



FINANCIAL AUDIT DIVISION REPORT

Minnesota Veterans Home at Luverne

Internal Controls and Compliance Audit

July 2011 through March 2013

September 27, 2013

Report 13-23

FINANCIAL AUDIT DIVISION
Centennial Building – Suite 140
658 Cedar Street – Saint Paul, MN 55155
Telephone: 651-296-4708 • Fax: 651-296-4712
E-mail: legislative.auditor@state.mn.us
Web site: <http://www.auditor.leg.state.mn.us>
Through Minnesota Relay: 1-800-627-3529 or 7-1-1



OFFICE OF THE LEGISLATIVE AUDITOR
State of Minnesota • James Nobles, Legislative Auditor

September 27, 2013

Senator Roger Reinert, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Larry Shellito, Commissioner
Minnesota Department of Veterans Affairs

Mr. Luke Schryvers, Administrator
Minnesota Veterans Home at Luverne

This report presents the results of our internal controls and compliance audit of the Minnesota Veterans Home at Luverne (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 September 19, 2013. This audit was conducted by Michael Hassing, CPA, CISA (Audit Manager) Tyler Billig, CPA (Auditor-in-Charge), and auditors Kelsey Nistler, CPA and Jessie Hon.

We received the full cooperation of the staff from the Department of Veterans Affairs and the Minnesota Veterans Home at Luverne 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 Luverne (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 Luverne had not assessed and documented 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 Luverne had not designed effective internal controls to mitigate the risk created by allowing some incompatible access to its accounting subsystem. ([Finding 2, page 8](#))
- The Minnesota Department of Veterans Affairs and the Minnesota Veterans Home at Luverne had not reported to the Office of the Legislative Auditor, as required by statute, when they had concerns about possible misuse of state resources. ([Finding 3, page 9](#))

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 Luverne

Agency Overview

The Minnesota Veterans Home at Luverne, established in 1994, is an 85-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, Minneapolis, and Silver Bay. 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 and the calculation of the cost of care amount¹ and each resident's maintenance charges.²

The Department of Veterans Affairs is responsible for the overall administration of the state's 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,³ a nine-member advisory group appointed by the Governor. The commissioner of the Department of Veterans Affairs is Larry Shellito; he was appointed commissioner under Governor Dayton in January 2011. The deputy commissioner for veterans health care 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 Luverne had the following three administrators during the period audited: Michael Bond served as administrator until February 2013; Craig Barness served as the interim administrator from February 2013 until Luke Schryvers was named the permanent administrator in June 2013.

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, per 9050.0500, subpart 4.

³ *Minnesota Statutes* 2012, 196.30.

Table 1
Minnesota Veterans Home at Luverne
Appropriations, Receipts, and Expenditures
July 1, 2011, through June 30, 2013

| | <u>Fiscal Years</u> | |
|--|---------------------------|---------------------------|
| | <u>2012</u> | <u>2013²</u> |
| <u>Appropriations and Receipts:</u>¹ | | |
| Appropriation Allocation | \$4,094,459 | \$3,844,354 |
| Cost of Care ³ | 4,348,713 | 5,275,300 |
| Resident Trust Account Receipts | 78,606 | 71,213 |
| Gifts and Donations | <u>108,596</u> | <u>84,068</u> |
| Total Appropriations and Receipts | <u>\$8,630,374</u> | <u>\$9,274,935</u> |
| <u>Expenditures:</u> | | |
| Payroll | \$6,856,505 | \$7,241,633 |
| Supplies | 486,962 | 538,482 |
| Space Rental, Maintenance, and Utilities | 232,227 | 259,149 |
| Professional/Technical Contracts | 75,005 | 54,082 |
| Resident Trust Account Withdrawals | 60,953 | 59,229 |
| Uses of Gifts and Donations | 42,464 | 73,036 |
| Other Expenditures ⁴ | <u>286,221</u> | <u>537,525</u> |
| Total Expenditures | <u>\$8,040,337</u> | <u>\$8,763,136</u> |

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

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

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

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

Source: The state's accounting system.

Objective, Scope, and Methodology

Our audit of the Minnesota Veterans Home at Luverne included cost of care, resident trust accounts, gifts and donations, payroll, and other administrative expenditures for the period of 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.

Conclusion

The Minnesota Veterans Home at Luverne 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

⁴ We also reviewed the prior audit report (See Office of the Legislative Auditor's Financial Audit Division Report 02-49, *Minnesota Veterans Home – Luverne*, issued August 8, 2002, which covered the period July 1, 1998, through June 30, 2001. The report contained no findings.

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.

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 Luverne had not assessed and documented important financial and compliance risks to ensure that it had designed and implemented effective internal controls.

Finding 1

The home did not prepare 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 many control activities in place and had performed some monitoring activities for 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.

A comprehensive assessment of risks and associated controls can help the home identify high-risk areas, such as, but not limited to the following:

- Calculating maintenance fees charged to residents.
- Safeguarding resident trust funds and designated contributions.
- Approving purchases with designated contributions.
- Recording time and compensating employees.
- Segregating duties in handling bingo and meal ticket monies.

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.⁶ 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. 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.

⁶ *Minnesota Statutes* 2012, 16A.057, and Department of Management and Budget Policy 0102-01, *Internal Controls*.

Recommendation

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

Finding 2

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

The home's internal controls were not always effective to mitigate the risk created by incompatible access to a subsystem because they were performed by the employee who had incompatible access to the subsystem.⁷

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. This incompatible 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.⁸

Recommendation

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

⁷ The home implemented this subsystem on March 1, 2013.

⁸ Department of Management and Budget Policy 1101-07, *Security and Access*.

The Minnesota Department of Veterans Affairs and the Minnesota Veterans Home at Luverne had not reported to the Office of the Legislative Auditor, as required by statute, when they had concerns about possible misuse of state resources.

Finding 3

The department did not report to the Office of the Legislative Auditor that it was investigating some employees of the Minnesota Veterans Home at Luverne for possible code of ethics violations, which also may have included the potential misuse of state resources.

State statute requires an employee or officer that discovers evidence of theft, embezzlement, or unlawful use of public funds or property to promptly report in writing to the legislative auditor a detailed description of the alleged incident or incidents.⁹ In addition to being a statutory requirement, reports or allegations of improper use of state resources allow our office to assess whether a serious internal control weakness exists, and whether the home has taken appropriate action to address those risks and concerns.

Recommendation

- *The Minnesota Department of Veterans Affairs and the Minnesota Veterans Home at Luverne should ensure that they report timely any suspected misuse of state resources to the Office of the Legislative Auditor, as required by state statute.*

⁹ *Minnesota Statutes* 2012, 609.456, subd. 2.



STATE OF MINNESOTA DEPARTMENT OF VETERANS AFFAIRS



20 West 12th Street, 2nd Floor • St. Paul, MN 55155 • Phone: 651-296-2562 • Fax: 651-296-3954
www.mdva.state.mn.us • 1-888-LinkVet

September 24, 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 – Luverne’s (MVH-L) 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 Luverne 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 Luverne should clearly document and periodically review the Home’s risks, internal control activities, and monitoring functions related to its operational and compliance responsibilities.*

MVH-L 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 Luverne 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-L Business Manager

Estimated Completion Date: **June 30, 2014**

Finding 2

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

Recommendation:

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

MVH-L Response: **Agree**

Minnesota Veteran Home business offices operate with relatively small staff sizes. Consequently, maintaining separation of duties and adequate coverage to ensure all critical business functions are completed timely and accurately is difficult.

The ‘Veterans Home Business Manager’ role in the Point Click Care application does allow a significant amount of access privilege and is assigned only to the Business Managers at our five Veteran Homes. We designed the role to allow Business Managers to back up their employees during an absence or emergency. MVH-L does provide their residents with monthly or quarterly statements which allow residents to review transactions on their accounts. However, we recognize that when the Business Manager also reconciles the transactions he/she processed there’s an increased risk that errors or omissions will not be detected.

Consequently, the MVH-L will implement two compensating controls:

1. The MVH-L Business Manager will sign each reconciliation as the preparer and the MVH-Luverne Administrator will subsequently sign each as reviewer/approver.
2. MVH-L will produce an audit log report from Point Click Care monthly of all the Business Manager’s transaction for the Administrator’s review.

Responsible Person: **MVH-L Business Manager**
MVH-L Administrator

Estimated Completion Date: **December 31, 2013**

Finding 3

The Minnesota Department of Veterans Affairs and the Minnesota Veterans Home at Luverne had not reported to the Office of the Legislative Auditor, as required by Statute, when they had concerns about possible misuse of state resources.

Recommendation:

- *The Minnesota Department of Veterans Affairs and the Minnesota Veterans Home at Luverne should ensure that they report timely any suspected misuse of state resources to the Office of the Legislative Auditor, as required by state statute.*

MVH-L Response: **Agree**

The Minnesota Department of Veterans Affairs was aware of its duty to report under Minnesota Statute §609.456 Subdivision 2, which is part of the Criminal Code dealing with theft, bribery and corruption among public officials and employees. As we began our investigation of the Minnesota Veterans Home Luverne, we uncovered evidence suggesting that State time and State property was being used for personal purposes. We treated this as a performance management issue and did not believe that it rose to the level of criminal activity that required reporting. After a more thorough reading of the Statute, we see now that any suspected misuse of public funds or property requires us to report to the Legislative Auditor.

The issues identified by our investigation are being addressed through the Human Resources procedures. The Office of the Legislative Auditor has reviewed the investigation and determined that no further action is warranted. In addition, MDVA leadership has been briefed as to their duty to report any suspected misuse to the Legislative Auditor.

Responsible Person: **MDVA Legal Analyst**
MDVA Human Resources Director
MDVA Affirmative Action Officer
MDVA Deputy Commissioner for Veteran Health Care

Estimated Completion Date: **Complete**

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,

/s/ Luke Schryvers

Luke Schryvers, Administrator
 Minnesota Veterans Home - Luverne

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