

**MINNESOTA VETERANS HOME - SILVER BAY**  
**FINANCIAL AUDIT**  
**FOR THE THREE YEARS ENDED JUNE 30, 1992**

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**SEPTEMBER 1993**

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Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota

**93-46**



# **MINNESOTA VETERANS HOME - SILVER BAY**

## **FINANCIAL AUDIT FOR THE THREE YEARS ENDED JUNE 30, 1992**

Public Release Date: September 3, 1993

No. 93-46

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**OBJECTIVES:**

- **EVALUATE INTERNAL CONTROL STRUCTURE:** Maintenance charges revenue; designated contribution revenue and expenditures; contractual and purchased services; and personnel services.
- **TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.**

**CONCLUSIONS:**

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

- Internal controls over maintenance charge determinations are inadequate.
- The home is not maximizing its revenue.
- Maintenance charge accounting records need improvement.
- Controls over the employees' payroll system need improvement.
- The home is not following state procedures for medical services contracts.
- Designated contribution procedures and records need improvement.
- Purchasing and disbursement procedures need improvement.

We found two departures from finance-related legal provisions:

- The home did not receive federal per diem subsidies its first six months.
- The home allowed contractors to perform services before the contracts were executed and funds encumbered.

Contact the Financial Audit Division for additional information.

296-1730

FINANCIAL AUDIT DIVISION





STATE OF MINNESOTA

**OFFICE OF THE LEGISLATIVE AUDITOR**

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Senator Phil Riveness, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. James Main, Chair  
Minnesota Veterans Homes Board

Members of the Minnesota Veterans Homes Board

Mr. Dan Whalen, Administrator  
Minnesota Veterans Home - Silver Bay

## **Audit Scope**

We have conducted a financial related audit of the Minnesota Veterans Home - Silver Bay for the three years ended June 30, 1992. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the Minnesota Veterans Home - Silver Bay, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the Minnesota Veterans Home - Silver Bay in effect during February 1993.

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 - Silver Bay 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 - Silver Bay's compliance with certain provisions of laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions.

## **Management Responsibilities**

The management of the Minnesota Veterans Home - Silver Bay is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws and regulations. 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;
- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and
- transactions are 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 charges revenue;
- designated contribution revenue and expenditures;
- contractual and purchased services; and
- personnel services.

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 through 7 involving the internal control structure of the Minnesota Veterans Home - Silver Bay. 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 consistently.

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

Senator Phil Riveness, Chair  
Members of the Legislative Audit Commission  
Mr. James Main, Chair  
Members of the Minnesota Veterans Homes Board  
Mr. Dan Whalen, Administrator  
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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 that the reportable conditions described in findings 1 and 2 are material weaknesses.

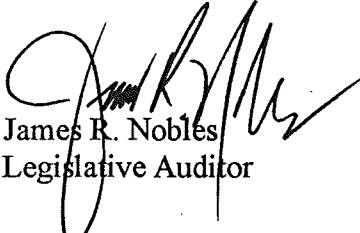
We also noted other matters involving the internal control structure and its operation that we reported to the management of the Minnesota Veterans Home - Silver Bay in a meeting held on April 9, 1993.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial activities being audited. The results of our tests of compliance disclosed the instance of material noncompliance noted in finding 2.

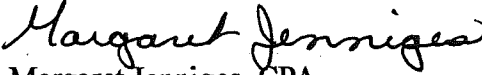
The results of our tests indicate that, except for the issues discussed in findings 2 and 5, with respect to the items tested, the Minnesota Veterans Home - Silver Bay complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Minnesota Veterans Home - Silver Bay 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 - Silver Bay. This restriction is not intended to limit the distribution of this report, which was released as a public document on September 3, 1993.

We thank the Minnesota Veterans Home - Silver Bay staff for their cooperation during this audit.



James R. Nobles  
Legislative Auditor



Margaret Jenniges, CPA  
Audit Manager

End of Fieldwork: March 12, 1993

Report Signed On: August 25, 1993





# Minnesota Veterans Home - Silver Bay

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### Audit Participation

The following staff from the Office of the Legislative Auditor prepared this report:

Margaret Jenniges, CPA	Audit Manager
Chris Buse, CPA	Auditor-in-Charge
Dan Quandt, CPA	Auditor
Mark Johnson	Auditor

### Exit Conference

The findings and recommendations in this report were discussed with the following staff on April 8, 1993:

James Main	Minnesota Veterans Homes Board, Chair
Elaine Mathiason	Minnesota Veterans Homes Board
Dan Whalen	Minnesota Veterans Home - Silver Bay, Administrator
Richard Zierdt	Board Executive Director
Rebecca Leschner	Board Accounting Coordinator
Sandy Linn	Board Internal Auditor
Lois Davis	Board Internal Auditor
Annette Spencer	Board Rules Writer
James Dull	Minnesota Veterans Home - Luverne, Business Manager



## Minnesota Veterans Home - Silver Bay

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### Introduction

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The Minnesota Veterans Home - Silver Bay provides nursing care for veterans and their spouses who meet eligibility and admission requirements. The home accepted its first resident in October 1991. Currently, the home has 39 residents.

The home is under the general direction of the Minnesota Veterans Homes Board. However, the home's day to day management is the responsibility of the administrator. Mr. Dan Whalen has been the home's administrator since February 1992. Prior to that time, Mr. Frederick Janklow was the home's administrator.

The Veterans Homes Board receives an appropriation for the operation of the three veterans homes. This appropriation is then allocated to the individual homes. State law requires the home to collect maintenance fees from each resident to help offset the cost of care. The procedures for calculating these maintenance fees are outlined in agency rules. By law, the home is authorized to base its cost of care rate on the average skilled nursing care rate at the Minneapolis Veterans Home. This special cost of care provision ends on June 30, 1993.

The following is an overview of the financial activity of the Silver Bay Veterans Home from its inception through June 30, 1992:

	Fiscal Year		
	<u>1992</u>	<u>1991</u>	<u>1990</u>
Revenue:			
Maintenance Fees	\$108,137	\$ 0	\$ 0
Designated Contributions	36,986	16,910	10
Other Receipts	<u>7,418</u>	<u>0</u>	<u>0</u>
Total Revenue	<u>\$169,461</u>	<u>\$16,910</u>	<u>\$ 10</u>
Expenditures:			
Payroll	\$1,166,874	\$229,785	\$ 575
Contracts and Purchased Services	35,727	22,476	2,488
Designated Contributions	35,603	0	0
Other Disbursements	<u>205,556</u>	<u>138,996</u>	<u>4,311</u>
Total Expenditures	<u>\$1,433,760</u>	<u>\$391,257</u>	<u>\$7,374</u>

Source: Estimated/Actual Receipts Report and the Manager's Financial Report as of September 5, 1992.

## Current Findings and Recommendations

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### 1. Internal controls over maintenance charge determinations are inadequate.

The home does not always verify resident's financial information upon admission. Also, the home does not revise residents' maintenance charges on a regular basis to reflect changes in their financial situation. The maintenance charge is the amount the resident is able to contribute towards their cost of living at the home.

The home does not adequately confirm and document the financial condition of residents and spouses upon admission, as required by agency rules. Employees relied on unverified income and asset information for 8 of 9 residents tested. In three cases the residents did not sign their financial statements. In some instances the home did not confirm the social security benefits. One file contained conflicting information which employees did not investigate. Since the assets and income of residents impact their maintenance charge calculations, the home should verify this information upon admission.

The home does not adequately confirm and document the financial information submitted by spouses. Also, the home does not consider assets when determining a spouse's ability to meet needs. Several spouses reported inaccurate social security benefits to the home. However, employees used this information without correcting the errors. Employees also did not require supporting documentation for unusually large monthly expenses. Since agency rules allow residents to reduce their maintenance charges to provide for the unmet needs of their spouses, it is important to verify the accuracy and completeness of the spouse's financial information.

The home does not always adjust maintenance charges for changes in financial conditions. One couple residing at the home received a financial settlement totalling \$13,000. This couple used \$5,000 to purchase burial plots, leaving a balance of approximately \$8,000. However, the home did not increase their monthly maintenance charges or fully document the disposition of these remaining funds. The home also did not collect additional maintenance charges from another resident even though he received a \$5,600 retroactive pension check. To prevent future losses, the home should confirm the financial information of residents and spouses at least annually. The home should recalculate resident's maintenance charges when their financial condition changes.

The home is not controlling maintenance charge debt allowances. Agency rules allow residents to reduce their maintenance charges to pay debts incurred prior to admission. However, the home does not monitor these outstanding debt balances. In at least two cases the home is providing monthly debt allowances while not documenting when these debts will be

## Minnesota Veterans Home - Silver Bay

repaid. To prevent inappropriate debt allowances, the home should monitor resident's outstanding debt balances.

### *Recommendations*

- *The home should verify the financial information of residents and spouses upon admission and reverify at least annually.*
- *The home should consider the impact of spouse's assets on their ability to meet their needs.*
- *The home should recalculate resident's maintenance charge when their financial condition changes.*
- *The home should monitor resident's outstanding debt balances.*

## **2. The home is not maximizing its revenue.**

The home did not help residents apply for federal pension benefits promptly. The home also did not collect all available income.

Residents of the home are losing income because employees do not help them apply for federal pensions timely. This income could help residents contribute to their cost of care.

Agency rules require homes to help residents apply for benefits which may increase their income. Many residents are eligible for monthly Veterans Administration pensions. However, the home often waits several months before submitting their pension applications. We estimate that resident income losses may be as high as \$84,000. To prevent further losses, the home should help residents apply for pension benefits upon admission.

In addition, the home did not receive federal per diem subsidies from October 1991 through March 1992. The home is eligible for a \$27 per day federal per diem for each veteran resident. However, staff did not complete the state's application for these federal subsidies for approximately four months. According to the home's calculation, this delay cost the state about \$82,000. Home employees told us that this delay was partially attributable to communication problems with the Veterans Administration. Also, the home was not formally certified until February 1992. However, the assistant chief of Medical Administration at the Minneapolis Veterans Administration Hospital told us that the home would have been paid if per diem applications were filed promptly and completely. Minnesota statutes require homes to apply for the maximum amount of federal subsidies available.

### *Recommendation*

- *The home should help veterans apply for federal pension benefits upon admission.*

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### 3. Maintenance charge accounting records and procedures need improvement.

Internal controls over maintenance charge receipts are weak because the home does not prepare detailed accounting records. Also, the home does not reconcile its receipt records to the actual maintenance charge deposits recorded in the Statewide Accounting System (SWAS). These internal control weaknesses are exposing the home's receipts to unnecessarily high financial risks.

The home does not prepare maintenance charge accounts receivable control or subsidiary ledgers. Instead, employees use the maintenance charge billing statements as their support for billings and receipts. Control ledgers would summarize the total maintenance charge billings and collections for all residents. Without these records, it is difficult to verify the accuracy of bank deposits. It is also difficult to manage the billing process and monitor delinquent accounts. Subsidiary ledgers detail the billings and collections for individual residents. Currently, employees must compile information from billing statements to answer questions about specific resident accounts. To improve accountability, the home should develop control and subsidiary ledgers for maintenance charges.

The home does not balance its maintenance charge receipt records to the actual deposits in SWAS. As a result, errors in the home's records and SWAS could occur and remain undetected. To improve controls, the home should reconcile its maintenance charge receipt records to the actual deposits recorded in SWAS. An employee independent of the maintenance charge recordkeeping should perform this reconciliation.

#### *Recommendations*

- *The home should prepare control and subsidiary ledgers for its maintenance charge receipts.*
- *An independent employee should reconcile the home's maintenance charge receipt records to the actual deposits recorded in SWAS.*

### 4. Controls over the employees' payroll system need improvement.

The home does not have adequate procedures to verify the accuracy of its payroll in several respects. First, the home is not using payroll control totals when entering payroll transactions. Data entry operators do not total all timesheets and compare them with system generated control totals. These control totals point out data entry errors and allow the entry operator to correct them before the system processes the payroll. The home is not using this system edit as intended. As a result, payroll errors occurred in six of seven pay periods we tested. In one instance, a data entry error caused an employee to be underpaid by 32 hours. To prevent future errors, the home should compute data entry control totals from the timesheets.

## Minnesota Veterans Home - Silver Bay

The home also does not reconcile the payroll certification report to employees' timesheets. This reconciliation is an additional control to detect data entry and payroll processing errors. Many of the discrepancies noted above resulted from these data entry errors. To improve controls, the home should reconcile the payroll certification reports to employees' timesheets.

Controls over alternate holidays are weak because the home does not maintain centralized holiday accrual and usage records. Instead, employees and their supervisors maintain these records in the various sections. According to one section's records, one employee had seven alternate holiday hours available. However, her supervisor approved use of eight hours, leaving her with a negative balance. This eight hour usage was not recorded in the section's alternate holiday records. When questioned, the personnel officer found a second error made in a previous payperiod. After correcting this second error, the employee had sufficient alternate holiday hours. Alternate holiday hours are riskier than other leave types because the payroll system does not control their accrual or usage. We feel that the home's alternate holiday records would be more reliable if maintained centrally by the payroll section.

### *Recommendations*

- *The home should use employees' timesheets to compute payroll data entry control totals.*
- *The home should reconcile payroll output reports to employees' timesheets.*
- *The home should prepare centralized accounting records to control alternate holidays earned and used by employees.*

## **5. The home is not following state procedures for medical services contracts.**

Controls over the home's medical service contracts need improvement in two areas. The home allows contractors to perform services before the contracts were executed and funds encumbered. Also, the home does not adequately review invoices before making payments.

The home incurs obligations without first executing contracts. Contracts are an important internal control because they document the rights and responsibilities of all parties. Minn. Stat. Section 16B.06 states that a contract is not valid until the contract has been executed and the funds encumbered. We reviewed three medical service contracts. In each instance the contractor performed services before the home finalized contracts. One contractor worked over four months and incurred obligations totalling \$2,740 without an executed contract. The home did not obtain the necessary state agency approvals or encumber funds for another contract. As a result, the home paid about \$4,300 using a general encumbrance in

## Minnesota Veterans Home - Silver Bay

the statewide accounting system. To improve controls, the home should execute contracts before allowing contractors to perform services.

The home is not comparing invoices to contracts to verify the propriety of charges. Two contractors received travel reimbursements totalling \$545 which were not allowed in the contract. The home paid another contractor \$340 for a training class that was not reimbursable. To prevent future errors, the home should compare all invoices to contracts before making payments.

### *Recommendations*

- *The home should execute contracts and encumber funds before allowing contractors to perform services.*
- *The home should compare invoices to contracts before making payments.*

## **6. Designated contribution procedures and records need improvement.**

The home does not reconcile its designated contribution records to SWAS. At the time of our audit, the cash balance in SWAS exceeded the home's records by \$12,000. To improve controls, an employee independent of the contributions process should reconcile the designated contribution records to SWAS. This reconciliation is an important control to uncover errors in the home's internal accounting records and SWAS.

Also, the home does not have subsidiary records which detail the specific sources and uses of each donation. Employees need these records to control specific donations and ensure that they only use money for its intended purpose. Currently, the home prepares a worksheet which summarizes the total expenditures for each donation. However, this worksheet does not include all financial activity since the facility opened. To improve controls, the home should prepare subsidiary records which detail the sources and uses of each donation. Employees should reconstruct these records to include all financial activity since the facility opened.

### *Recommendations*

- *The home should prepare accounting records which detail the purpose and use of all donations.*
- *The home should reconcile its accounting records to SWAS on a monthly basis.*
- *The home should investigate and correct the \$12,000 variance between its accounting records and SWAS.*



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### 7. Purchasing and disbursement procedures need improvement.

The home does not always use purchase orders. In addition, the home does not compare the invoice, purchase order, and receiving evidence before making payments. Comparing invoices with purchase orders helps prevent payments for goods not ordered. Comparing invoices with receiving evidence prevents duplicate payments and helps ensure that payments are not made for goods the home did not receive.

Some purchases were made without completing purchase orders. As a result, we could not determine who authorized many purchases. In one instance, the former home administrator purchased items from a noncontract vendor totalling over \$6,000 without using a purchase order. Also, documentation authorizing the home to exceed its \$1,500 local purchase authority could not be located. To improve controls, employees must complete purchase orders when ordering goods and services.

#### *Recommendations*

- *The home should match invoices with purchase orders and receiving evidence before making payments.*
- *The home should require employees ordering goods and services to use purchase orders.*





STATE OF MINNESOTA  
VETERANS HOMES BOARD

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August 9, 1993

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Mr. James R. Nobles, Legislative Auditor  
Office of The Legislative Auditor  
Centennial Building, St. Paul, MN 55155

Dear Mr. Nobles:

I have enclosed a copy of our most recent response from the Administrator at our Silver Bay Veterans Home with action steps addressing their audit.

We believe that with your recommendations and the follow up of our staff, the requirements of the law have been met. If there are any questions or areas you feel have not been properly addressed, please feel free to contact me immediately.

I appreciate the willingness of your office to work with us to clear up these findings.

Respectfully Yours,

A handwritten signature in dark ink, appearing to read "Richard Zierdt", is written over a circular stamp or seal.

Richard Zierdt  
Executive Director

## Response to Legislative Audit

In response to the findings and recommendations of the audit report of June 30, 1993, please find the following response:

1. Internal controls over maintenance charge determinations are inadequate:

The Home will verify the financial information of residents and spouses upon admission and reverify at least annually. These certification will have supporting documentation in the resident financial record. Board Rules do not require us to consider assets of the spouse. Spousal needs are reviewed for reasonableness. Documentation will be provided in the resident's financial record.

Resident maintenance fees are adjusted when we become aware of changes. Documentation will be provided in the resident's financial record.

Resident's outstanding debt balances will be monitored for repayment.

2. The Home is not maximizing its revenue:

Prior to admission the VA Form 21-526 is completed for each resident. Submission of the claim establishes eligibility dates for pension or other benefits from the Federal Veterans Administration.

3. Maintenance charge accounting records and procedures need improvement:

Control and subsidiary ledgers are being utilized on R Base Software for maintenance charge receipts. This control will be converted to Paradox Software upon implementation of MIS system in September of 1993.

The Administrative Secretary will reconcile the Homes maintenance charge receipt records to the actual deposits recorded in SWAS.

4. Control over the employees' payroll system needs improvement:

The Home is using employee timesheets to compute payroll data entry control totals. This was implemented at the time of the audit.

The Administrative Secretary reconciles the payroll output report to the employee's timesheets.

R Base Software is being used to develop centralized accounting records to control alternate holidays earned and used by employees. This process will be converted to Paradox Software with the introduction of MIS in September of 1993.

5. The Home is not following state procedures for medical service contracts:

Invoices shall be compared to contracts before payment is authorized.

6. Designated Contribution procedures and records need improvement:

The Home is using accounting records which detail the purpose and use of all donations.

Accounting records are reconciled on a monthly basis with SWAS.

The variance between the accounting records and SWAS has been corrected.

7. Purchasing and disbursement procedures need improvement:

Invoices are matched to purchase orders and receiving evidence before payment is authorized.

Employees ordering goods do so through an expenditure request. If the request is approved by the Administrator or designee a purchase order is prepared.