

Minnesota Veterans Home - Silver Bay

Financial Audit

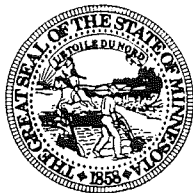
For the Period July 1, 1994, through March 31, 1996

August 1997

This document can be made available in alternative formats, such as large print, Braille, or audio tape, by calling 296-1727.

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

97-40



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

CENTENNIAL BUILDING, 658 CEDAR STREET • ST. PAUL, MN 55155 • 612/296-4708 • TDD RELAY 612/297-5353

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Deanna Wiener, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. James Main, Chair
Minnesota Veterans Home Board

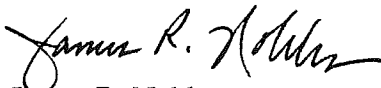
Members of the Minnesota Veterans Home Board


Mr. Jeffrey Brown, Administrator
Minnesota Veterans Home - Silver Bay

We have audited the Minnesota Veterans Home - Silver Bay for the period of July 1, 1994, through March 31, 1997, as further explained in Chapter 1. Our audit scope included a review of resident cost of care, payroll, supply purchases, professional and technical services, and resident accounts. The following summary highlights the audit objectives and conclusions. We discuss our audit objectives and conclusions more fully in the individual chapters of this report.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the Minnesota Veterans Home - Silver Bay complied with provisions of laws and regulations that are significant to the audit. The management of the Minnesota Veterans Home - Silver Bay is responsible for establishing and maintaining the internal control structure and for compliance with 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 - Silver Bay. This restriction is not intended to limit the distribution of this report, which was released as a public document on August 8, 1997.


James R. Nobles
Legislative Auditor


Claudia Gudvangen, CPA
Senior Audit Manager

End of Fieldwork: June 6, 1997

Report Signed On: August 4, 1997

SUMMARY

State of Minnesota

Office of the Legislative Auditor

1st Floor Centennial Building

658 Cedar Street • St. Paul, MN 55155

(612)296-1727 • FAX (612)296-4712

TDD Relay: 1-800-627-3529

email: auditor@state.mn.us

URL: <http://www.auditor.leg.state.mn.us>

Minnesota Veterans Home - Silver Bay

Financial Audit

For the Period July 1, 1994, through March 31, 1997

Public Release Date: August 8, 1997

No. 97-40

Agency Background

The Minnesota Veterans Home- Silver Bay 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 Mr. Jeffrey Brown as the administrator of the Silver Bay Veterans Home in June 1994.

The Silver Bay Veterans Home has been in operation since October 1991. Currently, the home has 85 residents and is licensed for 89 residents. 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 objectives were to obtain an understanding of management controls relevant to resident maintenance fees, federal per diem reimbursements, payroll, supplies, professional and technical services, and resident account receipt and disbursement activity. We also designed our audit to provide reasonable assurance that the home complied with provisions of laws and rules.

The Silver Bay Veterans Home designed and implemented internal controls to provide reasonable assurance that resident maintenance fees and federal per diem reimbursements were properly calculated, deposited, and recorded in the state's accounting system. In addition, the home used the authorized cost of care rates. For the items tested, the home's eligibility determination procedures and the methodology used in calculating resident maintenance fees are in compliance with statutory and rule provisions.

The Silver Bay Veterans Home designed and implemented internal controls to provide reasonable assurance that its operating expenditures, including payroll and supplies, were properly authorized, processed in accordance with state policies and procedures, and accurately reported in the state's accounting records. However, the home needs to restrict security access to its payroll and personnel systems. In addition, certain duties of processing and approving payroll transactions need to be separated.

The Silver Bay Veterans Home designed and implemented internal controls to provide reasonable assurance that resident financial activities were promptly and accurately recorded in the resident's account and in accordance with the resident's authorizations. In addition, resident funds were reconciled timely.

Minnesota Veterans Home - Silver Bay

Table of Contents

	Page
Chapter 1. Introduction	1
Chapter 2. Cost of Care	2
Chapter 3. Operating Expenditures	4
Chapter 4. Resident Accounts	8
Silver Bay Veterans Home Response	10

Audit Participation

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

Claudia Gudvangen, CPA	Senior Audit Manager
Tom Donahue, CPA	Audit Manager
Rhonda Regnier, CPA	Auditor-In-Charge
Mark Mathison, CPA	Auditor
Steve Johnson	Auditor

Exit Conference

The following staff from Silver Bay Veterans Home participated in the exit conference held on June 4, 1997:

Jeffrey Brown	Administrator
Chris Dodge	Business Manger

Minnesota Veterans Home - Silver Bay

Chapter 1. Introduction

The Minnesota Veterans Home - Silver Bay (SBVH) is one of four Minnesota veterans homes under the general direction of the Minnesota Veterans Home Board. These homes provide nursing care for veterans and their spouses that meet eligibility and admission requirements. The Silver Bay Veterans Home has been in operation since October 1991. Currently, the home cares for 85 residents and is licensed to facilitate 89 residents. The Silver Bay Veterans Home is a skilled nursing home and currently meets the Minnesota Department of Health and the United States Department of Veterans Affairs license and certification requirements. The home's day-to-day management is the responsibility of the administrator. Mr. Jeffrey Brown has been the administrator since June 1994.

The Veterans Home Board received an appropriation for the operation of the four veterans homes. The Silver Bay Veterans Home received an allocated portion of the appropriation to assist in funding its operations. In addition, the home received revenue from federal per diem payments and resident maintenance payments. We discuss these funding sources more fully in Chapter 2. Table 1-1 summarizes the financial activities for fiscal years 1995 and 1996.

Table 1-1
Summary of Financial Activities
Budgetary Fiscal Years 1995 and 1996

	<u>FY 1995</u>	<u>FY 1996</u>
Source of Funds:		
State Appropriations	\$2,337,492	\$2,374,000
Maintenance Charges	1,044,717	1,282,287
Federal Per Diem	787,960	950,444
Resident Deposits	98,608	93,793
Other	48,820	50,158
Total Funds Received	<u>\$4,317,597</u>	<u>\$4,750,682</u>
Uses of Funds:		
Operational Expenditures	\$3,853,186	\$4,221,932
Resident Expenditures	88,500	100,000
Total Expenditures	<u>\$3,941,686</u>	<u>\$4,321,932</u>

Source: Financial information obtained from the state's accounting system.

In addition, for fiscal year 1997, the home received state appropriations of \$2.4 million and had reported revenues and expenditures of \$1.9 million and \$3.4 million, respectively, as of March 31, 1997.

Operational expenditures of the home include staff payroll, supplies, and professional and technical services. These expenditures are discussed in Chapter 3. In addition, as discussed in Chapter 4, the home maintains an account for each resident's personal funds.

Chapter 2 - Cost of Care

Chapter Conclusions

The Silver Bay Veterans Home designed and implemented internal controls to provide reasonable assurance that resident maintenance fees and federal per diem reimbursements were properly calculated, deposited and recorded in the state's accounting system. In addition, the appropriate cost of care rates were used. For the items tested, the home's eligibility determination procedures and the methodology used in calculating resident maintenance fees were in compliance with statutory and rule provisions.

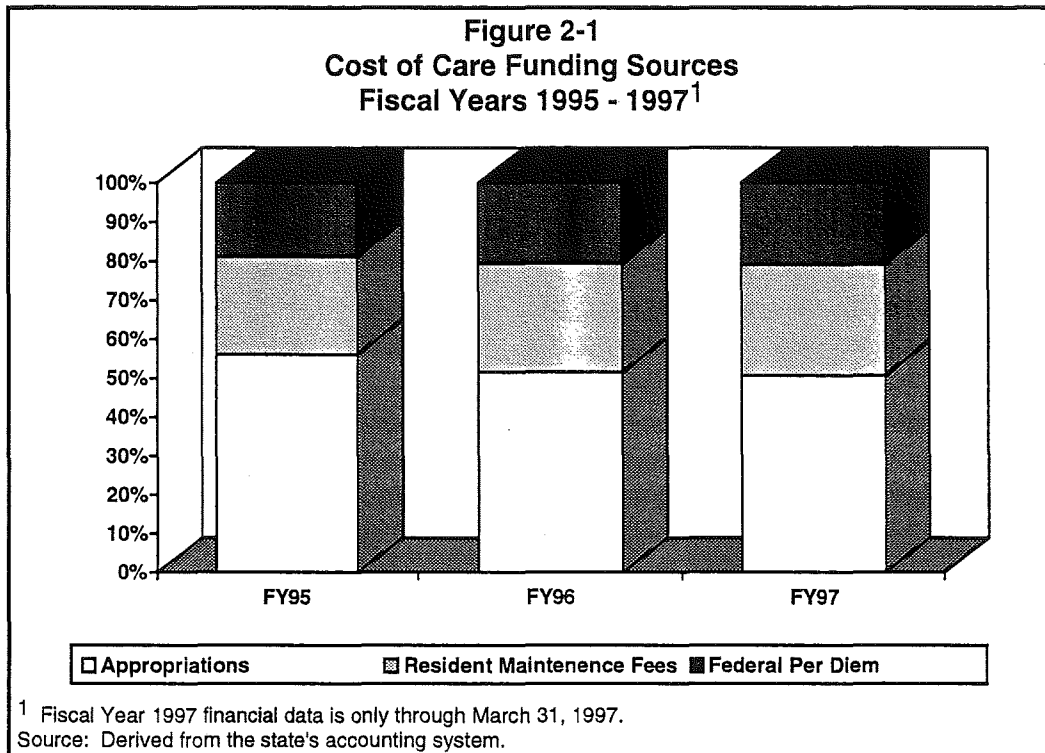
The cost of care rate represents the daily cost to the resident for the care provided. *Laws of Minnesota for 1995*, Chapter 207, Article 1, Section 4, authorized the Silver Bay Veterans Home to charge the same resident cost of care rate as the Minneapolis Veterans Home through fiscal year 1996. The Minneapolis cost of care rates for state fiscal years 1995 and 1996, were \$135.44 and \$138.43, respectively, per day. In fiscal year 1997, the Silver Bay Veterans Home calculated a cost of care rate of \$144.85 based on its own historical costs.

The cost of care for residents of the Silver Bay Veterans Home is paid from three sources: federal per diem reimbursements, resident maintenance fees, and state appropriations. As shown on Table 1-1, for fiscal years 1995 and 1996, the home received total funding of approximately \$8.8 million from these sources. For fiscal year 1997, as of March 31, 1997, the home had received \$1.9 million in federal per diem reimbursements and resident maintenance fees. The fiscal year 1997 appropriation was approximately \$2.45 million.

For each eligible resident, the Federal Veterans Administration pays the home a portion of the daily cost of care. The federal reimbursement portion of the cost of care rates for federal fiscal years 1995, 1996 and 1997 were \$35.37, \$37.56, and \$39.74 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.

Residents may pay a maintenance fee which is based upon the resident's ability to pay. Residents with a net worth exceeding \$3,000 are responsible for the full daily cost of care rate, less the federal reimbursement. However, for residents with a net worth below \$3,000, a state appropriation provides the remaining cost of care. Figure 2-1 shows the proportion of funding sources for daily cost of care.

Minnesota Veterans Home - Silver Bay



Audit Objectives and Methodology

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

- Did the home design and implement internal controls to provide reasonable assurance that resident maintenance fees and federal per diem reimbursements were properly calculated, deposited, and recorded in the state's accounting system?
- Did the home comply with Minn. Stat. Section 198.03 and related rules within Minnesota Rules, Chapter 9050, which outline the resident eligibility requirements and the methodology for calculating the resident maintenance fees?

To answer these questions, we interviewed the Silver Bay Veterans Home staff to gain an understanding of the controls over resident maintenance fees and federal per diem reimbursements. We recalculated a sample of resident maintenance fee determinations and tested a sample of cost of care billings and deposits. We also reviewed and tested the home's process of applying for and depositing its monthly federal Veterans Administration per diem reimbursements.

Conclusions

The Silver Bay Veterans Home designed and implemented internal controls to provide reasonable assurance that resident maintenance fees and federal per diem reimbursements were properly calculated, deposited and recorded in the state's accounting system. In addition, the appropriate cost of care rates were used. For the items tested, the home's eligibility determination procedures and the methodology used in calculating resident maintenance fees were in compliance with statutory and rule provisions.

Chapter 3. Operating Expenditures

Chapter Conclusions

The Silver Bay Veterans Home designed and implemented internal controls to provide reasonable assurance that its operating expenditures, including payroll and supplies, were properly authorized, processed in accordance with state policies and procedures, and accurately reported in the state's accounting records. However, the home needs to restrict security access to its payroll and personnel systems. In addition, certain duties of processing and approving payroll transactions need to be separated.

The Silver Bay Veterans Home's main operating expenditures were those required to provide residents with skilled nursing care, food, medical care, and other necessary services. Table 3-1 summarizes the home's operating expenditures for fiscal years 1995 and 1996.

Table 3-1
Summary of Operating Expenditures
Fiscal Years 1995 and 1996

<u>Type of Expenditure</u>	<u>FY 95</u>	<u>FY 96</u>
Payroll	\$2,972,074	\$3,343,237
Supplies	450,264	470,309
Other	<u>430,848</u>	<u>408,386</u>
Total Operating Expenditures	<u>\$3,853,186</u>	<u>\$4,221,932</u>

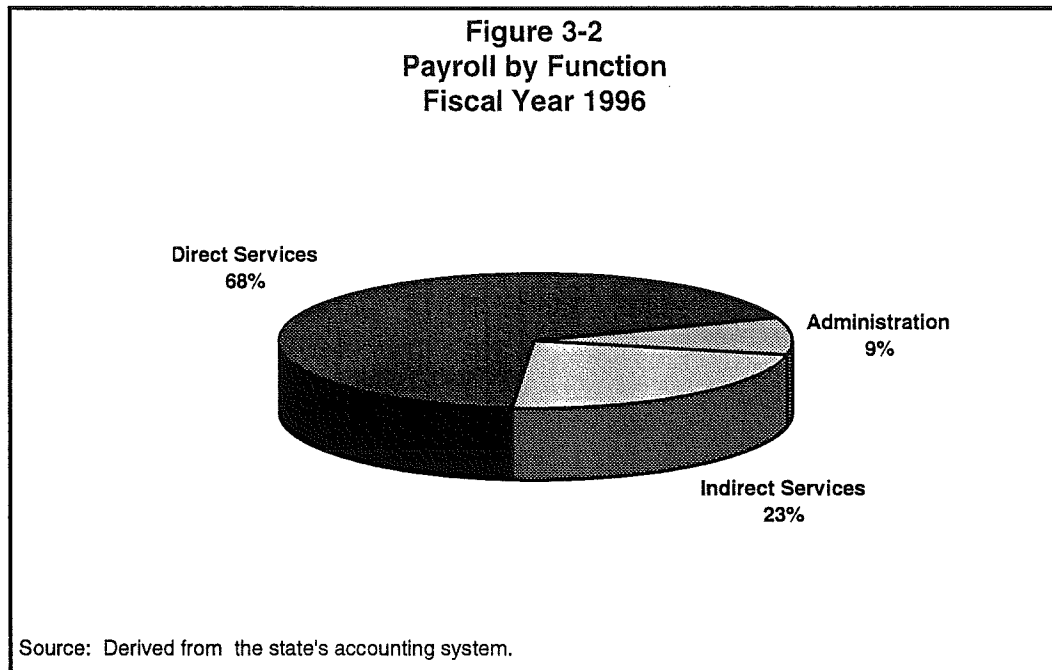
Source: Derived from the state's accounting system.

Our review of operating expenditures, for the period July 1, 1994, through March 31, 1997, focused on payroll and supplies. As of March 31, 1997, the home had reported total fiscal year 1997 expenditures for payroll and supplies of \$2,633,000 and \$373,000, respectively.

Minnesota Veterans Home - Silver Bay

Payroll

Payroll represented the largest expenditure category, accounting for nearly 80 percent of the home's expenditures in fiscal year 1996. The Silver Bay Veterans Home employs approximately 130 employees, working three shifts to attend to the needs of its patients. Figure 3-2 shows the proportion of salary and fringe benefit expenditures for fiscal year 1996 by functional area of administration, direct nursing services, and indirect services, such as dietary and housekeeping services.



Audit Objective and Methodology

Our audit of payroll focused on answering the following question:

- Did the home design and implement internal controls to provide reasonable assurance that payroll and personnel transactions were processed in accordance with bargaining unit agreements and applicable state policies and procedures?

To address this question, we interviewed key staff to gain an understanding of the internal controls over the payroll process. We reviewed employee timesheets, tested payroll transactions, and performed analytical reviews. We chose our sample transactions from each fiscal year, using computerized audit software, and reviewed them for reasonableness and compliance with related policies and procedures. Our analytical reviews consisted of analyzing payments to all employees, specifically reviewing salary increases and other payments for reasonableness.

Minnesota Veterans Home - Silver Bay

Conclusions

The Silver Bay Veterans Home designed and implemented internal controls to provide reasonable assurance that its payroll and personnel transactions were processed in accordance with state policies and procedures, bargaining unit agreements, and board requirements. However, as discussed in Finding 1, the home needs to restrict security access to the state's payroll and personnel systems. As discussed in Finding 2, the duties of processing and approving payroll transactions need to be separated.

1. The Silver Bay Veterans Home did not adequately restrict system access to payroll and personnel data and processing applications.

The Silver Bay Veterans Home granted inappropriate access to payroll and personnel data and applications. We found that six individuals had access capabilities that were incompatible with other duties they were performing. Each person had full access to read and update all functions of both payroll and personnel applications. Two personnel employees had the ability to process payroll, and the business manager, who was a back-up for payroll transactions, had access to process personnel transactions. The three remaining individuals were not employees of the Silver Bay Veterans Home, but were employed by the Minneapolis Veterans Home. The Silver Bay Veterans Home granted access to these employees in fiscal year 1996 to provide assistance during a transition of its human resource personnel. However, the home failed to remove the access when the assistance was no longer needed.

Access to data and the ability to change data should be restricted to employees based on their job responsibilities. Allowing inappropriate access to data provides a risk that individuals could create fictitious employees, change pay rates, or enter other unauthorized transactions that may not be detected by the home's control structure.

Recommendation

- The Silver Bay Veterans Home should restrict access to its payroll and personnel systems to only those employees that need access in order for them to perform their assigned duties. Allowing employees access to incompatible payroll and personnel functions should be avoided, if at all possible.*

2. The Silver Bay Veterans Home did not adequately separate the duties of processing and approving payroll transactions.

During the audit period, the processing of routine payroll adjustments and the final review authority for all payroll activity was the responsibility of the business manager. These are not compatible duties. An individual should not have the authority to approve transactions that they have initiated. Job responsibilities should be separated to ensure that errors or irregularities may be prevented or detected during the normal course of operations.

Minnesota Veterans Home - Silver Bay

Recommendation

- *The Silver Bay Veterans Home should distribute payroll responsibilities in a manner that would not allow an employee to process payroll adjustments and have final review authority for all payroll transactions.*

Supplies

The home's expenditures for supplies for fiscal years 1995 and 1996 were \$450,264 and \$470,309, respectively. For the nine month period ending March 31, 1997, expenditures were \$373,185. Supply expenditures represent approximately 11 percent of the home's total operating expenditures. The home's purchase of supplies includes bulk orders of food for the residents, various medical supplies, and general office supplies. The home also purchased nursing care supplies and prescription medication for residents on an as needed basis from a local pharmacy.

Audit Objectives and Methodology

Our audit of supplies focused on answering the following questions:

- Did the home design and implement internal controls to provide reasonable assurance that supply purchases were properly authorized, adequately supported, and accurately reported in the state's accounting system?
- Did the home adequately safeguard its supplies?
- Did the home follow applicable state purchasing requirements?

To address these questions, we met with key staff members to gain an understanding of the controls over the purchasing process. We reviewed the purchasing process, the home's monitoring of supply usage, and reviewed the security of stocked supplies. We tested payments to vendors for supply purchases and performed analytical reviews of spending trends.

Conclusions

The Silver Bay Veterans Home designed and implemented internal controls that provided reasonable assurance that supply purchases were properly authorized, adequately supported, and accurately reported in the state's accounting system. We noted that supplies were adequately safeguarded. In addition, for the items tested, the home was in compliance with applicable state purchasing requirements.

Chapter 4. Resident Accounts

Chapter Conclusions

The Silver Bay Veterans Home designed and implemented internal controls to provide reasonable assurance that resident financial activities were promptly and accurately recorded in the resident's account and in accordance with the resident's authorizations. In addition, resident funds were reconciled timely.

The residents of the Silver Bay Veterans Home deposit personal funds with the home's business office and withdraw those funds as needed. The business office deposits the resident funds into the State Treasury. The State Board of Investment invests the funds. Minn. Stat. Section 198.265 requires that interest earned on these accounts be used for the benefit of all residents.

The business office maintains records of each resident's account. The office maintains a small amount of cash on hand and a local checking account to meet the resident withdrawal requests. The home requests reimbursements of the checking account, as needed, from the funds on deposit in the State Treasury. Table 4-1 summarizes the financial activity of the resident accounts for fiscal years 1995 and 1996. As of March 31, 1997, the resident account fund balance was \$37,365.

Table 4-1
Financial Activity of Resident Accounts
Fiscal Years 1995 and 1996

	<u>FY 1995</u>	<u>FY 1996</u>
Balance at July 1	\$ 29,812	\$ 40,202
Deposits	\$ 98,608	\$ 93,793
Interest Earned	<u>1,886</u>	<u>2,200</u>
Total Available	<u>\$130,306</u>	<u>\$136,195</u>
Expenditures	\$ 90,104	\$100,000
Balance at June 30	<u>\$ 40,202</u>	<u>\$ 36,195</u>

Source: Derived from the state's accounting system.

Minnesota Veterans Home - Silver Bay

Audit Objective and Methodology

Our audit of resident accounts focused on answering the following question:

- Did the home design and implement internal controls to provide reasonable assurance that resident financial activities were promptly and accurately recorded in the resident accounting records and in accordance with the resident's authorizations?

To address this question, we interviewed key employees to gain an understanding of the controls over resident account activity. We reviewed and tested resident account deposits and withdrawals and verified the accuracy of resident and bank account reconciliations.

Conclusions

The Silver Bay Veterans Home designed and implemented internal controls to provide reasonable assurance that resident financial activities were promptly and accurately recorded in the resident's account and in accordance with the resident's authorizations. In addition, resident funds were reconciled timely.



STATE OF MINNESOTA
VETERANS HOMES BOARD
VETERANS SERVICE BUILDING
20 WEST 12TH STREET, ROOM 122
ST. PAUL, MINNESOTA 55155
(612) 296-2073

James H. Main
Chairman
Chaska

July 29, 1997

Stephen J. O'Connor
Vice Chairman
Spring Valley

Mr. James Nobles
Legislative Auditor
Office of the Legislative Auditor
Centennial Building, 658 Cedar Street
St. Paul, MN 55155

Dr. Harvey C. Aaron
St. Paul

Bertha Anderson
Detroit Lakes

Dear Mr. Nobles:

Robert E. Hansen
West St. Paul

I am responding to the draft audit report by your office of the Minnesota Veterans Home - Silver Bay for the period July 1, 1994 through March 31, 1997.

Susan K. Kiley
St. Paul

Dennis E. McNeil
Luverne

Two findings were presented to which I will respond.

Beverly Otterness
North Branch

Finding 1:

Wayne M. Sletten
Two Harbors

The Silver Bay Veterans Home did not adequately restrict system access to payroll and personnel data and processing applications.

Response:

Access to the payroll and personnel data processing applications will be restricted to eliminate incompatible duties. Temporary access to the three Minneapolis employees was previously removed.

Finding 2:

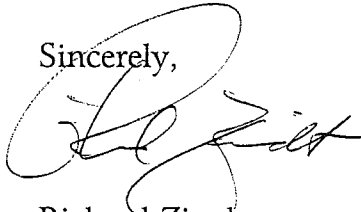
The Silver Bay Veterans Home did not adequately separate the duties of processing and approving payroll transactions.

Response:

An employee independent of the payroll function will review the payroll register and compare it to the employee timesheets.

The Minnesota Veterans Homes Board understands the importance of an independent review of its operations and appreciates the time, effort, and professionalism of your staff.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard Zierdt", written over a large, loopy circular flourish.

Richard Zierdt
Executive Director

c: Mr. Jeffrey Brown, Administrator, Silver Bay Veterans Home