



NORTH DAKOTA VETERANS' HOME  
LISBON, NORTH DAKOTA

# Audit Report

For the Biennium Ended  
June 30, 2009

ROBERT R. PETERSON  
STATE AUDITOR



Office of the State Auditor  
Division of State Audit

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## *Transmittal Letter*

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July 22, 2010

The Honorable John Hoeven, Governor  
Members of the North Dakota Legislative Assembly  
Mr. Mark Johnson, Administrator

We are pleased to submit this audit of the North Dakota Veterans' Home for the biennium ended June 30, 2009. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was David Feltman. Robyn Hoffmann, CPA and Mary Feltman, CPA were the staff auditors. John Grettum, CPA was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 239-7289. We wish to express our appreciation to Administrator Johnson and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Bob Peterson".

Robert R. Peterson  
State Auditor

# *Executive Summary*

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## *Introduction*

The North Dakota Veterans' Home (Home) is a state-sponsored institution whose general supervision and government is vested in the Administrative Committee on Veterans' Affairs (Committee) as noted in Chapter 37-18.1 of the North Dakota Century Code. The chairman and secretary of the Committee, acting jointly, shall appoint a seven-member governing board for the administration of the Home, from within or outside the Committee, subject to ratification by a majority of the Committee. The Home is located on a 90-acre tract of land adjacent to the city of Lisbon and has been in operation since 1893.

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies. Those items and the Office of the State Auditor's response are noted below.

## *Responses to LAFRC Audit Questions*

### *1. What type of opinion was issued on the financial statements?*

Financial statements were not prepared by the North Dakota Veterans' Home in accordance with generally accepted accounting principles so an opinion is not applicable. The agency's transactions were tested and included in the state's basic financial statements on which an unqualified opinion was issued.

### *2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?*

Other than our finding addressing "noncompliance with travel laws" (page 12), the North Dakota Veterans' Home was in compliance with significant statutes, laws, rules, and regulations under which it was created and is functioning.

### *3. Was internal control adequate and functioning effectively?*

Other than the weakness addressed in the prior recommendations not implemented (page 14), we determined internal control was adequate.

### *4. Were there any indications of lack of efficiency in financial operations and management of the agency?*

No.

### *5. Has action been taken on findings and recommendations included in prior audit reports?*

Three of the four prior audit recommendations were implemented. The one prior recommendation not implemented involves computer processing controls (page 14).

6. *Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.*

Yes, a management letter was issued and is included on page 15 of this report, along with management's response.

### **LAFRC Audit Communications**

7. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

There were no significant changes in accounting policies, no management conflicts of interest were noted, no contingent liabilities were identified or significant unusual transactions.

8. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The most significant accounting estimate used by the North Dakota Veterans' Home relates to the useful lives of capital assets. Estimated useful lives are used to compute depreciation on capital assets. We compared depreciation to prior years and agreed current audit depreciation to supporting schedules.

9. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

10. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

11. *Identify any serious difficulties encountered in performing the audit.*

None.

12. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

13. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

*14. Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance, Human Resource Management System (HRMS), and MDI Technologies are high-risk information technology systems critical to the North Dakota Veterans' Home. The prior recommendation not implemented directly relates to the MDI Technologies system.

# ***Audit Objectives, Scope, and Methodology***

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## ***Audit Objectives***

The objectives of this audit of the North Dakota Veterans' Home for the biennium ended June 30, 2009 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the North Dakota Veterans' Home's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the North Dakota Veterans' Home and are they in compliance with these laws?
3. Are there areas of the North Dakota Veterans' Home's operations where we can help to improve efficiency or effectiveness?

## ***Audit Scope***

This audit of the North Dakota Veterans' Home is for the biennium ended June 30, 2009. We conducted this performance 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 believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The North Dakota Veterans' Home sole location is at Lisbon, North Dakota, which was included in the audit scope.

## ***Audit Methodology***

To meet the objectives outlined above, we:

- Prepared financial statements from the legal balances on the state's accounting system tested as part of this audit and the audit of the state's Comprehensive Annual Financial Report and developed a discussion and analysis of the financial statements.
- Performed detailed analytical procedures including computer assisted auditing techniques. These procedures were used to identify high risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently. Non-statistical sampling was used and the results were projected to the population. Where applicable, populations were stratified to ensure that particular groups within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.
- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed North Dakota Veterans' Home processes and procedures.

In aggregate there were no significant limitations or uncertainties related to our overall assessment of the sufficiency and appropriateness of audit evidence.

No confidential or sensitive information was omitted.

## ***Discussion and Analysis***

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The accompanying financial statements have been prepared to present the North Dakota Veterans' Home's revenues and expenditures on the legal (budget) basis. The accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

For the biennium ended June 30, 2009, operations of the North Dakota Veterans' Home were supported by appropriations from the state's general fund, as well as the revenues discussed below.

### ***Financial Summary***

Revenues consisted primarily of monies from the Permanent Oil Trust Fund and State Land Department, which are reported as transfers in; charges for services, which are reported as health revenue; and federal funds, which are reported as intergovernmental revenue. These all remained fairly constant for the North Dakota Veterans' Home, except for the transfer in from the Permanent Oil Trust Fund of \$6,483,226 during the year ended June 30, 2009, related to the construction of the new Veterans' Home. Total revenues were \$11,219,968 for the year ended June 30, 2009, as compared to \$4,897,093 for the year ended June 30, 2008.

Total expenditures for the North Dakota Veterans' Home were \$10,600,379 for the year ended June 30, 2009 as compared to \$6,821,051 for the prior year. All expenditures remained fairly constant, except for construction costs of the new Veterans' Home, which occurred mainly in the following three classifications: fees-professional services, other capital payments, and land and buildings.

Total custodial and resident trust funds balances were \$169,555 and \$239,729 as of June 30, 2009 and June 30, 2008, respectively. The decrease during fiscal year 2009 occurred in resident trust funds because of residents with high balances leaving the Home.

### ***Analysis of Significant Changes in Operations***

The North Dakota Veteran's Home is in the process of constructing a new Veterans' Home. Total expenditures charged to the new Veterans' Home were \$4,206,172 through the year ended June 30, 2009. Total construction costs are budgeted to be about \$35,300,000.

### ***Analysis of Significant Variances Between Final Budgeted and Actual Expenditures***

There were significant variances between final budgeted and actual expenditures for capital assets and 2009 flood expenses of \$18,918,108 and \$862,574, respectively, in unexpended appropriations. The capital asset variance was for the construction of the new Veterans' Home and the 2009 flood expenses were estimated high.

# Financial Statements

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## Statement of Revenues and Expenditures

<b><u>Revenues and Other Sources:</u></b>	<b>June 30, 2009</b>	<b>June 30, 2008</b>
Health	2,819,917	2,826,934
Intergovernmental Grants/Contracts	1,690,108	1,849,136
Charges for Services/Sales	86,558	92,854
Contributions and Private Grants	11,233	1,100
General Government	8,006	5,323
Interest & Investment Earnings	939	2,042
Leases, Rents, and Royalties	800	564
Miscellaneous General Revenue	181	140
Transfers In	6,602,226	119,000
<b>Total Revenues and Other Sources</b>	<b>\$ 11,219,968</b>	<b>\$ 4,897,093</b>
<b><u>Expenditures and Other Uses:</u></b>		
Salaries and Benefits	4,555,744	4,224,004
Fees - Professional Services	2,084,332	574,192
Other Capital Payments	1,431,718	126,869
Land and Buildings	770,980	62,590
Medical, Dental and Optical	411,804	471,614
Food and Clothing	329,764	338,205
Utilities	304,474	286,784
Travel	163,753	88,471
Bldg, Grounds, Vehicle Supply	103,983	147,661
Other Equip under \$5,000	91,514	39,315
IT-Communications	54,348	53,297
Miscellaneous Supplies	48,721	50,027
IT - Data Processing	36,905	33,820
Supply/Material-Professional	32,761	39,307
Repairs	30,076	86,786
Equipment Over \$5000	26,432	20,882
Professional Development	26,089	19,347
Office Supplies	22,513	30,018
IT Equip under \$5,000	15,607	19,539
IT Contractual Services and Repairs	13,115	16,662
Operating Fees and Services	12,333	11,033
Insurance	10,233	10,280
Supplies - IT Software	6,727	6,694
Postage	5,450	4,409
Rentals/Leases-Equip & Other	4,069	3,400
Rentals/Leases - Bldg/Land	2,297	2,208
Extraordinary Repairs	1,952	49,942
Office Equip & Furniture-Under	1,884	3,010
Printing	800	685
<b>Total Expenditures and Other Uses</b>	<b>\$ 10,600,379</b>	<b>\$ 6,821,051</b>

## Statement of Appropriations

For The Biennium Ended June 30, 2009

Expenditures by Line Item:	Original		Adjusted		Unexpended Appropriations
	Appropriation	Adjustments	Appropriation	Expenditures	
Salaries and Wages	\$ 8,840,521	\$ (110,159)	\$ 8,730,362	\$ 8,708,798	\$ 21,564
Operating Expenses	3,512,000	400,000	3,912,000	3,867,786	44,214
Capital Assets	330,347	23,092,656	23,423,003	4,504,895	18,918,108
Life Safety Improvements	265,700	(25,258)	240,442	202,525	37,918
2009 Flood Expenses	0	1,000,000	1,000,000	137,426	862,574
<b>Totals</b>	<b>\$ 12,948,568</b>	<b>\$ 24,357,239</b>	<b>\$ 37,305,807</b>	<b>\$ 17,421,430</b>	<b>\$ 19,884,377</b>
<b>Expenditures by Source:</b>					
General Fund	\$ 4,127,478	\$ 36,277	\$ 4,163,755	\$ 4,159,298	\$ 4,457
Other Funds	\$ 8,821,090	\$ 24,320,962	\$ 33,142,052	\$ 13,262,131	\$ 19,879,921
<b>Totals</b>	<b>\$ 12,948,568</b>	<b>\$ 24,357,239</b>	<b>\$ 37,305,807</b>	<b>\$ 17,421,430</b>	<b>\$ 19,884,377</b>

### Appropriation Adjustments:

#### Salaries and Wages:

- \$133,500 approved by emergency commission to comply with standard of care requirements for dispensing medications.
- (\$300,000) was transferred by the emergency commission to operating for expenses related to contract nursing and higher operating costs.
- \$63,747 was the market equity pay adjustment per Senate Bill 2189.
- \$7,406 was the appropriation reduction per House Bill 1014.

#### Operating Expenses:

- \$300,000 transferred from salaries and wages for expenses related to contract nursing and higher operating costs.
- \$75,000 and \$25,000 approved by the emergency commission, to accept other funds and transfer from capital assets to operating, respectively, for increased operating costs and for increased nursing care provided by contract for professional services.

#### Capital Assets:

- \$6,483,226 and \$12,040,278 appropriated from permanent oil trust fund and federal funds, respectively, to build a new structure per Senate Bill 2418.
- \$2,575,152 was appropriated from the issuance of indebtedness for project costs associated with expanding the Veterans' Home construction project per Senate Bill 2025.
- \$2,019,000 approved by the emergency commission to accept other funds for the construction of the new Veterans' Home.
- (\$25,000) transferred to operating.

#### Life Safety Improvements:

(\$25,258) was a reduction for expenses paid in the previous biennium.

#### 2009 Flood Expenses:

\$1,000,000 approved by the emergency commission to accept funds for expenses related to spring 2009 flooding.

## ***Internal Control***

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In our audit for the biennium ended June 30, 2009, we identified the following areas of the North Dakota Veterans' Home internal control as being the highest risk:

***Internal Controls Subjected to Testing:***

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenditures.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.
- Controls surrounding the front window receipting system (MDI Technology).

The criteria used to evaluate internal control is published in the publication *Internal Control – Integrated Framework* from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered necessary based on our assessment of audit risk. We concluded that internal control was not adequate noting a certain matter involving internal control and its operation that we consider to be a significant deficiency.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect (1) misstatements in financial or performance information, (2) violations of laws and regulations, or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we identified the significant deficiency in internal control included in the prior recommendations not implemented section of this report.

## *Compliance With Legislative Intent*

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In our audit for the biennium ended June 30, 2009, we identified and tested the North Dakota Veterans' Home compliance with legislative intent for the following areas that we determined to be significant and of higher risk of noncompliance:

- Reimbursed \$100,000 in preplanning costs for the new Veterans' Home to the general fund prior to 6-30-09 from federal matching funds (2007 North Dakota Session Laws, Chapter 7, section 4). Since no federal matching funds were available prior to 6-30-09, no reimbursement to the general fund was possible.
- The establishment of the Administrator's salary by the Governing Board (NDCC 37-18.1-03 (1)).
- Expense reimbursement requirements for voting committee members (NDCC 37-18.1-04).
- Reported to the appropriations committees of the sixty-first legislative assembly on the use of one-time funding for the biennium ending 6-30-09 (2007 North Dakota Session Laws, Chapter 7, section 5).
- Provided periodic reports to the budget section regarding the status of the Veterans' Home construction project during the 2007-08 interim (2007 North Dakota Session Laws, Chapter 55, section 4).
- Application of proper statutory rates relating to revenue.
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Appropriations and related transfers (2007 North Dakota Session Laws, chapter 7).
- Compliance with OMB's Purchasing Procedures Manual.
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Proper use of outside bank accounts, petty cash funds, and proper authority for investments outside the Bank of North Dakota.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements including record keeping, surplus property, lease and financing arrangements in budget requests, and lease analysis requirements.
- Compliance with payroll-related laws including statutory salaries for applicable elected and appointed positions, and certification of payroll.

The criteria used to evaluate legislative intent are the laws as published in the *North Dakota Century Code* and the *North Dakota Session Laws*.

*Government Auditing Standards* requires auditors to report all instances of fraud and illegal acts unless they are inconsequential within the context of the audit objectives. Further, auditors are required to report significant violations of provisions of contracts or grant agreements, and significant abuse that has occurred or is likely to have occurred.

The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*. This finding is described below. Other than this finding, we concluded there was compliance with the legislative intent identified above. We also noted a certain inconsequential instance of noncompliance that we have reported to management of the North Dakota Veterans' Home in a management letter dated July 22, 2010.

## **Noncompliance With Travel Laws (Finding 09-1)**

The North Dakota Veterans' Home needs to improve its compliance and administration of travel related expenditures. We noted the following weaknesses:

1. During most of our two-year audit period, in-state meals were reimbursed at \$28 per day, rather than at \$25 per day. Section 44-08-04 of the North Dakota Century Code (NDCC) details the amount allowed for in-state meal reimbursement as \$25 per day, not \$28 per day. Total projected overpayment for the audit period was \$1,400, which does not include in-state meal reimbursements included in non-employee travel accounts.
2. Four of the thirteen expenditures tested could have been coded more descriptively. Three expenditures totaling over \$40,000 were coded to employee in-state travel accounts, even though the expenditures were mainly for transporting residents due to the 2009 flood. One expenditure for over \$600 was coded to in-state lodging instead of out-of-state lodging. The GASB 34 Reporting Closing Package provides guidance on reporting extraordinary items such as transactions regarding the evacuation of residents due to flooding.
3. Two of the thirteen expenditures tested were not supported by adequately detailed itemized documents. Time records (showing hours and mileage) were available to support most but not all of the expenditures.

### **Recommendation:**

We recommend that the North Dakota Veterans' Home:

1. Reimburse in-state meals in accordance with Section 44-08-04 of the North Dakota Century Code;
2. Code travel expenditures more descriptively and properly complete applicable GAAP closing packages; and
3. Obtain detailed supporting documents for all expenditures.

### **North Dakota Veterans' Home Response:**

1. *Agree. The North Dakota Veterans' Home will reimburse in-state meals in accordance with Section 44-08-04 of the North Dakota Century Code.*
2. *Agree. Expenses will be coded more descriptively. However, the four expenditures that are brought forward in the audit were coded to the correct line item detail.*
3. *Agree. The timecards for agency staff will be attached to the other documentation to support these expenses. The two expenditures brought forward in the audit did include an invoice as well as an itemized sheet detailing the individual that worked, the hours worked and the mileage they incurred. This information is verified by the staff person responsible for nurse staffing prior to any expenses being paid.*

## *Operations*

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This audit did not identify areas of the North Dakota Veterans' Home operations where we determined it was practical at this time to help to improve efficiency or effectiveness.

## ***Prior Recommendations Not Implemented***

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Prior recommendations have been implemented with the exception of the following:

### ***Computer Processing Controls Weakness***

**Recommendation:**

We recommend the North Dakota Veterans' Home update the front window software system to begin numbering transactions, or obtain a system that does.

**Status:**

The weaknesses we noted during the prior audit continued to exist during the current audit. However, during fiscal year 2010, management and staff of the North Dakota Veterans' Home were evaluating several software systems. One-time funding of \$98,400 for an electronic health record system was included in their 2009-11 appropriation.



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## ***Management Letter (Informal Recommendations)***

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July 22, 2010

Mr. Mark B. Johnson, Administrator  
North Dakota Veterans' Home  
1400 Rose Street  
Lisbon, ND 58054-0673

Dear Mr. Johnson:

We have performed an audit of the North Dakota Veterans' Home for the biennium ended June 30, 2009, and have issued a report thereon. As part of our audit, we gained an understanding of the North Dakota Veterans' Home internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted a certain condition we did not consider reportable within the context of your audit report. This condition relates to areas of general business practice or control issues that have no significant bearing on the administration of federal funds. We do, however, want to present the recommendation to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if this recommendation has been implemented, and if not, we will reconsider the status.

The following presents our informal recommendation.

## CLEARING ACCOUNT

### Informal Recommendation 09-1:

Seven of 35 clearing account checks written during the biennium were to vendors other than the Bank of North Dakota or the State Treasurer. Per NDCC 54-06-08.1, any check written on the account may be used only to transfer funds to the Bank of North Dakota or the state treasurer.

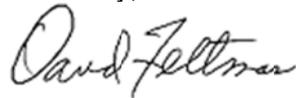
We recommend any check written on the clearing account be written only to the Bank of North Dakota or the State Treasurer. Any deposit erroneously made to the clearing account should be corrected by a voucher out of the BND account by debiting the corresponding revenue account.

### *North Dakota Veteran's Home response:*

It was more efficient to do one transfer directly from the clearing account to the correct resident trust or donation account for the deposits made in error rather than transfer to BND from the clearing account and then process a check from the BND to the correct account. We will take more care in the future to ensure deposits are made to the correct account.

I encourage you to call me at 701-239-7285 if you have any questions about the implementation of the recommendation included in your audit report or this letter.

Sincerely,



David Feltman  
Auditor in-charge

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