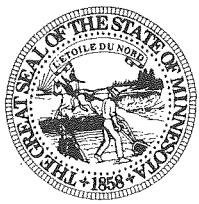


**BOARD OF ANIMAL HEALTH
FINANCIAL AND COMPLIANCE AUDIT
FOR THE FOUR YEARS ENDED JUNE 30, 1988**

OCTOBER 1989



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator John E. Brandl, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. Sharon I. Hurley, President
Board of Animal Health

Members of the Board of Animal Health

Dr. Thomas Hagerty, Executive Secretary
Board of Animal Health

Audit Scope

We have completed a financial and compliance audit of the Board of Animal Health for the four years ended June 30, 1988. Section I provides a brief description of the board's activities and finances. Our audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits in the U.S. General Accounting Office Government Auditing Standards, and accordingly, included such audit procedures as we considered necessary in the circumstances.

Internal Accounting Control Systems

One objective of this audit was to study and evaluate major internal accounting control systems over receipts, employee payroll, and administrative disbursements at the Board of Animal Health as of April 30, 1989.

The management of the Board of Animal Health is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related cost of control procedures. The objectives of the system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and transactions are executed in accordance with management's authorization and recorded properly.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may have become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

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Finance-Related Legal Provisions

Another objective of this audit was to verify that financial transactions were made in accordance with significant finance-related laws. The Board of Animal Health is generally governed by Minn. Stat. Sections 35.02 -35.96. These sections describe the responsibilities of the board and establish the general purpose for its financial transactions. Minn. Laws 1983, Chapter 293, Section 6, established the operating appropriation for fiscal year 1985. Minn. Laws 1985, First Special Session, Chapter 10, Section 6, established the operating appropriation for fiscal years 1986 and 1987. Minn. Laws 1987, Chapter 358, Section 9, established the fiscal year 1988 appropriation. Federal grants are paid according to CFDA #10.25 requirements for Pseudorabies and Brucellosis Surveillance Program grants.

The Board of Animal Health is also subject to certain general legal provisions which affect the financial management of most state agencies. Minn. Stat. Section 16A.275 requires prompt depositing of receipts exceeding \$250. Minn. Stat. Section 16A.15 requires that funds be encumbered before an obligation is incurred. Minn. Stat. Section 16A.41 requires that goods and services are received prior to payment and Section 16A.124 requires that payments to vendors be made promptly. Minn. Stat. Sections 43A.07-08 provide the authority for classification of employees and salary changes as negotiated with the various bargaining units. Bargaining unit contracts and plans applicable to the board include AFSCME, Middle Management, the Managerial Plan, and the Commissioner's Plan. State payroll is prepared in accordance with Minn. Stat. Section 16A.17.

The management of the Board of Animal Health is responsible for the board's compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs administered by the board. The purpose of our testing of transactions was to obtain reasonable assurance that the Board of Animal Health had, in all material respects, administered its programs in compliance with applicable laws and regulations.

Status of Prior Audit Findings

We reviewed the status of the audit findings contained in our audit report on the Board of Animal Health for the year ended June 30, 1984, dated January 28, 1985. The prior audit finding regarding receipts has not been resolved and is repeated in the current audit report discussed in finding 1. The prior audit finding that time worked and leave taken by brucellosis lab employees should be approved by a supervisor has been partially implemented. The portion not implemented has been addressed in finding 4.

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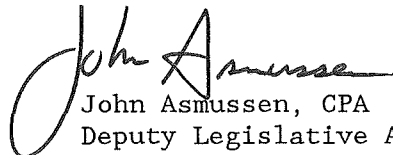
Conclusions

Our study and evaluation disclosed the issues addressed in Section II, findings 1-5, concerning the Board of Animal Health's system of internal accounting controls in effect as of April 30, 1989. In our opinion, these issues result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the financial activities of the board may occur and not be detected within a timely period.

The results of our testing of transactions and records indicate that, except for finding 1, the Board of Animal Health complied with the aforementioned finance-related legal provisions. Nothing else came to our attention in connection with our audit that caused us to believe that the Board of Animal Health was not in compliance with other applicable legal requirements.

We would like to thank the Board of Animal Health staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: June 13, 1989

REPORT SIGNED ON: September 21, 1989

BOARD OF ANIMAL HEALTH

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AUDIT PARTICIPATION

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

John Asmussen, CPA
Warren Bartz, CPA
Mary Annala

Deputy Legislative Auditor
Audit Manager
Auditor-in-Charge

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following officials of the Board of Animal Health at an exit conference on July 24, 1989:

Dr. Thomas J. Hagerty
Eugene Kirchoff

Executive Director
Accounting Supervisor

BOARD OF ANIMAL HEALTH

I. INTRODUCTION

The Board of Animal Health is under the supervision and control of a five member board as authorized in Minn. Stat. Chapter 35. The board is responsible for protecting the health of Minnesota domestic animals. The Governor appoints the five member board, consisting of three livestock producers and two practicing veterinarians licensed in Minnesota. The dean of the college of veterinary medicine at the University of Minnesota may serve as consultant to the board. The dean does not have the authority to vote on board issues.

The board appoints an executive secretary who serves as the chief executive officer. The executive secretary must be a veterinarian licensed in Minnesota and not a member of the board. The executive secretary is accountable to the board for the administration of the agency. Dr. Jack G. Flint served as the executive secretary until December 31, 1984. The board appointed Dr. Thomas J. Hagerty as executive secretary on July 6, 1984, effective January 1, 1985. The Board of Animal Health performs primarily three activities:

- to control and eradicate infectious communicable diseases in livestock and poultry by providing laboratory facilities for the testing of samples;
- to prevent the spread of disease through inspection and surveillance of livestock, poultry and animals imported and exported; and
- to fulfill the personnel and fiscal management responsibilities of the agency.

Board of Animal Health
Expenditures for General Operations
Fiscal Year 1988

Personnel Services	\$ 1,213,658
Professional/Technical Services	126,336
Travel	101,703
Communication	26,962
Supplies/Materials	11,106
Statewide Indirect Costs	6,002
Equipment	2,531
Other Administrative Expenditures	<u>52,234</u>
TOTAL	<u>\$ 1,540,532</u>

Source: Statewide Accounting System Managers Financial
Report as of September 5, 1988.

BOARD OF ANIMAL HEALTH

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. Internal control over receipts requires improvement.

Control weaknesses over receipts exist in several areas. First, the board failed to collect all federal funds due to inadequate procedures. The board also maintains poor controls over the license and permit fees it collects. Although the fees are small, the board must improve its receipt procedures in several respects. Current procedures subject fee receipts to unnecessary financial risks.

The Board of Animal Health did not request all available federal funds under an agreement with the federal government for the Minnesota Pseudorabies Surveillance Program. During the period March 1, 1988 through September 30, 1988, the board was eligible to receive \$143,000. However, the board only requested \$120,767 of the federal aid leaving an unclaimed balance of \$22,223 of federal funds. Upon further review, board staff agreed that it was eligible for the remaining federal money. They prepared a request for reimbursement for the federal money on July 14, 1989.

The account clerk performs all duties related to the receipt process. She opens the mail, logs the receipts, and gives the license applications to the appropriate parties. She restrictively endorses the checks, prepares the state deposit and records the deposit numbers into the receipt log. The pseudorabies checks are not included in the receipt log. The accounting supervisor only authorizes the state deposit form and brings the deposit to the State Treasurer's office. We recognize that the board has only two accounting staff which prevents an ideal separation of duties. However, it is essential to separate receipt functions and to record all types of receipts reducing the risk of errors being undetected.

The board makes a deposit approximately every two weeks at the treasurer's office. The clerk holds checks until she receives a note with the applicant's name and license number issued. During fiscal years 1985 through 1988, 24 of 48 checks reviewed did not meet prompt deposit requirements. The checks reviewed were either over \$250 or several checks held exceeded the \$250 limit. Minn. Stat. Section 16A.275 requires receipts totalling \$250 or more to be deposited daily. Receipts not promptly deposited create additional work to safeguard assets against possible loss. The state also loses interest income on funds not deposited in a timely manner.

The account clerk does not stamp the endorsement on the check until she knows that an applicant received a license. A strong system of internal control requires prompt endorsement of receipts to safeguard assets against theft or loss. Board staff indicated a restrictive endorsement is not placed on the checks, so it can be sent back to the applicant if sufficient documentation is not available.

The board does not complete two reconciliations necessary for a strong internal control system. The board does not reconcile the receipts deposited to the statewide accounting receipts reports. Department of Finance

BOARD OF ANIMAL HEALTH

operating policy and procedure 06:06:03 requires that all money received be reconciled to money actually deposited. A reconciliation between the number of licenses and permits issued to receipts deposited on the SWA system also is not completed. Licenses and permits are sequentially numbered. The accounting supervisor could multiply the number of licenses issued by the appropriate fee to verify the total receipts for that license. These reconciliations would help to ensure that appropriate receipts were collected, deposited and properly recorded.

RECOMMENDATIONS

- The board should develop a monitoring system to ensure the agency collects all earned federal aid.
- The Board of Animal Health should develop a better separation of duties over receipts processing.
- The receipts log should include all receipts.
- Receipts should be deposited daily whenever they total or exceed \$250, according to Minn. Stat. Section 16A.275.
- A restrictive endorsement should be stamped on the back of checks, when the mail is opened.
- All receipts should be reconciled monthly to the SWA receipts by deposit report or the receipts by appropriation report. Differences should be investigated and reported.
- The number of licenses and renewal certificates issued should be reconciled to the receipts collected. Any errors identified during the reconciliations should be promptly corrected.

2. Internal control over purchases and disbursements needs to be strengthened.

Currently, the board accounting supervisor performs all duties relating to purchasing and disbursing. He prepares and signs purchase orders, receives goods, and approves invoices for payment. A strong system of internal control requires an adequate separation of duties, so that one person is not authorized to handle all aspects of a transaction from beginning to end. To provide a better separation of duties, one of the three functions performed by the accounting supervisor could be completed by another individual, such as the executive secretary.

The agency does not keep receiving reports on file after comparing with the invoices. The accounting supervisor verifies that the goods received agree with the packing slip. The account clerk compares the receiving document with the invoice and discards the receiving document if both

BOARD OF ANIMAL HEALTH

agree. Department of Finance operating policy and procedure 06:05:01 requires that receiving reports have a signature and date. A packing slip, bill of lading, or other type of receiving documentation is required to record the receipt of goods. Receiving reports provide an effective audit trail to ensure that payments are correct.

Board employees have received meal reimbursements in violation of their bargaining contracts. The board has field veterinarians and law compliance representatives assigned to districts throughout the state. These employees are eligible for meal reimbursements according to their bargaining units. The field veterinarians and law compliance representatives follow the Commissioner's Plan and AFCSME, respectively. The bargaining units allow that a lunch reimbursement may be claimed by employees stationed outside the seven county metropolitan area. The contracts allow employees in travel status performing required work more than 35 miles from his/her work station to claim meals. Meals totalling \$35.50 were claimed by three field veterinarians and law compliance representatives who had not traveled 35 miles from their home station. When employee expense reimbursements include unauthorized payments, state funds are not used for their intended purpose.

RECOMMENDATIONS

- The board should better separate duties in the disbursement process. The executive secretary should sign purchase orders over a specific amount and for sensitive items.
- Receiving reports should be kept on file to document the receipt of goods and to provide a comparison with invoices.
- The board should request repayment of \$35.50 overpaid to the three employees. The accounting unit should review past reimbursements to these employees to identify other overpayments.
- The board should develop a system to monitor meal reimbursements to field veterinarians and law compliance representatives. Meal reimbursements should agree with the provisions of bargaining contracts.

3. Controls over payments made to the university require improvement.

The board had an agreement with the University of Minnesota for testing at the Willmar poultry laboratory. During fiscal years 1985 through 1988, the board paid the university \$95,000 annually to cover costs to operate the Willmar poultry laboratory. The university submitted a quarterly billing to the board. The billing listed in total the salaries, fringe benefits, supplies and expenses, equipment, and other expenditures. The final billing for fiscal year 1988 was \$55,543, while previous quarterly billings were approximately \$13,000. The fourth quarter billing showed a

BOARD OF ANIMAL HEALTH

total of \$17,599 for encumbrances. The agreement stated that any unused balance at the end of the fiscal year should revert to the board. Final billings for fiscal years 1985 through 1986 did not have encumbrances. Fiscal year 1987 showed an encumbrance of \$13,114 which was supported by a supplemental agreement.

The board paid all invoices for the poultry laboratory without seeing any documentation to support the expenditures and encumbrances. The contractual agreement between the university and the board provides that supporting documentation is available to the board. The board did not have sufficient documentation on the quarterly billings to identify individual vendors and amounts. The board needs to review documentation to verify the accuracy and reasonableness of the payments. The board needs to verify the documents supporting the invoices to determine the accuracy and reasonableness of items charged by the university.

The board does not properly monitor invoices paid to the University of Minnesota. The university provides laboratory and testing services for the pseudorabies and brucellosis programs and submits an invoice to the board. The invoice states the owner's name, case number, and number of samples tested. The university also provides a test chart with the owner's name, case number, and itemized number of samples tested. Currently, the board does not trace the invoice to the test chart to verify the accuracy of the university billings.

For similar payments, the board compares invoices of private veterinarians with the test charts. The field veterinarians authorize herd testing before the completion of work by private veterinarians. The private veterinarians complete the herd testing and prepare an invoice. The field veterinarian authorizes the invoice and sends it to the board office for payment. The board traces the invoice to the test chart to verify the number of samples billed.

During fiscal years 1988 and 1987, the board paid the university \$32,175, and \$22,298, respectively, for laboratory services. The board needs to trace invoices to the test charts to identify billing errors for prompt correction. The same risk exists for the university as for private veterinarians.

RECOMMENDATIONS

- The board should request and review documentation supporting the quarterly payments to the university.
- The board should verify university laboratory invoices either by spotchecking or by testing invoices over a specified dollar amount.
- The board should require the university to substantiate 1988 encumbrances of \$17,599 or repay the amount.

BOARD OF ANIMAL HEALTH

4. Controls over payroll processing require improvement.

The board has various weaknesses in processing state payroll transactions. First, the board does not have an adequate separation of duties over the payroll process. The accounting supervisor approves the personnel documents, precertification reports, and certification reports. He reviews the payroll reports to determine the accuracy of payroll transactions on the statewide system. He is also responsible for picking up and distributing the payroll warrants. The account clerk's involvement is limited to inputting the payroll transactions into the statewide accounting system, although the accounting supervisor has the ability to input data into the statewide computer system. The board employs a small number of accounting staff which prevents an ideal separation of duties, although the involvement of the executive secretary would enhance controls. However, the board must develop a system to separate these functions to provide an adequate control system. The payroll expenditures account for approximately 79 percent of the board's operations. A strong control system reduces the risk of errors or irregularities going undetected.

Next, timesheets are not properly approved by the supervisor. From the timesheets we reviewed, 66 of 106 did not have approval by the supervisor. Timesheets for the veterinarians, law compliance representatives, brucellosis laboratory supervisor, and accounting personnel are consistently not approved by a supervisor. The board has veterinarians and law compliance representatives located in the field. It is important that these timesheets and leave are approved by a supervisor. Department of Finance operating policy and procedure 07:04:21 requires that timesheets be authorized by the employee's supervisor. Without proper authorization, the board does not have reasonable assurance that the hours recorded on the timesheet represent the actual hours worked.

Finally, leave requests are not consistently prepared by employees and approved by supervisors. Leave requests were not completed for 13 of the 59 employees taking vacation and sick leave during the pay periods tested. Leave requests had not been authorized by the supervisor for 5 of the 31 sample items reviewed. Department of Finance operating policy and procedure 07:04:23 requires that state employees initiate a written request for personal leave. The supervisor is to approve the employee's written request for leave. At the end of the pay period, the supervisor must compare the leave request to the timesheet. Supervisor approvals are important to indicate that the recorded hours accurately reflect employee hours worked.

RECOMMENDATIONS

- The board should develop an adequate separation of duties over the processing of payroll. The executive secretary should sign personnel documents.
- Supervisors should routinely approve timesheets and leave requests prepared by employees.

BOARD OF ANIMAL HEALTH

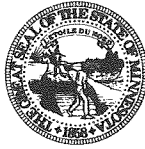
5. Controls over fixed asset inventory management require improvement.

The board had not completed a physical inventory of fixed assets during fiscal years 1985 to 1988. The Department of Administration, Inventory Management Division, requires state agencies to complete physical inventories of fixed assets and reconcile any discrepancies at least every other year. Spotchecks are required to validate the fixed asset listing and to ensure that assets are secure. If spotchecks include a sample size to adequately evaluate all areas of the agency's asset listing within the two year period, it is considered a complete physical inventory.

In August 1987, the board purchased a copying machine used at the Willmar poultry laboratory. The asset number attached to the copying machine was not entered into the Fixed Asset Record Management System (FARMS). The Department of Finance issues a monthly SWA/FARMS reconciliation report. The missing asset number would have been identified if the board had reviewed the FARMS report.

RECOMMENDATIONS

- The board should complete a physical inventory of the fixed assets as required by the Inventory Management Division. The results of the physical inventory should be documented and any discrepancies identified and corrected.
- The board should review the FARMS report to ensure that all fixed assets are recorded properly. Assets not entered into the FARMS system should be promptly corrected.



STATE OF MINNESOTA

BOARD OF ANIMAL HEALTH

160 AGRICULTURE BLDG.

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ST. PAUL, MN 55107

(612) 296-2942

September 18, 1989

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
Veterans Service Building
St. Paul, Minnesota 55155

Dear Mr. Nobles:

This letter is our response to the findings and recommendations of your audit of our agency for fiscal years 1985 through 1988.

The responses are listed in the order of the recommendations of your audit report.

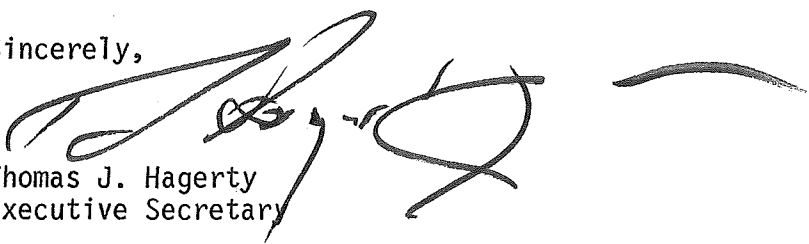
1. a) All federal funds that are eligible to be collected will be requested in future transactions. The discrepancy found in the audit was a result of a change from partial reimbursement to final reimbursement by the federal district office on our September request. The unclaimed balance has been requested and was deposited on August 2, 1989.
- b) A new receptionist position has been temporarily created. This person will be responsible for the opening and distribution of mail and the logging in of receipts as they are received. The restrictive endorsement will be stamped on the back of the checks at the time the receipts are logged in. This position was filled on September 11, 1989. The duties above will be implemented in mid-October due to training of the individual. Prior to this implementation, the receipts will continue to be received, logged in and restrictively endorsed by the senior account clerk. We expect approval to make this a permanent position in the 1990 legislative session. This should alleviate most of the problems found with our receipt process. All checks and monies received are currently being entered in the receipt book.
- c) The senior account clerk will be responsible for the reconciliation of receipts with the statewide accounting system records on a monthly basis. This has been accomplished retroactively to July, 1989 and will be ongoing.
- d) When receipts reach or exceed the \$250 limitation, all efforts will be made to deposit them within 24 hours. This process has been implemented.
- e) Licenses and renewal certificates will be reconciled to the receipts collected on a quarterly basis since these fees are relatively small and no predetermined time is set for most renewals and issuances.

2.
 - a) Purchase orders over \$500, will be signed by the executive secretary as necessary on all future purchases including sensitive items. A log on purchase orders will be provided to the executive secretary on a monthly basis for his information.
 - b) The creation of the receptionist position will allow us to have a better separation of duties for goods received. This person will be responsible for the receipt of ordered goods. As of July 1, 1989, receiving reports have been stamped and attached to the proper invoice and purchase order.
 - c) Refunds will be requested for the overpayment to three employees. Due to the absence of our accounting supervisor these refunds have not been requested as of the date of this letter. We anticipate recovery of these funds by October 30, 1989.
 - d) The senior account clerk is now auditing the employee expense reports more accurately. The mileage, departure and arrival times are being checked to ensure that the proper reimbursements are paid. As previously mentioned to your staff during the audit process, the Department of Finance has routinely audited the expense reports for the past two years and it appears that they will continue to do so in future years. Their report and our response to their findings has been provided to your office.
3.
 - a) An additional provision has been included in the contractual agreement with the University of Minnesota for the operation of the Willmar poultry laboratory. This provision requires copies of invoices for services and materials being claimed for reimbursement on each quarterly invoice. This is effective with the 1989-90 contract.
 - b) University of Minnesota laboratory invoices for swine blood testing will be spotchecked during monthly submission for verification and accuracy. These spotchecks will be performed immediately.
 - c) The University has adequately substantiated the 1988 encumbrances of \$17,599.00 on the final report for fiscal year 1989. A listing of obligations were reported for these encumbrances as well as a listing for the final fiscal year 1989 obligations.
4.
 - a) The separation of duties for payroll processing will be divided between the executive secretary, accounting supervisor and senior account clerk. It will be the responsibility of the executive secretary to sign personnel documents for additional pay categories such as: achievement awards and performance based increases, etc. Controls by the Department of Employee Relations usually provide the necessary safeguards for routing appointments and salary progression increases. Payroll will continue to be compiled and entered by the senior account clerk, certification for entering and preparing must be signed by the senior account clerk. The executive secretary will sign as the authorized person on the precertification report. The checks will be distributed by the senior account clerk. Certification of proper payment to the employee will be signed by the accounting supervisor since he is more familiar with the accounts that salaries are paid from.
 - b) Employee time sheets and leave slips will be signed by the respective supervisor.

5. An inventory of fixed assets should be accomplished by mid-November. All assets not on the FARMS system will be adjusted at that time. Future purchases of fixed assets will be included on a timely basis so this situation does not happen again.

The findings in this audit report included areas which were neglected due to an imbalance in the workload of our accounting division. Priority of the work being performed resulted in the neglect of the inventory of fixed assets and employee time sheets and leave requests. With the creation of the receptionist position we will be able to reorganize the workload so that these areas of concern can be corrected and easier to control and monitor in the future.

Sincerely,


Thomas J. Hagerty
Executive Secretary