OLA
OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Minnesota Veterans Home - Minneapolis

July 1, 1998, through June 30, 2001

MAY 16, 2002 **02-31**

Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota State government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

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- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

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Members of the Legislative Audit Commission

Mr. Wayne M. Sletten, Chairman
Minnesota Veterans Home Board

Members of the Minnesota Veterans Home Board

Mr. Alan Saatkamp, Administrator
Minnesota Veterans Home - Minneapolis

We have audited the Minnesota Veterans Home - Minneapolis for the period July 1, 1998, through June 30, 2001. Our audit scope included: cost of care, payroll (including resident payroll), resident trust accounts, designated contribution accounts, and selected operational expenditures. We also reviewed the allocation of investment earnings to residents for fiscal year 2002 and reviewed the home's new electronic payroll timekeeping system put in operation effective July 1, 2001. The audit objectives are highlighted in the individual chapters of this report.

We conducted our audit in accordance with *Government Auditing Standards*, as issued by the Comptroller General of the United States. These 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 Home - Minneapolis complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. The management of the Minnesota Veterans Home - Minneapolis 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 Home - Minneapolis. This restriction is not intended to limit the distribution of this report, which was released as a public document on May 16, 2002.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: February 1, 2002

Report Signed On: May 13, 2002

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Minnesota Veterans Home – Minneapolis

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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
Thomas Donahue, CPA	Audit Manager
Jack Hirschfeld, CPA	Auditor-In-Charge
Charlie Gill	Senior Auditor
Theresa Hahn	Senior Auditor
Doreen Bragstad	Auditor

Exit Conference

We discussed the findings and recommendations with the following representatives of the Minnesota Veterans Home - Minneapolis and Veterans Home Board at an exit conference on May 3, 2002:

<u>Minnesota Veterans Home Board Office</u>:

Stephen Musser	Executive Director
Doug Rickabaugh	Financial Management Director

<u>Minnesota Veterans Home - Minneapolis</u>:

Alan Saatkamp	Administrator
Orrin Bakke	Business Manager

Report Summary

Overall Conclusions:

The Minnesota Veterans Home - Minneapolis adequately safeguarded and accurately reported the revenues, including maintenance fees, federal per diem receipts, resident deposits, and donated gifts. The home's payroll expenditures were accurately reported in the accounting records for fiscal years 1999 through 2001. For the items tested, the home properly disbursed and recorded resident withdrawals and expenditures from resident accounts and properly used gifts for designated purposes.

Key Findings and Recommendations:

- Prior Findings Not Resolved: The home incorrectly calculated the cost of care and did not reconcile maintenance fees and other receipts to revenues recorded on the state's accounting system. We recommended that the home verify the cost of care calculation and reconcile receipts to the state's accounting system. (Findings 1 and 2, pages 7 and 8)

- The home had not resolved problems related to the implementation of the new timekeeping system. We recommended that the home work with the vendor and employees to resolve the issues. (Finding 4, page 11)

- Prior Finding Not Resolved: The home did not reconcile designated contributions accounts to the state's accounting system, did not timely deposit these receipts, and did not complete the gift acceptance and lawful gambling documents. We recommended that the home reconcile receipts, deposit receipts in a timely manner, and complete the required gift acceptance and lawful gambling documents. (Findings 5 and 6, page 17)

- The home did not reconcile the resident trust fund account and inaccurately allocated investment earnings to residents in fiscal year 2002. We recommended that the home reconcile the trust fund account to the state's accounting system, and that the home review the formula for allocating investment earnings to the residents. (Findings 7 and 8, pages 20 and 21)

Financial-Related Audit Reports address internal control weaknesses and noncompliance issues found during our audits of state departments and agencies. The scope of our work at the Minnesota Veterans Home - Minneapolis included cost of care, payroll, designated contributions, resident trust accounts, and selected administrative expenditures. The response to our recommendations from the Minnesota Veterans Home - Minneapolis is included in the report.

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Chapter 1. Introduction

The Minnesota Veterans Home - Minneapolis (home) was founded in 1887 and is one of five homes operating under the general direction of the Minnesota Veterans Homes Board. The home provides domiciliary care and skilled nursing care for veterans and spouses who meet eligibility and admission requirements. The home is a licensed care facility and has the capacity for approximately 61 boarding care beds, 341 nursing care beds, and 16 beds for the Transitional Housing Project. Mr. Thomas Mullon served as the administrator of the home from September 30, 1996, through his retirement on February 23, 2000. Mr. Stephen Musser served as the interim administrator until the Minnesota Veterans Homes Board appointed Mr. Alan Saatkamp, the current administrator, on April 10, 2000.

During the audit period, the home completed a campus-wide renovation project of several of its buildings. The home's domiciliary unit was closed during most of fiscal year 1999. The home reopened the domiciliary unit on June 16, 1999. The State of Minnesota's Department of Administration, Division of Building Construction, received the funding for the renovation project and served as the project manager. We did not audit the construction activity since it is part of the Department of Administration's financial activity. The home also initiated a Transitional Housing Program in April 2001. This program provides housing for 16 homeless veterans diagnosed with psychiatric and psychoactive substance use disorders.

The Minnesota Veterans Homes Board receives a General Fund appropriation for the operation of the five homes. The board allocates and transfers a portion of the appropriation to each of the homes to fund their operations. The Minneapolis Veterans Home maintains its operating account in the Special Revenue Fund. The home also receives federal per diem and resident maintenance payments, which are deposited into the operating account. The home records donations in a Gift Fund and maintains an Agency Fund to account for resident money. Table 1-1 shows the financial activity of the home for fiscal year 2001.

Table 1-1
Financial Activity by Fund
Fiscal Year 2001

	Special Revenue Fund: Operations	Agency Fund: Resident Trust	Gift Fund: Estate and Gift Donations
Appropriation Allocation	$13,541,000	$ 0	$ 0
Balance Forward In	572,638	147,317	451,177
Transfers In	0	0	36,667
Receipts	14,076,618	570,675	173,641
Total Amount Available	$28,190,256	$717,992	$661,485
Expenditures	26,325,450	597,961	197,699
Transfers Out	0	9,319	17,481
Balance Forward Out	$ 1,864,806	$110,712	$446,305

Note: The Gift Fund includes the Estates and Bequests Account.

Source: Minnesota Accounting and Procurement System.

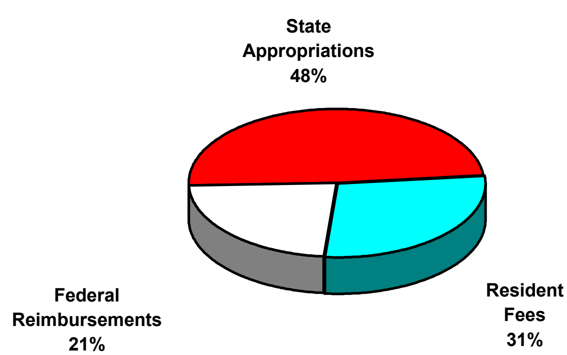
Chapter 2. Cost of Care

Chapter Conclusions

The Minnesota Veterans Home - Minneapolis properly collected, safeguarded, deposited, and recorded its maintenance fees and federal per diem receipts in the state's accounting records. However, the home incorrectly calculated its cost of care rates for fiscal years 2000 and 2001. In addition, after October 2000, the home did not perform monthly reconciliations of fees and other receipts recorded on its internal accounting records to the state's accounting system.

The home receives funding for its operations from resident maintenance fees, federal per diem reimbursements, and state appropriations. Figure 2-1 shows the financing sources for fiscal year 2001.

Figure 2-1
Financing Sources
Fiscal Year 2001



Source: Minnesota State Accounting and Procurement System.

Each year, the home calculates a monthly cost of care for skilled nursing care and domiciliary care for both veteran and non-veteran residents. The home reduces the cost for veteran residents by the federal per diem payments. Residents pay either the monthly cost or a lesser fee based on their income and assets. Residents whose net worth exceeds $3,000 pay the monthly cost. Approximately 85 percent of the residents pay less than the actual cost of care. The reduced fee equals the resident's income less approved exclusions such as spousal maintenance and a $90 personal expense deduction. The home takes the adjusted income for each resident and multiplies it by 95 percent to calculate the resident's maintenance fee. Table 2-1 shows the monthly cost of care in effect during fiscal years 1999, 2000, and 2001.

Table 2-1
Monthly Cost of Care

Type of Care	Fiscal Year 1999 Veterans	Fiscal Year 1999 Non-Veterans	Fiscal Year 2000 Veterans	Fiscal Year 2000 Non-Veterans	Fiscal Year 2001 Veterans	Fiscal Year 2001 Non-Veterans
Domiciliary Care	*	*	$2,505	$3,099	$2,602	$3,254
Nursing Care	$3,503	$4,719	$3,651	$4,987	$3,692	$5,230

*The domiciliary unit was closed for fiscal year 1999.

(1) A non-veteran is a spouse of a veteran.

Source: Minnesota Veteran's Home – Minneapolis records.

The U. S. Department of Veterans Affairs reimburses the home a fixed per diem amount for eligible veterans. The home claimed the federal per diem reimbursement by submitting a monthly report identifying the total number of days of care provided to eligible veterans to the department. As of June 30, 2001, the federal per diem rate was $22.93 a day for domiciliary residents and $51.38 a day for nursing care residents.

The Veterans Homes Board received a state appropriation that it allocated to each of the veterans' homes. The state appropriation comprised approximately 48 percent of the total operating revenue for the Minneapolis home during fiscal year 2001.

The home initiated a Transitional Housing Program in April 2001. This program provides housing for 16 residents. The Federal Housing and Urban Development Agency reimburses up to 50 percent of the programs costs. The program incurred operating costs totaling $76,000 as of September 2001. The home was entitled to reimbursement of 50 percent or $38,000. The home filed it first reimbursement request on January 8, 2002.

Audit Objectives and Methodology

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

- Did the home's internal controls provide reasonable assurance that it accurately calculated the annual cost of care rate and assessed resident maintenance fees in compliance with applicable legal provisions?

- Did the home properly collect, safeguard, deposit, and record maintenance fees and federal per diem receipts in the accounting records?

To answer these questions, we interviewed the home's staff to gain an understanding of the process used to calculate the annual cost of care rate, assess maintenance fees, and collect and record resident maintenance fees and federal per diems. We reviewed the home's cost of care calculations for fiscal years 1999, 2000, and 2001 to determine if the calculations were accurate and complied with Minnesota statutes and rules. For a sample of residents, we reviewed the calculation of maintenance fees to determine if the home used the correct components when determining the residents' ability to pay. We also determined if the home correctly posted maintenance receipts to residents' accounts. We reviewed the process used to request the federal per diem reimbursements to determine if the home requested the correct per diem amount. We reviewed the process for depositing and recording maintenance revenue and per diem reimbursements to determine if the home adequately safeguarded receipts until the time of deposit. Finally, we reviewed the process the home used to monitor and pursue its accounts receivable.

Conclusion

The home properly collected, safeguarded, deposited, and recorded its maintenance fees and federal per diem receipts in the state's accounting records. However, as discussed in Finding 1, the home incorrectly calculated its cost of care rates for fiscal years 2000 and 2001. In addition, after October 2000, the home did not perform monthly reconciliations of fees and other receipts recorded on its internal accounting records to the state's accounting system, as discussed in Finding 2.

1. PRIOR FINDING NOT RESOLVED: The home did not accurately calculate the cost of care.

The home did not accurately compute the cost of care for fiscal years 2000 and 2001. The inaccurate calculations resulted in underbilling 50 residents for maintenance fees totaling $266,129. We identified three errors during the testing of the cost of care calculations.

- The home excluded approximately $1.5 million in operating expenditures from the fiscal year 2001 cost of care calculation. The expenditures related to a building that was re-opened during 1999. The cost of care formula was not changed to include the additional costs. This exclusion lead to an underbilling of maintenance fees to residents totaling $232,664.

- The home duplicated the exclusion of capital expenditures from the cost of care calculation for fiscal year 2001. Minnesota Rule 9050 states that capital expenditures are to be excluded from the cost of care calculations. The home received reimbursement from the Department of Administration for the renovation project, thereby reducing the home's capital expenditures. However, the home also excluded the same $205,072 of capital expenditures when preparing the cost of care worksheet. This error resulted in an underbilling to residents of $27,712.

- Finally, the home did not incorporate 366 days in its calculation of cost of care for fiscal year 2000 to reflect the additional day due to leap year. This omission understated the maintenance fees charged to residents by $5,753.

This issue was reported in our previous audit report and has been a problem for the home since fiscal year 1997.

Recommendation

- *The home should strengthen its controls over the calculation of the cost of care by establishing an internal review process to verify the accuracy of the cost of care calculation.*

2. PRIOR FINDING NOT RESOLVED: The home did not perform monthly reconciliations of fees and other receipts posted to its internal accounting records to the state's accounting system.

The home did not perform monthly reconciliations of the maintenance fees and other receipts collected and posted in its internal accounting records to the revenues recorded on the state's accounting system (MAPS). The home stated that they had initially implemented this recommendation shortly after issuance of our prior audit report. We noted reconciliations on file through October 2000. However, in fiscal year 2001, the employee responsible for completing the reconciliation retired. Before he retired, he inappropriately gained access to the system by using another employee's log-on identification and deleted the reconciliation file. The home did not resume the reconciliation of receipts. Performing a monthly reconciliation would assist the home in detecting errors in a timely manner.

Recommendation

- *The home should perform monthly reconciliations of the maintenance fees and other receipts recorded in its internal accounting records to the revenues recorded on the state's accounting system (MAPS) to ensure the accuracy of the accounting records.*

Chapter 3. Payroll

Chapter Conclusions

The Minnesota Veterans Home - Minneapolis accurately reported its payroll expenditures in the state's accounting records. In addition, for the payroll transactions tested, for fiscal years 1999 through 2001, the home accurately paid employees in compliance with applicable legal provisions and bargaining unit agreements. However, the home gave excessive lump sum performance-based salary increases to five part-time medical specialists, including the medical director. In addition, the home did not resolve implementation issues related to its new electronic timekeeping system.

During fiscal years 1999-2001, payroll expenditures totaled approximately $61.6 million or 80 percent of the home's total operating expenditures. The home employed approximately 540 employees and had staff on hand 24 hours a day, seven days a week. In addition, the home employed approximately 59 residents through its resident employment program. Participating residents worked part-time and performed various duties at the home. During the three fiscal years ending June 30, 2001, the home experienced staffing shortages in several departments resulting in staff overtime and the hiring of contract employees.

The home's employees are represented by one of the following bargaining units:

- American Federation of State, County, and Municipal Employees
- Middle Management Association
- Minnesota Association of Professional Employees
- Minnesota Nurses Association
- Managerial Plan
- Commissioners Plan

Audit Objectives and Methodology

Our audit of the home's payroll expenditures focused on the following questions:

- Did the home accurately report payroll expenditures in the accounting records, and were they properly authorized and processed in compliance with applicable legal provisions and management's authorization?

- For the items tested, did the home pay employees in compliance with material finance-related legal provisions and applicable bargaining unit agreements?

To answer these questions, we interviewed the home's staff to gain an understanding of the internal control structure over payroll and human resources. We completed analytical reviews to determine if the home properly processed and recorded its payroll transactions. To determine if the home complied with applicable bargaining unit agreements, we interviewed management and reviewed policies and procedures.

In addition, we reviewed the home's implementation of a new electronic timekeeping system (Time Trak) put into operation on July 1, 2001. Although initially outside the scope of our audit, we noted concerns about the new system as we proceeded with our work on payroll. Our objectives in reviewing the timekeeping system were to gain an understanding of the operation of the system and to identify any control weaknesses in the recording of employee time.

To meet these objectives, we interviewed the home's personnel to gain an understanding of the electronic timekeeping system and to identify any issues affecting its implementation. We reviewed a sample of payroll transactions to determine if the new electronic timekeeping system properly recorded employee hours and if the home correctly input employee hours into SEMA4.

Conclusions

The Minnesota Veterans Home - Minneapolis accurately reported its payroll expenditures in the accounting records. In addition, for the payroll transactions tested for fiscal years 1999 through 2001, the home accurately paid employees in compliance with applicable legal provisions and bargaining unit agreements. However, as explained in Finding 3, the home gave excessive lump sum performance-based salary increases to five part-time medical specialists, including the medical director. In addition, the home did not resolve implementation issues related to its new electronic timekeeping system, as discussed in Finding 4.

3. The home gave excessive lump sum performance-based salary increases to employees.

The home paid lump sum performance-based salary increases in fiscal year 2001 to five of its part-time medical specialists, including the medical director, as if they were full-time employees. These payments were $3,800 to each of four medical specialists and $8,937 to the medical director. The part-time medical specialists' annual compensation for fiscal year 2001 ranged from $13,917 to $32,228, and the medical director's salary was $21,396. As a result, the lump sum payments represented 11.8 percent to 27.3 percent of the base salary for the medical specialists and 41.8 percent of the base salary for the medical director.

The Commissioner's Plan provides for lump sum performance based salary increases up to five percent of the total salary base for the medical directors and specialists, but does not specifically address part-time employees and the proration of the increases. However, prorating lump sum performance-based salary increases for part-time employees provides the most reasonable and equitable method of awarding those increases.

Recommendation

- *The home should prorate lump sum performance-based salary increases for part-time employees based on actual hours worked.*

4. The home has not resolved all problems relating to the implementation of its new electronic timekeeping system.

The Minnesota Veterans Homes Board made the decision to implement an electronic timekeeping system in each of its homes to provide a computerized method of tracking, compiling, and reporting employee time. The board selected an electronic timekeeping system from Time Trak Systems. With the new system, employees enter their start/end time either by "swiping" their badges across a reader or clocking in on their computers. Because of its size and complexities, the Minneapolis home was the first home selected to use the electronic timekeeping system. According to board officials, the Hastings Veterans Home will begin using the system in the summer of 2002. The initial cost of the system, including hardware, software, support and supervisory training, amounted to $204,385.

This system was first introduced to the Minneapolis Veterans Home in February 2001 where it ran parallel to the home's paper system. By July 2001, all departments of the home were using the Time Trak system to enter employee hours. Generally, the introduction of a new computerized timekeeping system results in some application problems and culture changes for administrators, supervisors, and staff. In this case, the commercial software package had to be modified by the vendor to meet the state's payroll requirements and the unique timekeeping needs of the home. The timekeeping system had to be programmed to comply with the salary and leave requirements for several bargaining units and with the scheduling of work assignments. These unique features have complicated the timekeeping system modifications.

The difficulty in modifying the application led to several problems in the processing of employee time and subsequent payroll. The home has estimated that there were errors in approximately five to seven percent of the payroll transactions processed during the first six months the system was in use. In addition, payroll and accounting staff have had to spend an excessive amount of time in preparing employee time records for input into SEMA4. Until the home is able to resolve the errors and issues related to the processing of the time reports, the Department of Finance will not allow the Time Trak payroll records to be electronically interfaced with SEMA4.

As of the time of our review, the home was aware of equipment and software programming concerns, including:

- The electronic timekeeping system incorrectly recorded certain transactions, such as sick and annual leave, compensation time, shift differential, and holidays. For instance, the system had recorded sick leave as annual leave and not paid shift differential for employees in two of the home's departments.

- SEMA4 does not recognize all exception codes on Time Trak. Until these codes are modified, Time Trak will not properly interface with SEMA4 and will affect the accuracy of the payroll warrants.

- Some input devises did not always work, resulting in employees not being able to swipe their cards.

The home has not resolved employee issues, which have also hampered the effective use of the timekeeping system. Supervisors and employees did not comply with the home's policies and procedures for use of the timekeeping system. In one instance, the home's current procedures did not comply with SEMA4 policies. Areas of concern include:

- Some employees are receiving incorrect pay because their time is not correctly recorded on the system. Without the correct recording of the start and end time, the timekeeping system does not recognize the hours employees work.

- The home's policies do not require employees to review and approve completed time cards. Finance's SEMA4 policy states that electronic time reporting must include an acknowledgement by the employee and the supervisor that the time report is a true and accurate reflection of the time worked. Employees should be reviewing their time cards before the input of time to SEMA4. This step is necessary to prevent or detect recording errors and to provide a final approval of time worked. Supervisors also did not review and acknowledge that the employees' time cards were accurate. For the pay period ending January 15, 2002, supervisors had not approved 175 time cards.

- Some supervisors did not correct errors or input required information on the time cards. The supervisors did not verify employees' leave balances and properly record sick and annual leave on their employees' time cards. For example, for one payroll period, the payroll supervisor had to make 700 corrections before entering the payroll hours into SEMA4. The majority of the corrections were due to the inaccurate recording of shift differential, leave, overtime, and other errors.

One of the key internal control elements necessary for this electronic timekeeping system to work as intended rests with the home's supervisors. The supervisors need to be more actively engaged and responsible for the accuracy of their staff's time reported in the system. The home should continue working with the vendor to ensure that the vendor completes its obligation under the purchase agreement and properly modifies the software program to the extent necessary. The home also has to ensure that all employees comply with established policies and procedures.

R*ecommendation*

- *The home should continue to work towards the resolution of the issues preventing the Time Trak timekeeping system from operating effectively. The process should include having the vendor address operational issues and the home providing additional training to all employees.*

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Chapter 4. Resident Trust Accounts

Chapter Conclusion

The Minnesota Veterans Home - Minneapolis adequately safeguarded resident accounts. For the items tested, the home properly recorded receipts and expenditures in the resident accounts in accordance with resident authorizations. In addition, the home properly recorded resident trust account activities in the state's accounting system. However, the home did not reconcile the Trust Fund Account to the state accounting system. The home properly transferred investment earnings to the designated contribution fund during fiscal years 1999 through 2001. However, in fiscal year 2002, the home incorrectly allocated investment earnings to the resident accounts.

The home operates a resident trust account for the benefit of its residents. Residents deposit personal funds into their account with the home's cashier and withdraw those funds as needed. The home processes resident fund transactions through its resident trust account in the state treasury. The money in this account is invested as part of the state's invested treasurers cash. For fiscal years 1999 through 2001, the home was required to transfer investment earnings to the Designated Contribution Fund. The 2001 Legislature amended Minn. Stat. Section 128.26 to require the home to allocate investment earnings to residents effective July 1, 2001.

The home maintains subsidiary records of each resident's account activity. It has an imprest cash account of $25,000 to facilitate resident withdrawal requests. The home retains a portion of the imprest cash in the cashier's office and the balance in a local checking account. The home reimburses the imprest cash account from funds in the resident trust account, as needed.

The home used a software package to track resident accounts. Employees posted deposit and withdrawal transactions made by individual residents. Table 4-1 summarizes the financial activity of the resident trust accounts for fiscal years 1999 through 2001.

Table 4-1
Summary of Resident Trust Account Financial Activity
Fiscal Years 1999 through 2001

	1999	2000	2001
Balance at July 1	$143,065	$107,171	$147,317
Deposits	548,672	615,032	561,356
Interest Earned	6,720	5,081	9,319
Total Available	$698,457	$727,284	$717,992
Expenditures	584,566	574,886	597,961
Transfers Out (1)	6,720	5,081	9,319
Balance at June 30	$107,171	$147,317	$110,712

Note 1: Transfers out represent interest earned on the resident trust account balances that the home transferred to the Gift Fund account.

Source: Minnesota Accounting and Procurement System.

Audit Objectives and Methodology

Our audit of the home's resident trust fund focused on the following questions:

- Did the home's internal controls provide reasonable assurance that resident funds were adequately safeguarded and that receipts and expenditures were accurately recorded in the accounting records?
- Did the home comply with material finance-related legal provisions regarding resident trust accounts?

To answer these questions, we interviewed the home's employees to gain an understanding of the resident trust account activity. We tested a sample of receipts to determine if the home adequately safeguarded and properly deposited and recorded the receipts. We tested a sample of expenditures to determine if the home properly disbursed money in resident accounts and properly recorded the disbursements in the accounting records. Finally, we tested the transfer of investment earnings to the designated contribution fund for fiscal years 1999 through 2001 and tested the allocation of interest to resident accounts for the first six months of fiscal year 2002.

Conclusions

The home adequately safeguarded resident accounts. For the items tested, the home properly recorded resident receipts and expenditures to the resident accounts in accordance with resident authorizations. In addition, the home properly recorded resident trust account activities in the state's accounting system. However, as explained in Finding 5, the home did not reconcile the Resident Trust Fund to the state's accounting system (MAPS). The home properly transferred investment earnings to the designated contribution fund during fiscal years 1999 through 2001. However, in fiscal year 2002, the home incorrectly allocated investment earnings to the resident accounts, as discussed in Finding 6.

5. The home did not reconcile its internal accounting records to the state's accounting system, MAPS.

The home did not reconcile the Resident Trust Fund balance on its accounting system to the fund balance on MAPS. The home last reconciled its account balance to MAPS in October 2000. We compared the January 14, 2002, accounting system balance to MAPS and identified a difference of $21,293. To ensure that the home's accounting records are accurate and financial activity is properly recorded on MAPS, the home needs to reconcile its account balance to MAPS.

Recommendation

- *The home should reconcile it internal accounting records to MAPS on a periodic basis.*

6. The home incorrectly allocated investment income to the resident accounts.

Under a new computer program application, investment income allocated to the residents was in error. Minn. Stat. (2001) Section 198.265 authorizes the home to allocate resident account investment income to the residents effective July 1, 2001. The Department of Finance provides the home with a monthly report identifying the amount of investment earnings. The home intended to allocate the investment income to residents based upon the average daily balance of each resident by month. However, the home was not aware that the computer program allocated the income based upon the residents' balance the day prior to the allocation. For example, the home allocated October 2002's investment income to the residents on November 18. The computer program calculated the daily balance of each resident as of November 17 as the basis for the allocation. The home should have used the average daily balance for the month of October as the basis for the allocation.

Recommendation

- *The home should correct software programming to use the monthly average daily balance when allocating investment income.*

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Chapter 5. Designated Contributions

Chapter Conclusions

The Minnesota Veterans Home – Minneapolis' internal controls provided reasonable assurance that the designated contributions account activities were properly recorded in the state's accounting system. In addition, for the items tested, the home's controls provided reasonable assurance that expenditures were made in accordance with the donor's intentions. However, the home did not reconcile the designated contribution account balance to the state's accounting system and donations received to deposits in the state treasury. In addition, the home did not deposit receipts in a timely manner, improperly borrowed money from other accounts to fund resident recreational activities, and did not comply with its gift acceptance policy.

Minn. Stat. (2001) Sections 198.16 and 198.161 authorize the home to accept gifts and donations and to use the funds as directed by the donor. The home received designated contributions from a variety of donors. Donors gave funds for specific or general purposes benefiting the residents. The home established separate accounts in the state's accounting system to track the contributions and the expenditure of the contributions. The home also set up a designated contribution committee that met monthly to review activity and approve expenditures. During the audit period, the home received $740,000 and expended $645,000 in designated contributions. Remaining funds are carried forward each year.

Table 5-1
Designated Contribution Account Activity
Fiscal Years 1999 - 2001

	1999	2000	2001
Balance Forward In	$335,914	$394,711	$419,810
Gifts and Donations	216,674	219,949	171,839
Transfers In	55,678	39,335	36,667
Total Available	$608,266	$653,995	$628,316
Expenditures	213,555	234,184	197,699
Balance Forward Out	$394,711	$419,811	$430,617

Note: Transfers In include interest earned on the resident trust accounts, canteen profits, and transfers from the Endowment Fund.

Source: Minnesota Accounting and Procurement System.

Minnesota Veterans Home – Minneapolis

Audit Objectives and Methodology

Our audit of the home's designated contributions focused on the following questions:

- Did the home's internal controls provide reasonable assurance that the designated contributions account activities were properly recorded in the state's accounting system?
- Did the home's internal controls provide reasonable assurance that expenditures out of the designated contribution account were made in accordance with donor intentions?

To answer these questions, we interviewed employees to determine the process to receive, deposit, and record contributions. For a sample of gift receipts, we determined that the home accepted the gifts according to Minn. Stat. (2001) Section 198.16 and complied with the donors intentions. We also verified that the home authorized the acceptance of gifts and promptly deposited the receipts into a separate fund, and that gifts were properly recorded in the state's accounting system. We also verified that the home promptly paid invoices and properly recorded the transactions in the accounting system.

Conclusions

The home's internal controls provided reasonable assurance that the designated contributions account activities were properly recorded in the state's accounting system. In addition, for the items tested, the home's controls provided reasonable assurance that expenditures were made in accordance with the donor's intentions. However, as explained in Finding 7, the home did not reconcile the designated contribution account balance to the state's accounting system and donations received to the deposits in the state treasury. The home did not deposit receipts in a timely manner, improperly borrowed money from other accounts to fund resident recreational activities, and did not comply with its gift acceptance policy.

7. The home did not reconcile the designated contributions account balance to MAPS and did not reconcile the donations received to deposits in the state treasury.

The home has not reconciled the designated contribution month-end balance on its internal accounting system to MAPS. The home prepares a monthly status report that includes the beginning balance, receipts, expenditures, and the ending account balance. However, the designated contribution account balance on the home's records has not been reconciled to MAPS for six years. There was a difference of $2,410 between the balance on MAPS and the balance on its accounting records. This difference consisted of errors made during fiscal years 1997, 1998, and 2000. These errors should have been identified and corrected as part of an ongoing reconciliation process.

The home also did not reconcile the monthly total of donations received to the deposits in the state treasury. The home needs to reconcile monthly deposits to the donation receipt log to ensure that all donations the home received are deposited and properly recorded on the state's accounting system. In addition, the home used the donation receipt log for preparing gift acceptance forms, thank you letters, and other documents.

Recommendation

- *The home should reconcile the fund balance to the amount on MAPS on a monthly basis. In addition, the home should reconcile the donations it receives to the deposits for the month in the state treasury.*

8. PRIOR FINDING NOT RESOLVED: The home did not deposit receipts in a timely manner and improperly borrowed money from other accounts to fund resident recreational activities.

The home did not deposit cash donations in a timely manner. Donations mailed to the home were given directly to the cashier's office for deposit. However, the cashier did not always deposit these donations within a 24-hour period. For example, during December 2001, contributions totaling $1,935 were not deposited until the end of the month. Minn. Stat. (2001) Section 16A.275 requires state agencies to deposit receipts totaling $250 daily. The home also did not promptly deposit cash returned from recreation activities. The home withdraws cash from the designated contribution account for resident recreational activities. Any unspent money is returned to the cashier. For January 2002, the cashier kept the returned cash totaling $273 in the cashier's office. This cash should be deposited in a timely manner to reduce the risk of theft or misuse.

In addition, a new issue was identified as a part of our current review. We noted that the home improperly borrowed money from the Resident Trust Fund to pay for resident recreational activities normally funded from designated contributions. Prior to December 2001, the home would receive a check directly from the Department of Finance out of its designated contribution account. The home would then deposit the check for cash in its local bank account. However, in December 2001, Finance began to transfer funds electronically to the home's accounts. There was no local designated contribution bank account. The home was uncertain as to the procedure for withdrawing the cash out of this account. As a result, the home borrowed $1,850 from the cash drawer representing the Resident Trust Fund. As of January 2002, the home had not replaced the borrowed money.

Recommendations

- *The home should daily deposit contributions exceeding $250. The home should also promptly deposit cash returned from recreation activities.*
- *The home should repay the Resident Trust Fund.*

9. The home did not complete the required documentation for the acceptance of gifts.

The administrator and the board office did not consistently sign a gift acceptance form for all donations. The Department of Finance allows agencies with specific statutory authority to accept gifts and to establish policies and procedures for gift acceptance. The home has the statutory authorization and has developed a gift acceptance policy. This policy requires the administrator to sign the gift acceptance form approving all gifts. Of the 12 gifts tested, the administrator had signed only two gift acceptance forms. In addition, the home's operating policies and procedures require the board's chairman to sign the gift acceptance form if the gift is greater than $10,000. Two of the donations, each in the amount of $30,000, did not have the chairman's signature.

The home did not complete the Minnesota lawful gambling acknowledgement form unless required to by the donor. Minn. Stat. (2001) Section 349.12, Subd. 25 requires government agencies to complete this form for all gambling donations and submit it to the donor organization.

Recommendations

- *The home should complete the gift acceptance forms as required by its internal policy. If the gift has a value greater than $10,000, the gift acceptance form must be forwarded to the board's chairman for signature.*

- *The home should also complete the lawful gambling forms as required by Minnesota statute.*

Chapter 6. Selected Operational Expenditures

Chapter Conclusions

The Minnesota Veterans Home - Minneapolis' internal controls provided reasonable assurance that operational expenditures were properly authorized, adequately supported, and accurately reported in the state's accounting records. In addition, for the items tested, the home complied with finance-related legal provisions concerning operational expenditures.

The home incurred approximately $13.8 million for non-salary operational expenditures for the three fiscal years ended June 30, 2001. These expenditures included food purchases, supplies and materials, medical and dental services, drugs and pharmaceuticals, and other expenditures. Table 6-1 summarizes the administrative expenditures for the three fiscal years.

Table 6-1
Operational Expenditures
For the Three Fiscal Years Ended June 30, 2001

	1999	2000	2001
Food Purchases	$ 873,453	$ 762,610	$ 833,527
Supplies and Materials	407,417	575,773	676,304
Medical and Dental Services	398,920	608,546	622,321
Drugs/Pharmaceuticals (1)	678,562	258,421	499,227
Other Administrative Costs	2,329,450	2,113,242	2,204,679
Total	$4,687,802	$4,318,592	$4,836,058

Note (1) Pharmaceutical expenditures decreased in fiscal year 2000 due to the closure of the domiciliary residence, and because the Veterans Administration started reimbursing the home for drugs. The domiciliary residence reopened in fiscal year 2001.

Source: Minnesota Accounting and Procurement System (MAPS).

We tested expenditures for food supplies, medical and dental services, and drugs and pharmaceuticals for the three years ended June 30, 2001.

Food Purchases

The home purchases food supplies to provide meals to residents. Food purchases were the home's largest non-payroll operational cost and amounted to $2.5 million for the three years ending June 30, 2001. Food cost per day for fiscal year 2001 was $5.37 per resident. Visitor and staff may purchase meal tickets at a cost of $3.50 per meal.

Supplies and Materials
The home purchased $1.7 million in supplies and materials for the three fiscal years ending June 30, 2001. These purchases were for administrative supplies and materials to operate the home.

Medical and Dental Services
The home incurred $1.6 million in medical, nursing, and dental services for the three years ended June 30, 2001. These expenditures provided dental and health care and nursing services for residents at the home. The home maintains contracts with health care facilities, dentists, and nursing vendors.

Drug and Pharmaceuticals
The net purchases of drugs and pharmaceuticals for the three fiscal years ended June 30, 2001, amounted to $1.4 million. Under a sharing agreement, the home purchases most of its drugs and pharmaceuticals through the Veterans Affairs Medical Center's prime vendor. The Veterans Affairs Medical Center's contract with its prime vendor provided for a significant discount over state contract prices.

The home was also able to obtain free drugs and pharmaceuticals for qualified residents under the aid and attendance federal program. The home would purchase drugs and pharmaceuticals through the Veterans Affairs Medical Center's prime vendor. The home would then submit a listing of residents qualified under the aid and attendance program to the Veterans Affairs Medical Center for reimbursement. The home would record the reimbursement check as a reduction of drug and pharmaceutical expenditures.

Audit Objectives and Methodology

Our audit of the home's operational expenditures focused on the following questions:

- Did the home's internal controls provide reasonable assurance that its operational expenditures were properly authorized, adequately supported, and accurately reported in the state's accounting records?

- For the items tested, did the home comply with finance-related legal provisions concerning operational expenditures?

To answer these questions, we interviewed the home's staff to gain an understanding of the controls in place over operational expenditures. We reviewed the home's policies and procedures over this area. We reviewed a sample of expenditure transactions in each area to determine if the home properly authorized, processed, and recorded the transaction. We also reviewed expenditures to determine if the home complied with financial-related legal provisions.

Minnesota Veterans Home – Minneapolis

Conclusions

The home's internal controls provided reasonable assurance that operational expenditures were properly authorized, adequately supported, and accurately reported in the state's accounting records. In addition, for the items tested, the home complied with finance-related legal provisions concerning operational expenditures.

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Status of Prior Audit Issues
As of February 1, 2002

Legislative Audit Report 99-33, issued in July 1999, covered the three fiscal years ending June 30, 1998. The audit scope included the resident maintenance fees, federal per diem reimbursements, payroll, resident trust accounts, selected operational expenditures, and designated contribution receipts and disbursements. The home resolved one of the four findings contained in the audit report.

In that audit, we found that the home did not accurately calculate its cost of care rate for two fiscal years. We repeat this issue for fiscal years 2000 and 2001 as Finding 1 of this report. Another issue, that the home did not perform monthly reconciliations of maintenance fees and other receipts after October 2000, is repeated as Finding 2 in this report.

In addition, the prior report identified the need for the home to improve controls over designated contribution receipts. We repeated this issue as Finding 8 in this report.

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 applicable 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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STATE OF MINNESOTA
VETERANS HOMES BOARD
MINNESOTA VETERANS HOME – MINNEAPOLIS
5101 MINNEHAHA AVENUE SOUTH
MINNEAPOLIS, MINNESOTA 55417
(612) 721-0600

May 10, 2002

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

Dear Mr. Nobles,

Thank you for the opportunity to discuss with your staff the results of the financial audit of the Minnesota Veterans Home, Mpls for the three years ending June 30, 2001. We appreciate your efforts to bring areas needing improvements to our attention. We are committed to implementing the recommendations you suggest in your report.

Finding #1. The home did not accurately calculate the cost of care.

Response: The home and the Board Office have established an internal review process to ensure the accuracy and integrity of the annual cost of care calculations. This will include checking of spreadsheet formula and random checks of calculations.

Finding #2. The home did not perform monthly reconciliations of fees and other receipts posted to its internal accounting records to the state's accounting system.

Response: The home did perform monthly reconciliations during the period of October, 1997 to October, 2001, and ceased being accomplished with the retirement of the Accounts Receivable Supervisor. A review of reconciliations is a standard item for the Board's auditor. These audits were performed in FY2000 and are scheduled to be done in FY2002. An audit of reconciliations will now be performed annually to ensure compliance. Finally, the home will implement this recommendation no later than May 31, 2002.

Finding #3. The home gave excessive lump sum performance-based salary increases to employees.

Response: We agree with the recommendation that prorated lump sum performance-salary increases for part-time Medical directors and specialists should be based on actual hours worked.

Additionally, the Department of Employee Relations is aware of the difficulty in attracting and retaining qualified physicians in this competitive job market. While we agree that under the current policy, lump sum payments should be made on a pro-rata basis, it is our understanding that there may be new incentives proposed to retain physicians, similar to the performance increases paid in this finding. Unless we (the State) become a more competitive employer of Medical Director's and specialists, we are at risk of losing competent physicians in the interim ultimately affecting the quality of services provided.

Finding #4. The home has not resolved problems related to implementation of its electronic timekeeping system.

Response: With any new implementation and pilot program, such as the electronic timekeeping being rolled out first at the Minneapolis campus, there will always be growing pains. The Minneapolis campus was chosen for the initial installation since it is the largest and most complex facility. The home has resolved numerous issues, which were cited in the audit, and the home currently interfaces successfully with SEMA4, with few operational problems. The home and the Board Office will continue to work with the vendor and the Department of Finance to resolve final implementation issues, if any, as they arise.

Since this is a new installation that has not been fully implemented, we are surprised that this was a focus of the audit. It is also surprising that there isn't an understanding of the complexities of such an implementation in a complex state environment where making change is difficult and the implementation of new systems often takes perseverance and persistence. The implementation of this new system at our Minneapolis campus has been delayed by the interruptions of a potential state government shutdown, the state employees strike, and the availability of time from the Department of Finance to work on an interface with this new system. The goals of the system include more accurate time keeping, cost savings through better accountability, more timely management information, and more usable employee information for the management of absences, tardiness, and other performance issues.

Finding #5. The home did not reconcile its internal accounting records to the state's accounting system, MAPS.

Response: The home will reconcile its internal accounting records to MAPS on a periodic basis. As was stated in finding #2, the home has taken steps to implement this recommendation prior to May 31, 2002.

Finding #6. The home did not allocate investment income to the residents in FY 2002.

Response: The Board Office contacted the software vendor when the legislative auditor brought this recommendation to the home's attention. The vendor has since corrected the software program to use the monthly average daily balance to allocate the investment income to residents. The investment income allocation problem has been corrected.

Finding #7. The home did not reconcile the designated contributions account balance to MAPS and did not reconcile the donations received to deposits in the state treasury.

Response: The recommendation for this finding was implemented during the audit. The home is reconciling the fund balance to the amount in MAPS on a monthly basis.

Finding #8. The home did not deposit receipts in a timely manner and improperly borrowed money from other accounts to fund resident recreational activities.

Response: The home usually deposits receipts in a timely manner. This was an unusual situation and the home has implemented additional staff training to cover daily deposits when an employee is out on vacation. The training will be completed prior to May 31, 2002. The Accounts Receivable Supervisor has worked with the Treasurer's Office, the Department of Finance, and the bank to resolve problems the home has had since the Department of Finance implemented Electronic Deposit of funds. A separate bank account will be established for the designated contributions account. By May 31, 2002, the borrowed funds will be replaced in the Resident Trust Fund.

Finding #9. The home did not complete the required documentation for the acceptance of gifts.

Response: The home will immediately implement the recommendation to complete the gift acceptance forms as required by its internal policy, and complete the lawful gambling forms as required by Minnesota statute.

Our thanks to your audit team for their courtesy and professionalism during the audit. We appreciate their feedback and identification of areas for improvement.

Sincerely,

/s/ Alan C. Saatkamp

Alan C. Saatkamp
Administrator

Cc: Stephen Musser, Executive Director
Doug Rickabaugh, Financial Management Director
Orrin Bakke, Business Manager
Chairman, Veterans Homes Board