

North Dakota Veterans Home

LISBON, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2017

Joshua C. Gallion
State Auditor



Office of the State Auditor
Division of State Audit

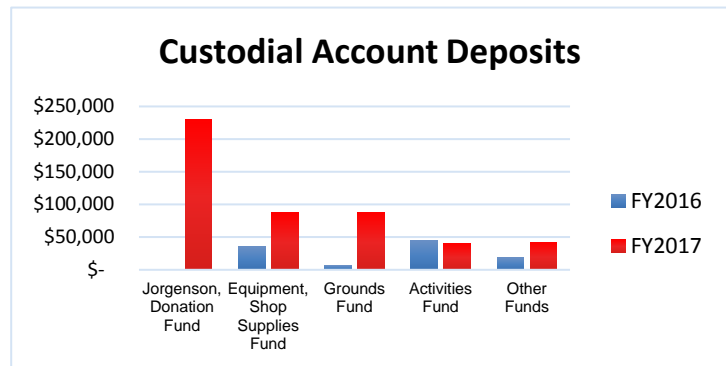
Report Highlights

Custodial Account:

NDCC section 37-15-21 gives the administrator of the Veterans Home the authority to accept and expend funds from any source including donations and gifts for the benefit of the Veterans Home. All moneys received or accepted must be used for the specific purposes for which they were given or donated. The Veterans Home may establish and maintain its own local fund to administer moneys that are received. They have set-up a custodial fund for this purpose.

The Veterans Home utilizes Vision software to track the donations, by funds, to ensure the donations are being used for the specific purposes for which they were donated. We tested that receipts for donations were properly accounted for in Vision.

- We did not note any deficiencies that are required to be brought to the attention of those charged with governance.

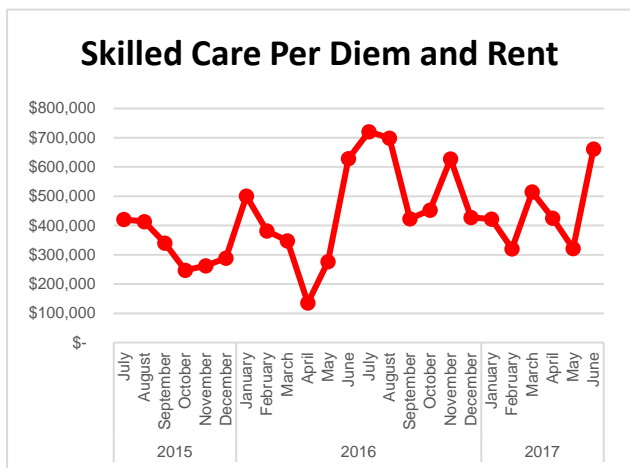
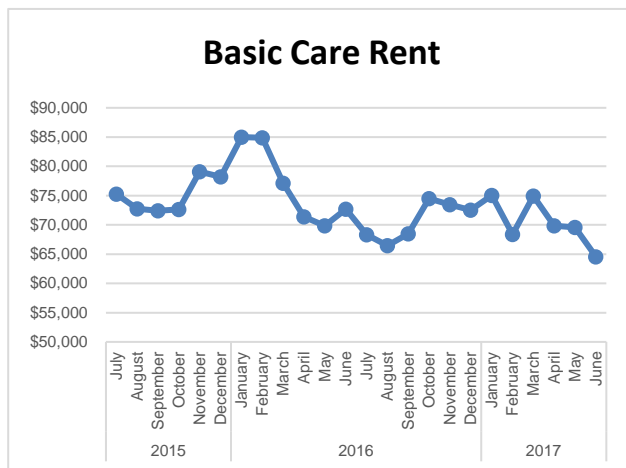


Source: Vision

Clearing Account:

We tested receipts for rents, pharmacy, cable, etc. that are recorded and tracked in Vision to ensure they were properly being recorded on the general ledger.

- We did not note any deficiencies that are required to be brought to the attention of those charged with governance.



Source: ConnectND Financials

Financials, Legislative Intent and Internal Control:

We evaluated and tested high risk areas of internal control and legislative intent. We did not note any deficiencies that are required to be brought to the attention of those charged with governance.

**LEGISLATIVE AUDIT AND FISCAL REVIEW
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Representative Chet Pollert – Vice Chairman**

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Judy Lee
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AUDITOR AND AGENCY PERSONNEL

State Auditor Personnel

**Robyn Hoffmann, CPA, Audit Manager
Mikka Maher, CPA, M.Acc, In-Charge
Travis Klinkhammer, CPA, Staff Auditor
Alex Mehring, CPA, Staff Auditor
Cory Wigdahl, CFE, Staff Auditor**

Primary State Agency Contacts

**Mark Johnson, Administrator
Kristin Lunneborg, Accounting Manager**

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STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
FARGO BRANCH OFFICE
1655 43rd STREET SOUTH, SUITE 203
FARGO, NORTH DAKOTA 58103

Transmittal Letter

May 31, 2018

Members of the North Dakota Legislative Assembly
North Dakota Veterans Home Governing Board
Mr. Mark Johnson, Administrator

We are pleased to submit this audit of the North Dakota Veterans Home for the biennium ended June 30, 2017. 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.

Robyn Hoffmann, CPA was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 239-7291. 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,

Joshua C. Gallion
State Auditor

Executive Summary

Introduction

The North Dakota Veterans 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 responses 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 fiscal year 2016 and 2017 transactions were tested and included in the state's basic financial statements on which an unmodified opinion was issued each year.

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

Yes.

3. Was internal control adequate and functioning effectively?

Yes.

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?

There were no recommendations included in the prior audit report.

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 11 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, management conflicts of interest, contingent liabilities, or significant unusual transactions identified.

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 North Dakota Veterans Home's financial statements do not include any significant accounting estimates.

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 Capital Management (HCM), Vision, and Speed Script are high-risk information technology systems critical to the North Dakota Veterans Home. No exceptions related to the operations of the high-risk information technology systems were noted.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the North Dakota Veterans Home for the biennium ended June 30, 2017 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, 2017. We conducted our 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The North Dakota Veterans Home's sole location is its Lisbon office 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.
- 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.
- Queried the Vision system for front window receipts.
- Observed the North Dakota Veterans Home's 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.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<u>Revenues and Other Sources:</u>		
Care and Treatment	6,838,292	5,111,198
Revenue from Federal Government	2,710,907	2,949,099
Charges for Services/Sales	108,891	140,935
Leases, Rents, and Royalties	45,056	19,381
General Government	39,315	28,513
Miscellaneous General Revenue	35,851	6,949
Contributions and Private Grants	2,788	4,006
Interest & Investment Earnings	287	339
Transfers In	217,000	217,000
Total Revenues and Other Sources	<u>\$ 9,998,387</u>	<u>\$ 8,477,420</u>
<u>Expenditures and Other Uses:</u>		
Salaries and Benefits	\$ 8,761,551	\$ 8,861,566
Other Capital Payments	986,208	371,675
Utilities	527,720	537,789
Food and Clothing	468,534	474,144
Medical, Dental and Optical	366,548	429,934
Fees - Professional Services	286,109	297,714
Bldg, Grounds, Vehicle Supply	162,025	112,651
Repairs	81,637	64,444
Miscellaneous Supplies	80,563	79,152
IT Contractual Services and Repairs	70,898	93,235
Supply/Material-Professional	66,543	60,497
IT - Data Processing	49,796	57,280
Travel	49,004	62,048
Other Equip under \$5,000	45,889	35,980
IT-Communications	43,498	41,637
IT Equip under \$5,000	39,249	39,731
Supplies - IT Software	31,663	21,627
Equipment Over \$5,000	23,788	
Professional Development	22,568	40,980
Office Supplies	18,664	19,882
Office Equip & Furniture-Under	17,263	5,147
Insurance	12,650	14,452
Operating Fees and Services	11,375	13,977
Rentals/Leases-Equip & Other	4,996	3,201
Postage	2,979	1,740
Printing	2,275	1,819
IT Equipment & Software Over \$5,000	2,200	21,731
Rentals/Leases - Bldg/Land	1,987	1,878
Extraordinary Repairs		11,800
Motor Vehicles		30,566
Total Expenditures and Other Uses	<u>\$ 12,238,180</u>	<u>\$ 11,808,277</u>

Statement of Appropriations

For the Biennium Ended June 30, 2017

Expenditures by Line Item:	Original		Final		Unexpended
	Appropriation	Adjustments	Appropriation	Expenditures	Appropriation
Salaries and Benefits	\$ 17,179,722	\$ 794,212	\$ 17,973,934	\$ 17,623,117	\$ 350,817
Operating Expenses	5,311,000	(127,258)	5,183,742	4,975,372	208,370
Capital Assets	678,600	135,000	813,600	535,319	278,281
Construction Carryover		912,648	912,648	912,648	
New Veterans Home		234,679	234,679		234,679
Totals	\$ 23,169,322	\$ 1,949,281	\$ 25,118,603	\$ 24,046,456	\$ 1,072,147

Expenditures by Source

General Fund	\$ 8,155,024	\$ 207,679	\$ 8,362,703	\$ 7,668,529	\$ 694,174
Special Funds	15,014,298	1,741,602	16,755,900	16,377,927	377,973
Totals	\$ 23,169,322	\$ 1,949,281	\$ 25,118,603	\$ 24,046,456	\$ 1,072,147

Expenditures without Appropriations of Specific Amounts:

There were no expenditures without appropriations of specific amounts.

Internal Control

In our audit for the biennium ended June 30, 2017, we identified the following areas of the North Dakota Veterans Home's 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 (Vision).

The criteria used to evaluate internal control is published in the publication *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States (Green Book, GAO-14-704G). Agency management must establish and maintain effective internal control in accordance with policy of the Office of Management and Budget (OMB Policy 216).

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 internal control was adequate.

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: misstatements in financial or performance information, violations of laws and regulations or impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we did not identify any significant deficiencies in internal control. However, we noted a matter involving internal control that we have reported to management of the North Dakota Veterans Home in a management letter dated May 31, 2018.

Compliance with Legislative Intent

In our audit for the biennium ended June 30, 2017, we identified and tested the North Dakota Veterans Home's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- The Veterans Home reported to the appropriations committees of the sixty-fifth legislative assembly on the use of one-time funding for the biennium beginning July 1, 2015, and ending June 30, 2017 (2015 HB 1007, chapter 7, section 2).
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with OMB's Purchasing Procedures Manual and Purchase Card Manual.
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Proper use of outside bank accounts.
- 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 require 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above.

Operations

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

Management Letter (Informal Recommendations)

May 31, 2018

Mr. Mark Johnson
Administrator
North Dakota Veterans Home
PO Box 673
Lisbon, ND 58054

Dear Mr. Johnson:

We have performed an audit of the North Dakota Veterans Home for the biennium ended June 30, 2017, and have issued a report thereon. As part of our audit, we gained an understanding of the North Dakota Veterans Home's 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 our recommendations 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.

Vision Risk Assessment

Condition:

The Veterans Home did not complete a risk assessment of the computer system, Vision, as required by OMB policy 216.

Criteria:

OMB Policy 216, states in-part, agency management must establish and maintain effective internal controls within their agency. A guide to effective internal controls is the "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States (Green Book). OMB Fraud Risk Assessment Policy, states in-part, agencies that have their own computer systems will need to do additional assessments of their systems.

Effect:

There is noncompliance with OMB policy 216.

Cause:

The Veterans Home has not taken the time to perform the risk assessment for Vision.

Informal Recommendation 17-1:

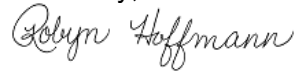
We recommend the Veterans Home perform a risk assessment over their computer system, Vision.

North Dakota Veterans Home Response/Planned Corrective Action:

Agree. The Veterans Home will complete a separate fraud risk assessment for our Electronic Health Records computer system, Vision. This will be completed by October 31, 2018.

I encourage you to call me at 701-239-7291, if you have any questions about the implementation of the recommendation included in this letter.

Sincerely,



Robyn Hoffmann, CPA
Audit Manager

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Phone: (701) 328-2241

Office of the State Auditor

600 East Boulevard Avenue

Department 117

Bismarck, ND 58505-0060