

Board of Animal Health

Financial Audit

For the Period From July 1, 1995, through June 30, 1997

August 1997

*This document can be made available in
alternative formats, such as large print,
Braille, or audio tape, by calling 296-1727.*

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

97-43



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

CENTENNIAL BUILDING, 658 CEDAR STREET • ST. PAUL, MN 55155 • 612/296-4708 • TDD RELAY 612/297-5353

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Deanna Wiener, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

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

Members of the Animal Health Board

We have audited the Board of Animal Health for the period July 1, 1995, through June 30, 1997. As further explained in Chapter 1, our audit scope included the following areas: state employee payroll and travel expenses, and professional and technical services. In addition, we audited the financial activities for the Pseudorabies Program, which is part of the Plant and Animal Disease, Pest Control, and Animal Care Program (CFDA #10.025). The following summary highlights the audit objectives and conclusions. We discuss these areas more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted auditing standards and *Governmental Auditing Standards*, as issued by the Comptroller 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. The 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. This restriction is not intended to limit the distribution of this report, which we released as a public document on August 29, 1997.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: July 30, 1997

Report Signed On: August 21, 1997

SUMMARY

State of Minnesota
Office of the Legislative Auditor
1st Floor Centennial Building
658 Cedar Street • St. Paul, MN 55155
(612)296-1727 • FAX (612)296-4712
TDD Relay: 1-800-627-3529
email: auditor@state.mn.us
URL: <http://www.auditor.leg.state.mn.us>

Board of Animal Health

Financial Audit

For the Period July 1, 1995, through June 30, 1997

Public Release Date: August 29, 1997

No. 97-43

Background Information

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 D.V.M. serves as the executive secretary.

Conclusions

The Board of Animal Health designed and implemented internal controls that provided reasonable assurance that payroll and travel expenditures were properly authorized and accurately recorded in the accounting records. In addition, the board reimbursed employees and board members for travel expenses in accordance with the applicable employment plans. However, we found that one employee had incompatible access to both payroll and personnel functions in the state's system (SEMA4).

The board accurately reported the financial activities for the Pseudorabies Program in the accounting records. The board properly authorized its expenditures. In addition, the board designed and implemented internal controls to provide reasonable assurance that it managed federal financial activities in compliance with applicable program requirements. However, the board did not reimburse the Department of Finance for indirect costs on a timely basis.

Finally, the board designed and implemented internal controls to provide reasonable assurance that professional and technical services were properly authorized and accurately reported in the accounting records.

Board of Animal Health

Table of Contents

	Page
Chapter 1. Introduction	1
Chapter 2. Payroll and Travel Expenditures	2
Chapter 3. Pseudorabies Revenue and Expenditures	5
Chapter 4. Other Professional and Technical Services Expenditures	8
Agency Response	10

Audit Participation

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

John Asmussen, CPA	Deputy Legislative Auditor
Renee Redmer, LPA	Audit Manager
Susan Rumpca, CPA	Auditor-in-Charge
Connie Stein	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 August 14, 1997:

Dr. Thomas J. Hagerty, D.V.M.	Executive Secretary
Elmore A. James	Manager, Business and Personnel Operations

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 D.V.M. serves as the executive secretary.

The following five divisions compose the board:

- Pseudorabies Eradication
- Swine Diseases/Epidemiology
- Cattle Diseases/Ruminant Diseases
- Poultry Diseases/Companion Animals
- Business and Personnel Operations

The Business and Personnel Operations Division had four employees. This division was responsible for the budgeting, accounting, payroll, and personnel operations of the board. The Board of Animal Health began using the new Minnesota Accounting and Procurement System (MAPS) in July 1995. In December 1995, the board began using the state's new personnel and payroll system -- the State Employee Management System (SEMA4). The board also experienced personnel changes and absences during the audit period in the Business and Personnel Operations Division. The conversion to the new business systems, combined with personnel changes and absences, challenged the board to sustain normal operations.

The board received a General Fund appropriation of \$2,165,000 in fiscal year 1996 and \$2,217,000 in fiscal year 1997. It also generated about \$11,000 each year in nondedicated revenue through the collection of license fees, brand registration fees, and penalties. The board received a grant for the Pseudorabies Program from the U.S. Department of Agriculture, Animal, and Plant Health Inspection Service. This grant was approximately \$380,000 for each of federal fiscal years 1996 and 1997. The board also used state funds for the Pseudorabies Program. The board spent most of its funds for payroll, travel, professional and technical services, other purchased services, and administrative costs.

Chapter 2. Payroll and Travel Expenditures

Chapter Conclusions

The Board of Animal Health designed and implemented internal controls that provided reasonable assurance that payroll and travel expenditures were properly authorized and accurately recorded in the accounting records. In addition, the board reimbursed employees and board members for travel expenses in accordance with the applicable employment plans. However, we found that one employee had incompatible access to both payroll and personnel functions in SEMA4.

Payroll Expenditures

Payroll expenditures are the largest expenditure category for the Board of Animal Health, comprising about 66 percent of the board's total expenditures. Total payroll expenditures were \$1.5 million and \$1.6 million for fiscal years 1996 and 1997, respectively. The board processed payroll using the Personnel Payroll System (PPS) until December 1995, when it converted to the State Employee Management System (SEMA4). The board's accounting staff processed payroll through 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, law compliance representatives, medical lab technicians, accounting technician
Middle Management Association (MMA)	Senior veterinarians, lab manager
<u>Plans for Unrepresented Employees</u>	<u>Types of Employees Governed</u>
Managerial Plan	Executive secretary
Commissioner's Plan	District veterinarians, confidential secretary, business manager, poultry lab manager

Source: SEMA4.

Board of Animal Health

The district veterinarians and law compliance representatives worked out of their homes located throughout the state. The poultry lab manager worked at the Minnesota Poultry Testing Laboratory in Willmar, Minnesota. The Brucellosis lab manager and the medical lab technicians worked at the University of Minnesota Campus in St. Paul. All other employees worked out of the board's office in St. Paul.

The board contracted with private veterinarians for services related to the Pseudorabies Program. (See Chapter 3 for additional information.) The board obtained services from private veterinarians on an "as needed" basis to test animals on farms as required by the program.

Travel Expenditures

The Board of Animal Health paid travel expenditures to board employees and members and the Department of Administration's Travel Management Division. Payments to Travel Management Division for the use of motor pool vehicles comprised 61 percent of the total travel expenditures paid by the board. The board paid \$83,000 and \$101,000 in travel expenditures in fiscal years 1996 and 1997, respectively.

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 law compliance representatives who worked out of their homes and traveled around the state. These employees rented vehicles for work purposes from the Department of Administration's Travel Management Division. 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.

Audit Objective and Methodology

We focused on the following objective during our audit of payroll and travel expenditures:

- Did the Board of Animal Health design and implement internal controls to provide reasonable assurance that payroll and travel expenditures were properly authorized and accurately recorded in the accounting records?

To meet this objective, we interviewed accounting staff to gain an understanding of internal controls over the personnel, payroll, and travel processes. We tested a sample of payroll transactions and a sample of travel expenditures to determine if the department properly authorized and accurately recorded these transactions. We also tested the travel samples to determine if the board complied with the applicable employment plans related to travel reimbursements.

Conclusions

We found that the Board of Animal Health designed and implemented internal controls that provided reasonable assurance that payroll and travel expenditures were properly authorized and accurately recorded in the accounting records. In addition, the board reimbursed employees and

Board of Animal Health

board members for travel expenses in accordance with the applicable employment plans. However, we found that one employee had incompatible access to both payroll and personnel functions in SEMA4, as explained in Finding 1.

1. An employee had incompatible access to both payroll and personnel functions in SEMA4.

An employee of the Board of Animal Health had access to update data in both the payroll and personnel functions in SEMA4. The personnel and payroll functions are separate, incompatible functions. Generally, employees performing payroll functions should not have the authority to update personnel records.

Incompatible duties create an increased risk that errors or irregularities could go undetected. It is preferable to separate the personnel and payroll functions between employees. The board could also establish an alternate control to ensure the integrity of the payroll process. For example, an employee independent of these functions could review the payroll register (a report that lists the hourly rates and hours worked) to validate the payroll payments. This employee would also be responsible for detecting and investigating any potential errors or irregularities.

Recommendation

- *The Board of Animal Health should either limit access to the appropriate segments of SEMA4 or have another individual review the SEMA4 reports for accuracy.*

Chapter 3. Pseudorabies Revenue and Expenditures

Chapter Conclusions

The Board of Animal Health designed and implemented internal controls that provided reasonable assurance that it accurately reported Pseudorabies revenue and expenditures in the accounting records and properly authorized Pseudorabies expenditures. The board designed and implemented internal controls to provide reasonable assurance that it managed the federal grant in compliance with applicable requirements. We noted, however, that the board did not pay its indirect cost obligations to the Department of Finance timely.

The Board of Animal Health received a federal grant for the eradication of Pseudorabies from the United States Department of Agriculture (USDA), Animal and Plant Health Inspection Service. This grant was part of the Plant and Animal Disease, Pest Control, and Animal Care Program (CFDA #10.025). The board also spent state funds for the Pseudorabies Program. The board spent about \$380,000 in federal funds and about \$1,130,000 in state funds for the program, as reported on the Financial Status Report for fourth quarter federal fiscal year 1996. As part of its surveillance and cleanup efforts, the board used its federal and state funds for the activities shown in Table 3-1. The board can use the federal funds for various types of expenditures related to the program. The board used federal funds mainly for the first three activities shown in Table 3-1.

Table 3-1
Uses of Pseudorabies Funds

- Blood sample draws by private veterinarians.
- Blood sample testing at the University of Minnesota Veterinary Diagnostic Laboratories.
- Agency and statewide indirect costs.
- Employee salaries and benefits, travel costs, and other administrative expenditures.

Source: Auditors' analysis of MAPS transactions.

The Board of Animal Health contracted with private veterinarians for drawing blood samples from swine. Veterinarians received \$22 per herd stop and \$3.50 for each swine tested for Pseudorabies. Prior to the beginning of the fiscal year, board employees estimated the amount the board would pay each private veterinarian for the next fiscal year. If the estimated amount per veterinarian did not exceed \$5,000, the board included that veterinarian under the professional and technical services annual plan. If the estimated amount exceeded \$5,000, the board established a contract with the veterinarian.

Board of Animal Health

The board established a five-year contract ending December 31, 1997, with the University of Minnesota Veterinary Diagnostic Laboratories for testing blood samples from swine for Pseudorabies. The board paid the lab \$2 per test.

The board also paid statewide and agency indirect costs to the Department of Finance from the federal portion of the Pseudorabies Program. The Department of Finance required reimbursement of statewide and agency indirect costs at least quarterly. As noted in Finding 2, the Board of Animal Health did not make statewide and agency indirect cost payments timely.

The board allocated salaries and benefits of employees working on more than one program to each of the various programs, including the Pseudorabies Program. The board determined this allocation by analyzing time spent on each program. The board also allocated travel costs incurred by these employees in the same manner. In addition, the Pseudorabies Program incurred other small administrative expenditures, including supplies, equipment, and communication expenditures.

The Board of Animal Health requested federal funds for the Pseudorabies Program on a reimbursement basis by submitting a Request for Advance or Reimbursement Report. In federal fiscal year 1996, the board requested quarterly reimbursements. In federal fiscal year 1997, the board started requesting reimbursement bimonthly. The board also submitted a Financial Status Report each quarter that showed the cumulative federal and state funds spent on the Pseudorabies Program. As of June 10, 1997, the board was working with the USDA to obtain the funds electronically to decrease the time between the request for funds and the receipt of those funds.

Audit Objectives and Methodology

We focused on the following objectives during our audit of Pseudorabies revenue and expenditures:

- Did the Board of Animal Health design and implement internal controls to provide reasonable assurance that it accurately reported federal grant revenue in the accounting records?
- Did the Board of Animal Health design and implement internal controls to provide reasonable assurance that it properly authorized and accurately reported Pseudorabies expenditures?
- Did the Board of Animal Health design and implement internal controls to provide reasonable assurance that it managed the federal grant in compliance with applicable general and specific program requirements?

To meet these objectives, we interviewed agency staff to gain an understanding of internal controls over the revenue and expenditure processes for the Pseudorabies Program. We selected a sample of federal grant reimbursement requests and traced the revenue to the accounting system. We also tested a sample of expenditures to determine if the board properly authorized and accurately recorded Pseudorabies expenditures.

Board of Animal Health

Conclusions

We found that the Board of Animal Health designed and implemented internal controls that provided reasonable assurance that it accurately reported Pseudorabies revenue and expenditures in the accounting records and properly authorized Pseudorabies expenditures. The board designed and implemented internal controls that provided reasonable assurance that it managed the federal grant in compliance with applicable program requirements. However, we noted that the board did not pay indirect cost obligations to the Department of Finance timely as further explained in Finding 2.

2. The Board of Animal Health did not pay indirect cost obligations to the Department of Finance timely.

The Board of Animal Health did not pay statewide and agency indirect cost obligations to the Department of Finance timely. In fiscal year 1995, the board paid both fiscal years 1994 and 1995 indirect cost obligations of \$57,759 and \$58,201, respectively. The board did not pay the fiscal year 1996 statewide and agency indirect cost obligation of \$54,646 until January 1997. In addition, the board paid the first two fiscal year 1997 quarterly indirect cost payments of \$14,058 each in January 1997. The board made the third and fourth quarter indirect cost payments on June 30, 1997. The Department of Finance required at least quarterly reimbursement of indirect costs.

Recommendation

- *The Board of Animal Health should pay the statewide and agency indirect cost obligation to the Department of Finance quarterly.*

Chapter 4. Other Professional and Technical Services

Chapter Conclusions

The Board of Animal Health designed and implemented internal controls that provided reasonable assurance that other professional and technical services expenditures were properly authorized and accurately reported in the accounting records.

Other professional and technical services included payments to the University of Minnesota for operation of the Poultry Testing Laboratory, payments to veterinarians for Brucellosis testing, and payments for computer system development. Payments to the University of Minnesota for operation of the Poultry Testing Laboratory comprised 94 percent of the total other professional and technical services. For fiscal year 1996, the board paid the University of Minnesota \$138,000 under the contract.

The Board of Animal Health had a long-standing contract with the University of Minnesota College of Veterinary Medicine to operate the Minnesota Poultry Testing Laboratory in Willmar. The board negotiated a two-year contract with the University of Minnesota College of Veterinary Medicine to perform the operations of the field laboratory for the testing of poultry. The contract amount for each of fiscal years 1996 and 1997 was \$145,000. However, the board amended the fiscal year 1997 contract in June 1997 to \$185,000. The contract specified that the board pay the operating costs of the field laboratory. These costs included the purchase of equipment and supplies as well as personnel costs for University of Minnesota employees working at the laboratory.

An employee of the Board of Animal Health supervised the Minnesota Poultry Testing Laboratory. This employee ordered supplies and materials for the lab and supervised the University of Minnesota employees working at the lab. The board paid the University of Minnesota for actual costs incurred by the lab after the University submitted quarterly invoices. The University also submitted copies of invoices to support expenditures for supplies, materials, equipment, and services.

Audit Objective and Methodology

We focused on the following objective during our audit of other professional and technical services:

- Did the Board of Animal Health design and implement internal controls to provide reasonable assurance that professional and technical services expenditures were properly authorized and accurately reported in the accounting records?

Board of Animal Health

To meet this objective, we interviewed agency staff to gain an understanding of internal controls over the professional and technical services expenditure process. We selected a sample of expenditures to determine if the agency properly authorized and accurately recorded professional and technical services expenditures.

Conclusions

We found that the Board of Animal Health designed and implemented internal controls to provide reasonable assurance that professional and technical services expenditures were properly authorized and accurately reported in the accounting records.



STATE OF MINNESOTA
BOARD OF ANIMAL HEALTH
119 AGRICULTURE BLDG.
90 W. PLATO BLVD.
ST. PAUL, MN 55107
(612) 296-2942 VOICE
(612) 296-7417 FAX

August 18, 1997

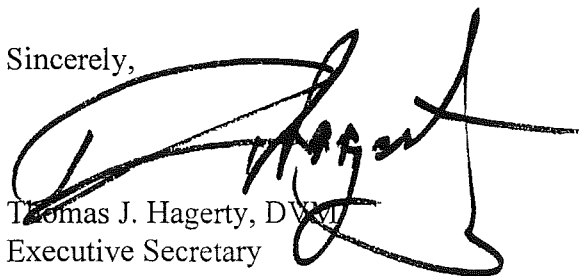
James R. Nobles
Legislative Auditor
Centennial Building
658 Cedar Street
St. Paul MN 55155

Dear Mr. Nobles:


On July 30, 1997 the Office of the Legislative Auditor completed its audit of the Board of Animal Health for the period July 1, 1995 through June 30, 1997. The audit team conducted a thorough review of the agency's activities and concluded that procedures could be improved in two areas. We have reviewed the conclusions and our responses are contained on page two.

A key to the success of the audit was that the process was characterized by significant levels of open and frank communication between the audit team and board employees. We understand and appreciate the role and benefits of a vigorous audit process, to an agency's management. We will use this audit as an important tool in continuing to fulfill our responsibilities.

Sincerely,



Thomas J. Hagerty, DVM
Executive Secretary



Elmore A. James
Manager, Business &
Personnel Operations

Page 2
Board of Animal Health
Legislative Audit Response
August 18, 1997

Conclusion 1. An employee had incompatible access to both payroll and personnel functions in SEMA4. *Recommendation: The Board of Animal Health should either limit access to the appropriate segments of SEMA4 or have another individual review the SEMA4 reports for accuracy.*

Response: The SEMA4 personnel and payroll system has created a dilemma for separating incompatible duties while maintaining adequate backup in a small administrative staff. The board's management finds that our current policy and separation of duties provide more than adequate protection against misappropriation, in practice.

However, we recognize that, in theory, there is a risk. Therefore, effective immediately, we have added a layer of management review. This review will be the responsibility of an employee who has no access to SEMA4 payroll and/or personnel functions.

Conclusion 2. The Board of Animal Health did not pay indirect cost obligations to the Department of Finance timely. *Recommendation: The Board of Animal Health should pay the statewide and agency indirect cost obligation to the Department of Finance quarterly.*

Response: The board paid fourth quarter 1997 indirect cost timely, and has a written schedule to ensure that payments for FY 1998 and beyond will be timely.