

North Dakota
Veterans' Home
LISBON, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2013

ROBERT R. PETERSON
STATE AUDITOR

Office of the State Auditor
Division of State Audit

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Transmittal Letter

October 30, 2013

The Honorable Jack Dalrymple, 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, 2013. 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 Cory Wigdahl, CFE. Tyson Lund, CPA was the staff auditor. 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

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 2012 transactions were tested and included in the state's basic financial statements on which an unqualified opinion was issued; however, no opinion has been issued for the state's basic financial statements for fiscal year 2013, as of the date of this audit report.

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

Other than our finding addressing "overspending of payroll authority" (page 13), 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?

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?

Yes, the North Dakota Veterans' Home has implemented all 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.*

No, a management letter was not issued.

LAFRC Audit Communications

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

None.

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.*

None.

9. *Identify any significant audit adjustments.*

None.

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), MDI Technologies, and Speed Script are high-risk information technology systems critical to the North Dakota Veterans' Home.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the North Dakota Veterans' Home for the biennium ended June 30, 2013 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 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 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, 2013. 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 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 and 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.

Discussion and Analysis

The accompanying financial statements have been prepared to present the North Dakota Veterans' Home 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, 2013, operations of the North Dakota Veterans' Home were primarily supported by appropriations from the state's general fund. This is supplemented by federal funding and fees credited to the agency's operating fund.

Financial Summary

Revenues consisted of two primary sources. The majority of revenue is charges for services which are reported as care and treatment in the amount of \$5.0 million and \$4.2 million for June 30, 2013 and 2012, respectively. The other main source of revenue is from the federal government for the new Veterans' home in the amount of \$2.2 million and \$2.7 million for June 30, 2013 and 2012, respectively. Total revenues were \$7.6 million and \$7.2 million for June 30, 2013 and 2012, and remained fairly constant for the North Dakota Veterans' Home between fiscal year 2013 and fiscal year 2012.

Expenditures consisted primarily of salaries and benefits. Total expenditures were \$10.2 million and \$10.1 million for June 30, 2013 and 2012, respectively. The above expenditure items all remained fairly constant for the North Dakota Veterans' Home between fiscal years 2013 and 2012.

Total custodial and resident trust funds checking account balances were \$161,788 and \$164,838 as of June 30, 2013 and 2012, respectively. The balances in these accounts remained fairly constant.

Analysis of Significant Changes in Operations

There were no significant changes in operations.

Analysis of Significant Variances - Budgeted and Actual Expenditures

For the fiscal years ended June 30, 2013 and 2012, there were no significant variances between the original and final budgeted amounts or between the final budgeted and actual expenditures.

Financial Statements

Statement of Revenues and Expenditures

<u>Revenues and Other Sources:</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Care and Treatment	\$ 4,989,128	\$ 4,219,580
Revenue from Federal Government	2,249,675	2,710,867
Leases, Rents, and Royalties	130,590	2,035
Charges for Services/Sales	89,710	88,981
General Government	28,795	14,910
Contributions and Private Grants	3,754	3,210
Miscellaneous General Revenue	1,162	232
Interest & Investment Earnings	154	307
Transfers In	139,714	139,715
Total Revenues and Other Sources	\$ 7,632,682	\$ 7,179,836
<u>Expenses and Other Uses:</u>		
Salaries and Benefits	\$ 7,063,728	\$ 6,956,230
Utilities	474,814	460,453
Food and Clothing	446,691	412,779
Other Capital Payments	442,802	336,554
Medical, Dental and Optical	375,701	409,869
Fees - Professional Services	322,463	479,372
Extraordinary Repairs	219,354	248,901
Bldg, Grounds, Vehicle Supply	124,266	93,151
Miscellaneous Supplies	79,483	65,034
Other Equip under \$5,000	74,628	106,992
Travel	73,883	61,606
Supply/Material-Professional	67,416	37,749
IT - Data Processing	47,198	42,894
Repairs	44,068	34,715
Equipment Over \$5000	40,465	31,872
IT-Communications	36,916	38,091
Office Supplies	36,063	26,492
IT Equip under \$5,000	33,227	39,754
Supplies - IT Software	32,150	6,569
Professional Development	30,871	17,386
Office Equip & Furniture-Under	19,551	83,988
Insurance	16,728	16,047
IT Contractual Services and Repairs	16,436	16,348
Operating Fees and Services	10,200	13,944
Postage	5,869	2,142

Land and Buildings	4,477	507
Printing	3,111	4,303
Rentals/Leases-Equip & Other	2,590	6,850
Rentals/Leases - Bldg/Land	<u>1,962</u>	<u>2,019</u>
Total Expenses and Other Uses	<u>\$ 10,172,477</u>	<u>\$ 10,052,612</u>

Statement of Appropriations

For The Biennium Ended June 30, 2013

Expenditures by Line Item:	Original		Final		Unexpended Appropriation
	Appropriation	Adjustments	Appropriation	Expenditures	
Salaries and Benefits	\$ 13,916,861	\$ 170,000	\$ 14,086,861	\$ 14,019,958	\$ 66,903
Operating Expenses	5,942,285	(170,000)	5,772,285	4,475,722	1,296,563
Capital Assets	705,500		705,500	605,509	99,991
Construction Carryover New Veterans' Home	332,000	1,602,495	1,602,495	808,214	794,281
			332,000	315,686	16,314
Totals	<u>\$ 20,896,646</u>	<u>\$ 1,602,495</u>	<u>\$ 22,499,141</u>	<u>\$ 20,225,089</u>	<u>\$ 2,274,052</u>
Expenditures by Source:					
General Fund	\$ 5,553,323	\$ 1,542,126	\$ 7,095,449	\$ 6,232,082	\$ 863,367
Federal Funds		29,475	29,475	29,475	
Special Funds	15,343,323	30,894	15,374,217	13,963,532	1,410,685
Totals	<u>\$ 20,896,646</u>	<u>\$ 1,602,495</u>	<u>\$ 22,499,141</u>	<u>\$ 20,225,089</u>	<u>\$ 2,274,052</u>

Appropriation Adjustments:

The \$170,000 transfer from the Operating line item to the Salaries and Benefits line item was approved by the SB2007 Section 5. This transfer was made at the request of the Veterans' Home.

The \$1,602,495 was to adjust appropriation authority for the construction of the New Veterans' Home that was carried over from the prior biennium and approved by the Carryover Committee.

Internal Control

In our audit for the biennium ended June 30, 2013, 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 expense/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) and the pharmacy inventory system (Speed Script).

The criteria used to evaluate internal control are 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 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: (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 did not identify any significant deficiencies in internal control.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2013, we identified and tested North Dakota Veterans' Home compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Compliance with appropriations and related transfers (2011 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*. The finding is described below. Other than this finding, we concluded there was compliance with the legislative intent identified above.

Overspending of Payroll Authority (Finding 13-1)

Condition:

During audit work, it was noted the North Dakota Veterans' Home had to post \$88,304 of December 2012 payroll to January 2013, because they overspent 75% of their payroll line item authority within the first 18 months of the biennium.

Criteria:

According to NDCC 54-27-10, no state institution, department, board, commission, or bureau in the executive branch of government for which an appropriation for salaries and wages and operating expenses is made may disburse more than 75% of such line item appropriation during the first eighteen months of the biennium.

Cause:

The overspending of payroll was a result of overtime and additional temporary employees that were required to move to the new Veterans' Home and also training required with the change in employees job duties.

Effect or Potential Effect:

Noncompliance with NDCC 54-27-10.

Recommendation:

We recommend the North Dakota Veterans' Home develop and implement controls to monitor salaries and wages and operating expenses line items, and ensure that more than 75% of the line item appropriation is not disbursed within the first eighteen months of the biennium.

North Dakota Veteran's Home Response:

Agree. We do monitor our salaries and wages monthly to ensure that we are not overspending our appropriation authority. When the 2011-2013 budget was prepared we were in the planning stages for our new facility and we did not anticipate that we would be changing the majority of our staff roles to align with the household/neighborhood concept of our new facility. The change in roles required many hours of additional training for the majority of our staff; while these staff were in training other staff had to work their shifts in order to provide 24 hour care to our residents. We also incurred additional salary and wage expenses with having to move all the residents, their belongings, and all our facility equipment and supplies as well as having to get everything set up in the new facility. This was a one-time situation.

Operations

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

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