

Financial-Related Audit

Board of Animal Health
July 1, 1997, through June 30, 2000



Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota State government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

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Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year and one best practices review.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of Representatives and Senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

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

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. Thomas Hagerty, D.V.M., Executive Director
Board of Animal Health

Members of the Board of Animal Health

We have audited the Board of Animal Health for the period July 1, 1997, through June 30, 2000. Our audit scope included the following areas: payroll, professional and technical services, state travel, and other administrative expenditures. The audit objectives and conclusions are highlighted in the individual chapters of this report.

We conducted our audit in accordance with *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the Board of Animal Health complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the Board of Animal Health is responsible for establishing and maintaining the internal control structure and ensuring compliance with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of the Board of Animal Health. We do not intend this restriction to limit the distribution of this report, which was released as a public document on June 14, 2001.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: April 25, 2001

Report Signed On: June 8, 2001

Board of Animal Health

Table of Contents

	Page
Report Summary	1
Chapter 1. Introduction	2
Chapter 2. Administrative Expenditures	4
Status of Prior Audit Issues	9
Board of Animal Health's Response	10

Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Renee Redmer, LPA	Audit Manager
Patrick Phillips, CPA	Auditor-in-Charge
Alan Sasse	Auditor

Exit Conference

We discussed the findings and recommendations with the following staff of the Board of Animal Health at an exit conference held on May 25, 2001:

Dr. Thomas Hagerty, D.V.M.	Executive Director
Dr. Bill Hartmann, D.V.M.	Assistant Director
Barbara Troyer	Division Director
Lori Rodriguez	Accounting Officer
Constance Sinclair	Accounting Clerk

Board of Animal Health

Report Summary

Key Findings and Recommendations:

- The Board of Animal Health needs to strengthen controls over professional and technical services contracts. The board incurred obligations before three contracts with the University of Minnesota were signed. The board did not execute three contracts for veterinary services exceeding \$5,000. Finally, in four cases the board incurred an obligation in excess of the original contract. (Finding 1, page 7)
- The board did not sufficiently monitor the payments for the permanently assigned vehicles from Travel Management. The board should compare the actual miles driven as submitted by its employees to the billed mileage on the invoice from Travel Management. (Finding 2, page 8)

Background:

The Board of Animal Health is the State of Minnesota's official animal disease control and eradication agency. The board's mission is to protect, maintain, and improve the health of Minnesota's domestic animals. The board performs regulatory activities to prevent the spread of infectious and contagious diseases. It also enforces health requirements for the importation of livestock and poultry and for the inspection and regulation of livestock and livestock-related facilities and activities. Dr. Thomas Hagerty serves as the executive director.

Board of Animal Health

Chapter 1. Introduction

The Board of Animal Health is the State of Minnesota's official animal disease control and eradication agency. The board's mission is to protect, maintain, and improve the health of Minnesota's domestic animals. In carrying out its mission, the board protects the public health and provides a wholesome food supply. The agency fulfills its mission through a combination of regulatory activities designed to prevent the spread of infectious and contagious diseases harmful to livestock and poultry production in the state. The board enforces health requirements for the importation of livestock and poultry. It also enforces health requirements for the inspection and regulation of livestock and livestock-related facilities and activities. Dr. Thomas Hagerty serves as the executive director.

The board has the following four divisions:

- Swine and Equine Diseases
- Cattle Diseases/Ruminant Diseases
- Poultry Diseases/Companion Animals
- Business Management

The Business Management Division had four employees. This division was responsible for the budgeting, accounting, payroll, and personnel operations of the board.

The board received state appropriations totaling \$2,378,000, \$3,798,000, and \$3,055,000 for fiscal years 1998, 1999, and 2000, respectively. These appropriations included \$30,000 and \$160,000 for the control of paratuberculosis (Johne's disease) in fiscal years 1998 and 1999 and \$1,255,000 and \$245,000 for fiscal years 1999 and 2000 for pseudorabies. It also generated about \$2,700 each year in nondedicated revenue through the collection of license fees, brand registration fees, and penalties. Finally, the board received a grant for pseudorabies from the U.S. Department of Agriculture, Animal and Plant Health Inspection Service. This grant averaged approximately \$455,000 for each of federal fiscal years 1998, 1999, and 2000.

Table 1-1 summarizes the board's sources and uses of funds during fiscal years 1998, 1999, and 2000.

Board of Animal Health

Table 1-1
Sources and Uses of Funds by Fiscal Year

<u>Sources:</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Appropriations	\$2,378,000	\$3,798,000	\$3,055,000
Less: Cancellations	(991)	(6,180)	(21,231)
Net Appropriations	\$2,377,009	\$3,791,820	\$3,033,769
Balance Forwarded In	52,006	158,354	675,345
Transfers In	0	0	280,176 ⁽¹⁾
Receipts – Federal Grants	<u>442,663</u>	<u>423,554</u>	<u>500,262</u>
Total Sources	<u>\$2,871,678</u>	<u>\$4,373,728</u>	<u>\$4,489,552</u>
<u>Uses:</u>			
Payroll and Per Diem	\$1,761,294	\$1,865,220	\$1,959,664
Professional and Technical	437,142	1,170,104	1,619,342
Travel	103,299	145,472	144,487
Equipment	12,529	48,523	109,381
Communications	49,846	43,910	61,151
Other Operating Costs	346,479	422,350	181,982
Balance Forwarded Out	158,354	675,345	413,545
Transfer Out	<u>2,735</u>	<u>2,804</u>	<u>0</u>
Total Uses	<u>\$2,871,678</u>	<u>\$4,373,728</u>	<u>\$4,489,552</u>

Note 1: Transfer in from Department of Administration (Small Agency Infrastructure) Information System Upgrades.

Source: Minnesota Laws and Minnesota Accounting and Procurement System.

Chapter 2. Administrative Expenditures

Chapter Conclusions

The board's internal controls provided reasonable assurance that payroll and other administrative expenditures were accurately reported in the accounting records and in compliance with applicable bargaining unit agreements, other applicable legal provisions, and management's authorization. However, we found that the board did not adequately execute professional and technical contracts in a timely manner and overspent in some cases. In addition, the board did not sufficiently review invoices from Travel Management prior to payment.

Payroll

Payroll is the largest expenditure category for the Board of Animal Health, comprising 53 percent of the board's administrative costs. Total payroll expenditures were \$1.76 million, \$1.86 million, and \$1.96 million for fiscal years 1998, 1999, and 2000, respectively. The board processed payroll using the State Employee Management System (SEMA4) on a biweekly basis.

Table 2-1 shows the employment plans applicable to the board and the employees governed by these agreements.

**Table 2-1
Employment Plans Applicable to the Board of Animal Health**

<u>Bargaining Units</u>	<u>Types of Employees Governed</u>
American Federation of State, County, and Municipal Employees (AFSCME)	Clerical, medical lab technicians
Middle Management Association (MMA)	Assistant directors, lab manager
Minnesota Association of Professional Employees (MAPE)	Agricultural specialists, information technologist, accounting officer.
<u>Plans for Unrepresented Employees</u>	<u>Types of Employees Governed</u>
Managerial Plan	Executive director
Commissioner's Plan	District veterinarians, confidential secretary, business manager, poultry lab manager

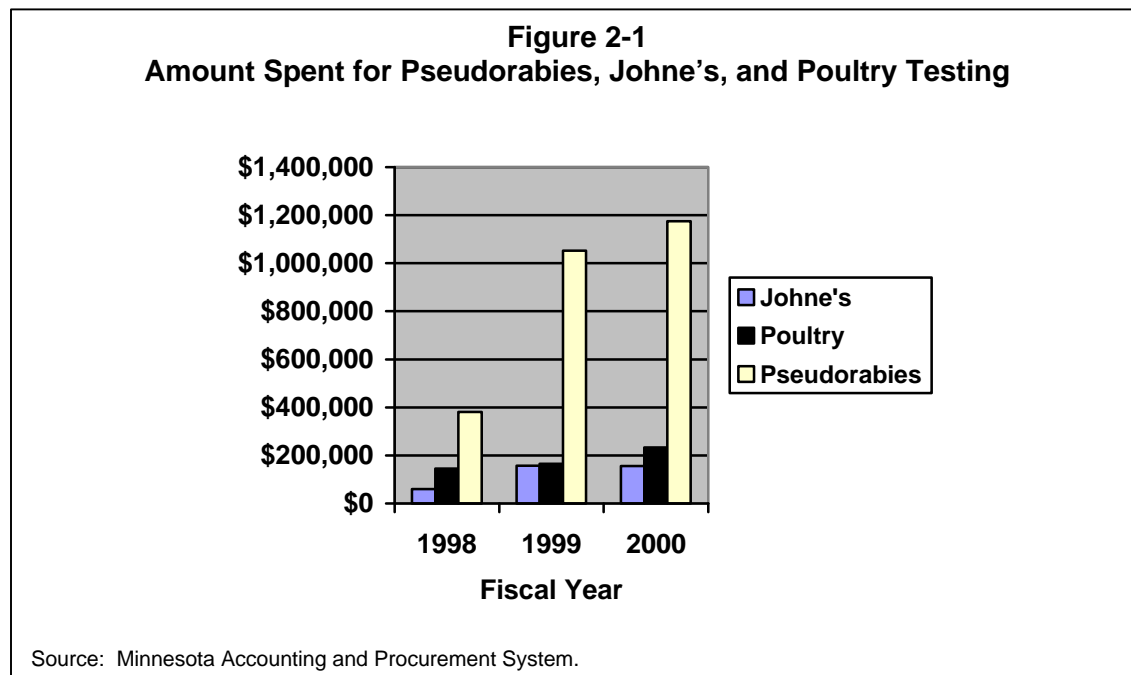
Source: SEMA4.

Board of Animal Health

The district veterinarians and agricultural specialists worked out of their homes located throughout the state. The poultry lab manager is stationed in Willmar, Minnesota where the University of Minnesota Poultry Laboratory is located. The brucellosis lab manager and the medical lab technicians worked at the University of Minnesota Campus in St. Paul. All other employees worked in the board's office in St. Paul.

Professional and Technical Services

The Board of Animal Health incurred approximately \$1.6 million in professional/technical service expenditures in fiscal year 2000 compared to \$1.2 million in fiscal year 1999 and \$.4 million in fiscal year 1998. One of the reasons for the increase in expenditures is the increased effort by the board to eradicate pseudorabies, a disease that affects swine herds. The program to eradicate pseudorabies began in 1975, but two major outbreaks occurred in January 1999 and again in February 2000. The board contracted with private veterinarians to perform additional testing. Figure 2-1 compares the amount spent for pseudorabies, Johne's, and poultry testing:



The board pays the veterinarians \$27 for each visit to the swine producer's site and \$4 for each blood sample taken. The veterinarians also receive vaccine reimbursements at 25 cents per dose. At the beginning of each fiscal year, the board estimates the amount that will be spent for each veterinarian. If the amount is projected to exceed \$5,000, the board will initiate a contract with that veterinarian. All other veterinarians projected to receive less than \$5,000 are included in the annual plan. The board obtains approvals for the annual plan and contracts from the Department of Administration.

Board of Animal Health

The board contracts with the University of Minnesota for the use of two laboratories. The Willmar Poultry Laboratory, which is the official laboratory used by the board for testing poultry, and the diagnostic laboratory located in St. Paul, which is used for testing the blood samples taken by the veterinarians for pseudorabies, Johne's, and other infectious and communicable diseases in animals.

Travel

The Board of Animal Health paid travel expenditures to board employees and members and the Department of Administration's Travel Management Division. Payments to the Travel Management Division for the use of motor pool vehicles comprised 63 percent of the total travel expenditures paid by the board.

The board reimbursed employees and board members for travel expenses in accordance with the applicable employment plans shown in Table 2-1. Most of the employee travel expenditures were reimbursements to the district veterinarians and agricultural specialists who worked out of their homes and traveled around the state. These employees are assigned vehicles for work purposes. The board paid the rental costs of these vehicles. The board also reimbursed meals, lodging, and mileage expenses for board members who attended board meetings.

Equipment

The board expended \$170,433 for equipment purchases during the three years ended June 30, 2000. The majority of these expenditures were for the purchase of computer hardware and software, along with a variety of peripheral computer equipment. Each district veterinarian and agricultural specialist is issued a computer to access the network and facilitate efficiency.

Communications

The board expended \$154,907 for communication costs during the three years ended June 30, 2000. These expenditures were for phone systems and shipping supplies necessary for the diagnosis of diseases and laboratory work.

Audit Objectives and Methodology

Our audit of payroll and other administrative expenditures focused on the following objectives:

- Did the board's internal controls provide reasonable assurance that payroll and other administrative expenditures were accurately reported in the accounting records and in compliance with applicable bargaining unit agreements, other applicable legal provisions, and management's authorization?
- For the items tested, did the board comply with significant finance-related legal provisions concerning payroll and other administrative expenditures?

Board of Animal Health

To answer these questions, we obtained an understanding of the internal control structure over payroll and other administrative expenditures. We analyzed employee compensation and tested hours worked and payrate increases to ensure compliance with the terms of the applicable bargaining unit agreements. We performed detailed transaction testing and determined whether payments were properly documented, authorized by management, and in compliance with applicable state policies and procedures.

Conclusions

The Board of Animal Health's internal controls provided reasonable assurance that payroll and other administrative expenditures were accurately recorded in the accounting records and in compliance with applicable bargaining unit agreements, other applicable legal provisions, and management's authorization. However, as discussed in Finding 1, the board did not comply with state policies and procedures with regard to professional and technical service contracts. In addition, as noted in Finding 2, the board did not properly review invoices from Travel Management.

1. The board needs to strengthen controls over professional and technical services contracts.

The board incurred obligations before contracts with the University of Minnesota and the Swine Veterinary Center were properly signed. The 1998-1999 and the 2000-2001 contracts with the University of Minnesota Poultry Laboratory for the testing of poultry were signed 14 and 40 days past the contract start date, respectively. In addition, the last signature obtained on the 2000-2001 contract with Swine Veterinary Center for pseudorabies eradication was 38 days past the start date.

Three veterinary practices received payments exceeding \$5,000, though a contract was not duly executed. The board obtains contracts with private veterinarians for services rendered when the amount exceeds \$5,000. Veterinary services that total less than \$5,000 are covered under the annual plan.

The board overspent the University of Minnesota Poultry Laboratory contract and the University of Minnesota Johne's contract for 1998-99 by \$4,955 and \$471, respectively. In addition, the board overspent the Redwood Veterinary contract for 1999 by \$3,618. Finally, the board incurred obligations of approximately \$17,000 more than the original contract with the University of Minnesota for Johne's testing. The board amended this contract to cover the additional charges after the work had been completed.

Recommendation

- *The board should improve controls over professional/technical services expenditures by starting the contract process earlier, reviewing contract language for clarity, and monitoring vendor payments on a routine basis.*

Board of Animal Health

2. The board did not sufficiently monitor the invoices paid to Travel Management for vehicles assigned to their employees.

The board provides permanently assigned vehicles to the seven district veterinarians, as well as the three agricultural specialists located throughout the state. Invoices received from the Department of Administration's Travel Management Division for the rental of vehicles permanently assigned to board employees are calculated on two components. The first component is a daily rate charge based upon the type of vehicle. The second component of billing is the miles driven. Total costs for the three years ended June 30, 2001, were \$393,258. The board did not ensure that the invoice paid agreed to mileage logs submitted, causing variances.

Recommendation

- *The Board of Animal Health should compare Travel Management invoices to actual miles recorded on its logs and resolve any variances.*

Board of Animal Health

Status of Prior Audit Issues As of April 25, 2001

Legislative Audit Report 97-43, issued August 1997, covered the two fiscal years ending June 30, 1997. The audit scope included payroll and other administrative expenditures. In addition, the financial activities for the Pseudorabies Program, as part of the Plant and Animal Disease, Pest Control, and Animal Care Program (CFDA #10.025) was included. The audit report contained two findings, one concerning incompatible payroll/personnel access, and another regarding untimely payments of indirect costs. The Board of Animal Health resolved both findings.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.



STATE OF MINNESOTA
BOARD OF ANIMAL HEALTH
119 AGRICULTURE BLDG.
90 W. PLATO BLVD.
ST. PAUL, MN 55107
(651) 296-2942 VOICE
(651) 296-7417 FAX

MEMORANDUM

DATE: June 4, 2001
TO: James R. Nobles
Legislative Auditor
FROM: Thomas J. Hagerty, DVM
Executive Director
SUBJECT: Board of Animal Health Audit

Jim, this memo is our formal response to your findings and recommendations during the audit conducted for the period July 1, 1977, through June 30, 2000. This audit covered the Board's processes and related control activities for payroll, professional and technical services, state travel, and other administrative expenditures.

Professional and Technical Services Contracts

The Board incurred obligations before contracts with the University of Minnesota and the Swine Veterinary Center were properly signed. In the future, the Board will make a good faith effort to have the proper contracts signed with the University of Minnesota. The person responsible for this effort will be Barbara Troyer.

Three veterinary practices received payments exceeding \$5,000 though a contract was not duly executed. In the future, the Board will closely monitor payments to veterinary clinics, project expenditures and process the necessary contracts that will exceed \$5,000. The person responsible for this effort will be Barbara Troyer.

The Board overspent the University of Minnesota Poultry Laboratory contract and the University of Minnesota Johnes's contact for 1998-99. In the future, the Board will closely monitor these contracts and process the necessary amendments. The person responsible for this effort will be Barbara Troyer.

James R. Nobles

Page 2

Travel Management Invoices

The Board did not ensure that the invoice paid agreed to mileage logs submitted, causing an over payment to the Travel Management Division. The process for reconciling invoices with daily travel logs has been changed. In the future, the Board will reconcile invoices to ensure the accuracy of the invoices.

Jim, the audit conducted by the legislative auditors was a good learning opportunity for the Business Division staff and myself. Many questions that the Business Division staff had were answered by Patrick Phillips and Alan Sasse. Overall, it was an excellent opportunity to gain additional knowledge of state business operations. If there exists other areas of concern that should be address, please call Barbara at 296-2942, ext. 14.