

Minnesota Veterans Home - Luverne

Financial Related Audit

For the Three Years Ended June 30, 1995

July 1996

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**Program Evaluation Division
Office of the Legislative Auditor
State of Minnesota**

96-28



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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Minnesota Veterans Homes Board

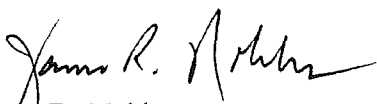
Members of the Minnesota Veterans Homes Board

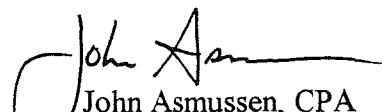
Ms. Pamela Barrows, Administrator
Minnesota Veterans Home - Luverne

We have audited the Minnesota Veterans Home - Luverne for the three years ended June 30, 1995, as further explained in Chapter 1. Our audit scope included payroll, resident maintenance fees, federal per diem reimbursements, supplies and material purchases, fixed asset purchases, resident receipt and disbursement accounts, and gift receipts and purchases. The following Summary highlights the audit objectives and conclusions. We discuss these issues more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we obtain an understanding of management controls relevant to the audit. These standards also require that we design the audit to provide reasonable assurance that the Minnesota Veterans Home - Luverne complied with provisions of laws and regulations that are significant to the audit. The management of the Minnesota Veterans Home - Luverne is responsible for establishing and maintaining the internal control structure and compliance with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of the Minnesota Veterans Home - Luverne. This restriction is not intended to limit the distribution of this report, which was released as a public document on July 10, 1996.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: April 12, 1996

Report Signed On: July 1, 1996

SUMMARY

State of Minnesota

Office of the Legislative Auditor

Centennial Office Building • St. Paul, MN 55155

612/296-4708

Minnesota Veterans Home - Luverne

Financial Related Audit

For the Three Years Ended June 30, 1995

Public Release Date: July 10, 1996

No. 96-28

Agency Background

The Minnesota Veterans Home - Luverne is one of four Minnesota Veterans Homes under the direct management of the Veterans Home Board. The board consists of nine voting members appointed by the governor with the advice and consent of the state senate. The Veterans Home Board appointed Ms. Pamela Barrows as the administrator of the Luverne home.

This newly constructed facility was completed in December 1993. The home admitted its first residents in January 1994. The home reached its capacity of 85 residents in October 1995. Residents of the home must be either military veterans, or the spouses or widows of military veterans, who require skilled nursing care. The home funds its operations through state appropriations, federal per diem payments, and resident maintenance payments.

Audit Objectives and Conclusions

Our audit objectives were to obtain an understanding of management controls relevant to payroll, resident maintenance fees, federal per diem reimbursements, supplies and material purchases, fixed asset purchases, resident receipt and disbursement accounts and gift receipts and purchases. We also designed our audit to provide reasonable assurance that the Luverne home complied with provisions of laws and regulations.

The Luverne home adequately documented and correctly calculated resident maintenance fees and federal per diem reimbursements. Eligibility determination procedures and the methodology used in calculating resident maintenance fees are in compliance with statutory and rule provisions. The home used the authorized cost of care rate. The home properly records and deposits resident maintenance fees and federal per diem reimbursements. The Luverne home processed its payroll in accordance with state policies and procedures and bargaining unit agreements. The home purchased supplies, materials and parts appropriate to the operation of the facility and in accordance with applicable purchasing and payment procedures. The home purchased capital equipment in accordance with applicable purchasing and payment procedures and maintains an adequate inventory record of these assets.

We found that the home securely safeguarded resident funds, promptly and accurately recorded resident deposits and withdrawals, and reconciled the balances on a regular and timely basis. We also concluded that purchases from gift funds were appropriate to the operation of the home and in accordance with the designation of the donors. The Luverne home followed applicable purchasing and accounting procedures over gift fund purchases, recorded gift fund transactions accurately on the statewide accounting system, and properly inventoried gift fund assets.

Contact the Financial Audit Division for additional information.

296-1235

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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 |
| Thomas Donahue, CPA | Audit Manager |
| Cecile Ferkul, CPA | Auditor-in-Charge |
| Dale Ogren, CPA | Senior Auditor |
| Susan O'Connell | Staff Auditor |

Exit Conference

We discussed the results of our audit with the following staff of the Minnesota Veterans Home - Luverne on April 5, 1996:

| | |
|--------------------|-----------------------|
| Pamela Barrows | Administrator |
| James Dull | Business Manager |
| Sandra Peterson | Personnel Officer |
| Anne Stegenga | Accounting Technician |
| Mary Rust | Supply Officer |
| Rebecca Vanderpoel | Account Clerk |

Chapter 1. Introduction

The Minnesota Veterans Home - Luverne is one of four Minnesota Veterans Homes. This newly constructed facility was completed in December 1993. The home admitted its first residents in January 1994 and reached its capacity of 85 residents in October 1995. Residents of the home must be either military veterans, or the spouses or widows of military veterans, who require skilled nursing care. The Luverne home meets the Minnesota Department of Health and the United States Department of Veterans Affairs license and certification requirements.

The Luverne home is under the direct management of the Veterans Home Board. The board consists of nine voting members appointed by the governor, with the advice and consent of the state senate. The commissioner of Veterans Affairs serves as an ex officio, nonvoting member of the board. In addition, the chair of the Senate Veterans Affairs Committee and the chair of the House Committee on General Legislation, Veterans Affairs, and Gaming serve as ex officio, nonvoting members of the board. The Veterans Home Board appointed Ms. Pamela Barrows as the administrator of the Luverne home.

The Luverne home funds its operations through state appropriations, federal per diem payments, and resident maintenance payments. We discuss these funding sources in Chapter 2. The home's main expenditure is staff payroll. Other major expenditure areas are supply, material and parts purchases and fixed asset purchases. Chapter 2 also discusses these operating expenditure areas. The home maintains accounts for the residents' personal funds. Chapter 3 explains the home's oversight of these accounts. The home accepts gifts for the benefit of its residents. Chapter 4 describes the home's gift acceptance and use policies.

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Chapter 2 - Facility Operations

Chapter Conclusions

During fiscal years 1993, 1994, and 1995, the Luverne Veterans Home used nearly \$5 million of financial resources to operate a skilled nursing facility. As a result of our examination of the Luverne home's operations, we conclude:

- The home adequately documented and correctly calculated resident maintenance fees and federal per diem reimbursements. The home's eligibility determination procedures and the methodology used in calculating resident maintenance fees are in compliance with statutory and rule provisions. The home used the authorized cost of care rate. The home properly records and deposits resident maintenance fees and federal per diem reimbursements.*
- The home processed payroll in accordance with state policies and procedures and bargaining unit agreements.*
- The home purchased supplies, materials, and parts appropriate to the operation of the facility and in accordance with applicable purchasing and payment procedures.*
- The home purchased capital equipment in accordance with applicable purchasing and payment procedures and maintains an adequate inventory record of these assets.*

The Luverne Veterans Home is a skilled nursing facility. Its main operating costs are those required to maintain a skilled nursing staff and to provide residents with the food, medical care, and other services they require. The state provides a part of the home's financial resources. Other operational funding comes from the federal government and from the residents. The largest operational cost of the home is staff payroll. Other significant costs include supplies, materials and fixed asset purchases.

During fiscal years 1993 through 1995, the home disbursed nearly \$5 million, as shown in Table 2-1. The home was under construction during fiscal year 1993 and part of fiscal year 1994. Although the state administered the construction of the facility, the funding was 65 percent federal and 35 percent local. The federal government also provided nearly \$400,000 to partially furnish and implement the home. We did not audit these construction costs. State costs during the construction period were for the salaries of administrative oversight staff and purchases of other equipment, furnishings and supplies. In January 1994, the home admitted its first residents, and the cost of providing care to these residents included nursing staff, food, and

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medical supplies. For the remainder of fiscal year 1994 and throughout fiscal year 1995, the resident population grew, resulting in increasing costs. The home reached full capacity in fiscal year 1996.

Table 2-1
Luverne Veterans Home
Administrative Expenditures
Fiscal years 1993 - 1995

| | |
|------------------|--------------------|
| Fiscal Year 1993 | \$ 753,541 |
| Fiscal Year 1994 | 1,078,029 |
| Fiscal Year 1995 | <u>3,132,234</u> |
| Total | <u>\$4,963,804</u> |

Source: Derived from the Statewide Accounting System.

Funding Sources

The Luverne home receives funding from federal per diem reimbursements, resident maintenance fees, and state appropriations. Table 2-2 shows the funding received from each source.

Table 2-2
Luverne Veterans Home
Funding Sources
Fiscal Years 1993 - 1995

| <u>Funding Source</u> | <u>FY 1993</u> | <u>FY 1994</u> | <u>FY 1995</u> |
|---------------------------------|------------------|--------------------|--------------------|
| Federal Per Diem Reimbursements | \$ 0 | \$ 0 | \$ 552,043 |
| Resident Maintenance Fees | 0 | 108,236 | 832,248 |
| State Appropriations | <u>753,541</u> | <u>969,793</u> | <u>1,747,943</u> |
| Totals | <u>\$753,541</u> | <u>\$1,078,029</u> | <u>\$3,132,234</u> |

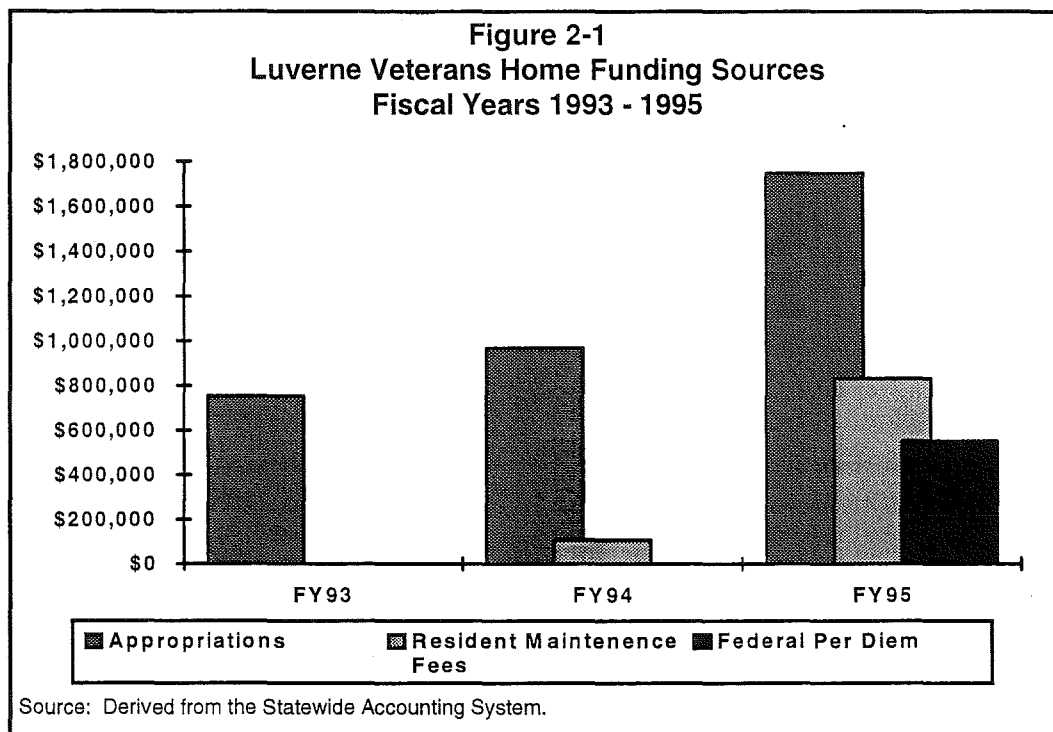
Source: Derived from the Statewide Accounting System.

The federal Veterans Administration pays the home a per diem rate for each eligible resident. The federal reimbursement rates for fiscal years 1994 and 1995 were \$31.03 and \$35.37 per day, respectively. To qualify for this reimbursement, the resident must be a veteran. Residents who are spouses or widows of veterans do not qualify for the federal reimbursement.

Approximately 90 percent of the home's residents pay maintenance fees based on the cost of operating the facility and the resident's ability to pay. Basically, the cost of care rate is the cost of operating the home divided by the number of residents. The Legislature has authorized the Luverne home to use the per resident cost of care rate for the Minneapolis Veterans Home during the first few years of the home's operations. The Minneapolis cost of care rate for January 1994 through March 1995 was \$135.44 per day, and for April 1995 through March 1996 was \$138.43 per day. Starting in fiscal year 1997, the home will use a cost of care rate based on its own historical costs. The amount of the cost of care that the resident pays is based on personal income and assets. The maintenance fee equals 95 percent a resident's income minus approved exclusions, such as spousal maintenance expenses. Residents whose net worth exceeds \$3,000 pay the full cost of care rate.

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State appropriations fill the gap between the cost of operating the facility and the funds available from the federal per diem and resident maintenance fees. Figure 2-1 shows the share of the operating costs covered by the various funding sources. Since the home did not have residents in fiscal year 1993, it used state appropriations to pay for all operating costs in that fiscal year. Since the home did not reach full capacity until fiscal year 1996, state appropriations have provided a higher proportion of the operating funds than would be expected in future periods.



Our audit of resident maintenance fees and federal per diem reimbursements focused on answering the following questions:

- Did the Luverne home use the proper cost of care rate?
- Did the home properly calculate, collect and deposit resident maintenance fees and federal per diem reimbursements in accordance with the statutes and agency rules?

To answer these questions we interviewed the Luverne Veterans Home staff, recalculated a sample of resident maintenance fee determinations, and tested a sample of cost of care billings and deposits.

We concluded that the home used the authorized cost of care rate. It adequately documented and correctly calculated resident maintenance fees and federal per diem reimbursements. The home's eligibility determination procedures and the methodology used in calculating resident maintenance fees are in compliance with statutory and rule provisions. The home properly records and deposits resident maintenance fees and federal per diem reimbursements.

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Expenditures

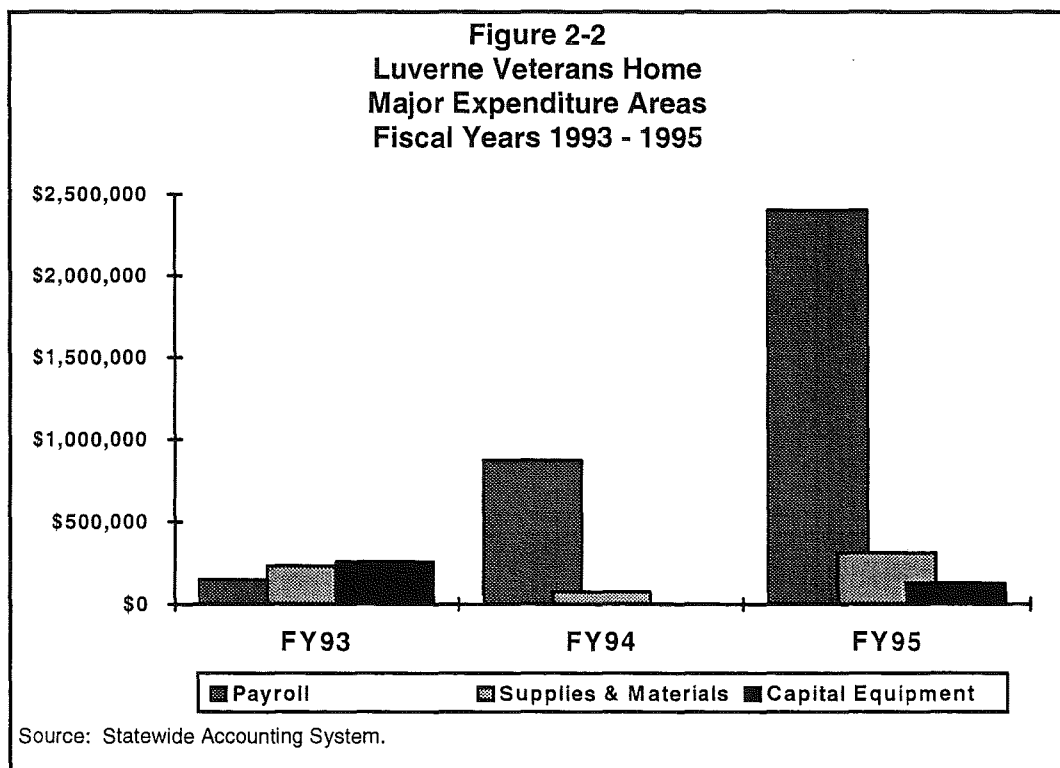
Our audit period was one of transition for the Luverne Veterans Home, from a newly constructed, but empty facility, to a fully occupied and operating institution. An analysis of the operating costs during this period shows that transition. Table 2-3 summarizes the total operating costs of the home during the period of our audit

Table 2-3
Luverne Veterans Home
Operating Costs
Fiscal Years 1993 - 1995

| Expense Area | <u>FY 1993</u> | <u>FY 1994</u> | <u>FY 1995</u> |
|-------------------------------|------------------|--------------------|--------------------|
| Payroll | \$150,618 | \$874,815 | \$2,402,206 |
| Supplies, Materials and Parts | 233,987 | 76,825 | 313,045 |
| Capital Equipment | 259,446 | 3,494 | 129,678 |
| All Other | <u>109,490</u> | <u>122,895</u> | <u>287,305</u> |
| Totals | <u>\$753,541</u> | <u>\$1,078,029</u> | <u>\$3,132,234</u> |

Source: Derived from the Statewide Accounting System.

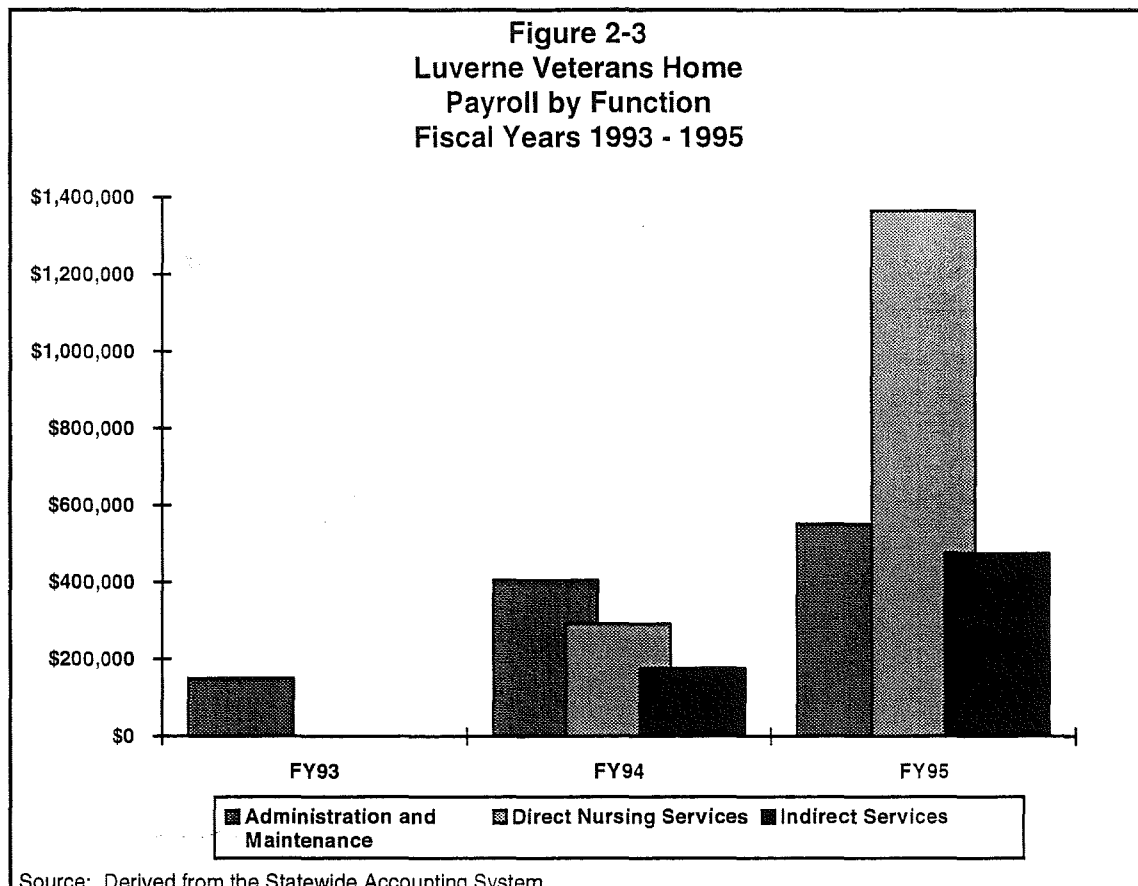
Figure 2-2 illustrates the increases in payroll costs as the population of residents needing care increased, and the higher initial supply and equipment purchases necessary to outfit the home for use.



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Payroll

The Luverne Veterans Home staff increased in size from a limited number during the home's construction to a full contingent of staff by the end of 1995. At full capacity the home has 129 employees, working three shifts to attend to the needs of its patients. Payroll costs increased from \$150,618 in fiscal year 1993, to \$874,815 in fiscal year 1994, and \$2,402,206 in fiscal year 1995. Figure 2-3 shows the proportion of salaries in each fiscal year by functional area: administration and maintenance, direct nursing services, and indirect services, such as pharmacy and dietary salaries.



Our audit of payroll focused on answering the following questions relating to the payroll and employee reimbursement expenses:

- Did the home process payroll in accordance with Department of Finance, bargaining unit agreements and Minnesota Veterans Home Board requirements?

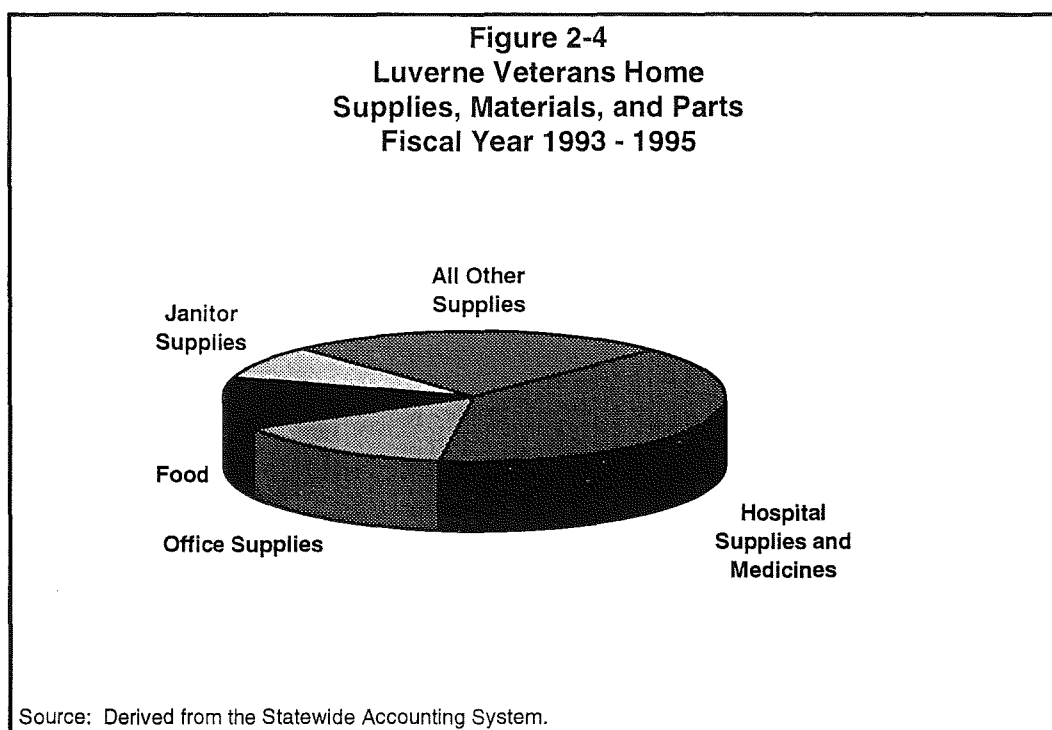
To answer this question, we interviewed key staff and tested a sample of payroll transactions.

We concluded that the Luverne Veterans Home processed payroll in accordance with state policies and procedures and bargaining unit agreements.

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Supply, Material and Parts Purchases

The Luverne Veterans Home purchases supplies, materials and parts from vendors across the country. The Department of Administration has established purchasing policies and procedures that dictate how state agencies perform purchasing functions. The policies require agencies to solicit bids from vendors registered with the state. Bidding procedures vary depending on the amount of the purchase and the nature of the item purchased. Figure 2-4 shows supply and material expenditure categories for fiscal years 1993, 1994, and 1995.



Our audit focused on answering the following questions:

- Did the home purchase items consistent with its legal authority?
- Did the home follow the applicable purchasing and accounting procedures for purchases of supplies, materials, and parts?

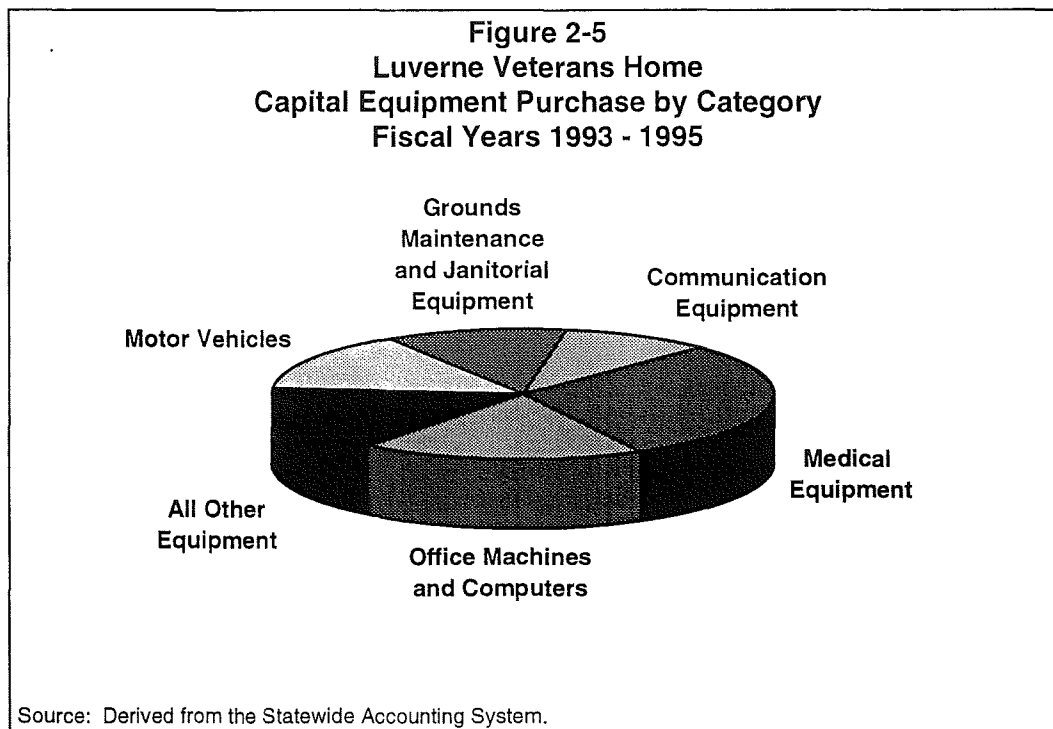
To answer these questions, we interviewed Luverne Veterans Home staff and reviewed a sample of vendor payment files to determine whether staff followed the proper procurement and payment procedures.

We concluded that the home properly purchased items appropriate to the operation of the facility and followed applicable purchasing and payment procedures.

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Capital Equipment Purchases

The Luverne Veterans Home purchased capital equipment totaling nearly \$400,000 during the three year period we audited. Figure 2-5 shows the types of capital equipment the home purchased during our audit period. The Department of Administration has established purchasing and inventory requirements to control these transactions and assets. Since capital equipment are typically large dollar, fixed asset items, the Department of Administration requires that the home maintain an inventory of these assets.



Our objectives in examining these capital purchases were to determine:

- Did the home purchase capital equipment consistent with its legal authority?
- Did the home follow the applicable purchasing and accounting procedures for capital equipment purchases?
- Did the home properly inventory and monitor capital purchases to safeguard against loss or theft?

To answer these questions we interviewed Luverne Veterans Home staff and examined a sample of vendor payment files to determine whether staff properly followed procurement and payment procedures. We also physically located a sample of the capital equipment purchased.

We concluded that the home followed applicable purchasing and payment procedures and adequately monitors the capital items purchased.

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Chapter 3 - Residents' Social Welfare Accounts

Chapter Conclusions

The Luverne Veterans Home securely safeguarded resident funds, promptly and accurately recorded resident deposits and withdrawals, and reconciled the balances on a regular and timely basis.

The residents of the Luverne Veterans Home may deposit personal funds with the home's business office and may withdraw those funds as needed. The business office deposits the resident funds into the state's accounts. The state invests the funds through the Invested Treasurers Cash Account with the State Board of Investment. By statute, the home is required to use the interest for the benefit of all residents. The home maintains accounts of the individual resident balances. It has a small cash account on hand in the business office and has a local checking account, used for larger withdrawals and to replenish the cash account. The home requests reimbursements of the checking account, as needed, from the funds on deposit with the state. Table 3-1 recaps the financial activity of the residents accounts during the period of our audit. Resident account activity began during fiscal year 1994 when the home began accepting residents.

Table 3-1
Luverne Veterans Home
Recap of Resident Accounts Receipts and Expenditures
Fiscal Years 1994 - 1995

| | |
|--------------------------|-----------------|
| Balance at July 1, 1993 | \$ 0 |
| <u>Receipts:</u> | |
| Fiscal Year 1994 | \$ 1,525 |
| Fiscal Year 1995 | 16,288 |
| Interest Earned (1) | <u>93</u> |
| Total Available | <u>\$17,906</u> |
| <u>Expenditures:</u> | |
| Fiscal Year 1994 | \$ 916 |
| Fiscal Year 1995 | <u>12,657</u> |
| Total Expenditures | <u>\$13,573</u> |
| Balance at June 30, 1995 | <u>\$ 4,333</u> |

(1) Some interest is retained in the checking account to offset banking costs.

Source: Luverne Veterans Home resident account records.

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Our audit objectives were to answer the following questions:

- Are resident funds physically secure?
- Does the home record resident financial activity promptly and accurately and only in accordance with the residents' authorizations?
- Does the home reconcile recorded resident activity to the state account, cash on hand and bank balance on a regular and timely basis?

To answer these questions, we interviewed business office staff, reviewed selected account transactions and verified the accuracy of reconciliations.

We concluded that the home securely safeguarded resident funds, promptly and accurately recorded resident deposits and withdrawals, and reconciled the balances on a regular and timely basis.

Chapter 4 - Gift Receipts and Purchases

Chapter Conclusions

The Luverne Veterans Home received donations from a number of veterans groups, local businesses, and private citizens for the benefit of the home's residents. We found that purchases from gift funds were appropriate to the operation of the home and in accordance with the designation of the donors. The home followed applicable purchasing and accounting procedures over gift fund purchases, recorded gift fund transactions accurately on the statewide accounting system, and properly inventoried gift fund assets.

The Luverne Veterans Home received donations from various veterans groups, businesses, and private citizens for the benefit of its residents. The home formed a Designated Contributions Committee to oversee the expenditure of these donations. Serving on the committee were people from various veterans groups, a designee of the administrator and other interested parties. The committee met once a month to review new donations, determine needs of the residents, approve new purchases and report on items previously approved for purchase. The committee documented its decisions with meeting minutes. Table 4-1 recaps the gift receipts and expenditures by fiscal year.

Table 4-1
Luverne Veterans Home
Recap of Gift Fund Receipts and Expenditures
Fiscal Years 1993 - 1995

| | |
|------------------------|-----------------|
| Beginning FY93 Balance | \$ 752 |
| Receipts: | |
| Fiscal Year 1993 | \$13,829 |
| Fiscal Year 1994 | 25,630 |
| Fiscal Year 1995 | <u>39,840</u> |
| Total Available | <u>\$80,051</u> |
| Expenditures: | |
| Fiscal Year 1993 | \$ 0 |
| Fiscal Year 1994 | 27,750 |
| Fiscal Year 1995 | <u>32,553</u> |
| Total Expenditures | <u>\$60,303</u> |
| Ending FY95 Balance | <u>\$19,748</u> |

Source: Statewide Accounting System.

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Department of Finance policy requires that all gift fund purchases follow the same procurement provisions as other state purchases. Gift donors may also designate a specific use for their gift.

Some items purchased with the gift funds include two aviaries containing live birds for the sensory enjoyment of the residents, large screen televisions for common areas, a portable, digital piano, and arts and craft supplies.

Our objectives for this area were to determine:

- Did the home use gift funds for the direct benefit of the residents and in accordance with the donor's wishes?
- Did the home follow applicable purchasing and accounting procedures when making gift fund purchases?

To answer these questions, we interviewed Luverne Veterans Home staff and tested a sample of transactions. We also physically located a sample of the capital items purchased.

We concluded that the Luverne Veterans Home's gift fund purchases provided direct benefit to the residents, and when applicable, were in accordance with the donor's wishes. The home followed applicable purchasing and accounting procedures over gift fund purchases, recorded gift fund transactions accurately on the statewide accounting system, and properly inventoried gift fund assets.