

MINNESOTA VETERANS HOME BOARD
FINANCIAL AUDIT
FOR THE PERIOD JUNE 1, 1988 THROUGH
JUNE 30, 1990

DECEMBER 1990

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

90-72

DEC 19 1990

SUMMARY

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

MINNESOTA VETERANS HOMES BOARD

FOR THE PERIOD JUNE 1, 1988 THROUGH JUNE 30, 1990

Public Release Date: December 14, 1990

No. 90-72

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Employee expenses, per diems, and payroll.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

We found one area where the internal control structure needed improvement:

- The board needs to establish a per diem policy.

We reported one area where the board had not complied with finance-related legal provisions:

- The board reimbursed members for unallowable expenses.

Contact the Financial Audit Division for additional information.
(612) 296-1730



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator John E. Brandl, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

James Sieben, Chairman
Minnesota Veterans Homes Board

Richard Zierdt, Executive Director
Minnesota Veterans Homes Board

Members of the Minnesota Veterans Homes Board

Audit Scope

We have conducted a financial related audit of the Minnesota Veterans Homes Board as of and for the period June 1, 1988 through June 30, 1990. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the board, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the board in effect during June 1990.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transaction of the board are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the board's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Management Responsibilities

The management of the board is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable 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;

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- 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 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.

Internal Control Structure

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

- employee expenses,
- per diems, and
- payroll

For all of 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.

Conclusions

In our opinion, the internal control structure of the Minnesota Veterans Homes Board in effect during June 1990, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the financial transactions of the Minnesota Homes Board.

However, we noted certain matters involving the internal control structure and its operation that we reported to the management of the board in finding 2.

Except for the issue discussed in finding 1, the results of our tests indicate that, with respect to the items tested, the Minnesota Veterans Homes Board complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the board had not complied, in all material respects, with those provisions.

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This report is intended for the information of the Legislative Audit Commission and management of the board. This restriction is not intended to limit the distribution of this report, which was released as a public document on December 14, 1990.

We would like to thank the board staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: September 21, 1990

REPORT SIGNED ON: December 7, 1990

MINNESOTA VETERANS HOMES BOARD

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AUDIT PARTICIPATION

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

John Asmussen, CPA	Deputy Legislative Auditor
Margaret Jenniges, CPA	Audit Manager
Tony Toscano	Auditor-in-Charge

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Minnesota Veterans Homes Board on November 15, 1990:

James G. Sieben	Board Chairman
Michas Ohnstad	Board Member
Robert Hansen	Board Member
Richard Zierdt	Executive Director
Sandra Linn	Internal Auditor

MINNESOTA VETERANS HOMES BOARD

I. INTRODUCTION

The Minnesota Veterans Homes Board was created by the 1988 legislature to govern the Minnesota Veterans Homes. The board consists of nine voting members appointed by the Governor. James G. Sieben is chairman of the board. Laws 1988, Chapter 699, Section 7, states in part that: "it is the duty of the board and the board has the power to determine policy and adopt, amend, and ... repeal rules for the governance of the homes."

The board states that its mission is to provide high quality skilled nursing and domiciliary care to the residents of the Minnesota Veterans Homes.

Minnesota Veterans Homes Board Office currently consists of seven state employees reporting to the board. The activities of the board and board office are financed by state appropriation and accounted for on the state-wide accounting system. The boards activities for fiscal years 1989 and 1990 are as follows:

Payroll	\$145,565
Travel	78,180
Administrative Expenditures	74,097
Per Diem	52,152
Capital Equipment	<u>39,905</u>
Total	<u>\$389,899</u>

Source: *Managers Financial Report*,
September 1, 1990.

MINNESOTA VETERANS HOMES BOARD

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. The Minnesota Veterans Homes Board reimbursed board members for unallowable expenses.

The board reimbursed some unallowable expenses, consisting mainly of meal reimbursements for board members who were not in travel status. During the audit period the board processed travel reimbursements totaling \$79,177 of which \$653 were determined to be inappropriate. Most of the unallowable reimbursements were made to the board's chairman, who often conducted business before and after lunch. The chairman mistakenly thought that under those circumstances he and the others were entitled to claim reimbursement for their meal. The board members have repaid the unallowable amounts received.

Minn. Stat. Section 15.075 Subd. 3, states in part that board members are to be reimbursed for expenses "in the same manner and amount as authorized by the commissioner's plan adopted pursuant section 43A.18 subdivision 2." The Commissioner's Plan allows for meal reimbursements when in travel status.

Expenses for employees not in travel status, incurred in connection with the performance of assigned duties, which are not reimbursable through the regular expense regulations, may be reimbursed through the special expense process. Although the board now has an approved special expense plan, the reimbursements in question would still have been inappropriate.

RECOMMENDATION

- The board should take steps to insure that all board members and accounting personnel are familiar with expense reimbursement provisions.

2. Controls over per diem payments need to be improved.

The Minnesota Veterans Homes Board has not clearly defined when payment of per diems to its members can be made. During our testing we noted per diem payments being made under many different circumstances. Although we are not questioning any of the payments, we noted that there were some inconsistencies. Some board members were paid a per diem for a travel day when going to or from a meeting while other members did not claim a per diem for travel days. We also noticed instances where board members received per diems for attending functions for which it was unclear as to whether or not the board had authorized their attendance at the function. For example, in August of 1988, a board member received a per diem for attending a picnic at the Minneapolis Veterans Home. Also in December of 1988, a board member received a per diem for attending an employee reception at the Hastings Veterans Home. It is unclear whether, in either of these cases, the board had actually authorized attendance at the functions. During the audit period, the board paid \$53,097 in per diems to nine board members.

MINNESOTA VETERANS HOMES BOARD

Minn. Stat. Section 15.075, Subd.3, states, in part, that members "shall be compensated at the rate of \$48 per day spent on board activities, when authorized by the board ..." The board, however, needs to develop procedures to address when per diem payments will be made to the board members. Without procedures to address when a per diem can be claimed, confusion can exist both on the part of the board members and the accounting staff as to when it is appropriate to claim a per diem.

RECOMMENDATION

- The Minnesota Veterans Homes Board should establish a policy that clearly identifies when it is appropriate to claim a per diem.



STATE OF MINNESOTA
VETERANS HOME BOARD

VETERANS SERVICE BUILDING
20 WEST 12TH STREET, ROOM 206A
ST. PAUL, MINNESOTA 55155
(612) 296-2073

November 26, 1990

Maj. Gen. James G. Sieben (Ret.)
Chairman
Hastings

Michas Ohnstad
Vice Chairman
North Branch

Robert E. Hansen
Secretary
Mendota Hts.

Dr. Harvey Aaron
St. Paul

Pamela K. Barrows
Marshall

Daniel Bolhouse
New Brighton

Stephen J. O'Connor
Spring Valley

Dr. Robert W. Reif
White Bear Lake

Emily P. Spensieri
Hibbing

Mr. James Nobles, Legislative Auditor
First Floor, Veterans Service Building
St. Paul, MN 55155

Dear Mr. Nobles:

Thank you for the preliminary copy of the audit report which was recently completed for our board office. Having had the opportunity to both read the report and to discuss it with you, I believe that we are in general agreement as to the report's value and timeliness. In light of our previous conversations regarding this matter, my remarks herein are "for the record" as requested in your November 13 letter.

With regard to the first finding, "The board should take steps to insure that all board members and accounting personnel are familiar with expense reimbursement provisions."

As you are aware, we followed the procedures which were outlined to us at the time of our creation up to the point that your people identified the problems in this area. We were certainly without intent to commit error in this area and the problems which surfaced have troubled our membership considerably. We believe that we are now aware of the correct procedures to be followed and have implemented new policies which, we are advised, will ensure that we do not have a problem in this area again. All of the board members have made arrangements for repayment of any amounts for which they were incorrectly reimbursed in the past. It was in the hope of identifying such unintended discrepancies in practice that we requested this audit at this time. Now with our internal audit team and financial management team in place, we look forward to operating correctly from this point on.

With regard to the second finding, "The Minnesota Veterans Home Board should establish a policy that clearly identifies when it is appropriate to claim a per diem."

We have established an appropriate policy to effectuate this clarification, which coupled with a new documentation of board member activity practice,

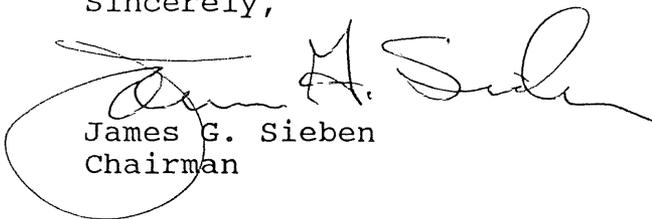
James Nobles
Office of the Legislative Auditor
November 26, 1990
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should certainly ensure that this finding will not be repeated in the future.

As I mentioned in our conversations regarding these items, our board members feel quite strongly that it is inappropriate to hold non-state employee board and commission members to the same reimbursement guidelines which have been set forth in the Commissioners Plan for state employees. There are numerous situations in which this forces very contradictory standards for citizens who are asked to perform without compensation in the state's behalf. We understand and accept, however, that until such a new standard for those citizen participants in government is established, that we will be operating under the existing strictures and standards, and we appreciate being made aware of their many nuances.

The Veterans Homes Board of Directors wishes to thank the Office of the Legislative Auditor for all of the time and sincerely cooperative effort that was put into the audit which we requested at this time. We appreciate that this was not a request which the auditor's office needed to comply with and feel strongly that this audit at this time greatly enables us to be a better functioning part of Minnesota government. We sincerely thank you for your very valuable assistance at this time.

Sincerely,



James G. Sieben
Chairman