



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

FINANCIAL AUDIT DIVISION REPORT

Minnesota Veterans Home at Silver Bay

Internal Controls and Compliance Audit

July 2011 through March 2013

September 6, 2013

Report 13-21

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

September 6, 2013

Senator Roger Reinert, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Larry Shellito, Commissioner
Minnesota Department of Veterans Affairs

Ms. Carol Gilbertson, Administrator
Minnesota Veterans Home at Silver Bay

This report presents the results of our internal controls and compliance audit of the Minnesota Veterans Home at Silver Bay (home) for the period from July 1, 2011, through March 31, 2013. The objectives of this audit were to determine if the home had adequate internal controls, as of March 2013, to ensure that the home safeguarded its financial resources, accurately paid employees and vendors in accordance with management's authorizations, complied with finance-related legal requirements, and created reliable financial information.

We discussed the results of the audit with the department's staff at an exit conference on August 26, 2013. This audit was conducted by Michael Hassing, CPA, CISA (Audit Manager) Tyler Billig, CPA (Auditor-in-Charge), and auditors Kathy Rootham and Jessie Hon.

We received the full cooperation of the staff from the Department of Veterans Affairs and the Minnesota Veterans Home at Silver Bay while performing this audit.

Handwritten signature of James R. Nobles in black ink.

James R. Nobles
Legislative Auditor

Handwritten signature of Cecile M. Ferkul in black ink.

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

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Report Summary

Conclusion

The Minnesota Veterans Home at Silver Bay (home) generally had adequate internal controls to ensure that it safeguarded its financial resources, accurately paid employees and vendors in accordance with management's authorizations, complied with finance-related legal requirements, and created reliable financial information. For the items we tested, the home generally complied with finance-related legal requirements for depositing cash receipts, calculating cost of care for its residents, processing certain payroll transactions, and executing contracts. However, the home had some internal control weaknesses and instances of noncompliance.

Findings

- The Minnesota Veterans Home at Silver Bay had not assessed and documented some important financial and compliance risks to ensure that it had designed and implemented effective internal controls. ([Finding 1, page 7](#))
- The Minnesota Veterans Home at Silver Bay had not adequately reconciled some of its accounting subsystems to the state's accounting system. ([Finding 2, page 7](#))
- The Minnesota Veterans Home at Silver Bay had not adequately protected former residents' not public data. ([Finding 3, page 9](#))
- The Minnesota Veterans Home at Silver Bay had not designed effective internal controls to mitigate the risk created by allowing some incompatible and unnecessary access to its accounting subsystem. ([Finding 4, page 10](#))
- The Minnesota Veterans Home at Silver Bay had not reviewed key reports to ensure the accuracy of its payroll transactions. ([Finding 5, page 10](#))

Audit Objectives and Scope

Objectives

- Internal Controls
- Compliance

Period Audited

- July 1, 2011, through March 31, 2013

Audited Areas

- Resident Payments for Care
- Resident Money held in Trust
- Gifts and Donations
- Payroll Expenditures
- Administrative Expenditures
- System Security Access

Minnesota Veterans Home at Silver Bay

Agency Overview

The Minnesota Veterans Home at Silver Bay, established in 1991, is an 89 bed, skilled nursing care facility for eligible veterans and their dependents. The home is one of five veterans homes within the state; the other homes are located in Fergus Falls, Hastings, Luverne, and Minneapolis. The Minnesota veterans homes operate under *Minnesota Statutes* 2012, Chapter 198. In addition, *Minnesota Rules* 2012, Chapter 9050, provide the requirements for determining resident eligibility, the calculation of the cost of care amount,¹ and each resident's maintenance charge.²

The Department of Veterans Affairs is responsible for the overall administration of the state veterans homes. The department obtains operational guidance and professional expertise on the delivery of quality long term care to veterans from the Veterans Health Care Advisory Council, a nine-member advisory group appointed by the Governor.³ The commissioner of the Department of Veterans Affairs is Larry Shellito; he was appointed commissioner under Governor Mark Dayton in January 2011. The deputy commissioner for the Veterans Health Care Division is Michael Gallucci.

Each home is managed by an administrator, who reports to the Department of Veterans Affairs through Deputy Commissioner Gallucci. The Minnesota Veterans Home at Silver Bay's administrator is Carol Gilbertson.

The Veterans Health Care Division of the Department of Veterans Affairs received General Fund appropriations for the operation of all the veterans homes. The department allocated and transferred a portion of the appropriations to the home, which it used, along with federal per diem and residents' payments, to fund its operations. In addition, the home held residents' personal money (in trust) and monetary gifts in the state treasury. Table 1 summarizes the home's appropriations, receipts, and expenditures for the period July 1, 2011, through June 30, 2013.

¹ *Minnesota Rules* 9050.0040, subpart 30, defines "cost of care" as the average daily per resident cost of providing care and specifies that it must be calculated according to part 9050.0500.

² *Minnesota Rules* 9050.0040, subpart 69, defines "maintenance charge" as the portion of the cost of care paid by or on behalf of a specific resident, based on each resident's ability to pay.

³ *Minnesota Statutes* 2012, 196.30.

Table 1
Minnesota Veterans Home at Silver Bay
Appropriations, Receipts and Expenditures
July 1, 2011, through June 30, 2013²

	<u>Fiscal Years</u>	
	<u>2012</u>	<u>2013</u>
<u>Appropriations and Receipts:</u>¹		
Appropriation Allocation	\$4,770,210	\$3,970,726
Cost of Care ³	4,808,188	5,269,270
Resident Trust Account Receipts	88,247	53,590
Gifts and Donations	<u>266,948</u>	<u>115,795</u>
Total Appropriations and Receipts	<u>\$9,933,593</u>	<u>\$9,409,381</u>
<u>Expenditures:</u>		
Payroll	\$7,290,340	\$7,522,962
Supplies	457,326	649,797
Professional/Technical Contracts	374,737	429,635
Space Rental, Maintenance, and Utilities	187,391	200,892
Resident Trust Account Withdrawals	66,700	50,400
Uses of Gifts and Donations	75,235	102,117
Other Expenditures ⁴	<u>206,457</u>	<u>256,187</u>
Total Expenditures	<u>\$8,658,186</u>	<u>\$9,211,990</u>

¹ The home received an allocation of the department's overall appropriation.

² Our audit scope only included fiscal year 2013 activity through March 31, 2013.

³ This amount includes maintenance charges to residents and federal per diems.

⁴ Other expenditures include travel, employee development, printing and advertising, computer and system services, communication, equipment, repairs and maintenance, agency indirect costs, claims, and building and land improvements and other operating costs.

Source: The state's accounting system.

Objective, Scope, and Methodology

Our audit of the Minnesota Veterans Home at Silver Bay included cost of care, resident trust accounts, gifts and donations, payroll, and other administrative expenditures for the period July 1, 2011, through March 31, 2013. The objective of our audit was to answer the following questions:

- Were the home's internal controls adequate to ensure that it safeguarded its financial resources, accurately paid employees and vendors in

accordance with management's authorizations, complied with finance-related legal provisions, and created reliable financial information?

- For the items tested, did the home comply with significant finance-related legal requirements over its financial activities, including state and federal laws, regulations, contracts, and applicable policies and procedures?

To meet the audit objective, we gained an understanding of the home's operations, including financial policies and procedures. We considered the risk of errors in the accounting records and noncompliance with relevant legal requirements. We analyzed accounting data to identify unusual trends or significant changes in financial operations. In addition, we selected a sample of financial transactions and reviewed supporting documentation to test whether the controls were effective and if the transactions complied with laws, regulations, policies, and grant and contract provisions.⁴

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

We used the guidance contained in the *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission, as our criteria to evaluate the home's internal controls.⁵ We used state and federal laws, regulations, and contracts, as well as policies and procedures established by the departments of Management and Budget and Administration and the department's internal policies and procedures as evaluation criteria over compliance.

⁴ We also considered the findings and recommendations from our prior audit report (See Office of the Legislative Auditor, Financial Audit Division, Report 06-31, *Minnesota Veterans Home – Silver Bay*, issued November 21, 2006. However, due to the length of time elapsed since the prior audit, we did not specifically determine the status of individual recommendations.

⁵ The Treadway Commission and its Committee of Sponsoring Organizations were established in 1985 by the major national associations of accountants. One of their primary tasks was to identify the components of internal control that organizations should have in place to prevent inappropriate financial activity. The resulting *Internal Control-Integrated Framework* is the accepted accounting and auditing standard for internal control design and assessment.

Conclusion

The Minnesota Veterans Home at Silver Bay generally had adequate internal controls to ensure that it safeguarded its financial resources, accurately paid employees and vendors in accordance with management's authorizations, complied with finance-related legal requirements, and created reliable financial information. For the items we tested, the home generally complied with finance-related legal requirements for depositing cash receipts, calculating cost of care for its residents, processing certain payroll transactions, and executing contracts. However, the home had some internal control weaknesses and instances of noncompliance.

The following *Findings and Recommendations* section further explains the exceptions noted above.

Findings and Recommendations

The Minnesota Veterans Home at Silver Bay had not assessed and documented some important financial and compliance risks to ensure that it had designed and implemented effective internal controls.

Finding 1

The home did not have a comprehensive assessment of its significant business risks or associated internal controls. In addition, the home did not document activities to monitor the effectiveness of its internal controls over its significant financial cycles. The home had assessed some risks,⁶ had many control activities in place, and had performed some monitoring activities for other critical financial operations. However, without a comprehensive approach to the design of its internal controls over financial operations and compliance with finance-related legal requirements, the home had an increased likelihood of error, irregularities, and noncompliance occurring without detection.

State statute and the state's policy on internal controls require that each agency head identify, analyze, and manage business risks that impact the entity's ability to maintain its financial strength and the overall quality of government services. The policy further requires follow-up procedures that, at a minimum, should include ways to monitor controls and report significant weaknesses to individuals responsible for the process or activity involved, including executive management and those individuals in a position to take corrective action.⁷ While the department may identify similar risks at several of its homes, the individual homes must document their specific control activities to address those risks.

Recommendation

- *The Minnesota Veterans Home at Silver Bay should clearly document and periodically review the home's risks, internal control activities, and monitoring functions related to its operational and compliance responsibilities.*

The Minnesota Veterans Home at Silver Bay had not adequately reconciled some of its accounting subsystems to the state's accounting system.

Finding 2

The home did not adequately reconcile three of its accounting subsystems to the state's accounting system. State policy requires the home to have an effective system of internal control and identifies reconciliations between accounting

⁶ The Department of Veterans Affairs' internal auditor had documented certain high-level risks for the home's resident trust accounts and its gift and donation accounts.

⁷ *Minnesota Statute* 2012, 16A.057 and Department of Management and Budget Policy 0102-01, *Internal Controls*.

systems as a way to reduce the risk of error, fraud, waste, and abuse.⁸ Differences between the home's subsystem and the state's accounting system could indicate errors or unauthorized transactions.

Because the state reconciles its accounting transactions to the money held in the state treasury bank account, the state's accounting records are generally considered to be accurate records of receipt transactions. However, the implementation of a new state accounting system in July 2011 increased the importance of reconciliations to subsystem accounting records to identify errors or unauthorized transactions.

The home's reconciliation processes had the following weaknesses:

- Resident Trust Accounts - The home had not resolved differences identified in its reconciliation of the resident trust accounts subsystem to the state's accounting system during the period from July 2011 through March 2013. The monthly discrepancies between the resident trust account subsystem and the state's accounting system ranged from \$14 to \$770 during fiscal year 2013.⁹ Without an effective reconciliation process to detect and resolve the discrepancies, the home is not fulfilling its statutory fiduciary responsibility of safekeeping the funds of its residents.¹⁰
- Resident Accounts Receivables - Until March 2013, when the home replaced its resident accounts receivable subsystem, the home had not reconciled receipts for residents' cost of care recorded on the subsystem to the receipts recorded in the state's accounting system. As of May 2013, the home had completed monthly reconciliations of receipt transactions for both March 2013 and April 2013. However, undetected and unresolved differences between transactions recorded in the previous subsystem and the state's accounting system could affect the accuracy of residents' accounts receivable balances brought forward into the new subsystem.
- Contributions - The home had not reconciled the database it used to track contributions to the receipt transactions recorded in the state's accounting system. Staff was not aware that the database and the state's accounting system should be reconciled. In May 2013, once we told the home about the weakness, the home reconciled the database and the state accounting system back to July 2011; the reconciliation identified a December 2012 discrepancy of \$1,123, which the home was working to resolve.

By not accurately completing periodic reconciliations, the home could not ensure the accuracy of the financial information recorded within its accounting

⁸ Department of Management and Budget Policy 0102-01, *Internal Controls*.

⁹ As of March 2013.

¹⁰ *Minnesota Statutes* 2012, 198.265.

subsystems and could not promptly detect errors or unauthorized transactions related to resident accounts and certain operational funds.

Recommendation

- *The Minnesota Veterans Home at Silver Bay should accurately perform monthly reconciliations between the financial activity recorded in its accounting subsystems and the state's accounting system.*

The Minnesota Veterans Home at Silver Bay had not adequately protected former residents' not public data.

Finding 3

The home did not adequately safeguard deactivated resident billing files kept in a storage room. The files contained not public information about the former residents, such as bank account information, some medical information, and addresses of the residents and residents' families. Although the home kept this information in a locked storage room, some employees had access to the room that was not required by their job responsibilities.

Not public data includes any government data that is classified by statute, federal law, or temporary classification as confidential, private, nonpublic, or protected nonpublic.¹¹ Various state statutes, as reflected in the department's policy, identify bank account information (resident and their spouse), medical information, and addresses of resident and residents' families as not public data.¹²

Recommendation

- *The Minnesota Veterans Home at Silver Bay should protect its not public data to ensure that only staff with a need to review the data has access.*

¹¹ *Minnesota Statutes 2012, 13.02.*

¹² *Department of Veteran Affairs Policy 01-003, Data Practices Management.*

Finding 4

The Minnesota Veterans Home at Silver Bay had not designed effective internal controls to mitigate the risk created by allowing some incompatible and unnecessary access to its accounting subsystem.

The home's internal controls were not always effective to mitigate the risk created by incompatible and unnecessary access to a subsystem because they were usually performed by the employee who had the incompatible access.¹³ The employee had incompatible access to the resident trust account and accounts receivable subsystem that would allow the employee to make unauthorized changes to the resident trust accounts, resident accounts receivables, or user security access. In addition, six employees had access to the resident trust account and accounts receivable subsystem in excess of what is required for their individual job responsibilities. The employees' incompatible or unnecessary access created an increased risk that errors or unauthorized transactions could occur without detection.

The state's security and access policy requires separation of incompatible duties or establishing mitigating controls so no one employee has control over an entire transaction or process that could result in errors or fraudulent transactions going undetected.¹⁴

Recommendation

- *The Minnesota Veterans Home at Silver Bay should review the access assigned to all employees and either remove the incompatible access and unnecessary access or develop an effective internal control to mitigate the risk of error or unauthorized transactions occurring without detection. The internal control should be performed by someone independent of the subsystem.*

Finding 5

The Minnesota Veterans Home at Silver Bay had not reviewed key reports to ensure the accuracy of its payroll transactions.

The home did not review key payroll reports to ensure the accuracy of hours worked and payroll accounting, as required by state policy.¹⁵ The home had the following weaknesses in its oversight of the payroll process:

¹³ The home implemented this subsystem on March 1, 2013.

¹⁴ Department of Management and Budget Policy 1101-07, *Security and Access*.

¹⁵ Department of Management and Budget Policy PAY0028, *Agency Verification of Payroll and Human Resources Transactions*.

- The home did not review the payroll register report. This report shows the payroll and personnel data used to process employees' paychecks for each biweekly pay period, such as hours worked, leave taken, and pay rates. State policy requires agencies to document its review of the report to ensure hours paid, pay rates, and adjustments agreed to the supporting documentation. The timing of the review allows the home to promptly detect and correct any errors. Without a review of the report, there is an increased risk that employees could be incorrectly paid.
- The home did not review the payroll posting audit trail report. This report shows the accounts and funding sources to which the home charged its payroll transactions in the state's accounting system. State policy requires each agency to document its review of the report to ensure that it posted payroll expenditures to the correct account. Without a review of the report, employees' pay may have been charged to an incorrect account.

Recommendation

- *The Minnesota Veterans Home at Silver Bay should document its review of the payroll register report and the payroll posting audit trail report each pay period to ensure the accuracy of payroll transactions.*
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STATE OF MINNESOTA DEPARTMENT OF VETERANS AFFAIRS



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September 3, 2013

Mr. James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, MN 55155-1603

Dear Mr. Nobles,

This letter conveys the Minnesota Veterans Home – Silver Bay’s (MVH-SB) responses to the Office of the Legislative Auditor’s (OLA) Internal Control and Compliance report. The Minnesota Department of Veterans Affairs (MDVA) and our Veteran Homes strive for continuous improvement to better serve Minnesota Veterans and Veteran Home Residents. We view the audits performed by your Office as valuable opportunities for an independent assessment of our financial processes and a means to evaluate our progress against MDVA’s goals and objectives. We appreciate the staff resources you dedicated to the Home and the professional analysis.

The following details our responses to the findings in your report. We agree with each of your findings and recommendations. We appreciate this opportunity for a formal response.

Finding 1

The Minnesota Veterans Home at Silver Bay had not assessed and documented some important financial and compliance risks to ensure that it had designed and implemented effective internal controls.

Recommendation:

- *The Minnesota Veterans Home at Silver Bay should clearly document and periodically review the Home’s risks, internal control activities, and monitoring functions related to its operational and compliance responsibilities.*

MVH-SB Response: **Agree**

MDVA has an established risk and controls program covering its Veteran Homes and, as the OLA mentions in its report, some of the critical financial processes in Silver Bay have been covered. Unfortunately, MDVA’s risk and controls project is incomplete resulting in documentation gaps. In addition, the documentation becomes dated quickly as processes and underlying conditions driving risk change. The controls over these processes exist; the documentation about the risks and control is a work in progress.

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The only barrier to completing this project is resources. However, MDVA remains committed to completing the project along with maintaining effective internal controls.

Responsible Persons: MDVA Internal Auditor
MVH-SB Business Manager

Estimated Completion Date: June 30, 2014

Finding 2

The Minnesota Veterans Home at Silver Bay had not adequately reconciled some of its accounting subsystems to the State’s accounting system.

Recommendation:

- *The Minnesota Veterans Home at Silver Bay should accurately perform monthly reconciliations between the financial activity recorded in its accounting subsystems and the State’s accounting system.*

MVH-SB Response: **Agree**

The issues MVH-SB encounters with reconciling to the State’s accounting system SWIFT are not unique to our State Agency:

- The development of reporting systems in SWIFT have lagged behind the development of financial modules. Getting accurate and timely information out of SWIFT was an unanticipated challenge that went beyond the hurdles associated with the learning curve on a new general ledger system.
- Staffing in the small business office of a Veterans Home means a small number of people wear many hats. Reconciliations are important, but are often are the tasks that can wait for another day as other priorities arise.

Regardless of the challenges, MVH-SB recognizes the importance of reconciliations and will renew the emphasis on their timely completion.

Responsible Person: MVH-SB Business Manager

Estimated Completion Date: December 31, 2013

Finding 3

The Minnesota Veterans Home at Silver Bay had not adequately protected former residents’ not public data.

Recommendation:

- *The Minnesota Veterans Home at Silver Bay should protect its not public data to ensure that only staff with a need to review the data has access.*

MVH-SB Response: **Agree**

Due to recent events and data breeches in the Minnesota public sector, protecting not public data is certainly an area of renewed emphasis. Based on the OLA's observations while in the Home, the MVH-SB constructed a storage cage within its store room for not public records with access restricted to only a few individuals.

Responsible Person: MVH-SB Administrator

Estimated Completion Date: Complete

Finding 4

The Minnesota Veterans Home at Silver Bay had not designed effective internal controls to mitigate the risk created by allowing some incompatible and unnecessary access to its accounting subsystem.

Recommendation:

- *The Minnesota Veterans Home at Silver Bay should review the access assigned to all employees and either remove the incompatible access and unnecessary access or develop an effective internal control to mitigate the risk of error or unauthorized transactions occurring without detection. The internal control should be performed by someone independent of the subsystem.*

MVH-SB Response: **Agree**

Minnesota Veteran Homes is in the process of implementing a new resident health information and billing system called Point Click Care (PCC). PCC's primary purpose is efficiently capturing and organizing health and other information about our residents such that we can improve our care and bill Medicare for some of our costs to reduce the burden on Minnesota taxpayers. Veteran Homes are also using PCC to account for resident trust funds and resident accounts receivable, making PCC the subsidiary ledger to SWIFT for these areas.

MDVA is still in the implementation phase of the conversion. As such, when the OLA audit team reviewed the access privileges granted to MVH-SB employees, the security roles assignments were not optimal and granted access to the financial portions of PCC to too many employees. Also, to assure no interruption of services, roles were assigned generously resulting in incompatible access privileges.

After OLA audit team alerted us to the weaknesses, MVH-SB implemented the standard business office employee roles which provide access privileges based on business need and separation of duties. In addition, MVH-SB reviewed all employee role assignments to ensure that no employees outside of the business office could conduct financial transactions to resident accounts.

Responsible Persons: MVH-SB Administrator
MN IT Services Application Security Administration

Estimated Completion Date: Complete

Finding 5

The Minnesota Veterans Home at Silver Bay had not reviewed key reports to ensure the accuracy of its payroll transactions.

Recommendation:

- *The Minnesota Veterans Home at Silver Bay should document its review of the payroll register report and the payroll posting audit trail report each pay period to ensure the accuracy of payroll transactions.*

MVH-SB Response: **Agree**

MVH-SB believes this oversight occurred when transitioning job responsibilities to the new business manager about two years ago. This particular responsibility was not communicated. MVH-SB will implement this process immediately.

Responsible Persons: MVH-SB Business Manager
MVH-SB Human Resource Specialist

Estimated Completion Date: September 30, 2013

While the health and life safety care of our Residents remains our primary concern, our responsibility goes beyond health and well being. It includes accurate and timely accounting, properly managing Home finances and being good stewards of funds. We consider your audits an important part of continuously maintaining and improving our financial processes. Thank you again for your audit.

Sincerely,



Carol Gilbertson, Administrator
Minnesota Veterans Home - Minneapolis

CC Larry Shellito, Commissioner, MDVA
Michael Gallucci, Deputy Commissioner of Veterans Health Care, MDVA