

**MINNESOTA VETERANS HOME - HASTINGS
FINANCIAL AUDIT
FOR THE TWO YEARS ENDED JUNE 30, 1989**

AUGUST 1990

**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**

90-52

MINNESOTA VETERANS HOME - HASTINGS

FINANCIAL AUDIT FOR THE TWO YEARS ENDED JUNE 30, 1989

Public Release Date: August 10, 1990

No. 90-52

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Maintenance fees, resident accounts, designated contributions, canteen receipts, general administrative disbursements, and payroll.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

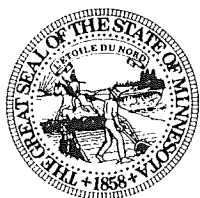
We found eight areas where the internal control structure needed improvement:

- A proper separation of duties did not exist for the accounting of resident funds.
- The home was not reconciling the resident account balance.
- Maintenance fee calculations need improvement.
- The home needs to improve the separation of duties over the designated contribution accounts.
- The home should improve controls over activity cash advances.
- The home was not verifying the accuracy of canteen fund deposits.
- Disbursement processing duties were inadequately segregated.
- Purchases were not verified for propriety prior to payment.

We reported one area where the home had not complied with finance-related legal provisions:

- The home was not in compliance with statutes related to encumbrance of funds and prompt payment of billings.

Contact the Financial Audit Division for additional information.
(612) 296-1730



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 Home Board

Members of the Minnesota Veterans Homes Board

Ms. Susan Kiley, Administrator
Minnesota Veterans Home - Hastings

Audit Scope

We have conducted a financial related audit of the Minnesota Veterans Home - Hastings as of and for the two years ended June 30, 1989. Our audit was limited to only that portion of the State of Minnesota's financial activities attributable to the transactions of the Minnesota Veterans Home - Hastings, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the Minnesota Veterans Home - Hastings in effect as of April 1990.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transactions of the Minnesota Veterans Home - Hastings are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Minnesota Veterans Home - Hastings' compliance with certain provisions of laws, regulations, and contracts. However, our objective was not to provide an opinion on overall compliance with such provisions.

Management Responsibilities

The management of the Minnesota Veterans Home - Hastings is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;

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- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and
- recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- maintenance fees (cost of care),
- resident accounts,
- designated contributions,
- canteen receipts,
- general administrative disbursements, and
- payroll.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Conclusions

Our study and evaluation disclosed the conditions discussed in findings 1 to 8 involving the internal control structure of the Minnesota Veterans Home - Hastings. We consider these conditions to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

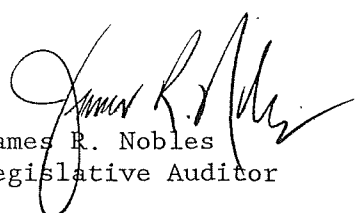
A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe the reportable conditions described in findings 1 and 2 are material weaknesses.

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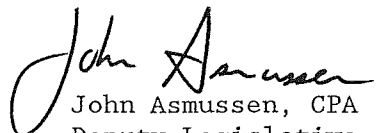
We also noted other matters involving the internal control structure and its operation that we reported to the management of the Minnesota Veterans Home - Hastings in a meeting held on July 18, 1990.

The results of our tests indicate that, except for the issues discussed in finding 9, with respect to the items tested, the Minnesota Veterans Home - Hastings complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Minnesota Veterans Home - Hastings had not complied, in all material respects, with those provisions.

This report is intended for the information of the Legislative Audit Commission and management of the Minnesota Veterans Home - Hastings. This restriction is not intended to limit the distribution of this report, which was released as a public document on August 10, 1990.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: June 1, 1990

REPORT SIGNED ON: August 6, 1990

MINNESOTA VETERANS HOME - HASTINGS

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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
Michael Hassing	Auditor-in-Charge
Kari Irber, CPA	Auditor
Dan Quandt, CPA	Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Minnesota Veterans Home - Hastings on July 18, 1990:

James Sieben	Chair, Minnesota Veterans Home Board
Mike Ohnstad	Minnesota Veterans Home Board member
Susan Kiley	Home Administrator
Kim Deveau	Home Business Manager
Becky Leschner	Board Accounting Coordinator
Rich Zierdt	Board Executive Director
Sandy Linn	Board Internal Auditor

MINNESOTA VETERANS HOME - HASTINGS

I. INTRODUCTION

The Minnesota Veterans Home - Hastings provides domiciliary care for veterans and their spouses, surviving spouses, and parents who meet eligibility and admission requirements. The home currently has approximately 140 residents.

From July 1987 through April 1988 the home was under the general management and control of the Minnesota Department of Human Services. In April 1988, the control of the homes was placed under the direct management of the Veterans Home Board. Susan Kiley has been the administrator of the Hastings Veterans Home since November 1988.

The Veterans Home Board receives a total appropriation for the operation of the homes. The appropriation is then allocated to the individual homes. The following is a summary of the receipts and disbursements of the Minnesota Veterans Home - Hastings for fiscal years 1988 and 1989:

	<u>FY 1989</u>	<u>FY 1988</u>
Receipts:		
Maintenance fees	\$ 414,910	\$ 432,391
Federal	455,736	398,427
Resident deposits	107,938	113,794
Canteen	59,422	71,233
Other	<u>153,433</u>	<u>122,796</u>
Total	<u>\$1,191,439</u>	<u>\$1,138,641</u>
Disbursements:		
Payroll	\$1,723,754	\$1,640,647
Administrative expenditures	799,074	882,088
Resident withdrawals	<u>103,732</u>	<u>112,846</u>
Total	<u>\$2,626,560</u>	<u>\$2,635,581</u>

Source: Manager Financial Report as of September 2, 1989, SWA
Receipt Analysis, and home records.

The home also receives contributions to be used for the benefit of residents. The home received contributions totalling \$42,981 and \$62,565 for fiscal years 1988 and 1989, respectively.

MINNESOTA VETERANS HOME - HASTINGS

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. A proper separation of duties does not exist for the accounting of resident funds.

The cashier is responsible for virtually the entire process of resident accounts. The cashier deposits and withdraws money for the residents. The residents pay their maintenance fees to the cashier. The cashier also posts transactions to the individual resident cards and control account. At the end of the day, the cashier prepares the daily deposit for the bank. The cashier also maintains the imprest checking account and performs the daily imprest cash account reconciliation. Monthly, the cashier balances the total of the resident accounts with the control account.

The separation of duties is an essential element of accounting controls. By having only one person involved in the accounting process, there is an increased risk of undetected errors or irregularities. Separation of duties helps prevent errors by providing a review of transactions and calculations by more than one person.

To separate duties at Hastings, an individual who has no access to the receipt and disbursement of money should perform recordkeeping duties. The business office has two other individuals who could be reassigned some of these duties.

RECOMMENDATION

- Separate individuals should perform the receipt, posting, and reconciling functions of the resident accounts.

2. The home is not reconciling the resident account balance.

The resident account balance has not been reconciled to the balance in the statewide accounting system (SWA). A monthly reconciliation would detect errors and irregularities timely.

We reconciled the account as of April 30, 1990. We identified a \$302.15 difference from investment interest being transferred twice to the designated contribution account. A portion of this error related to transactions occurring in July through November 1987.

During our reconciliation, we discovered that the imprest cash account occasionally exceeded its authorized limit. At month end, the cashier needs to provide sufficient funds to cash residents' Veterans Administration and Social Security checks. The cashier draws the additional funds from the checking account and requests reimbursement through SWA. This reimbursement causes the imprest cash account to exceed its authorized limit. SWA reimbursements should only be for amounts actually disbursed by the cashier.

MINNESOTA VETERANS HOME - HASTINGS

RECOMMENDATIONS

- The home should balance the account by transferring the \$302 investment income from the designated contribution account to the residents' accounts.
- The business office should reconcile the SWA account balance with the individual residents accounts on a monthly basis.
- The imprest cash account should be maintained at its authorized limit.

3. Maintenance fee calculations need improvements.

The home does not verify all sources of income before admitting residents. The home only verifies the Veteran's Administration and Social Security Administration benefits the resident may be receiving. The home does not confirm bank account balances or verify other income reported by the resident. As a result, the resident could have unreported assets. The resident pays a maintenance fee each month that is calculated on the amount of income and net worth each resident reports. Unreported income results in an inaccurate maintenance fee calculation. The home needs to verify income to ensure accurate maintenance fee calculations.

The home does not sufficiently document maintenance fee calculations and adjustments. We noted a lack of documentation for maintenance fee calculations during our testing. The home does not always update changes in VA and Social Security benefits. In some cases, the verified income amount did not agree with the income figure used in the actual maintenance fee calculation. In other instances, documentation supporting benefits of residents transferred between homes was incomplete. To ensure accurate maintenance fee calculations, the home must fully document all income verifications and adjustments.

RECOMMENDATIONS

- The home should ensure that maintenance fee calculations include all applicable income for each resident.
- The home should include written documentation to support all payment adjustments.

4. The home needs to improve the separation of duties over the designated contribution accounts.

The volunteer services coordinator authorizes both receipts and disbursements of the designated contribution accounts. The coordinator solicits donations and receives the funds. The coordinator then designates the

MINNESOTA VETERANS HOME - HASTINGS

accounts where the funds are deposited. A committee authorizes the disbursement of funds from the contribution accounts. The coordinator completes and authorizes an expenditure report that is forwarded to the accounts payable clerk for payment processing.

The home is at risk that errors or irregularities might not be detected promptly because only one person is involved in the process. To adequately segregate duties, the cashier should receive all designated contributions. The cashier should prepare the designated contribution receipt form showing the amount received, the date received, and the purpose of the donation. The cashier should then give a copy of this form to the volunteer services coordinator and the home administrator.

Also, the home is not following statewide accounting policies and procedures for the acceptance of gifts. These procedures require that the home prepare a gift acceptance form for gifts over \$100. They also require that the administrator and controller sign this form. This procedure provides the administrator with the opportunity to review donations and to determine if the donation is appropriate.

RECOMMENDATIONS:

- The cashier should receive, date, and deposit designated contributions.
- The home should comply with the statewide accounting procedures for accepting gifts over \$100.

5. The home should improve controls over activity cash advances.

The home needs to improve the controls over cash advances in two areas. First, activity employees, who arrange and chaperone events and outings for residents, do not always obtain receipts for the actual expenses of the activity. Second, the accounting personnel do not match cash expenditure reports to the original cash advance reports.

The activity employees are not documenting the actual expenses of their activities. The home should maintain receipts for all participating residents to support the actual cost of the activity. Our testing indicated that 14 of 27 expenditure reports during January and April 1990 did not have receipts on file. Without receipts, the home cannot verify the actual cost of the activities.

Also, the cashier does not match the expenditure report to the applicable cash advance report. Activity employees complete a cash advance report to obtain the funds necessary for an activity. After the activity, the employee completes a cash expenditure report. This report documents the amount of cash received, the actual cash spent, and the amount of cash returned to the cashier. The activity departments could retain excess cash without detection because the cashier is not verifying the two reports.

MINNESOTA VETERANS HOME - HASTINGS

RECOMMENDATIONS

- The home should obtain receipts for all residents participating in activities to support the actual cost of the activity.
- The cashier should match the expenditure reports with the applicable cash advance forms to account for all funds issued.

6. The home is not verifying the accuracy of canteen fund deposits.

There are no controls to ensure that all money collected in the canteen is accurately deposited. The resident workers bring the drawer cash to the cashier for deposit at the end of each day. Along with the cash, the workers prepare a daily cash reconciliation form and attach a summary register tape. The daily cash form documents separate register and cash totals. Frequently the register and cash totals do not agree. The cashier recounts the cash, completes a receipt, and deposits the money.

The canteen supervisor should verify the deposit to the register tapes and the daily cash form. A cash register records all canteen sales. The register tapes should support the actual cash received. The resolution of differences should be an integral step in the process. The supervisor should confirm the accuracy of the cash and reconciliation form before the resident brings the funds to the cashier.

RECOMMENDATION

- The canteen supervisor should reconcile daily canteen collections with the register tape and daily deposit amounts.

7. Disbursement processing duties are inadequately segregated.

The accounts payable accountant at the home can order, receive, and authorize payment for goods and services. Sometimes this person does not perform all of these functions. However, the person has the authority to perform the entire cycle.

A basic concept of good internal accounting control is that no one person should handle all aspects of a transaction from beginning to end. Where possible, independent persons should initiate and approve transactions, receive goods, and perform the recordkeeping function. This separation would provide an automatic check on the accuracy of the work performed. It also decreases the chance of errors or irregularities going undetected.

The home could accomplish this separation of duties by assigning the receiving duties, purchasing, and payment functions to separate staff.

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RECOMMENDATION

- The Hastings Veterans Home should separate the duties of ordering, receiving, and authorizing payment for goods and services.

8. Purchases are not verified for propriety prior to payment.

Internal controls over the purchasing and payment process need improvement in two areas. First, controls need strengthening to assure that payments to contract vendors are in agreement with contract terms. Second, controls need strengthening to assure that bids for goods and services are made in compliance with statutes.

To reduce the risk of overpayment, the accuracy of vendor invoices should be checked against contract documents. We found some state contract price listings were not available at the home. Without adequate contract documentation, the agency could not verify the accuracy of the amounts billed to them. Inaccurate payments to vendors could occur and go undetected.

The home is not in compliance with Minn. Stat. Section 16B.09. According to this statute, purchases must be made through state contracts or by obtaining bids. These bids must be documented. During our tests of disbursements, we found instances where bids were not documented. Since bids were not documented, we were unable to determine if proper bidding procedures were followed.

At present, the responsibility for assuring compliance with bidding requirements rests solely with program supervisors. Although the business office staff authorize all purchase orders before ordering goods or services, they do not check for compliance with bidding regulations.

RECOMMENDATIONS

- The home should review invoices for pricing in accordance with contract terms. Price listings for all contract purchases should be clearly defined and readily accessible to agency staff.
- Business office staff should review all purchase orders for bid documentation in accordance with statutes.

9. The agency was not in compliance with statutes related to encumbrance of funds and prompt payment of billings.

The home did not set up contracts for medical services in a timely fashion. As a result, the institution is in violation of Minn. Stat. Sect. 16A.15, subd. 3 and 16A.124, subd. 3.

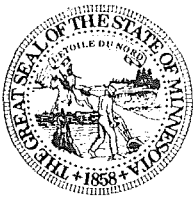
MINNESOTA VETERANS HOME - HASTINGS

Minn. Stat. Sect. 16A.15, subd. 3 prohibits agencies from incurring obligations before encumbering funds. From August 1989 through May 1990 the home incurred debts totalling \$17,556 for physician services. The home failed to execute an authorized contract and did not encumber funds for physician services. As of May 31, 1990, the \$17,556 remained payable to the vendor. This also results in the home not complying with Minn. Stat. Section 16A.124, subd. 3, requiring prompt payment of invoices.

We noted other instances, such as the dental contract, where funds were obligated before encumbrance. By completing the contract and submitting a letter of explanation to the Department of Finance, the agency has resolved these instances. This practice should be used on an exception basis only. The encumbering of funds before incurring financial obligation is a necessary part of an effective budgetary accounting system. Without this control, agencies are at risk of obligating more funds than their legislative appropriations allow.

RECOMMENDATIONS

- The home should complete the contract with the medical services vendor and make payment to the vendor at the earliest possible date.
- All professional/technical service contracts should be fully executed and have sufficient funds encumbered before incurring obligations.



STATE OF MINNESOTA
VETERANS HOME BOARD
HASTINGS VETERANS HOME

1200 E. 18TH STREET
HASTINGS, MINNESOTA 55033
(612) 437-3111

August 1, 1990

Mr. James R. Nobles
Legislative Auditor
Office of the Legislative Auditor
Veterans Service Building
St. Paul, Minnesota 55155

Dear Mr. Nobles:

Thank you for the opportunity to review and comment on the preliminary audit report for the Minnesota Veterans Home-Hastings for the two years ended June 30, 1989. The assistance and cooperativeness of your staff during the audit was much appreciated by the staff of our Home. Their recommendations will be of great value as we continue efforts to improve our financial and compliance practices.

Our responses are numbered to correspond to your recommendations. We have identified the person(s) responsible for implementation of each recommendation and the date(s) projected for completion.

Sincerely,

Susan K. Kiley

Susan K. Kiley
Administrator

SKms

Enclosure

copy: James G. Sieben, Chairman
Minnesota Veterans Home Board

MINNESOTA VETERANS HOME - HASTINGS

LEGISLATIVE AUDIT RECOMMENDATIONS AND RESPONSE

RECOMMENDATION # 1:

Separate individuals should perform the receipt, postings, and reconciling functions of the resident accounts.

RESPONSE:

The resident trust account procedures have been established so that the Cashier will perform the receipt function and the Business Office Manager will post and reconcile the accounts. The Accounts Receivables system for maintenance fees will be fully converted to a computerized system using the Melyx program. The receipting, posting and reconciling functions will then be separated in accordance with the Melyx procedures.

Person Responsible: Kim Deveau BOM
Implementation Dates Resident Trust Act: 7/1/90
Maintenance Fees: 10/1/90

RECOMMENDATION #2:

The home should balance the account by transferring the \$302 investment income from the designated contribution account to the residents' accounts.

The business office should reconcile the SWA account balance with the individual residents' accounts on a monthly basis.

The imprest cash account should be maintained at its authorized limit.

RESPONSE:

The \$302 investment income has been transferred from the designated contribution account to the residents' accounts.

A procedure for reconciling the SWA account balance with the individual residents' accounts monthly has been established. All monthly reconciliations from May - July, 1990 will be completed by 8/31/90.

Person Responsible: Kim DeVeau, BOM
Implementation Date: 8/1/90

The Business Office staff is working with the Financial Lead of the Board to implement a procedure to monitor the imprest cash account to assure it is maintained at its authorized limit.

Person Responsible: Kim DeVeau, BOM
Implementation Date: 8/15/90

RECOMMENDATION #3:

The home should ensure that maintenance fee calculations include all applicable income for each resident.

The home should include written documentation to support all payment adjustments.

RESPONSE:

Maintenance fee calculation policies and procedures including release of information consent form, are being developed and will be implemented upon approval of the Board.

Persons Responsible: Kim DeVeau, BOM and
Judy Doffing, Cashier
Implementation Date: 10/1/90

The Business Office staff are auditing all maintenance fee calculations to assure written documentation is available to verify income.

Persons Responsible: Kim DeVeau, BOM
Judy Doffing, Cashier
Betty Keetley, Accounts Payable
Implementation Date: 8/1/90
Completion Date: 11/1/90

RECOMMENDATION #4:

The cashier should receive, date, and deposit designated contributions.

The home should comply with the statewide accounting procedures for accepting gifts over \$100.

RESPONSE:

The Business Office staff have implemented procedures whereby the Accounts Payable Clerk receives and dates the designated contributions. The Cashier then deposits the designated contributions.

Person Responsible: Kim DeVeau, BOM
Implementation Date: 7/18/90

The statewide accounting procedures for accepting gifts over \$100 have been implemented.

Person Responsible: Kim DeVeau, BOM
Implementation Date: 7/18/90

RECOMMENDATION #5:

The home should obtain receipts for all residents participating in activities to support the actual cost of the activity.

The cashier should match the expenditure reports with the applicable cash advance forms to account for all funds issued.

RESPONSE:

The Activities staff have implemented a new receipt form to assure all activities have supporting documentation of the actual costs of activities.

Person Responsible: Sandy Montgomery, RT Sr.
Implementation Date: 8/1/90

The Cashier is matching expenditure reports with the applicable cash advance forms as recommended.

Person Responsible: Judy Doffing, Cashier
Implementation Date: 8/1/90

RECOMMENDATION #6:

The canteen supervisor should reconcile daily canteen collections with the register tape and daily deposit amounts.

RESPONSE:

The Business Office staff and Recreation staff have implemented a new procedure to reconcile canteen collections with the register tape for each shift, and all shifts with the daily deposit amounts.

Persons Responsible: Sandy Montgomery RT Sr. and
Judy Doffing, Cashier
Implementation Date: 8/1/90

RECOMMENDATION #7:

The Hastings Veterans Home should separate the duties of ordering, receiving, and authorizing payment for goods and services.

RESPONSE:

The Accounts Payables procedure has been implemented to include separation of duties for ordering, receiving and authorization of payment among the Activity Managers, Accounts Payable Clerk and the Business Office Manager.

Person Responsible: Kim DeVeau, BOM
Implementation Date: 7/1/90

RECOMMENDATION #8:

The home should review invoices for pricing in accordance with Contract terms. Price listings for all contract purchases should be clearly defined and readily accessible to agency staff.

Business Office staff should review all purchase orders for bid documentation in accordance with Statutes.

RESPONSE:

The Accounts Payable Clerk has requested copies of State M-Contracts missing from the Home's files. The accuracy of vendor invoices will be checked against contracts to assure proper payment.

Person Responsible: Betty Keetley, Accounts
Payable Clerk
Implementation Date: 7/1/90

The purchasing procedure has been revised for compliance with statutes covering bid documentation and requirements.

Persons Responsible: Activity managers and
Betty Keetley, Accounts
Payable Clerk
Implementation Date: 7/1/90

RECOMMENDATION #9:

The home should complete the contract with the medical services vendor and make payment to the vendor at the earliest possible date.

All professional/technical service contracts should be fully executed and have sufficient funds encumbered before incurring obligations.

RESPONSE:

The medical services contract has been completed and the vendor was paid in June, 1990.

The Business Office Manager will establish procedures for contract monitoring and management. The monitoring and reporting system will include reporting to the Administrator.

Persons Responsible: Susan Kiley, Administrator
Kim DeVeau, BOM
Implementation Date: 8/1/90