

**BOARD OF ANIMAL HEALTH
FINANCIAL AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1991**

JULY 1992

**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**

BOARD OF ANIMAL HEALTH
FINANCIAL AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1991

Public Release Date: July 2, 1992

No. 92-41

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: payroll, professional and technical services contracts, and federal receipts.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

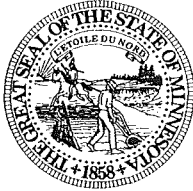
We found three areas where the internal control structure needed improvement:

- The board had inadequate controls over professional and technical services contracts.
- The board did not restrictively endorse checks when the mail was opened.
- One staff person was involved in the complete personnel and payroll process.

We found four departures from finance-related legal provisions:

- The board did not comply with indirect cost requirements.
- The board has not complied with the reporting requirements of federal grant agreements.
- The board incurred costs with contractors prior to executing written contracts.
- The board did not deposit receipts of \$250 or more on a daily basis.

Contact the Financial Audit Division for additional information.
(612) 296-1730



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann Rest, Chair
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 J. Hagerty, Executive Secretary
Board of Animal Health

Audit Scope

We have conducted a financial related audit of the Board of Animal Health, as of and for the three years ending June 30, 1991. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the Board of Animal Health, as discussed in the Introduction. We also made a study and evaluation of the internal control structure of the Board of Animal Health in effect as of March 1992.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transaction of the Board of Animal Health are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Board of Animal Health's compliance with certain provisions of laws, regulations, and contracts. However, our objective was not to provide an opinion on overall compliance with such provisions.

Management Responsibilities

The management of the Board of Animal Health is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, and contracts. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

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- assets are safeguarded against loss from unauthorized use or disposition;
- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and
- transactions are recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- payroll,
- professional and technical services contracts, and
- federal receipts.

For the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Conclusions

Our study and evaluation disclosed the conditions discussed in findings 3, 4, and 5, involving the internal control structure of the Board of Animal Health. We consider these conditions to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk

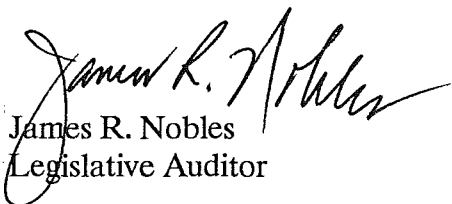
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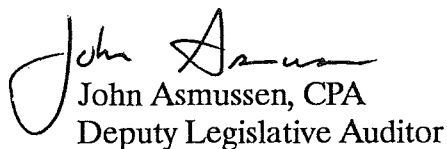
that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe none of the reportable conditions described above is a material weakness.

The results of our tests indicate that, except for the issues discussed in findings 1 through 4, with respect to the items tested, the Board of Animal Health complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Board of Animal Health had not complied, in all material respects, with those provisions.

This report is intended for the information of the Legislative Audit Commission and management of the Board of Animal Health. This restriction is not intended to limit the distribution of this report, which was released as a public document on July 2, 1992.

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: May 8, 1992

Report Signed On: June 26, 1992

Board of Animal Health

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Audit Participation

The following staff from the Office of the Legislative Auditor prepared the report:

John Asmussen, CPA	Deputy Legislative Auditor
Warren Bartz, CPA	Audit Manager
Rhonda Regnier, CPA	Auditor-in-Charge
Patrick Ryan	Senior Auditor

Exit Conference

The findings and recommendations of this report were discussed with the following staff of the Board of Animal Health on May 13, 1992:

Dr. Thomas J. Hagerty	Executive Secretary
Eugene Kirchoff	Accounting Supervisor

Board of Animal Health

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 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 but does not have the authority to vote.

The board appoints an executive secretary who 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. Thomas J. Hagerty has served as executive secretary since January 1985.

The Board of Animal Health is responsible for protecting the health of Minnesota domestic animals. The agency carries out this responsibility by developing and maintaining disease control and eradication programs.

For fiscal year 1991, the Board of Animal Health received a General Fund appropriation of \$1,995,000. Additional federal reimbursements were requested after the August 1991 closing date. Following is a summary of the financial activities of the Board of Animal Health during fiscal year 1991:

Revenue:	
Federal Grants	\$ 161,529
Other Revenues	<u>22,159</u>
Total Revenue	<u>\$ 183,688</u>
Expenditures:	
Payroll and Benefits	\$1,547,188
Professional/Technical Services Contracts	462,043
Other Expenditures	<u>342,978</u>
Total Expenditures	<u>\$2,352,209</u>

Source: Statewide Accounting System Managers Financial Report and Estimated/Actual Receipts Report as of August 31, 1991.

Board of Animal Health

Current Findings and Recommendations

1. The Board of Animal Health did not comply with indirect cost requirements.

The Board of Animal Health has not transferred federal indirect cost recoveries to the General Fund. For the three years ended June 30, 1991, the board has received \$330,313 in federal funds under the Plant and Animal Disease and Pest Control and Animal Care Program (CFDA #10.025). Indirect costs are reimbursements to the grantee for administering the grant program. Based on the board's indirect cost agreement with the United States Department of Agriculture (USDA), we calculated the board's eligibility for approximately \$52,890 of indirect costs. Currently the board is holding the funds in a separate account on the Statewide Accounting System, but has not actually transferred the amount of indirect cost recoveries to the state's General Fund.

Minn. Stat. Section 16A.127 requires that executive branch agencies reimburse the state's General Fund for federal money received as indirect cost unless the agency receives a waiver from the Department of Finance. The board did not receive a waiver. Department of Finance Policy and Procedure 06:03:22 requires that agencies deposit the indirect cost recoveries into the states General Fund on a quarterly basis.

Recommendation

- *The board should calculate the amount of indirect costs recovered and transfer it into the General Fund in accordance with Minn. Stat. Section 16A.127 and the Department of Finance Policy and Procedure 06:03:22.*

2. Prior Finding Not Resolved: The board has not complied with the reporting requirements of federal grant agreements.

The board has not submitted the required federal financial status reports to the United States Department of Agriculture (USDA). Since October 1989, the board entered into nine grant agreements with the USDA under the Plant and Animal Disease and Pest Control and Animal Care Program (CFDA #10.025). Each grant agreement and the federal common rule (7 CFR, 3016.41) required the board to submit quarterly financial status reports within 30 days after the reporting period and final reports within 90 days after the grant agreement expires or terminates.

The board's grant expenditures are made through the Statewide Accounting System. The federal grant agreements require the board to complete request forms for reimbursement

Board of Animal Health

of expenditures. The request forms list total program expenditures by federal and non-federal sources. The board does not segregate expenditures by individual grant agreements on the Statewide Accounting System to support the request forms. As a result, the board may not have included all program expenditures on the request forms and may have been eligible for more grant reimbursements.

Recommendations

- *The board should prepare and submit reports as required in grant agreements.*
- *The board should improve recordkeeping to support the expenditure amounts reported on the request forms.*

3. The board needs to improve controls over professional and technical contracts.

The board has inadequate controls over professional and technical services contracts. First, the board incurred costs with contractors prior to executing written contracts. Second, the board incurred additional expenses over the contracted amounts or annual plan limits.

The board has incurred expenses for veterinary services prior to signing contracts and encumbering funds. Each year the board contracts with veterinarians throughout the state to test animals for possible diseases. In fiscal year 1991, the board spent over \$442,000 for these professional services. From our testing of ten contracts, the board signed seven contracts for professional services after the contract period had started. One contract was signed six months into the contract period. According to Minn. Stat. Section 16A.15, Subdivision 3, an obligation may not be incurred against any fund, allotment, or appropriation unless the agency has submitted a letter of explanation to the Commissioner of Finance. The board submitted a letter of explanation in one of the ten cases.

The board has incurred additional costs for professional services over the amounts specified in the board's annual plan. In four cases, the board made payments to contractors in excess of the annual plan amounts. One contractor was paid \$6,170 when the board's annual plan limited payments to \$2,000 per contractor. The board did not establish a contract in all four cases, and therefore circumvented the state's certification process.

The board also incurred additional costs for professional services over three contract amounts. In these cases, the contractors were paid more than the contract amounts, and the board did not complete supplemental agreements. The board used other open encumbrances to make the payments.

Board of Animal Health

Recommendations

- *The board should execute contracts prior to incurring obligations for professional and technical services in accordance with Minn. Stat. Section 16A.15, Subdivision 3.*
- *The board should establish contracts with veterinarians when payments are made in excess of the annual plan limits.*
- *The board should establish supplemental contracts for professional services contracts when payments exceed the original contracted amount.*

4. Prior Finding Not Resolved: The board needs to improve controls over the collection of receipts.

The board does not restrictively endorse checks when the mail is opened. Also, it does not deposit receipts in excess of \$250 daily. The board collected approximately \$494,000 in receipts for the three years ended June 30, 1991.

The checks are not endorsed until the account clerk determines that there is sufficient documentation to issue a license. The board needs to apply a restrictive endorsement to the checks upon opening the mail. The board expressed a concern that checks with insufficient documentation need to be sent back to the sender after the restrictive endorsement had been applied. Restrictive endorsements provide added safety from the loss or theft of the checks. Restrictively endorsed checks could be returned to the sender for replacement.

The board is not depositing receipts of \$250 or more on a daily basis. Minn. Stat. Section 16A.275 requires that receipts be deposited daily when totaling \$250 or more. Our testing of 13 deposits showed there was an average delay of eight days between receipt of funds and deposit. Receipts not promptly deposited create additional work to safeguard against possible loss. The state also loses interest income on funds not deposited in a timely manner.

Recommendations

- *Checks should be restrictively endorsed when the mail is opened.*
- *Receipts should be deposited daily whenever they total or exceed \$250 in accordance with Minn. Stat. Section 16A.275.*

Board of Animal Health

5. Prior Finding Not Resolved: The board needs to improve internal controls over payroll processing.

Internal controls over personnel and payroll processing are weak because one staff person is involved in the complete process. The accounting supervisor is responsible for signing personnel forms, reviewing timesheets, approving the payroll certification report, and handling payroll warrants. The accounting supervisor also has access to the Personnel/ Payroll System which provides the ability to process payroll transactions. As shown in the Introduction, payroll comprises approximately 66 percent of expenditures.

When one person authorizes personnel and payroll transactions with the ability to process transactions, a weakness in the agency's internal control structure exists. To improve controls, the agency needs to have a separate individual authorize personnel forms, and another employee authorize the payroll reports and process payroll. The assistant executive secretary could assist with some of these authorizations.

Recommendation

- *The board should separate the personnel and payroll duties by having separate individuals authorize personnel forms and payroll reports. The accounting supervisor should not have the ability to process personnel transactions.*



STATE OF MINNESOTA

BOARD OF ANIMAL HEALTH

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June 23, 1992

James Nobles, Legislative Auditor
Centennial Building
St. Paul, MN 55155

Dear Mr. Nobles:

This is our written response to your findings and recommendations of our office for the three years ending June 30, 1991.

Finding No. 1

The indirect cost requirement is the responsibility of our accounting supervisor, Eugene Kirchoff. He has assured me that the indirect costs that we are holding in separate accounts in the Statewide Accounting System will be calculated and transferred to the General Fund. The transfer is expected to be before the closing of fiscal year 1992.

Finding No. 2

The federal financial status reports will be filed with the United States Department of Agriculture (USDA) as soon as the accounting supervisor, Eugene Kirchoff, has a chance to look at what is needed for each of the fiscal years involved. We anticipate that this should be completed by September 21, 1992.

Finding No. 3

In the future, the Board will try to get all signatures on the contractual agreement before the beginning of a new fiscal year. The dollar limit on the annual plans has been raised to \$5,000.00. This should eliminate some of the payments that have exceeded the \$2,000.00 limit which was in affect in fiscal year 1992. We will have to review the remainder of the clinics about half way through the year to see how much we have paid them.

Our accounting supervisor has advised me that he received a loose leaf folder with the ADM-188. The ADM. 188 sets the guidelines for issuing contracts, it also tells us how to supplement contracts already issued and working. In the next fiscal year (1993) the accounting supervisor will keep close watch on the contracts to see if they are being over-spent and will issue a supplemental contract if necessary.

Finding No. 4

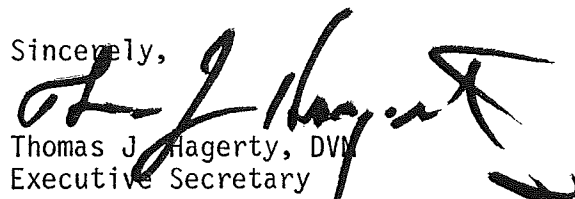
We now endorse the checks as they come into our office. The receptionist has the rubber stamp and has been told to endorse the checks as she receives them. The depositing of funds \$250.00 or over on a daily basis has been performed since the beginning of fiscal year 1992. We do admit that we did not accomplish this in previous years.

Finding No. 5

The Board recognizes the need to separate the duties of personnel over the payroll records and processing. Beginning with the June 26, 1992 paycheck, the Assistant Secretary, Keith Friendshuh, will be given the responsibility to check the paycheck against the certification report and to sign off on it. The accounting supervisor will no longer be able to sign the payroll or employee action forms. It will be left up to the Executive Secretary, Assistant Secretary or the Clerk Typist 4.

If I or my staff can be of further assistance in this matter please contact us at the above number.

Sincerely,



Thomas J. Hagerty, DVM
Executive Secretary