

**DEPARTMENT OF HUMAN SERVICES
OAK TERRACE NURSING HOME
FINANCIAL AUDIT
JULY 1989 TO NOVEMBER 1991**

JANUARY 1992

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

92-4

SUMMARY

State of Minnesota

Office of the Legislative Auditor

Centennial Office Building • St. Paul, MN 55155

612/296-4708

OAK TERRACE NURSING HOME

FINANCIAL AUDIT JULY 1989 TO NOVEMBER 1991

Public Release Date: January 17, 1992

No. 92-4

OBJECTIVES:

We conducted a financial related audit of the closing of the Oak Terrace Nursing Home. As of June 28, 1991, Oak Terrace completed relocation of staff and residents. We reviewed the financial activities from July 1989 to November 1991. Specifically, we reviewed the following significant financial activities:

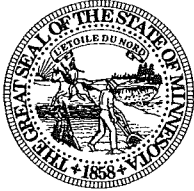
- personnel expenditures relating to relocation and mitigation,
- library and volunteer cash accounts,
- leases,
- social welfare accounts, and
- fixed assets.

CONCLUSIONS:

We found that the Department of Human Services has not terminated the operating lease with Hennepin County as of November 1991. The department continues to incur unnecessary costs associated with the lease of the Oak Terrace Nursing Home. Meanwhile, the department incurs monthly maintenance costs of \$40,000 for the facility. The department should expedite the negotiations to terminate the lease as soon as possible.

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

FINANCIAL AUDIT DIVISION



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Rosemary H. Wilder, Chief Executive Officer
Oak Terrace Nursing Home

Natalie Haas Steffen, Commissioner
Department of Human Services

Audit Scope

We have conducted a financial related audit of the closing of the Oak Terrace Nursing Home. Administrators of Oak Terrace developed a plan in July 1989 to close the facility. As of June 28, 1991, the administration completed relocation of staff and residents. We reviewed the financial activities from July 1989 to November 1991. Specifically, we reviewed the following significant financial activities:

- personnel expenditures relating to relocation and mitigation,
- library and volunteer cash accounts,
- leases,
- social welfare accounts, and
- fixed assets.

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 for the categories discussed above for Oak Terrace Nursing Home were properly transacted.

We performed tests of Oak Terrace Nursing Home's compliance with certain provisions of laws, regulations, and contracts. However, our objective was not to provide an opinion on overall compliance with such provisions.

Conclusions

Our review of the significant financial activities related to the closing of the Oak Terrace Nursing Home concluded as follows:

- Personnel expenditures relating to relocation and mitigation were properly made.
- Library, volunteer cash and social welfare accounts were properly closed out.
- The fixed assets were properly distributed to other state facilities.

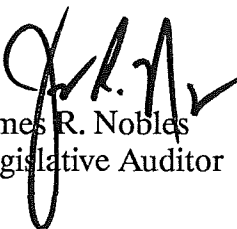
The land and property lease with Hennepin County has not been terminated resulting in unnecessary maintenance costs as discussed in finding 1.

The results of our tests indicate that with respect to the items tested, the Oak Terrace Nursing Home complied, in all material respects, with the applicable legal provisions. With respect to items not tested, nothing came to our attention that caused us to believe that the Oak Terrace Nursing Home had not complied, in all material respects, with those provisions.

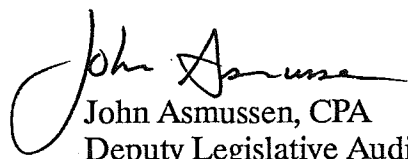
This report is intended for the information of the Legislative Audit Commission and the Department of Human Services. This restriction is not intended to limit the distribution of this report, which was released as a public document on January 17, 1992.

Agency Response

We provided a draft of this report to the Department of Human Services. The department reviewed the draft but chose not to submit a written response.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: November 11, 1991

Report Signed On: January 13, 1992

Oak Terrace Nursing Home

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Audit Participation

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

John Asmussen, CPA
Renee Redmer, LPA
Jack Hirschfeld, CPA

Deputy Legislative Auditor
Audit Manager
Auditor

Exit Conference

The finding and recommendation in this report was discussed with Dwight Maxa, Director, Residential Program Management Division, Department of Human Services on December 19, 1991.

Oak Terrace Nursing Home

Background

Oak Terrace Nursing Home provided skilled and intermediate nursing care to elderly persons with behavioral problems that prevented admission to or caused referral from community nursing homes or other facilities. Oak Terrace Nursing Home was under the general control of the Commissioner of Human Services. Minn. Stat. Section 251.011, Subd. 4 required the Department of Human Services to close the facility as soon as a reasonable plan for relocation of its residents could be safely implemented and employee mitigation measures completed, but no later than July 1, 1992. The Oak Terrace Nursing Home closed on June 28, 1991. Until its close on June 28, Oak Terrace was under the immediate supervision of Ms. Rosemary Wilder, Chief Executive Officer, who started in her position in January, 1988.

The administration at Oak Terrace Nursing Home prepared a plan in July of 1989 for the closure of the facility. The closure plan provided a process and timeline for the transfer of staff and the relocation of the residents. The plan also included procedures to ensure compliance with applicable Minnesota Statutes relating to the closure of the facility. The Residential Program Management Division (division) within the Department of Human Services is responsible for the operation of state operated health care facilities. The division was responsible to oversee the closure of Oak Terrace and to finalize the financial activities after the facility was closed.

The Legislature appropriated over \$5.1 million for personnel mitigation costs related to the closing and size reductions of state nursing homes and regional treatment centers during fiscal years 1990 through 1993. As of October 24, 1991, over \$1,700,000 was expended for personnel relocation and mitigation expenses, moving and insurance costs, and unemployment compensation related to the closing of the Oak Terrace Nursing Home. The department estimated that it cost about \$147,000 to distribute the Oak Terrace assets to other state facilities. These expenses were incurred from July 1, 1989 to October 24, 1991, as shown on the statewide accounting system.

Oak Terrace Nursing Home

Finding and Recommendation

- 1. The Minnesota Department of Human Services continues to incur unnecessary costs associated with the lease of the Oak Terrace Nursing Home.**

The department has not terminated the operating lease with Hennepin County as of November, 1991. Meanwhile, the department continues to incur maintenance costs of \$40,000 per month. The State of Minnesota operated the Oak Terrace facility under a lease with Hennepin County since 1961. The lease provides for \$1 per year payments by the department to Hennepin County, and remains in effect until December 31, 1996. In 1989 the legislature amended Minn. Stat. Section 251 to require the department to close Oak Terrace by July 1, 1992. The department elected to close the facility by June 28, 1991. However, the operating lease with Hennepin County was not terminated as part of the closure process.

The department did not vigorously pursue a lease settlement equitable to both the state and Hennepin County. The following sequence of events relates to the department's efforts to terminate the lease:

- | | |
|---------------|--|
| October 1988 | The department met with Hennepin County and discussed the intent to terminate the lease at an early date. |
| December 1988 | Hennepin County responded to the above meeting by requesting that the state retain responsibility for the residents, and that the state remove the asbestos. |
| May 1989 | The department advised Hennepin County that there will be an early closing, but the budget does not allow for asbestos removal. |
| December 1990 | The department advised the Property Management Department of Hennepin County that they intended to close on June 30, 1991. |
| April 1991 | Hennepin County notified the department that the state had the obligation to bear the financial responsibilities for this property until the end of the lease. They also wanted to clarify issues relating to the close. |
| May 3, 1991 | The department officially notified Hennepin County Board of the intent to close early. Previously, they had only contacted the county's administration department. |

Oak Terrace Nursing Home

July 2, 1991 The first evidence in the correspondence file indicating that the Attorney General's Office was involved in the action relating to the termination of the lease.

Communications have continued, however, the situation remains at an impasse. The termination of the lease continues to be a problem for both the department and Hennepin County. The department should more expeditiously enlist the cooperation of the county to secure a settlement or negotiated sale for the facility. An immediate settlement would avoid the unnecessary costs associated with the maintenance of the facility.

Recommendation

- *The Department of Human Services should expedite the negotiations to terminate the lease as soon as possible.*