible Person: MVH-M Business Manager and Assistant Business Manager

Estimated Completion Date: December 31, 2010

Finding 11

Prior Finding Partially Resolved: The Minnesota Veterans Home at Minneapolis did not require all supervisors to approve timesheets.

Recommendation:

- *The payroll staff should follow up with direct supervisors to obtain proper approval on all timesheets payroll staff electronically approved.*

MVH-M Response: **Agree**

Effective immediately, the Home's payroll staff will follow up with direct supervisors to obtain approval on all timesheets approved by the payroll staff to ensure all paid time is authorized and approved. In addition, the review of each payroll register will spot check to determine that this process is being followed.

Responsible Person: MVH-M Assistant Business Manager and Payroll Staff

Estimated Completion Date: December 31, 2010

Finding 12

The Minnesota Veterans Home at Minneapolis paid some employees the wrong amounts for holiday, overtime, or shift differential hours.

Recommendations:

- *The home should promptly review the payroll register each pay period to ensure the accuracy of holiday, overtime, and shift differential payments in accordance with the provisions in union contracts and compensation plans.*
- *The home should ensure all overtime hours paid are authorized by supervisors.*
- *The home should review overtime, shift differential, and part-time employees' holiday payments during fiscal year 2008 through 2010 and recover funds from employees overpaid and provide additional compensation to those employees underpaid.*

MVH-M Response: **Agree**

The Home has drafted revised procedures for conducting payroll register audits to be completed bi-weekly, shortly after the completion of each payroll cycle. The results of each audit will be validated by payroll staff and, if necessary, corrected via an adjustment and/or rate correction going forward. In addition, the Home will develop additional guidance for use by nursing staff, scheduling, supervisors and employees to help calculating the amount of holiday hour entitlement by contract and compensation plan.

The Fair Labor Standards Act provision requires payment of overtime for certain employee classes for hours worked, regardless of time sheet approval. However the Home will reemphasize the importance of having all overtime approved with scheduling staff and supervisors.

The Home is in the process of remitting back payments and collecting over payments from affected employees. Because of the differences in labor agreements and holiday hour entitlement, the Home is finding that each time sheet needs to be reviewed individually, often by two individuals, and the OLA's estimate often misstates the correction needed on a case-by-case basis. The process is very time consuming, requires use of professional judgment, and will take some time to complete.

Responsible Person: MVH-M Business Manager, Assistant Business Manager and Payroll Staff

Estimated Completion Date: June 30, 2011

Finding 13

Prior Finding Partially Resolved: The Minnesota Veterans Home at Minneapolis did not adequately track fixed assets.

Recommendations:

- *The home should ensure its asset inventory records are accurate and complete, including donated and sensitive assets, asset values, and asset location.*
- *The home should report lost, stolen, and damaged assets to the proper authorities.*
- *The Department of Veterans Affairs' central office and the home should work together to align their asset policies with each other and state policy.*

MVH-M Response: **Partially Agree**

The Home agrees that donated capital assets and sensitive items should be added to inventory records and tracked. However, the Home has not received any donated assets fitting the criteria, so there is no issue requiring correction.

The Home will refine its definition of sensitive assets and ensure it has a complete physical inventory.

The Home will ensure the fixed asset coordinator understands the proper way to record asset values into inventory and properly remit disposition forms. In addition, the Home will be implementing a

process to reconcile capital expenditures to fixed asset additions monthly which should detect incorrect asset values.

The Home makes every effort to maintain the assets at their assigned locations, or process a transfer to a new location. The Home is a 24/7 facility and staff are trained to emphasize resident care. Because of this, it can become necessary to redeploy or relocate resources based on the needs of the residents. Movement of equipment can occur on short notice and by nursing or maintenance personnel not familiar with property management rules. The movement of assets without an update to inventory records can and will occur on occasion. The Home has already implemented the compensating control of an annual physical inventory where all assets are located, re-assigned locations, if needed, or properly disposed from the records.

Responsible Person: MVH-M Business Manager and Fixed Asset coordinator

Estimated Completion Date: March 31, 2011