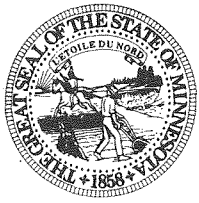


**MINNESOTA VETERANS HOME-MINNEAPOLIS
FINANCIAL AND COMPLIANCE REPORT
FOR THE YEAR ENDED JUNE 30, 1988**

SEPTEMBER 1989



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator John E. Brandl, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. James Sieben, Chair
Minnesota Veterans Homes Board

Members of the Minnesota Veterans Homes Board

Mr. Jeffrey Smith, Administrator
Minnesota Veterans Home - Minneapolis

Audit Scope

We have completed a financial and compliance audit of the Minnesota Veterans Home-Minneapolis for the year ended June 30, 1988. Section I provides a brief description of the home'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 Governmental Auditing Standards, and accordingly, included such audit procedures as we considered necessary in the circumstances.

Internal Accounting Control Systems

One objective of this audit was to study and evaluate major internal accounting control systems; payroll, administrative disbursements, cash and receipts, inventory, and the fiduciary responsibilities for resident accounts and designated contributions, at the Minnesota Veterans Home-Minneapolis, in effect as of March 15, 1989.

The management of the Minnesota Veterans Home-Minneapolis is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required as 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.

Because of the inherent limitations in any system of internal accounting control, errors and irregularities may occur and may not be detected. Also, projections of the 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.

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Finance-Related Legal Provisions

Another objective of this audit was to verify that financial transactions were made in accordance with significant finance-related laws. The Minnesota Veterans Home-Minneapolis is governed by Minn. Stat. Chapter 198. This chapter establishes the specific legal provisions related to the home's financial activities. Minn. Stat. Section 198.002, Subd. 3 provides for the compensation of Minnesota Veterans Homes Board members. Minn. Stat. Section 198.03 authorizes the admission of eligible persons with means of support. Minn. Stat. Section 198.16 creates an endowment fund and provides for the accounting of gifts received. Minn. Stat. Section 198.161 authorizes the acceptance of gifts for specific purposes and requires a system of records and accounts for the gifts. The disposition of personal property of deceased residents is authorized in Minn. Stat. Section 198.23. Minn. Stat. Section 198.231 provides for the disposition of personal property of discharged residents. Minn. Stat. Section 198.261 requires that profits from canteen operations be used only for the direct benefit of the residents. Minn. Stat. Section 198.265 authorizes the establishment of resident accounts and requires the accurate accounting and administration of resident moneys.

The Minnesota Veterans Homes-Minneapolis financial transactions are subject to the general statutory provisions which affect the financial management of state agencies. Specifically, Minn. Stat. Sections 7.09 and 7.10 authorizes state agencies to receive gifts and apply the proceeds of the gifts according to their endowment. Minn. Stat. Section 10.12, Subd. 1 requires any uncollectible account over \$100 be submitted to the executive council for write-off. Minn. Stat. Section 10.12, Subd. 2 allows state agencies to cancel any accounts under \$100 upon approval of the Attorney General. Minn. Stat. Section 15.0575, Subd. 3 establishes the reimbursement rate for board members. Minn. Stat. Section 15.191 authorizes the establishment of imprest cash funds. Minn. Stat. Section 16A.124, Subd. 3 requires state agencies to pay bills promptly, and also requires payment of interest on late payments. Minn. Stat. Section 16A.15, Subd. 3 provides that funds be encumbered prior to obligation. Minn. Stat. Section 16A.41, Subd. 1 requires that an authorized official certify services were performed or goods received. Minn. Stat. Section 16A.275 requires the prompt deposit of receipts. Minn. Stat. Section 16B.06, Subd. 2 describes the execution of contracts. Minn. Stat. Section 16B.07, Subd. 1 requires that all contracts for construction or repairs and all contracts for supplies, materials, purchase of equipment, and utility services be based on competitive bids. Minn. Stat. Section 16B.07, Subd. 4 requires three competitive bids for purchases, sales or rentals if \$15,000 or less. Minn. Stat. Section 16B.09, Subd. 1 requires all bids must be awarded to the lowest responsible bidder. Minn. Stat. Section 43A.18, Subds. 1 through 3 provides the compensation, terms, and conditions of employment for agency employees. Finally, Minn. Stat. Section 43A.37 provides the requirements for the processing of payroll warrants.

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The management of the Minnesota Veterans Home-Minneapolis 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 home. The purpose of our testing of transactions was to obtain reasonable assurance that the the home had, in all material respects, administered its programs in compliance with the aforementioned general and specific laws and regulations.

Status of Prior Audit Findings

We have reviewed the status of the 26 audit findings included in the audit report for the period April 4, 1984 through June 30, 1987. The final report was issued June 27, 1988. The 1988 report included an audit of both the Minneapolis and Hastings Veterans Homes. We reviewed the findings only as they relate to the Minneapolis home. Findings 1, 4, 7, 11, 13-14, 17, and 19-25 have been resolved. Findings 2-3, 6, 10, 12, 15-16, 18, and 26 are discussed in Section II, findings 1-4, 6, 8, 10-11, and 13, respectively. Findings 5 and 8-9 pertained to the Hastings home.

Conclusions

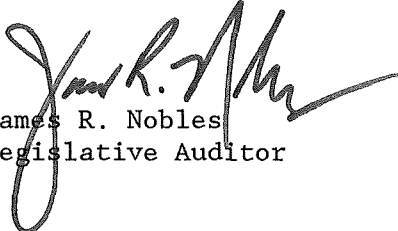
Our study and evaluation disclosed the issues raised in Section II, findings 3 through 6, concerning the Minnesota Veterans Home-Minneapolis' system of internal control over residents' funds and designated contributions, in effect on March 15, 1989, which in our opinion, result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the financial activities of the home may occur and not be detected within a timely period.

Section II, finding 1 represents a weakness in Minnesota Veterans Home-Minneapolis' cost of care procedures. Findings 7 and 9 represent weaknesses in the canteen activities. Finding 10 discusses the need to strengthen controls over receipts. Findings 11 through 14 discuss needed improvements concerning purchasing and inventory. We believe these weaknesses subject the home to an unnecessary financial risk and should be corrected.

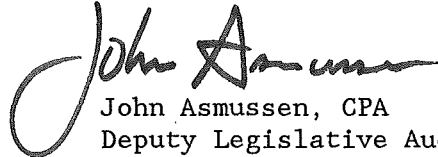
The results of our testing of transactions and records indicated the Minnesota Veterans Home-Minneapolis complied with the aforementioned finance-related legal provisions, except for the instances disclosed in Section II of this report. Finding 2 discusses noncompliance in the write off of uncollectible accounts. Finding 4 discusses noncompliance in disposition of unclaimed property. Finding 8 discusses noncompliance in purchasing procedures. Nothing came to our attention in connection with our audit that caused us to believe that the Minnesota Veterans Home-Minneapolis was not in compliance with other applicable legal requirements.

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We would like to thank the Minnesota Veterans Home-Minneapolis staff for their cooperation during this audit. Progress on resolving the findings discussed in this report will be reviewed within the next year.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: JUNE 16, 1989

REPORT SIGNED ON: September 5, 1989

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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
Jack Hirschfeld, CPA	Auditor-in-Charge
Judy Cammack, CPA	Staff Auditor
Marla Conroy, CPA	Staff Auditor
Pat Ryan	Staff Auditor
Mary Senczek	Intern

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following representatives of the Minnesota Veterans Homes-Minneapolis on August 16, 1989:

Jeffrey Smith	Administrator
Rebecca Leschner	Accounting Supervisor
Richard Zierdt	Executive Director, Minnesota Veterans Homes Board

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I. INTRODUCTION

The Minnesota Veterans Home-Minneapolis was founded in 1887. It is currently licensed to serve 346 nursing care and 194 domiciliary residents. Its purpose is to provide a home for veterans and their spouses, surviving spouses, and parents who meet eligibility and admission requirements.

The home was under the general management and control of the Commissioner of Veterans Affairs and the immediate supervision of an administrator appointed by the commissioner. On July 30, 1987, the Governor temporarily transferred control of the homes from the Department of Veterans Affairs 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 direct management of a board. The board consists of nine voting members appointed by the Governor. The chair is designated by the Governor. Three public members and five members of veterans organizations have professional experience in health care delivery. The Commissioner of Veterans Affairs serves as a nonvoting member of the board as do the chairs of the senate veterans affairs committee and the house committee on general legislation, veterans affairs, and gaming. Jeffrey Smith was appointed administrator of the Minnesota Veterans Home-Minneapolis on September 19, 1988.

The Minnesota Veterans Home-Minneapolis received \$13,068,300 in appropriations for fiscal year 1988. The home received \$4,663,112 in maintenance fees and \$2,459,300 in federal revenue which reduced the appropriation accordingly. Following is a summary of the Minnesota Veterans Home-Minneapolis expenditures for fiscal year 1988:

Minnesota Veterans Home-Minneapolis
Expenditures, Including Obligations
for the Fiscal Year Ended June 30, 1988

Expenditures:

Payroll	\$ 8,987,788
Administrative Expenditures	2,468,612
Capital Outlay	<u>108,967</u>
Total	<u>\$11,565,367</u>

Source: Managers Financial Report as of September 5, 1988.

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II. CURRENT FINDINGS AND RECOMMENDATIONS

Cost of Care

The Minnesota Veterans Home-Minneapolis (the home) defines cost of care as the total cost of operations less any revenue. The home assigns costs to either the domiciliary or nursing care operations. The cost of care is divided by the total number of days the home actually provided care for the residents. This calculated amount is the estimated amount needed to charge each resident to cover all costs of operation or the maximum maintenance charge. The cost of care calculation establishes the maximum maintenance fee which the home may charge residents. Residents are charged maintenance fees, depending upon their income and net worth.

1. PRIOR FINDING PARTIALLY RESOLVED: Maintenance fee calculation procedures need improvement.

The home has not developed procedures to insure the accurate and prompt collection of maintenance fees. The home needs reliable information about the net worth and income of applicants to compute accurately the maintenance fee of each resident. Currently, the home does not have adequate procedures to get this information. In addition, the home is not collecting fees on a timely basis.

Resident spend-down activity is not reviewed. The net worth of a resident is a major factor in determining his maintenance fee. It is now possible, however, for applicants to dispose of their assets before admission, thereby reducing their net worth. Reducing their net worth may result in a lower maintenance fee, and therefore lower collections.

The home has not had sufficient authority to verify the accuracy of annual income. Annual income is a factor in the determination of maintenance charges. The home reviews bank account balances and pension awards when determining net income, however, it has not reviewed income tax returns. Income tax returns would be a more accurate way of determining residents income.

The home has not been able to collect past due maintenance fees. The accounts receivable balance as of May 30, 1989 amounts to \$363,000. About \$177,000 of this amount represents past due maintenance fee billings for current residents. The residents or their guardians are either refusing to make payment, or are making only sporadic payments. The residents have been refusing to pay because the home has had no authority to discharge them. A court order prohibits the home from making any involuntary discharges until rules are established.

Emergency rules effective the end of August 1989, authorize the home to review the transfer of funds up to twelve months prior to admittance, review income tax returns, and complete involuntary discharge procedures. These emergency rules provide immediate authority to complete temporary operating procedures. However, their authority only extends through

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December 31, 1989. The home has not developed procedures to implement the emergency rules. Also, permanent rules providing authority for procedures to address these problems must be finalized before December 31, 1989.

RECOMMENDATION

- The home should develop procedures and permanent rules to address the problems of spend-down activity by new applicants, review of income tax returns, and the discharging of residents who refuse to pay.

2. PRIOR FINDING NOT RESOLVED: Uncollectible accounts have not been written off.

The home has not written off uncollectible accounts as required by Minnesota Statutes. The home has 90 uncollectible accounts exceeding \$100 that have not been written off. These accounts date back to 1969 and total about \$39,000. Minn. Stat. Section 10.12, Subd. 1 requires agencies to submit these uncollectible accounts to the executive council for write off with the approval of the Attorney General. The home has also not written off 70 accounts under \$100 totaling \$3,800 dating back to 1970. Minn. Stat. Section 10.12, Subd. 2 authorizes agencies to write off all uncollectible accounts under \$100 with the approval of the Attorney General. Until the home writes off the uncollectible accounts, accounts receivable will be overstated.

Most uncollectible accounts at the home result from residents being discharged without settling their bills. Collection attempts, including the use of the Revenue Recapture Act, have been applied against these accounts. However, these efforts have not been successful. The home has developed lists of the accounts that may be written off. These lists are now under review by the Veterans Homes Board.

RECOMMENDATION

- The home should review accounts on an annual basis and write off any accounts thought uncollectible. Current uncollectible accounts totaling \$43,000 should be written off as soon as possible.

Residents' Accounts

The home maintains accounts for its residents. Residents may make deposits and withdrawals. All transaction are recorded on the daily transaction log by the cashier. At the end of each day, each individual transaction is posted to the respective resident account. The total withdrawals and the total deposits for each day are posted to the control account. The account balance was about \$250,000 at April 30, 1989.

The home has improved the accountability for the residents accounts and property during fiscal years 1988 and 1989 by:

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- determining the correct investment balance for the account,
- depositing cash in a timely manner, and
- taking inventory of resident property placed in storage.

However, significant problems continue to exist.

3. PRIOR RECOMMENDATION NOT RESOLVED: Resident account reconciliations are not being completed.

The home did not reconcile the resident account balances to the control account or to the statewide accounting (SWA) system during fiscal year 1988. The home maintains a separate account for each resident, and a control account representing a total of all resident accounts. The residents' accounts should be reconciled to the control total to verify the accuracy of the posting to the accounts. The control total should then be reconciled to the amount recorded on SWA. The home does not reconcile the resident account balances to the control total. We attempted to reconcile the account balances to the control total and to SWA as of April 30, 1989. There is a shortage of \$5,120 for resident accounts. The total of the individual resident accounts exceeded the amount recorded on SWA by \$5,120. The accounting supervisor was unaware that the accounts did not reconcile, and was unable to explain the difference. If the accounts had been reconciled on a monthly basis, the errors or irregularities would have been detected and investigated on a timely basis.

The home did not reconcile the residents depository account to the authorized imprest cash amount, or the control account to statewide accounting monthly. During fiscal year 1988, the reconciliations were completed for only 9 out of the 12 months. The completed reconciliations were not signed or dated. It was not possible to determine who did the reconciliation and when they were completed. In addition, each reconciliation resulted in an unexplained difference. No effort was made to investigate the differences. Reconciliations should be completed monthly to timely identify any differences. These differences should be investigated and resolved.

Interest earned on the resident accounts was not transferred to the designated contribution account on a monthly basis. Because the funds were not being transferred timely the monthly reconciliations were more difficult to complete. It also prevented the designated contributions account from using the funds for the residents.

RECOMMENDATIONS

- The residents' account balances should be reconciled to the control account, and the control account reconciled to SWA on a monthly basis.
- All discrepancies should be investigated and resolved.

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- The accounting officer responsible for the reconciliation of the account balances should be trained to accurately complete the reconciliation. These reconciliations should be reviewed by the accounting supervisor.
- All interest earnings should be transferred to the designated contributions account on a monthly basis.

4. PRIOR RECOMMENDATION NOT IMPLEMENTED: Unclaimed resident property is not being disposed of properly.

The home has not disposed of property of residents who have been deceased or discharged for more than one year. Minn. Stat. Sections 198.23 and 198.231 require that property remaining from deceased or discharged residents after one year should be inventoried, appraised, and sold. Proceeds from the property of deceased residents is to be placed in the Designated Contributions Fund. The proceeds from disposal of property of a resident who has been discharged should be placed in a state account. The home has conducted an inventory of the items and tagged the property with identification numbers. In addition, the home is developing plans for an appraisal of the property. However, the process for disposing of the property has not been completed.

The key to the storage area is not being properly safeguarded. The key is not kept in a secured place and is accessible to resident workers and unauthorized staff. One staff person should be responsible for the resident property and have access to the storage area. The key should not be available to other individuals.

RECOMMENDATIONS

- Unclaimed property should be disposed of according to Minn. Stat. Sections 198.23 and 198.231.
- Access to the storage area should be limited to the staff responsible for resident property.

Designated Contributions

Minnesota Statutes authorize the Minneapolis home to accept donations, gifts, grants, and bequests on behalf of the home and its residents. The home is to deposit these donations in the state treasury and credit them to the home designated contributions account. The administrator reserves the right to reject or return a donation if it is not compatible with the home's and the residents' best interest. Donations that are not for a particular purpose are to be used for the direct benefit of the home and its residents. Funds deposited to the designated contributions account are also derived from two other sources. These include interest earned

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from the investment of residents' money on deposit in the member's depository account, and profits transferred from the canteen account. Approximately \$193,000 was in the account as of March 31, 1989.

The home accounts for designated contributions on a personal computer. The home maintains one general contribution account and several specific purpose accounts. A manager for each account approves all expenditures and transfers. The home deposits receipts into the state treasury and makes payments through the statewide accounting system.

We have identified the following problems associated with designated contributions:

- Excessive errors exist on the home records.
- Designated contribution funds are not adequately controlled.

5. The designated contributions accounts contain an excessive number of errors.

The home's accounting records used to monitor designated contributions contain many errors. The accounts receivable supervisor is responsible for reconciling the home's accounting records to SWA. The reconciliation is necessary to account for all contributions. However, he has not performed the reconciliations accurately. The accounts receivable supervisor has failed to investigate differences identified between the accounts. The March 31, 1989 reconciliation showed a difference of \$23,400 between SWA and the home's records. This difference was not investigated. We attempted to reconcile the home records to SWA and found a shortage of \$6,000. The home records for designated contributions exceeded the amount recorded on SWA by \$6,000. Our analysis showed the difference was attributed to the following:

- interest income of \$29,600 was not posted to the home records;
- some purchases were not posted to the home's records;
- payments were posted to the home records that were not paid from the designated contributions account. One reason for this was that some invoices were only partially paid from the designated contributions account but the entire invoice amount was posted to the home records; and
- some transactions were input incorrectly.

Since a reconciliation is not performed, these errors were not detected.

The account managers do not receive a detail report of transactions. Monthly reports detailing the transactions should be provided. The managers then could review the reports for posting errors. The reports also would provide the managers with their account balance available for activities.

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RECOMMENDATIONS

- The home should reconcile its records to SWA and make the appropriate adjustments monthly.
- The account managers should periodically review the detail of the activity in their accounts to determine if there are inappropriate entries.
- The accounts receivable staff should determine the reason for the discrepancy on the home's accounting records.

6. RECOMMENDATION PARTIALLY IMPLEMENTED. Designated contribution funds are not adequately controlled.

The home has inadequate documentation to support the intended purpose of donations. The volunteer services coordinator is responsible for determining into which account the funds will be deposited. When donations are received he completes a memo detailing the donors name, check number, amount, and account. However, documentation from the donor which details the purpose of the donation is not kept. This documentation should be kept to provide verification of the proper use of funds.

The gift acceptance forms for both gifts of money and property are not approved by the administrator. The statewide accounting policies and procedures set specific procedures for acceptance of gifts. These procedures require that the agency prepare a gift acceptance form for gifts over \$100. They also require that the agency head and the agency controller sign this form and that one copy is sent to the donor. This procedure ensures the donor that the funds were received and properly deposited. It also provides the administrator with the opportunity to review donations and to return those believed not to be in the home's best interest.

The activity managers authorize expenditures out of their accounts when there is not sufficient funds. When staff make payments from designated contribution accounts, they must submit an expenditure request to the purchasing section. The account manager must sign the request indicating there are funds available in the account. The purchasing section relies on this statement and orders the goods. At March 31, 1989 the Minneapolis recreation account had a negative balance of \$39,342. The home must transfer funds from the general contributions account for these payments. By making expenditures when there are no funds available in the account, the account managers are indirectly transferring funds without proper authority.

Transfer documents are not adequately supported. Transfers are made when funds remain after the approved expenditure or when the home determines that the amount is not sufficient for the purpose. The documents used to authorize transfers are supposed to include the account manager's signature, an approval signature, and the reason for the transfer. However, most of the transfer documents we tested did not include the reason for the transfer.

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RECOMMENDATIONS

- The activity managers should not authorize payments from the accounts unless there are sufficient funds.
- The home should comply with the statewide accounting procedures for gift acceptance of gifts over \$100.
- The home should keep documentation from the donor which details the purpose of the donation.
- The home should make sure the reason for transfers are appropriate and adequately documented.

Canteen Activities

Minn. Stat. Section 198.261 provides for the operation of canteen activities at the home. The Minneapolis home had three canteen activities: Shop-N-Round, coffee shop, and a beer vending operation. The Shop-N-Round is a convenience store for residents and the coffee shop provides snack items. The beer vending operation closed on April 3, 1989.

The resident activities supervisor is the manager of the canteen activities. The supervisor's duties include running the shops and submitting financial information to the financial management division for the quarterly profit or loss statements. The financial management division is responsible for arranging vendor contracts applicable to the canteen activities and for recording transactions on the statewide accounting system. The financial management division is also responsible for preparing the canteen's financial statements. The home is not maintaining adequate records or complying with the Department of Administration's purchasing procedures. They have also not determined the reason for losses incurred by the canteen during fiscal year 1989.

7. Internal controls over canteen records are inadequate.

The canteen supervisor does not perform the daily cash reconciliation. The resident worker completes the daily cash reconciliation form, comparing sales to cash and the deposit. This form, the register summary tape, and the deposit are given to the cashier. An adequate separation of duties requires that the canteen supervisor perform part of the reconciliation process. The resident worker should count the cash and complete the corresponding portion of the daily cash reconciliation form. The supervisor should total the register and complete the sales and register totals on the reconciliation form. Discrepancies between the cash and register totals should be investigated. The register tape should be attached to the daily cash reconciliation form. The reconciliation should also include a review of the detail cash register tapes for unusual or frequent voids and refunds. As discussed in finding 9, the canteen is currently incurring unreasonable losses. This review and reconciliation procedure would help to determine if errors or irregularities in the recording of receipts, voids, or refunds have contributed to the losses.

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The home does not compare contract price lists to purchase prices on invoices. The Shop-N-Round purchased candy and tobacco products with the same contract vendor since fiscal year 1988. However, the home only obtained a price list for items purchased under the contracts in April 1989. For 22 months the canteen supervisor has been approving invoices without comparing the invoice prices to a price list. Without the contract price list, the canteen supervisor is unable to verify the accuracy of the prices for the items purchased. The supervisor should compare the invoice prices to the contract price list to insure that the charges are correct.

RECOMMENDATIONS

- The canteen supervisor should total the cash register and complete the appropriate sections of the daily cash reconciliation form.
- The canteen supervisor should review detail tapes for errors or irregularities in the recording of receipts, voids, or refunds.
- The canteen supervisor should obtain the price lists for all contracts to verify that the invoice prices are accurate.

8. PRIOR FINDING NOT RESOLVED: The home did not obtain required bids.

The canteen activities supervisor did not solicit bids when purchasing personal care items for the Shop-N-Round. The canteen supervisor made 25 purchases between \$100 and \$1,500 from one vendor during fiscal year 1988 without soliciting bids. Minn. Stat. Section 16B.07, Subd. 1 requires competitive bids for the purchase of supplies. The Department of Administration's procurement bulletin 7-206 contains guidelines for purchasing supplies based on this statute. These guidelines require three competitive bids for purchases of supplies between \$100 and \$1500. These purchases did not comply with the statutory requirements. Since the supervisor did not receive bids on any of these purchases, the home had no assurance they were receiving the lowest available prices.

RECOMMENDATION

- The home should comply with Minnesota Statutes and follow the guidelines in bulletin 7-206 by obtaining bids for the purchase of supplies.

9. The home has not determined the reason for Shop-N-Round losses.

The home has not been able to determine the cause of losses incurred by the Shop-N-Round during the past two years. The Shop-N-Round sells candy, tobacco products and limited personal items to residents. A markup of 15

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percent is added to all items sold. The financial management division prepares quarterly financial reports for the Shop-N-Round. At the end of each quarter a physical inventory is taken, and the cost of goods sold is determined. The financial management division compares the cost of goods sold with cash receipts to determine the net profit. The only costs incurred by the Shop-N-Round is for inventory. Therefore, the profits should equal 15 percent of the cost of the items sold. However, the financial reports indicate quarterly losses ranging from \$1,100 to \$5,000. The financial management division has been investigating the losses, but has not determined the cause. The potential causes for the losses are discussed below.

There is inadequate supervision of residents operating the Shop-N-Round. Residents are employed by the home to operate the Shop-N-Round. The residents stock and sell merchandise. As stated in finding 7, the canteen supervisor does not monitor receipts including refunds and voids, at the Shop-N-Round. Without a review of the cashier activities, errors and irregularities can go undetected. The lack of supervision also increases the possibility of theft. The large variance between expected profits and the actual losses indicates that theft of inventory items is a possibility. While the home has not determined whether theft has occurred, they have placed items susceptible to theft, such as cigarettes, in a more secure area. However, the canteen supervisor could take additional steps to reduce the possibility of theft. He could complete spot-checks of sales to inventory counts, and review security and access to the inventory. Additional supervision of the staff of the Shop-N-Round is necessary to reduce errors and prevent theft.

The financial management division has made several errors preparing the financial reports. These errors include:

- Incorrect determination of the cost of the ending inventory. The financial management division computes the cost of the ending inventory. The ending inventory is determined by multiplying the physical inventory count of each item by the retail price. This amount is then divided by 115 percent to arrive at the cost of ending inventory. This computation has not always been computed accurately. For instance, the financial management division incorrectly multiplied the ending inventory amount for the quarter ending June 30, 1988, by 15 percent instead of dividing the amount by 115 percent. This miscalculation resulted in an understatement of net earnings by \$150. Instructions for computing the value of the ending inventory would help to reduce errors.
- Inaccurate computation of the cost of goods sold. Several errors have occurred when preparing the cost of good sold during the past few quarters. These errors include a misstatement of the beginning inventory amount, incorrect sales tax amounts, and the incorrect determination of the cost of goods purchased during the quarter. For instance, the report for the quarter ending September 30, 1988 correctly included adjustments for payments

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totaling \$5,323 for goods received in the prior period, and omitted purchases amounting to \$967 received during the current quarter. However, similar adjustments were not completed for prior quarterly reports. These types of errors severely impact the results of operations. Instructions for the computation of the cost of goods sold would reduce the errors and provide a more accurate quarterly report.

One or more of the problems listed above could have contributed to the losses incurred by the Shop-N-Round.

RECOMMENDATIONS

- The home should provide more direct supervision of canteen operations.
- The home should prepare accurate quarterly financial reports.

Receipts

The home cashier's office receives mail receipts. These receipts include cash and checks for imprest cash and designated contributions. The cashier is responsible for depositing these receipts into either a local bank or a state depository, depending on the type of receipt. The following section discusses weaknesses in the mail receipts and the over-the-counter receipts process.

10. PRIOR FINDING PARTIALLY RESOLVED: The home should strengthen internal controls over receipts.

The home is not comparing its daily receipt log to the deposit. The account clerk records each mail receipt for imprest cash or designated accounts on a mail receipts log. The cashier prepares a deposit slip for the daily receipts, including mail receipts. A reconciliation of the deposit slip to the receipts recorded on statewide accounting records occurs monthly. However, there is no reconciliation of receipts recorded on the mail log to the deposit slip. Without this reconciliation, the home cannot be sure that all mail receipts are deposited.

The cashier does not deposit all canteen receipts timely. Minn. Stat. Section 16A.275 requires state agencies to deposit receipts into the state treasury or a local depository when the daily receipts exceed \$250. The canteen activities manager has transferred the receipts to the cashier in time. However, in some instances the cashier did not deposit canteen receipts until up to five days after receipt. Reasons given for the delay by the cashier include misplaced deposits, or postponing deposits containing coins. These reasons are not sufficient to warrant the delay of the deposits. Depositing canteen money other than on a daily basis does not comply with statutory requirements.

MINNESOTA VETERANS HOME-MINNEAPOLIS

RECOMMENDATIONS

- The home should reconcile receipts posted to the mail receipts log to the deposit slip.
- The home should comply with Minn. Stat. Section 16A.275 and deposit receipts promptly.

Disbursements

The home has made significant progress toward the implementation of our prior audit recommendations concerning disbursements. However, the following weaknesses still exist:

- Contract billing reviews need improvement.
- Purchases were made without adequate funds encumbered.

11. PRIOR FINDING PARTIALLY RESOLVED: Review of contract billings need improvement.

The home does not adequately review and process billings of professional contracts. The home is billed for medical and ambulance services. An adequate review of these billings is necessary to insure that the payments are accurate and that they are processed timely.

The home does not have a method for monitoring the services provided by professional contractors. The home contracts with professional staff to provide various medical services. The professional staff are not required to sign in or sign out. Since the professionals are paid based on the number of hours of services provided, a sign in/sign out log would help to verify the accuracy of the billings. This log could be compared to the billings before payment. An alternative is to have a supervisor monitor the contractors.

The home has not recovered overpayments totaling \$3,000 for ambulance services which occurred during fiscal years 1985-1987. The home submitted documentation supporting the overpayments to the Department of Administration Procurement Division in October 1986. The home has not pursued this issue further. As a result, the home has not collected on these overpayments.

The home does not have procedures to follow up on the disposition of Medicare claims. The contractor for basic life support ambulance services submits the reimbursement request information to Medicare to speed up the collection process. However, the home does not receive the notice of settlement from Medicare in a timely manner. Medicare usually sends the notice directly to the resident, and the residents do not always inform the business office of the disposition of the settlement. The home has attempted to determine the disposition of claims by preparing form letter requests, but these were rejected because they were not signed by the resident. Because the home does not have procedures in place to follow up

MINNESOTA VETERANS HOME-MINNEAPOLIS

on the disposition of claims, they have processed the payments late, and have made inaccurate payments.

RECOMMENDATIONS

- Sign in/sign out logs should be maintained and compared to invoices before payment or a supervisor should monitor the contractors.
- The home should pursue reimbursement of the overpaid ambulance services.
- The home should develop a system to determine the disposition of medicare reimbursements in a timely manner.

12. The activity managers do not adequately review their budgets.

The activity managers do not adequately review their budget to ensure that sufficient funds exist. Budgets are established for the year based on estimated expenditures. Activity managers are responsible for monitoring their accounts and authorizing expenditures for their activity. Before authorizing expenditures, the activity managers should review their accounts to determine that sufficient funds exist to pay the obligation. If funds are not available, obligations should not be incurred. However, activity managers at the home did not adequately review their budgets during fiscal year 1989. Obligations were incurred without sufficient funds encumbered. For instance, the food service activity in June 1989 had about \$33,500 of outstanding purchase orders. However, their account contained only approximately \$90. Minn. Stat. Section 16A.15, Subd. 3 requires that no obligation be incurred against any fund, allotment, or appropriation unless a sufficient unencumbered balance exists in the account. The food activity has insufficient funds to pay the outstanding purchase orders. The activity manager will have to obtain additional funding to pay for these obligations. According to Department of Finance procedures, a letter justifying the expenditures will also have to be completed.

The financial manager should review the individual activity budgets with the activity managers on a routine basis. This review would not only prevent similar problems as shown above, but would also provide the activity directors with professional guidance.

RECOMMENDATIONS

- The activity managers should monitor their accounts more closely, and insure that adequate funds exist before incurring an obligation.
- The financial manager should review the budget with activity managers on a routine basis.

MINNESOTA VETERANS HOME-MINNEAPOLIS

Inventories

The home maintains a fixed asset inventory and an inventory of consumable goods. The fixed asset inventory consists of medical, administrative, and maintenance equipment. The purchasing supervisor is responsible for the fixed asset inventory. The consumable inventory consists of food, beer, and pharmaceutical drugs. Separate employees administer each of the consumable inventories.

Effective internal controls provide that inventories are properly safeguarded, and accurately recorded. Without these controls, inventories may be misused, misplaced or stolen without detection. Internal controls over two areas at the home need to be improved.

13. PRIOR FINDING PARTIALLY RESOLVED: Inventory records are not adequately maintained.

The home did not complete the reconciliation of the physical inventory to inventory records. The Department of Administration's Fixed Asset Record Management System (FARMS) manual requires agencies to complete a physical inventory every two years. As part of the inventory process, the agency is to reconcile the physical count to inventory records. The home conducted a physical inventory of its fixed assets during fiscal year 1988. However, they did not complete the process of reconciling the inventory count to inventory records. For instance, one count sheet used in the physical inventory showed that home should add a typewriter to its inventory listing. As of April 1989, the home had not added this typewriter to the inventory listing. The reconciliation and updating of inventory records is necessary for accurate inventory records, and to provide a means of detecting missing assets.

The home has not updated the location code of all of its assets on the inventory listing. The location code helps the agency control the individual assets. The home should complete the location code on the inventory listing to effectively monitor the location or transfer of its assets.

The home has not developed a policy for recording sensitive assets. Sensitive assets are those items that cost less than \$500 but are susceptible to theft or misuse. The FARMS manual requires agencies to develop policies and procedures for the recording of these assets. These procedures would help to identify and list the sensitive assets. Written policies and procedures would reduce the pilfering and misuse of sensitive assets.

RECOMMENDATIONS

- The home should include the process of reconciling assets located during the physical inventory to the inventory listing as part of a complete physical inventory.
- The home should update the location codes on the inventory listing.

MINNESOTA VETERANS HOME-MINNEAPOLIS

- The home should develop policies and procedures for the recording and safeguarding of sensitive assets.

14. Internal controls over food inventory are inadequate.

The food inventory at the home is susceptible to theft because the storage area is not secure. The home is remodeling the kitchen and food storage area. While the remodeling occurs, the home is storing the food inventory in the theater. This storage area is not secure and allows unlimited access to the food inventory. The storage area should be secure to prevent the unauthorized removal of food.

In addition, the food inventory system does not document the removal of items from inventory. Kitchen staff complete a weekly physical inventory count. The cook prepares food orders incorporating what is on hand and the menus prepared for the week. Purchases are placed in the food storage area. Staff take food out of storage as needed to prepare the meals. There is no process to document the authorized removal of food from inventory. Because staff remove food from the storage area without supporting documentation, unauthorized removal of food cannot be detected.

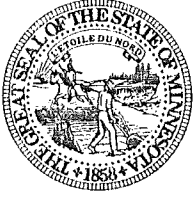
The home is developing a perpetual inventory system to become operational in fiscal year 1990. A perpetual inventory system would result in improved internal controls over the food inventory. Controls would improve because a perpetual inventory system requires:

- a secure storage area to prevent unauthorized access,
- a continuous updating of the inventory records for all purchases and use of food items, and
- a system to document the authorized removal of items from the storage area.

A perpetual inventory system would also provide daily inventory totals and eliminate the need to complete a weekly physical inventory count.

RECOMMENDATIONS

- The home should improve their internal controls over the food inventory by developing a perpetual inventory system.
- Inventory access should be limited to prevent unauthorized removal of items.



**STATE OF MINNESOTA
VETERANS HOME BOARD**

MINNEAPOLIS VETERANS HOME

5101 MINNEHAHA AVENUE SOUTH
MINNEAPOLIS, MINNESOTA 55417
(612) 721-0600

August 30, 1989

Mr. James Nobles, Legislative Auditor
Office of the Legislative Auditor
State of Minnesota
Veteran's Service Building
St. Paul, MN 55155

RE: Response to Audit Findings/Recommendations

Dear Mr. Nobles:

Attached, please find our response to the Audit Report dated August 9, 1989.

Should you or the staff require any more information or clarification on our response, please feel free to call me.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeff Smith", is written over the word "Sincerely,".

JEFF SMITH
Administrator

JS/lid

Enclosure

RESPONSE TO:
CURRENT FINDINGS/RECOMMENDATIONS
MVH LEGISLATIVE AUDIT

On Finding #3, we should request that the Legislative Auditor make the following change:

The accounting supervisor was unaware that the accounts did not reconcile, and was unable to explain the difference; should read, "The Accounts Receivable Supervisor".

Finding:

1. Written detailed procedures will be developed, with the input of Social Services, of the maintenance fee calculation process. These will be developed, based upon the emergency rules. The facility will be able to initiate these procedures within 30-days of the establishment of New Rules.

Accounting Officer, Sr.; Social Services Director; Cost of Care Program Officer.

2. The uncollectible accounts have been separated into the following categories: over six years in age, over \$100, and less than \$100.

A revised procedure is to be written. This procedure includes a quarterly status report of all overdue accounts be prepared and forwarded to the Home's Administrator.

A/R Supv.; Accounting Officer, Sr.; Administrator

3. The Resident Accounts control account has been balanced to SWA. A format was established and accounts receivable supervisor will balance and correct any errors monthly. The Melyx system update will be installed during September. This update includes a report that will be used in the monthly reconciliation.

The audit and reconciliation of the resident accounts control account is being forwarded to the Legislative Auditor's Office for review.

A/R Supv.; Information Systems Director; Accounting Officer, Sr.

4. The Home is in the process of disposing the unclaimed property in accordance with Minnesota Statutes Sections 198.23 and 198.231.

Access to the storage area has been limited to the resident property room.

A/R Supv..

Response to:
Current Findings/Recommendations
MVH Legislative Audit
continued

5. Designated Contributions has been put on the SWA system. The audit and reconciliation of the errors is in process. A completed audit and reconciliation of errors will be forwarded to the Legislative Auditor's Office for review within the next 30 days.

Activity Managers will receive monthly SWA reports of their accounts activity. A committee has been established to review and approval all expenditures. This committee currently meets monthly.

Procedures are being revised to incorporate the changes in receipting, depositing and expending of designated contributions.

Accounting Officer, Sr.; A/R Supv.; Cashier; Committee; Administrator.

6. Procedures are being revised for designated contributions. Designated Contributions have been put on the SWA system. This will insure that proper SWA procedures are followed and that funds are available prior to expenditure.

A Committee was established to review the receipt of donations and the expenditure requests. The transfer of funds will be authorized by the Committee and the Administrator.

Gift Acceptance forms will be completed with the proper signatures. These completed forms will be filed in the Cashier's Office, with the deposits.

7. The Home has contacted the Services for the Blind about operating the canteen. The Services for the Blind are targeted to take over the canteen October 1.
8. With the Services for the Blind taking over the running of the Canteen, this function will be performed by the Services for the Blind.
9. The Services for the Blind are expected to take over the operation of the Shop-N-Round October 1.
10. Revised forms have been implemented to strengthen internal control over receipts. Revised procedures are being written to further strengthen controls over depositing of receipts.

Accounting Officer, Sr.; A/R Supv.; Cashier

Response to:
Current Findings/Recommendations
MVH Legislative Audit
continued

11. Appointment logs will be maintained by the Clinic secretary for all medical services providers. This log will be utilized to verify hours of service on the monthly billings.

The Home is currently pursuing the \$3,000 for ambulance service overpayments that occurred in 1985-1987.

Accounting Officer, Sr.; Attorney General

Procedures are being rewritten to specifically address medicare reimbursement of ambulance billings.

Clinic Secretary; Administrator; Accounting Officer, Sr.

12. Monthly meetings are being held with Activity Managers to review their budgets.

Accounting Officer, Sr.

13. With the construction of the new warehouse, an inventory system will be created for fixed and sensitive assets. This system will be maintained by the warehouse personnel.

Accounting Officer, Sr.; Sr. Stores Clerk; Information Systems Director

14. Improvements in inventory to be made by November, 1989:

- a. Stores clerk to be hired 9/13/89 to initiate a perpetual inventory system manually until a personal computer is purchased.
- b. Paperwork is being developed to initiate perpetual inventory system by Sharon Williams by October 15, 1989.
- c. Personal computer (Inca System) to perform ordering/budgeting/inventory have been added to Federal funds expenditures request.

If you have any questions, please contact me.