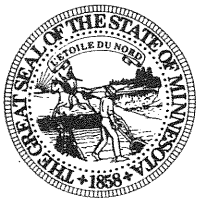

DEPARTMENT OF VETERANS AFFAIRS
FINANCIAL AND COMPLIANCE AUDIT
FOR THE PERIOD APRIL 1, 1984
THROUGH JUNE 30, 1987

JULY 1988

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Phillip J. Riveness, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. William Gregg, Commissioner
Department of Veterans Affairs

Audit Scope

We have completed a financial and compliance audit of the Department of Veterans Affairs for the period April 1, 1984 through June 30, 1987. Section I provides a brief description of the department's activities and finances. Our audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, and accordingly, included such audit procedures as we considered necessary in the circumstances. Field work was completed on April 29, 1988.

The objectives of this audit were to:

- study and evaluate major internal accounting control systems at the department, in effect as of February 1, 1988;
- evaluate the recording and reporting of financial transactions on the statewide accounting system for the period April 1, 1984 through June 30, 1987;
- verify that financial transactions were made in accordance with applicable laws, regulations, and policies, including Minn. Stat. Chapters 196, 197, and 198, and other finance-related laws and regulations; and
- determine the status of prior audit recommendations.

Management Responsibilities

The management of the Department of Veterans Affairs is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

Representative Phillip J. Riveness, Chairman
Members of the Legislative Audit Commission
Mr. William Gregg, Commissioner
Department of Veterans Affairs
Page 2

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

The management of the Department of Veterans Affairs is responsible for the agency's compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs administered by the Department of Veterans Affairs. The purpose of our testing of transactions was to obtain reasonable assurance that the Department of Veterans Affairs had, in all material respects, administered their programs in compliance with applicable laws and regulations.

Scope Limitation

We were unable to audit certain fiscal years 1985, 1986, and 1987 guardianship transactions of the Department of Veterans Affairs Central Office because cancelled checks, invoices, and income documents were not maintained. The cancelled checks were included with the annual report to the courts. The invoices and income documents were destroyed after the courts had approved the annual reports. These records are necessary for us to verify that transactions are appropriate.

Conclusions

In our opinion, except for the issues addressed in Section II, findings 1 through 6, the Department of Veterans Affairs' system of internal accounting control in effect on February 1, 1988, taken as a whole, was sufficient to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization.

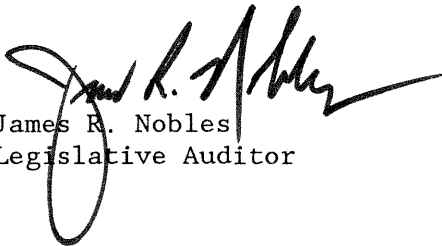
In our opinion, subject to the fiscal years 1985, 1986, and 1987 guardianship transactions which we were unable to verify as described in the Scope Limitation section of this letter, for the period April 1, 1984 through June 30, 1987, the Department of Veterans Affairs properly recorded in all material respects, its financial transactions on the statewide accounting system.

In our opinion, subject to the fiscal years 1985, 1986, and 1987 guardianship transactions which we were unable to verify as described in the Scope Limitation section of this letter, and except for the issue raised in Section II, finding 5, for the period April 1, 1984 through June 30, 1987, the Department of Veterans Affairs administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

Representative Phillip J. Riveness, Chairman
Members of the Legislative Audit Commission
Mr. William Gregg, Commissioner
Department of Veterans Affairs
Page 3

The recommendations included in this report are presented to assist the department in resolving the audit findings and in improving accounting procedures and controls. We will be monitoring and reviewing the Department of Veterans Affairs' progress on resolving these findings. A summary of the progress made on all audit recommendations discussed in our last follow-up audit report for the period October 1, 1984 through May 10, 1985, dated August 7, 1985, is shown in Section III entitled "Status of Prior Audit Recommendations and Progress Toward Implementation."

We would like to thank the Department of Veterans Affairs staff for their cooperation during this audit.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

June 17, 1988

DEPARTMENT OF VETERANS AFFAIRS

TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION	1
II. CURRENT FINDINGS AND RECOMMENDATIONS	2
III. STATUS OF PRIOR AUDIT RECOMMENDATIONS AND PROGRESS TOWARD IMPLEMENTATION	7
AGENCY RESPONSE	8

AUDIT PARTICIPATION

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

John Asmussen, CPA	Deputy Legislative Auditor
Margaret Jenniges, CPA	Audit Manager
Ken Vandermeer, CPA	Auditor-in-Charge
Dave Poliseno	Staff Auditor
Colleen Skillings	Staff Auditor
Elaine Wiechmann	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Department of Veterans Affairs on June 13, 1988:

Jeffrey Olson	Deputy Commissioner
Thomas Barrett	Financial Management Director
Ivan Berg, Jr.	Guardianship Supervisor

DEPARTMENT OF VETERANS AFFAIRS

I. INTRODUCTION

The Department of Veterans Affairs provides benefits and services for veterans and their dependents who are needy, disabled, or aged. Currently, they administer three main programs: Veterans Benefits, Veterans Services, and the Guardianship Programs. Temporary financial assistance--including subsistence, hospital, medical, educational, and related benefits--are provided to needy and disabled veterans and their dependents through the veterans benefits program. Services consist of assistance provided to veterans and their families in four general areas. Claims services assists veterans in the application, approval, and appeal processes for federal veterans benefits. Field services provides general and technical support to county veterans service officers who assist veterans throughout Minnesota; it also investigates alleged veterans preference violations. Fiscal guardianship services administers the estates of incompetent veterans who are unable to manage their personal financial affairs. The veterans are appointed wards of the department by the probate court of jurisdiction.

The department also provided general management and control over the Minneapolis and Hastings Veterans Homes until July 30, 1987. Administration of the homes was transferred temporarily to the Department of Human Services due to health violations cited in a Department of Health report. On April 28, 1988, the Governor signed a bill placing the homes under the management of a board appointed by the Governor. The results of our audit of the Minnesota veterans homes are in a separate audit report.

The Department of Veterans Affairs Central Office received \$2,343,100 in appropriations for fiscal year 1987. Following is a summary of central office cash basis receipts and disbursements for fiscal year 1987:

	<u>FY 1987</u>
Receipts:	
Guardianship	\$1,573,000
Other	<u>60,000</u>
 Total	 <u><u>\$1,633,000</u></u>
 Disbursements:	
Payroll	\$1,166,000
Administrative expenditures	177,000
Guardianship	1,796,000
Grants and aid	741,000
Capital outlay	<u>66,000</u>
 Total	 <u><u>\$3,946,000</u></u>

DEPARTMENT OF VETERANS AFFAIRS

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. PRIOR FINDING NOT RESOLVED: The guardianship section is not maintaining adequate documentation to support the program's activities.

Under Minn. Stat. Section 196.051, the probate court may appoint the Commissioner of Veterans Affairs guardian of the estate of a veteran or the veteran's dependent. Currently, the guardianship section is responsible for the financial affairs of approximately 150 veterans. Services provided by the program include securing benefits and maintaining the ward's personal financial account. The guardianship section prepares an annual accounting of the financial affairs of each ward which is submitted to the probate court system for approval.

We recommended in our 1984 audit that a record retention schedule be developed for the guardianship section. Our 1985 follow up review indicated that a schedule was nearly completed by central office personnel and required only official signatures. However, the guardianship section did not finalize this document and most records are not retained beyond the current year. Records that could not be located for testing included cancelled checks, invoices, and income verification documents. The guardianship section retains these records on an individual basis for the purpose of preparing the annual report on each ward. The records either accompany the annual report to the courts and are not returned once approved by the courts, or are destroyed after the courts have approved the annual report. Without these records we were unable to satisfactorily audit the ward's accounts to determine if the guardianship section administered the accounts in compliance with all applicable rules and regulations. The development and implementation of a record retention schedule would ensure that all appropriate documents are retained for the proper users.

Also, various documents required by law are not always maintained by the guardianship section. These include the certificate of balance on deposit, court order allowing the account, and affidavit of mailing order and/or notice of hearing. The certificate of balance on deposit is a certified document specifying the financial situation of the ward. The guardianship section prepares the document and sends it to the Veteran's Administration, without retaining a copy for their own files. The court order and the affidavit of mailing order are prepared by the courts and sent to the respective guardians. Not all of the courts are diligent in sending the orders out to the guardianship section. Without the orders on file there is no assurance that the courts have approved the account. The guardianship section should contact the courts to ensure that all appropriate documents are received.

Finally, the guardianship section does not retain adding machine tapes of bank deposits. During the first week of each month the guardianship section generally receives either a Social Security check, a Veteran's Administration check, or both for the wards under their guardianship. As part of the depositing process for these checks, the guardianship section runs

DEPARTMENT OF VETERANS AFFAIRS

two adding machine tapes of the checks to verify the accuracy of the deposit. One of the tapes accompanies the deposit to the bank and serves as a check listing. The other tape is discarded. The second tape should be retained to support the deposit made and provide a reference if disputes arise.

Because supporting documentation was not maintained for the audit period, we tested 15 disbursements from fiscal year 1988. Two of the payments reviewed differed from the invoice amounts. One adjustment was due to a mortgage payment that was paid before the invoice was received. The invoice reflected an increase in the mortgage amount. The other adjustment was not explained. To provide an adequate audit trail all adjustments must be documented to support the actual amount paid. Without the documentation there is no assurance that the variances are correct.

RECOMMENDATIONS

- A record retention schedule should be developed, approved, and distributed so that documentation such as cancelled checks, invoices, certificates of balance on deposit, and support for deposits will be retained.
 - The guardianship section should ensure that all required court orders are received from the county probate courts.
 - All adjustments to invoices should be properly documented to agree with the actual payments.
2. The guardianship section is not performing the appropriate reconciliations.

Previously, the guardianship section maintained individual bank accounts for each resident. The department has aggregated the funds of the veterans under the guardianship program in accordance with the authority granted by Minn. Stat. Section 196.051. One account was established on the statewide accounting (SWA) system with subsidiary records maintained for each ward's receipt, disbursement, and investment transactions. An imprest cash account of \$50,000 was authorized to provide the wards immediate access to their funds.

The guardianship section has exceeded its authorized imprest cash limit of \$50,000. Our cash count on March 1, 1988 disclosed that their imprest cash balance was \$50,757. The account exceeded its limit mainly because it had not been reconciled for a year. Periodically the guardianship section summarizes all of the disbursements from the account and requests a reimbursement from the SWA account. This check is then deposited to the imprest cash account to increase the balance to \$50,000. Because this account had not been reconciled, various adjustments such as corrections of transpositions were not detected and the balance exceeded its authorized limit. Had the guardianship section reconciled the account monthly

DEPARTMENT OF VETERANS AFFAIRS

they would have detected these adjustments and amended their reimbursement requests accordingly.

In addition, the guardianship section is not reconciling the bank account to SWA. Once the bank statement has been reconciled to the authorized level, it should then be reconciled to SWA to verify that the section's individual records reconcile to the control total on SWA. The February 1988 reconciled balance of \$1,899,004.86 reflects a \$2,317.45 amount that cannot be identified to the appropriate wards. As a result, those funds have not been properly credited to the ward's account. This problem may not have occurred had the guardianship section performed timely reconciliations.

Also, receipts were not reconciled to SWA as required by Department of Finance Policy 06:06:03, prior to November 1987. The guardianship section receives and deposits the wards' income checks, monthly interest earnings from investments, and other miscellaneous revenue to the state depository account. Without the reconciliation there is no assurance that those funds were properly credited to the appropriate account.

RECOMMENDATIONS

- Monthly reconciliations of the imprest cash account and of the bank account and deposits to SWA should be completed.
- The \$2,317 variance should be accounted for and properly credited to the wards' accounts.

3. The guardianship section is not properly administering the wards' investment earnings.

The guardianship section invests the excess wards' funds so that a larger return can be obtained for all of the wards. Each month the account earns investment income. The earnings are distributed to the wards based on a calculation involving the wards' average monthly balance. However, the interest distribution was not made during 1987. The interest continued to accumulate in the control account, but was not distributed to the wards. When the interest was finally distributed in January 1988, \$128,387 was distributed to the wards. There is the possibility that the longer the delay, the less available the information becomes. Distributing the income this infrequently may delay the settlement of a ward's estate.

Due to the reconciliation problems previously discussed, the account had an unreconcilable balance of about \$3,500 when the interest was distributed. Also, about \$3,200 of checks outstanding for more than one year had not been written-off. Had these amounts been properly identified to the appropriate ward, the interest calculation would have been slightly different.

DEPARTMENT OF VETERANS AFFAIRS

RECOMMENDATION

- The guardianship section should calculate and distribute interest income on a monthly basis. The calculation should include timely reconciliations and write off of checks outstanding for more than one year.

4. Duties are not adequately segregated in the guardianship section.

One person deposits the income checks, posts the deposits to the wards' accounts, verifies the deposits to SWA, and reconciles the checkbook balance to the dedicated control ledger. This same person also prepares the wards' checks, posts the checks to the wards' accounts, and reimburses the account. Without the proper segregation of duties, errors or irregularities as previously discussed could go undetected. Controls would be strengthened if the guardianship section supervisor compared the check listing to the deposit as well as verified the reconciliations.

RECOMMENDATION

- In order to prevent and detect errors or irregularities duties should be adequately segregated.

5. The guardianship section is not properly administering the guardianship fee.

Minn. Stat. Section 196.051 allows the guardianship section to charge a fee of up to five percent of the income of the estate of the person under guardianship to cover the expenses of providing the services. Each month the section calculates each ward's fee by multiplying his monthly income by five percent. There is no fee for persons whose regular monthly income is below the minimum amount for the Veterans Administration Non-Service Connected Pension. The fee is calculated, recorded in a ledger, and deducted from the ward's account balance. The total fees of about \$4,500 per month are transferred from the ward's SWA account to the General Fund.

The guardianship fees are not transferred to the General Fund on a timely basis. Since the start of the guardianship fee in 1986, the fee has been transferred to the General Fund every six months even though the fees were deducted monthly from the wards' accounts. This practice prevents the General Fund from using these funds for other purposes such as investments.

Also, the wards on Medical Assistance (MA) in nursing homes were overcharged. On June 1, 1987, the guardianship section implemented a policy whereby they would charge a flat \$40 fee to the wards on MA living in nursing homes. The problem exists when the \$40 fee exceeds the five percent calculated amount. The effect is that these wards are being charged a fee in excess of the five percent allowed by law.

DEPARTMENT OF VETERANS AFFAIRS

RECOMMENDATIONS

- The guardianship fees should be transferred from the wards' accounts to the general fund monthly.
- The guardianship section should develop procedures to ensure that the guardianship fee does not exceed the five percent limit for the wards on MA.
- The guardianship section should review the MA overcharges and adjust the wards' accounts accordingly.

6. Payroll and personnel procedures are not adequately separated.

The payroll/personnel systems are designed so that the payroll clerk should be accountable for payroll transactions, while the personnel clerk is responsible for approving and updating any payroll data. Currently, one person is performing both the payroll and personnel duties. This person not only prepares and signs the payroll time roster, but also signs and maintains personnel records.

A strong system of internal accounting control provides independent verification or authorization of accounting data. For example, any individual inputting payroll transactions onto the on-line system should not review and certify payroll certification reports or pick up and distribute payroll checks. In addition, employees who process payroll should not be authorized to approve personnel transactions. Without an independent review or proper separation of duties, intentional or nonintentional errors could remain undetected.

RECOMMENDATION

- The Department of Veterans Affairs should review their payroll personnel system and redelegate the duties so that no one person is performing any incompatible functions.

DEPARTMENT OF VETERANS AFFAIRS

III. STATUS OF PRIOR AUDIT RECOMMENDATIONS
AND
PROGRESS TOWARD IMPLEMENTATION

(Only the recommendations pertaining to the Central Office are addressed here. Recommendations 1-8 and 11 are addressed in the Minnesota Veterans Homes report.)

The guardianship section should improve internal controls to strengthen its fiduciary responsibilities.

9. The guardianship section should request and maintain comprehensive documentation supporting the amount of income each ward is entitled to receive.

RECOMMENDATION NOT IMPLEMENTED. See current finding #1.

10. Personal allowance money sent to nursing homes should be verified to the ward's account statement received from the nursing home. This control should be documented by the employee performing the verification.

RECOMMENDATION IMPLEMENTED. The procedures are in place to verify the allowances sent to wards in nursing homes.

The Central Office does not have adequate procedures for the collection of accounts receivable which originate from veterans benefits overpayments.

12. DVA should attempt to collect accounts receivable balances originating from overpayments of veterans benefits by using the Revenue Recapture Act (Minn. Stat. Section 270A) which would apply any of the debtor's tax refunds to the amount of his debt.

RECOMMENDATION IMPLEMENTED. A list was submitted on March 23, 1988.

13. The existing case recovery policy and procedures should be expanded to address all department action to be taken to recover the overpayment.

RECOMMENDATION SUBSTANTIALLY IMPLEMENTED. A procedure was developed effective March 22, 1988.

Payroll overpayments totalling \$2,000 have not been resolved.

14. DVA should contact the Attorney General's Office and ensure that the payroll overpayments are satisfactorily resolved either through collection or write-off.

RECOMMENDATION IMPLEMENTED. A memo was issued on November 6, 1986 by the Attorney General's Office authorizing the write-off of outstanding overpayments.



**STATE OF MINNESOTA
DEPARTMENT OF VETERANS AFFAIRS
VETERANS SERVICE BUILDING
ST. PAUL, MINNESOTA 55155-2079**

June 17, 1988

REPLY TO: (612) 296-2783

Mr. John Asmussen, CPA
Deputy Legislative Auditor
Financial Audit Division
Veterans Service Building
St. Paul, MN 55155

Dear Mr. Asmussen:

In connection with your audit of the Department of Veterans Affairs for the period from April 1, 1984 through June 30, 1987, I offer the following in response and to be incorporated with the final report.

The audit report for Central Office reflected six recommendations. Five of the recommendations involved the Guardianship program. The report does not provide an adequate overview of the Guardianship program and therefore additional clarification is necessary. As stated at the exit conference, Guardianship's primary responsibility is to the probate courts. As required under Minnesota Statutes 525.58, an annual account for each ward is to be filed with the court. This includes canceled checks and other pertinent documentation to support the account. In addition to the filing with the probate courts, we also submit an account to the Veterans Administration and, when applicable (cases involving Medical Assistance), to the county.

After the discussions at the exit conference, I'm confident that a record retention schedule can be developed to satisfy the probate courts, the Veterans Administration, the counties and the Legislative Auditor's Office.

If further testing is necessary, we would be happy to contact the probate courts and secure any necessary files or documents.

Specific Recommendations

- 1) DOCUMENTATION. As prefaced above, we are confident that an "acceptable" record retention schedule will be incorporated and insure adequate audit trails. Pending approval of the retention schedule, the Guardianship staff have been informed to retain all documentation with the exception of the canceled checks given to the probate court and the "Certificate of Deposit" which is no longer required given the fact that all Guardianship funds are recorded in SWA and no local bank accounts are utilized anymore (as recommended in previous audit).

Mr. John Asmussen

June 17, 1988

Page 2

2) RECONCILIATIONS. On a monthly basis the following reconciliations are performed: 1) Checkbook reconciliation verifying the authorized limit approved by the Department of Finance; 2) Individual and control account reconciliation verifying that the individual accounts equal the control; and 3) SWA reconciliation verifying the control account balances with the SWA account. We have not resolved the positive variance at this point, but are continuing to audit all accounts (prior to your exit we had already verified all SWA deposits from the beginning of the original deposit - May, 1985).

3) INVESTMENT EARNINGS. Since January, all interest earnings are credited to the individual's accounts monthly. As you know, the Department of Finance changed its method of recording investments (agencies no longer invest with Investment Board - investments are recorded by Finance based on fund balance). While easier in terms of recording appropriate balances, we are dependent upon Finance for the interest distribution report and as of June 20th, we still had not received May's earnings.

In regards to outstanding checks, the newly printed checks have an expiration date of 180 days. For the record, the value of interest earnings on the outstanding checks as listed in the report was less than \$230.00, or approximately 1/10 of 1 percent.

4) SEPARATION OF DUTIES. We recognize that additional controls would strengthen the verification of daily activities, such as deposits and withdrawals, and have already incorporated the supervisors "sign-off" on payment requests. But the following should be noted: 1) The person that prepares the check for payment does not have signature authority; 2) The person that posts transactions to individual accounts cannot complete an annual account; 3) The person that deposits the income checks does not sort/open the mail; and 4) The revised procedures for account reconciliation (recommendation #2) have already proved a success in detailing cash flow and account balances.

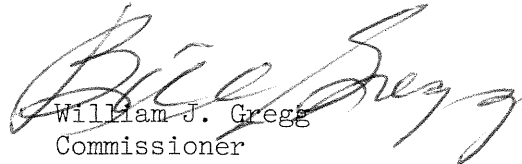
5) GUARDIANSHIP FEE. Fees are now transferred on a monthly basis (deposited to the state as non-dedicated revenue). In regards to the fee involving persons under Medical Assistance, out of 150 wards, only 5 were in need of adjustment, which totaled \$156.10. These adjustments have been made.

6) PAYROLL/PERSONNEL- SEPARATION OF DUTIES. The draft audit report stated that the same person is performing both the payroll and personnel duties including payroll input and paycheck distribution. As pointed out at the exit conference, a person independent of the payroll input receives and distributes the paychecks. This separation had been in place prior to the audit and provides a critical control in the separation of duties. So that we may completely satisfy your recommendation, all changes to the personnel/payroll system (via the EAF form) will be signed off by the Deputy Commissioner.

Mr. John Asmussen
June 17, 1988
Page 3

In summary, I am pleased with the implementation of recommendations already accomplished and welcome a return audit within the year. If you have any questions or if I can be of any assistance, please let me know.

Sincerely,


William J. Gregg
Commissioner

WJG:nbn

cc: Jeff Olson
Tom Barrett
Department of Finance