

MINNESOTA VETERANS HOME - HASTINGS

FINANCIAL AUDIT

FOR THE THREE YEARS ENDED JUNE 30, 1993

SEPTEMBER 1994

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

94-40

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SUMMARY

State of Minnesota
Office of the Legislative Auditor
Centennial Office Building • St. Paul, MN 55155
612/296-4708

MINNESOTA VETERANS HOME - HASTINGS

FINANCIAL STATEMENT
FOR THE THREE YEARS ENDED JUNE 30, 1993

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Public Release Date: September 1, 1994

No. 94-40

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OBJECTIVES:

- **ASSESS INTERNAL CONTROL STRUCTURE:** Maintenance charge revenue, employee payroll, designated contribution revenue and expenditures, dedicated resource revenue and expenditures, and resident account revenues and expenditures.
- **TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.**

CONCLUSIONS:

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

- Recordkeeping for designated contributions need improvement, particularly to track donations designated for a specific purpose.
- An inadequate separation of duties exists for payroll processing.
- Internal procedures for assessing interest on delinquent maintenance accounts need improvement.

We found three areas of potential noncompliance with finance-related legal provisions:

- The home inappropriately accumulated excess funds in its dedicated resources account and expended \$228,000 on questionable projects. We have referred this issue to the Attorney General for resolution.
- The home improperly allowed private organizations to maintain funds in the state treasury.
- The home did not assess interest on delinquent maintenance accounts as provided by Minnesota Agency Rules.

Contact the Financial Audit Division for additional information.
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FINANCIAL AUDIT DIVISION

U.S. DEPARTMENT OF THE INTERIOR
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STATE OF MINNESOTA
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JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. James Main, Chair
Minnesota Veterans Homes Board

Members of the Minnesota Veterans Home Board

Ms. Catherine Johnson, Administrator
Minnesota Veterans Home - Hastings

Audit Scope

We have completed a financial related audit of the Minnesota Veterans Home - Hastings for the three years ended June 30, 1993 as outlined below, and as further discussed in the Introduction. We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we consider the internal control structure in order to plan our audit, and that we perform tests of the department's compliance with certain material provisions of laws, regulations, contracts and grants. However, our objective was not to provide an opinion on the internal control structure or on overall compliance with finance-related legal provisions.

For purposes of this report, we have classified the significant internal control structure policies and procedures into the following categories:

- maintenance charge revenue
- employee payroll
- designated contribution revenue and expenditures
- dedicated resource revenue and expenditures
- resident account revenue and expenditures

For the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Management Responsibilities

Management of the Minnesota Veterans Home - Hastings is responsible for establishing and maintaining the internal control structure. This responsibility includes compliance with applicable

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Page 2

laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;
- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and
- transactions are recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the internal control structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Conclusions

Our audit disclosed the conditions discussed in findings 2 through 4 involving the internal control structure of the Minnesota Veterans Home - Hastings. We consider these conditions to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we believe none of the reportable conditions described above is a material weakness.

The results of our tests of compliance indicate that, except for the issues discussed in findings 1, 2, and 4, with respect to the items tested, the Minnesota Veterans Home - Hastings complied, in

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Page 3

all material respects, with the provisions referred to in the audit scope paragraphs. With respect to the items not tested, nothing else came to our attention that caused us to believe that the Minnesota Veterans Home - Hastings had not complied, in all material respects, with those provisions.

We also noted other matters involving the internal structure and its operation and compliance with laws and regulations that we reported to the management of the Minnesota Veterans Home - Hastings at the exit conference held on August 1, 1994.

Pursuant to Minn. Stat. Section 3.975, this report shall be referred to the Attorney General. Finding 1 discusses an inappropriate accumulation of funds and questionable expenditures from the dedicated resource account. Minn. Stat. Section 3.975 requires us to report such instances to the Attorney General and the Legislative Audit Commission.

This report is intended for the information of the Legislative Audit Commission, the Minnesota Veterans Home Board, and management of the Minnesota Veterans Home - Hastings. This restriction is not intended to limit the distribution of this report, which was released as a public document on September 1, 1994.

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


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: July 1, 1994

Report Signed On: August 23, 1994

Minnesota Veterans Home - Hastings

Table of Contents

	Page
Introduction	1
Current Findings and Recommendations	2
Agency Response	7

Audit Participation

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

John Asmussen, CPA	Deputy Legislative Auditor
Margaret Jenniges, CPA	Audit Manager
Beth Hammer, CPA	Auditor-in-Charge
Fubara Dapper	Auditor
Carl Otto, CPA	Auditor

Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Minnesota Veterans Home - Hastings and the Minnesota Veterans Home Board on August 1, 1994:

Minnesota Veterans Home - Hastings:

Catherine Johnson	Administrator
Robert Niemala	Business Manager

Minnesota Veterans Home Board:

James Main	Chair
Richard Zierdt	Executive Director
Marcy Harris	Rules Writer
Rebecca Leschner	Accounting Coordinator
Sandra Lynn	Internal Auditor
Lois Davis	Internal Auditor

Minnesota Veterans Home - Hastings

Introduction

The Minnesota Veterans Home - Hastings provides domiciliary care for veterans and their spouses who meet eligibility and admission requirements. Currently, the home has approximately 130 residents.

The home is under the general direction of the Minnesota Veterans Home Board. However, the home's day to day management is the responsibility of the administrator. Ms. Catherine Johnson has been the administrator since November 1992. Prior to that time, Ms. Susan Kiley served as the administrator.

The Veterans Home Board receives an appropriation for the operation of the veterans homes. This appropriation is then allocated to the individual homes. State law requires the homes to collect maintenance fees from each resident to help offset the cost of care. The procedures for calculating maintenance fees are outlined in agency rules.

Table 1 shows an overview of the financial activity of the Hastings Veterans Home for fiscal years 1991 through 1993.

Table 1
Minnesota Veterans Home - Hastings
Financial Activity

	Fiscal year		
	<u>1991</u>	<u>1992</u>	<u>1993</u>
Non-Dedicated Revenue: (1)			
Maintenance Fees	\$ 963,259	\$1,146,406	\$1,157,444
Total Non-Dedicated Revenue	<u>\$ 963,259</u>	<u>\$1,146,406</u>	<u>\$1,157,444</u>
Resources:			
General Fund Appropriation	\$2,963,637	\$3,145,688	\$3,375,679
Dedicated Revenues: (2)			
Designated Contributions	58,111	57,848	53,424
Dedicated Resources	187,427	266,281	281,442
Resident Accounts	104,167	166,331	178,220
Other Receipts	<u>85,447</u>	<u>71,057</u>	<u>63,220</u>
Total Resources Available	<u>\$3,398,789</u>	<u>\$3,707,205</u>	<u>\$3,951,985</u>
Expenditures:			
Employee Payroll	\$2,270,178	\$2,514,667	\$2,634,605
Designated Contributions	66,167	70,166	82,089
Dedicated Resources	110,022	445,289	250,720
Resident Account	107,976	163,332	175,190
Other Disbursements	<u>758,201</u>	<u>683,549</u>	<u>785,668</u>
Total Expenditures	<u>\$3,312,544</u>	<u>\$3,877,003</u>	<u>\$3,928,272</u>

Source: Estimated/Actual Receipts Report and the Manager's Financial Report as of September 3, 1991, September 5, 1992, and September 3, 1993.

- (1) For fiscal years 1991-1993, maintenance fees were non-dedicated revenues and not available for expenditure. Beginning in fiscal year 1994, maintenance fees will become dedicated revenues.
- (2) The schedule does not show unspent balances that carry over from dedicated accounts at the end of each fiscal year.
-

Current Findings and Recommendations

1. **The Hastings Veterans Home inappropriately accumulated excess funds in its dedicated resource account and expended \$228,000 on questionable projects.**

The home inappropriately built up excess funds in its dedicated resource account and used these funds for questionable expenditures. Table 2 shows the accumulated difference of total revenues to expenditures in the dedicated account over several fiscal years.

Table 2
Minnesota Veterans Home - Hastings
Dedicated Resource Activity

<u>Fiscal Year</u>	<u>Revenues</u>	<u>Allocated Expenditures</u>	<u>Accumulated Difference</u>
1986	\$20,929	\$ 0	\$ 20,929
1987	127,608	52,565	95,971
1988	126,544	124,569	97,946
1989	149,549	118,548	128,947
1990	189,012	91,064	226,895
1991	187,427	110,573	303,749
1992	266,281	445,289	124,741
1993	<u>281,442</u>	<u>250,720</u>	155,463
Totals	<u>\$1,348,792</u>	<u>\$1,193,328</u>	

The home leases three surplus buildings to the Dakota County Receiving Center. The lease requires the center to provide routine maintenance to the leased buildings. In addition, the home has a shared service agreement with the center to provide meals to the residents at the center's facilities. The home charges rent and meals based on its costs. According to Minn. Stat. 198.003 subd. 3 which states:

The board may allow veterans organizations or public or private social service, educational, or rehabilitation agencies or organizations and their clients to use surplus facilities, staff, and other resources of the board and may require the participating agencies or organizations to pay for that use.

The home billed the center monthly for current rent and for the actual number of meals prepared for the center. Each year the home calculated a price per meal based on food, labor, and delivery costs. The home deposited the rent and meal revenue into a dedicated resource account.

Initially, the home charged its operating costs to General Fund accounts. It would then periodically transfer some costs from the General Fund to the dedicated resource account. The

Minnesota Veterans Home - Hastings

transferred expenditures should have correlated to rent and meal costs that had generated the dedicated revenues. Prior to fiscal year 1992, however, the home transferred amounts that were not representative of the costs associated with meal and rent revenues. For example, during fiscal year 1991 the home billed and received \$104,468 for meals prepared for the center. The home transferred expenditures of \$51,538 to the dedicated account for food costs. It, did not, however, allocate any labor costs to the dedicated resource account. By not allocating the full cost associated with rent and meals, the home accumulated over \$300,000 in the dedicated account by the end of fiscal year 1991. In fiscal year 1992, the home began charging the dedicated resource account for the full costs associated with preparing meals for the Dakota County Receiving Center.

The home could not accumulate excess funds in its General Fund account. State law requires that unspent General Fund balances shall cancel at the end of each biennium. Excess funds in the dedicated account, however, carry over at the end of the biennium and remain available for spending in future years. Because the home did not allocate sufficient expenditures from the General Fund to the dedicated account, it was able to preserve the dedicated revenues for expenditure in future bienniums.

During fiscal year 1992, the home used a portion of the accumulated balance in the dedicated resource account for some questionable expenditures. As shown in Table 3, it spent \$228,745 on projects that did not relate to the leased agreements. State law is not clear on the permitted uses of excess funds accumulated in the account.

Table 3
Minnesota Veterans Home - Hastings
Dedicated Resource Account
Questionable Expenditures

Construction of new roof on recreation building (Building 20)	\$191,453
Construction of loading dock on food service building (Building 23)	34,290
Utility costs	<u>3,002</u>
Total ineligible expenditures	<u>\$228,745</u>

Note: The buildings leased to the Dakota County Receiving Center include buildings 1, 2, and 4.

Clearly, the home should use the dedicated resources account to pay costs that generate its revenues, for example the meal preparation costs. The home structured the lease agreements in a manner, however, that has historically produced revenues in excess of the meal preparation costs. The home charges rent for the use of its surplus buildings. Yet, it has limited opportunity to expend the rent proceeds on those same buildings. The leasee, Dakota County Receiving Center, is responsible for the maintenance and repair costs on those buildings. Furthermore, state law does not prohibit the home from earning a profit on its rental of surplus buildings. We question, however, whether state law is clear on how the home may use excess funds that accumulate in the dedicated resources account. Minn. Stat. 198.003, Subd. 4 provides that:

Minnesota Veterans Home - Hastings

Money received by the board under subd. 3 must be deposited in the state treasury and credited to a veterans homes resources account in the special revenue fund. Money in the account is appropriated to the board to operate, maintain, and repair facilities used under subdivision 3 (emphasis added), and to pay associated legal fees and expenses.

The questionable expenditures were for costs directly related to the operation and maintenance of other buildings at the Hastings Veterans Home and not the surplus buildings leased to the Dakota County Receiving Center. The Veterans Home Board, however, interprets the term "facility" to be an entire campus, and not a particular building at a home. The board argued that Minnesota Rules often use the term "facility" when referring to a veterans home. Minn. Rules 9050.0040 Subp. 18 defines the term "board-operated facility" as a "building located on a Minnesota veterans home campus..." Minnesota Statutes do not define the term. Actually its use in statute is confined to the provisions on the dedicated resource account. Therefore, we question whether the account's excess funds should be available for general operations of the Hastings Veterans Home.

We think it would be beneficial if the statutes were clarified to recognize the potential for accumulating excess funds in the account. Furthermore, it would be helpful to have an explicit provision to establish the spending authority and parameters for any excess funds in the account.

Recommendations

- *The Hastings Veterans Home should determine the amount of unpaid meal preparation costs that it did not transfer from the General Fund to the dedicated account prior to fiscal year 1992.*
- *The Hastings Veterans Home should work with the Attorney General's Office to determine the appropriate use for funds remaining in the dedicated resource account. If necessary, the home should seek legislation to determine explicit language for the use of excess revenues.*
- *The Hastings Veterans Home should make any necessary financial adjustments to the dedicated resource account.*

2. The Hastings Veterans Home needs to improve controls over designated contribution records.

The home does not maintain adequate records over designated contributions. Minnesota Statutes allow the home to accept donations and gifts of money for the benefit of the residents of the home. The home receives approximately \$50,000 in designated contributions each year. We observed that the majority of these donations have a designated purpose. The volunteer service coordinator at the home maintains records of donations received by the home. However, the coordinator does not maintain records of all donations in which the donor designated a specific purpose. Minnesota Statutes require the home to maintain records that clearly show the identity

Minnesota Veterans Home - Hastings

of the donor, the purpose of the donation, and the ultimate disposition of the donation. The home needs these records to control specific donations and ensure that it uses money only for its intended purpose. To improve controls, the home should prepare subsidiary records which detail the sources and uses of each donation.

In addition, the home improperly maintained funds for private organizations in its resident account. These private organizations include Alcoholics Anonymous and a resident family council. Minnesota Statutes allow the home to accept money from residents for safekeeping. The statute, however, does not allow the home to maintain funds for private organizations. The home could have maintained these funds in the designated contribution account if the organizations donated these funds to the home.

Recommendations

- *The Hastings Veterans Home should maintain adequate records over designated contributions in accordance with Minnesota Statute 198.161.*
- *The Hastings Veterans Home should not maintain funds for private organizations within the resident account.*

3. The Hastings Veterans Home needs to improve controls over employee payroll.

The home does not have an adequate separation of duties over employee payroll. Currently, the Minneapolis Veterans Home inputs the Hastings Veterans Home employee payroll into the central payroll system. However, the same employee that is inputting the payroll is responsible for reconciling the certification report to the employee's timesheets. The Hastings Veterans Home does not complete an independent review to verify the accuracy of the payroll. Without an independent review of the payroll, errors and irregularities could occur and remain undetected.

Recommendation

- *The Hastings Veterans Home should complete an independent review of employee timesheets to the certification report.*

4. The Hastings Veterans Home does not properly assess interest on delinquent maintenance accounts.

The home does not consistently charge interest on overdue resident maintenance accounts. Minnesota Agency Rules state that a resident's account is considered delinquent if a resident willfully refuses or willfully fails to pay the bill by the due date. The home administrator determines if a resident is willfully refusing to pay maintenance charges. However, a process does not exist to notify the accounting staff when this decision is made. Therefore, interest is not charged to delinquent accounts consistently. We reviewed one resident account in which the administrator determined that the home should begin charging the resident interest in March of 1994. However, a May 1994 report showed that the accounting staff had not entered any interest

Minnesota Veterans Home - Hastings

on the resident's account. The home needs to implement a process to notify the accounting staff when interest is to accrue on an account.

In addition, the accounting staff is not updating resident accounts consistently. Under the current system, the accounting staff must update interest manually each month. We noted former residents that were not assessed interest each month for overdue accounts.

Recommendation

- *The Hastings Veterans Home should ensure that a process is in place to systematically charge interest on delinquent accounts in accordance with agency rules.*



**STATE OF MINNESOTA
VETERANS HOMES BOARD**

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

August 17, 1994

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Mr James Nobles
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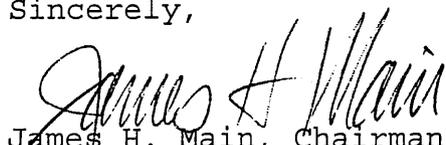
Dear Mr. Nobles:

I am writing in response to the preliminary audit report for our Hastings facility, dated August 2, 1994. The attached schedule shows your recommendations and our plans and timetable to implement them. It is my understanding that many of the conditions you reported have already been corrected; we will report quarterly on our progress toward implementing the others.

We appreciate the independent reviews which visits from your staff give us. These are valuable opportunities for us to get a fresh look at what we are doing and how we are doing it. The feedback we get is always helpful and reassuring.

Our thanks to your audit team for their courtesy and professionalism during the audit.

Sincerely,


James H. Main, Chairman
Veterans Homes Board
Board of Directors

enc.

Responsibility and Timetable
for
Implementing Audit Recommendations

Finding # 1:

Recommendations A and B: We will determine the amounts involved, and we will seek an Attorney General's opinion on the appropriate use of such funds. We will also seek statutory clarification of the confusing sections of Chapter 198 during the 1995 legislative session to ensure that misunderstandings of legislative intent are less likely in the future.

Recommendation C: All necessary adjustments for the last fiscal year have been done, and monthly transfers of the appropriate expenditures are being done by the business manager at Hastings, Mr. Robert Niemala.

Finding # 2:

Recommendation A: The business manager set up a computerized system for tracking receipts and expenditures which was put in place on July 1, 1994

Recommendation B: The organizations in question have been notified by the business manager to withdraw their funds by September 1, 1994.

Finding # 3:

Recommendation A: Barbara Kochevar, the personnel officer at the Hastings home, will review employee timesheets and compare them to the payroll certification report beginning with the pay period ending August 23, 1994.

Finding # 4:

Recommendation A: A procedure has been established to assure that there is clear communication to the business office indicating who should be charged interest and the date the charges should begin. The business manager will make sure the appropriate amount of interest is being charged beginning with the August 1, 1994, billings.