

North Dakota
Veterans Home
LISBON, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2015

ROBERT R. PETERSON
STATE AUDITOR

Office of the State Auditor
Division of State Audit

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STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
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Transmittal Letter

March 4, 2016

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, 2015. 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. Mikka Wold, CPA was the staff auditor. 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,

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 2014 and 2015 transactions were tested and included in the state's basic financial statements on which an unqualified opinion was issued for 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?

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.*

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 North Dakota Veterans Home 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), MDI Technologies, HealthMEDX, 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, 2015 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, 2015. 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 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, 2015, operations of the North Dakota Veterans Home were primarily supported by charges for services, reported as care and treatment. This is supplemented by federal funding and fees credited to the agency's operating fund.

Financial Summary

Revenues consisted primarily of two sources. The majority of revenue is charges for services which are reported as care and treatment in the amount of \$5.4 million and \$5.2 million for June 30, 2015 and 2014, respectively. The other main source of revenue is from the federal government for the new Veterans Home in the amount of \$2.6 million and \$3.6 million for June 30, 2015 and 2014, respectively. Total revenues were \$8.4 million and \$9.6 million for June 30, 2015 and 2014 respectively, and there was a decrease of approximately \$1.4 million between fiscal year 2015 and 2014. The decrease was mainly due to a decrease in federal funding due to the completion of the new Veterans Home – approximately \$1 million; also, a settlement was received in fiscal year 2014 of \$400,000, which was recorded as a miscellaneous general revenue.

Expenditures consisted primarily of salaries and benefits. Total expenditures were \$12.0 million and \$10.8 million for June 30, 2015 and 2014, respectively. The \$1 million increase from fiscal year 2014 to fiscal year 2015 was due the demolition costs associated with the old Veterans Home.

Total custodial and resident trust funds checking account balances were \$223,999 and \$241,579 as of June 30, 2015 and 2014, 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, 2015 and 2014, there were no significant variances between the original and final budgeted amounts, except for the construction carryover line item, which was for the construction of the new Veterans Home, in the amount of \$794,281.

For the fiscal years ended June 30, 2015 and 2014, there were four significant variances between the final budgeted and actual expenditures:

- Accrued Leave Payments - \$396,574 variance, due to low turnover and low utilization of compensated absences.
- Operating Expenses - \$503,414 variance, the budget was built anticipating full capacity; however, the North Dakota Veterans Home never got over the 90% occupancy rate for basic care, thus operating expenses were less than anticipated.
- Construction Carryover - \$234,679 variance, the new Veterans Home is still pending completion.
- Shop Addition - \$788,200 variance, legislation stipulated that construction could not begin on the resident workshop until the balance in the Melvin Norgard fund was sufficient to cover the cost of the resident workshop; mineral royalty projections were substantially less, so the balance never reached the \$788,200, thus the North Dakota Veterans Home did not start the resident workshop addition nor did they spend any of these funds during the 2013-2015 biennium.

Financial Statements

Statement of Revenues and Expenditures

<u>Revenues and Other Sources:</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Care and Treatment	\$ 5,397,369	\$ 5,238,885
Revenue from Federal Government	2,573,298	3,558,606
Charges for Services/Sales	142,302	115,938
Leases, Rents, and Royalties	101,247	107,966
General Government	26,164	14,940
Miscellaneous General Revenue	4,538	408,374
Contributions and Private Grants	4,358	3,727
Interest & Investment Earnings	342	245
Transfers In	162,714	162,714
Total Revenues and Other Sources	\$ 8,412,332	\$ 9,611,395
<u>Expenditures and Other Uses:</u>		
Salaries and Benefits	\$ 8,136,746	\$ 7,809,380
Other Capital Payments	1,195,129	331,781
Utilities	535,249	471,829
Medical, Dental and Optical	490,531	366,243
Food and Clothing	472,285	446,386
Fees - Professional Services	226,201	222,019
Bldg, Grounds, Vehicle Supply	171,017	93,894
Extraordinary Repairs	102,992	17,080
Miscellaneous Supplies	101,763	72,904
Travel	78,703	67,768
Repairs	66,400	43,962
Supply/Material-Professional	65,530	49,160
Equipment Over \$5000	53,217	32,741
IT - Data Processing	52,996	48,620
Other Equip under \$5,000	44,574	17,684
Professional Development	39,503	20,481
IT Contractual Services and Repairs	39,247	97,174
IT-Communications	37,984	37,150
Office Equip & Furniture-Under	36,008	23,538
Office Supplies	22,986	21,592
Supplies - IT Software	21,553	15,253
IT Equip under \$5,000	20,967	40,850
Operating Fees and Services	14,877	11,792

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	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Insurance	6,366	15,690
Rentals/Leases-Equip & Other	3,561	2,652
Postage	3,250	2,362
IT Equipment & Software Over \$5,000	3,094	239,363
Rentals/Leases - Bldg/Land	1,968	1,956
Printing	1,692	3,168
Land and Buildings		7,500
Motor Vehicles		22,597
Grants, Benefits & Claims		205,000
Total Expenditures and Other Uses	<u>\$ 12,046,389</u>	<u>\$ 10,859,569</u>

Statement of Appropriations

For The Biennium Ended June 30, 2015

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$15,874,867		\$15,874,867	\$15,797,983	\$76,884
Accrued Leave Payments	458,196		458,196	61,622	396,574
Operating Expenses	5,408,850	(\$132,500)	5,276,350	4,772,936	503,414
Capital Assets Construction	1,622,040	206,375	1,828,415	1,703,967	124,448
Carryover Shop Addition	788,200	794,281	794,281	559,601	234,679
New Veterans Home		16,314	16,314	9,849	6,465
Totals	<u>\$24,152,153</u>	<u>\$884,470</u>	<u>\$25,036,622</u>	<u>\$22,905,958</u>	<u>\$2,130,664</u>
Expenditures by Source:					
General Funds	\$7,722,353	\$794,281	\$8,516,634	\$7,795,750	\$720,883
Special Funds	16,429,800	90,189	16,519,989	15,110,208	1,409,781
Totals	<u>\$24,152,153</u>	<u>\$884,470</u>	<u>\$25,036,622</u>	<u>\$22,905,958</u>	<u>\$2,130,664</u>

Appropriation Adjustments:

The (\$132,500) adjustment was an approved transfer out from operating to capital assets per HB1007, section 4.

The \$206,375 adjustment was to transfer in \$132,500 from operating and carryover of funds for the electronic health records of \$73,875.

The \$794,281 adjustment was a carryover adjustment per NDCC 54-44.1-11.

The \$16,314 adjustment was carryover adjustment, approved by the construction carryover committee.

Internal Control

In our audit for the biennium ended June 30, 2015, 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 and HealthMEDX) and the pharmacy inventory system (Speed Script)

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 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, 2015, 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 (North Dakota Session Laws chapters 7, 38, and 53).
- Determine that the North Dakota Veterans Home properly spent up to \$1.1 million, of one-time funding, on the demolition of the old North Dakota Veterans Home (2015 HB 1007, chapter 7, section 2).
- Determine that the North Dakota Veterans Home properly spent up to \$788,200, of one time funding, on a resident shop addition (2015 HB 1007, chapter 7, sections 2 and 4).
- Determine that the North Dakota Veterans Home properly transferred \$132,500 from the operating budget line to the capital assets budget line (2015 HB 1007, chapter 7, section 4).
- Determine that budget carryovers for the Veterans Home Construction and the Electronic Health Record System projects were properly carried over into the 2013-2015 biennium (2013 SB 2007, chapter 38, sections 3 and 4).
- Determine that the new Veterans Home cost was within the amended authorization appropriation limits (2009 SB 2025, chapter 53, section 1).
- Determine that the bonds authorized were let and used for the proper purpose (2009 SB 2025, chapter 53, section 2).
- 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 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.

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