

Minnesota Veterans Homes Board

Financial Audit

Two Fiscal Years Ended June 30, 1997

April 1998

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

98-23



STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Deanna Wiener, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Stephen O'Connor, Chairman
Minnesota Veterans Homes Board

Members of the Minnesota Veterans Homes Board

Richard Zierdt, Executive Director
Minnesota Veterans Homes Board

We have audited the Minnesota Veterans Homes Board for the period July 1, 1995, through June 30, 1997, as further explained in Chapter 1. Our audit scope included: payroll, professional/technical services, rent, and supplies. The following Summary highlights the audit objectives and conclusions.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, as 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 require that we design the audit to provide reasonable assurance that the Minnesota Veterans Homes Board complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the Minnesota Veterans Homes Board is responsible for establishing and maintaining the internal control structure and complying 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 Homes Board. This restriction is not intended to limit the distribution of this report, which was released as a public document on April 9, 1998.

A handwritten signature in black ink, reading "James R. Nobles".

James R. Nobles
Legislative Auditor

A handwritten signature in black ink, reading "Claudia J. Gudvangen".

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: March 9, 1998

Report Signed On: April 6, 1998

SUMMARY

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Minnesota Veterans Homes Board Financial Audit For the Two Fiscal Years Ended June 30, 1997

Public Release Date: April 9, 1998

No. 98-23

Background

The Minnesota Veterans Homes Board was created by the 1988 Legislature to govern the Minnesota veterans homes. Its mission is to oversee and deliver high quality care for veterans and dependents in its care. The board's powers and duties include determining policy and adopting, amending, and repealing rules for the governance of the homes. The board consists of nine voting members appointed by the Governor.

A centralized management team at the board office supports the homes and the board of directors. The board appointed Richard Zierdt as its executive director in October 1988. The board office provides daily support and coordination to the homes while researching the short and long range challenges the homes are experiencing.

Audit Objectives and Conclusions

Our audit objectives were to obtain an understanding of the internal control structure for the period from July 1, 1995, to June 30, 1997, relevant to payroll, professional and technical services, supplies, and rent expenditures. We also designed our audit to provide reasonable assurance that the department complied with applicable legal provisions.

We concluded that the board designed and implemented internal controls to provide reasonable assurance that administrative expenditures were properly authorized, adequately supported, and accurately recorded in the state's accounting system. Finally, with respect to the items tested, the board processed its administrative expenditures in compliance with finance-related legal provisions. However, the board did not adequately restrict security access to its payroll and personnel data. In addition, the board overpaid a vendor under a professional/technical services contract.

The Minnesota Veterans Homes Board has agreed with our findings and is currently in the process of implementing the recommendations. In addition, the board has collected and deposited the vendor overpayment.

Minnesota Veterans Homes Board

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Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Tom Donahue, CPA	Audit Manager
Eric Wion	Auditor-in-Charge

Exit Conference

We discussed the results of the audit at an exit conference with the following Minnesota Veterans Homes Board staff on March 27, 1998:

Richard Zierdt	Executive Director
Stephen O'Connor	Chairman, Minnesota Veterans Homes Board
Sandra Linn	Director, Internal Audit
Sandy Larson	Administrative Assistant

Minnesota Veterans Homes Board

Chapter 1. Introduction

The Minnesota Veterans Homes Board was created by the 1988 Legislature to govern the Minnesota veterans homes. Its mission is to oversee and deliver high quality care for veterans and dependents in its care. The board's powers and duties include determining policy and adopting, amending, and repealing rules for the governance of the homes. The board consists of nine voting members appointed by the Governor.

A centralized management team at the board office supports the homes and the board of directors. The Minnesota Veterans Homes Board currently has 12 state employees. The board appointed Richard Zierdt as its Executive Director in October 1988. The activities of the board and board office are financed by General Fund appropriations and accounted for on the state's accounting system.

The largest administrative expenditure for the board during the audit period was payroll. Table 1-1 summarizes the board's administrative expenditures for fiscal years 1996 and 1997. These expenditures are discussed in Chapter 2.

Table 1-1
Administrative Expenditures
Two Fiscal Years Ended June 30, 1997

<u>Expenditure Type</u>	<u>1996</u>	<u>1997</u>	<u>Total</u>
Payroll	\$532,508	\$590,715	\$1,123,223
Professional/Technical Services	175,451	98,318	273,769
Rent	41,585	43,645	85,230
Supplies	29,921	32,545	62,466
Other	<u>82,984</u>	<u>118,391</u>	<u>201,375</u>
Total	<u>\$862,449</u>	<u>\$883,614</u>	<u>\$1,746,063</u>

Source: Minnesota Accounting and Procurement System (MAPS).

Professional/technical services expenditures were higher in fiscal year 1996 because of a single contract for \$150,000.

Chapter 2. Payroll and Other Administrative Expenditures

Chapter Conclusions

The Minnesota Veterans Homes Board designed and implemented internal controls to provide reasonable assurance that its administrative expenditures were properly authorized, adequately supported, and accurately recorded in the state's accounting records. In addition, with respect to the items tested, the board was in compliance with material finance-related legal provisions and bargaining unit agreements. However, the board did not adequately restrict security access to its payroll and personnel data. In addition, the board did not have a procedure in place to ensure accurate vendor payments, resulting in overpayments to one vendor.

The Minnesota Veterans Homes Board's administrative expenditures are those needed to carry out its role as a centralized management team. The largest expenditure for the board during the audit period was payroll, which accounted for approximately 64 percent of total expenditures. Other significant expenditures covered by the audit were professional/technical services, rent, and supplies.

The Minneapolis Veterans Home provides the board's accounting services, which includes payroll processing, purchasing, and vendor payments. The board, however, is responsible for authorizing all financial transactions.

Audit Objectives and Methodology

Our audit of the board's payroll and other administrative expenditures focused on the following objectives:

- Did the board design internal controls to provide reasonable assurance that payroll and other administrative expenditures were properly authorized, adequately supported, and accurately recorded in the state's accounting system?
- Did the board comply with material finance-related legal provisions and applicable bargaining unit agreements?

To meet those objectives, we interviewed board personnel to gain an understanding of the controls over payroll and other administrative expenditures. We performed analytical reviews and tested a sample of payroll, professional/technical services, rent, and supply expenditure transactions.

Minnesota Veterans Homes Board

Conclusions

The board designed and implemented internal controls to provide reasonable assurance that its payroll and other administrative expenditures were properly authorized, adequately supported, and accurately recorded in the state's accounting system. We also concluded that, with respect to the items tested, the board complied with material finance-related legal provisions and bargaining unit agreements. However, the board did not adequately restrict system access to the state's payroll and personnel systems, as discussed in Finding 1. In addition, the board overpaid for services under a professional/technical services contract as discussed in Finding 2.

1. The board did not adequately restrict access to payroll and personnel data in the State Employee Management System (SEMA4).

The board granted inappropriate access to its payroll and personnel data. We found nine employees who were given incompatible access capabilities. Each employee had full access to update all functions of payroll and personnel applications. In addition, three of the nine employees were able to perform their own payroll and personnel transactions, including pay rate adjustments.

Employees should only be given the access that is necessary to complete their job responsibilities. The SEMA4 system was designed to create separate payroll and human resource security profiles so that responsibilities could be properly separated. Allowing inappropriate access to data greatly increases the opportunity for someone to enter erroneous or fraudulent transactions that may go undetected. This problem is further compounded because of the lack of independent reviews, as discussed in Finding 1.

Recommendations

- The board should ensure that the security clearances granted to employees do not adversely affect internal controls.*
- The board should periodically review security reports to ensure that employees only have access to systems necessary to perform their jobs.*

2. The board overpaid for services under a professional/technical services contract.

The board did not have procedures in place to ensure invoices and payments for professional/technical service contracts were accurate, resulting in overpayments on several invoices to one vendor. The contract with the vendor stipulated the hourly rates that would be charged for the various individuals who the vendor said would be working on the project. The board subsequently received and paid invoices that contained rates in excess of the rates stipulated in the contract. Overpayments resulting from inaccurate rates totaled \$2,639. In addition, the board was billed for three individuals who were not listed in the contract at any specific rate. The related overpayments totaled \$11,049.

Minnesota Veterans Homes Board

Recommendations

- *The board should develop procedures to ensure the amounts invoiced and subsequently paid are accurate.*
- *The board should request reimbursement for the overpayments resulting from the vendor's inaccurate rate charges. The board should also review the nature of the work performed by the three individuals not identified in the contract to determine if reimbursement is required.*

Minnesota Veterans Homes Board

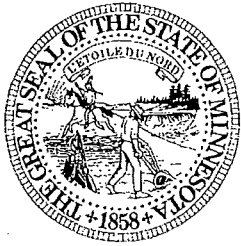
Status of Prior Audit Issues As of June 30, 1997

Most Recent Audit

Legislative Audit Report 93-23, issued in May 1993, covered the two fiscal years ended June 30, 1992. The audit scope included payroll, per diem, expense reimbursements, and consultant service contracts. This report did not contain any audit findings.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as the metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.



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April 3, 1998

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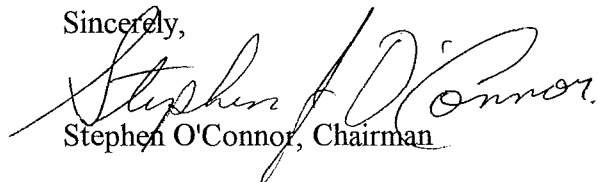
Dear Mr. Nobles:

We have received the draft audit report of the recent Veterans Homes Board of Directors office. We appreciate this opportunity to respond to the two findings which are identified in that document.

To the first finding that the board office did not adequately restrict access to payroll and personnel data in the State Employee Management System (SEMA4), we acknowledge that situation while noting that system security was originally set up correctly. We are currently in the process of implementing your two recommendations and will be following this matter more closely in the future. To the second finding that the board office overpaid for services under a professional/technical services contract, we acknowledge that we paid the fees as billed and that the billing contained some discrepancies and that this resulted in an overpayment. We have communicated this situation to the contract vendor and have received, and deposited back in state accounts, the amount of the overpayment.

As usual, your staff who participated in this audit process were highly competent, conducted themselves professionally and were a credit to their organization. We appreciate the time your office spent on this review and find the process helpful and informative.

Sincerely,


Stephen O'Connor, Chairman