



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

Minnesota Board of Dietetics and Nutrition Practice

July 1, 2000, through June 30, 2003



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.

The division has a staff of approximately forty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

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.

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

Representative Tim Wilkin, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Laurie Mickelson, Executive Director
Minnesota Board of Dietetics and Nutrition Practice

We have audited the Minnesota Board of Dietetics and Nutrition Practice for the period July 1, 2000, through June 30, 2003. Our audit scope included license and fee receipts, payroll, and administrative expenditures. The Report Summary highlights our overall audit conclusions. The specific audit objectives and conclusions are contained in the Financial Operations Chapter of this report.

We selected the board for audit based on our annual assessment of state agencies and programs. We used various criteria to determine the entities to audit, including the size and type of each agency's financial operations, length of time since the last audit, changes in organizational structure and key personnel, and available audit resources.

We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of the board's internal controls relevant to the audit objectives. We used the guidance contained in *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission, as our criteria to evaluate agency controls.

The standards also require that we plan the audit to provide reasonable assurance that the board complied with financial-related legal provisions that are significant to the audit. In determining the board's compliance with legal provisions, we considered requirements of laws, regulations, contracts, and grant agreements.

To meet the audit objectives, we gained an understanding of the board's financial policies and procedures. We considered the risk of misstatements in the accounting records and noncompliance with relevant legal provisions. We analyzed accounting data to identify unusual trends or significant changes in financial operations. We examined a sample of evidence supporting the board's internal controls and compliance with laws, regulations, contracts, and grant provisions.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: April 30, 2004

Report Signed On: January 28, 2005

Minnesota Board of Dietetics and Nutrition Practice

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Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Jim Riebe, CPA	Audit Manager
Ken Vandermeer, CPA	Audit Director
George Deden, CPA	Auditor
Susan Mady	Auditor
Alan Sasse, CPA	Auditor
Trihn Bui	Intern
Titima To	Intern

Exit Conference

We discussed the results of the audit with the following staff of the Board of Dietetics and Nutrition Practice at an exit conference on October 28, 2004:

Laurie Mickelson	Executive Director
Juli Vangsness	Accounting Supervisor, Administrative Services Unit

Minnesota Board of Dietetics and Nutrition Practice

Report Summary

Conclusions:

- The Minnesota Board of Dietetics and Nutrition Practice needs to develop mitigating internal controls to ensure the propriety of its receipts and disbursements, and needs to further restrict access to its business systems. (Finding 1, page 7)
- The board complied with legal provisions for the items tested.

The report contained one finding relating to internal control. The office resolved all findings included in our prior audit report.

Audit Scope:

Audit Period: July 1, 2000, through June 30, 2003

Programs Audited:

- Licensing and Fee Receipts
 - Payroll Expenditures
 - Administrative Expenditures
-

Agency Background:

The board regulates the licensing of dietitians and nutritionists practicing in the state of Minnesota. In fiscal year 2003, the board collected approximately \$103,000 and incurred \$81,000 in both direct and indirect costs. During that time, the board renewed approximately 1,000 licenses.

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Minnesota Board of Dietetics and Nutrition Practice

Chapter 1. Introduction

The Board of Dietetics and Nutrition Practice regulates the licensing of dietitians and nutritionists to ensure compliance with the laws and rules governing the practice of dietetics and nutrition in the state of Minnesota. The board consists of seven members appointed by the Governor and operates under Minn. Stat. Sections 148.621 - 148.633 and Chapter 214. Laurie Mickelson is the executive director of the board.

The board processes applications for licensure and issues original licenses and renewal certificates. The board also investigates complaints filed against licensees.

The board obtains administrative support from the Administrative Services Unit (ASU) and legal services from the Attorney General's Office. ASU provides various services for all health boards, such as processing personnel and payroll transactions, purchasing, disbursing funds, and depositing receipts. ASU also assists the boards with budget development and monitoring financial activity throughout the year. The Attorney General's Office supports the board's legal and investigative services pursuant to Minn. Stat. Section 214.10. According to statute, the board must establish fees sufficient to cover both direct and indirect costs of its operations.

Table 1-1 shows the board's sources and uses of funds during the audit period.

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Sources:			
Appropriation	\$106,369	\$104,724	\$106,652
Balance Forward In (Out)	32,559	(35,171)	35,171
Cancellations	<u>(64,363)</u>	<u>0</u>	<u>(68,614)</u>
Total Sources	<u>\$ 74,565</u>	<u>\$ 69,553</u>	<u>\$ 73,209</u>
Uses:			
Direct Expenditures	\$ 63,196	\$ 62,829	\$ 67,557
Statewide Indirect Costs	<u>11,369</u>	<u>6,724</u>	<u>5,652</u>
Total Uses	<u>\$ 74,565</u>	<u>\$ 69,553</u>	<u>\$ 73,209</u>

Note (1): Board receipts are deposited in a special revenue fund as nondedicated revenue. See Table 2-1 in Chapter 2 for information on the board's receipts.

Source: Minnesota Accounting and Procurement System.

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Chapter 2. Financial Operations

Chapter Conclusions

The Minnesota Board of Dietetics and Nutrition Practice needs to develop mitigating controls to ensure the propriety of its receipts and disbursements, and needs to further restrict access to its business systems.

For the items tested, the board complied with applicable finance-related legal requirements, including the statutory requirement that it set its fees to recover its operating costs.

The Minnesota Board of Dietetics and Nutrition Practice's budget is funded from a State Government Special Revenue Fund appropriation. The appropriation is established to cover both direct and indirect costs of operations. The board pays direct costs associated with board operations directly with its state appropriation. Indirect costs result from the centralized services of the Administrative Services Unit, Health Professional Services Program, and the Attorney General's Office. Centralized service costs are pooled costs allocated to each health-related licensing board and paid from the Special Revenue Fund but not from the board's appropriation. The Legislature requires the board to consider both direct and indirect costs when establishing its fees.

The board deposits license, examination, and other fees into the health occupations licensing account in the State Government Special Revenue Fund as nondedicated revenue. According to Minn. Stat. Section 214.06, fees collected should approximate anticipated total expenditures for both direct operations and indirect costs during the biennium.

Expenditures

Payroll is the board's largest expenditure. The office employs two part-time staff (1.25 full-time equivalent positions), an executive director and an administrative specialist, who belong to different compensation plans. Rent was the largest class of nonpayroll administrative expenditures.

Receipts

The board receives license application fees, renewal fees, and late fees from individuals involved in the practice of dietetics and nutrition. In fiscal year 2003, the board renewed about 1,000 licenses. Active licenses expire annually on November 30. The board's fees are set in statute. Fee changes must be approved by the commissioner of Finance and the Legislature during the biennial budget process.

Minnesota Board of Dietetics and Nutrition Practice

Administrative Services

Beginning in fiscal year 1995, the board entered into an agreement with 15 other health-related licensing boards to jointly fund the operations of the Administrative Services Unit (ASU). The board utilized the full range of services provided by ASU, a six-employee team who serve as administrative support for all health-related licensing boards. ASU inputs the board's purchasing and disbursement transactions into the Minnesota Accounting and Procurement System (MAPS) and employee expense reimbursements into the Statewide Employee Management System (SEMA4). The board also relies on the services of the ASU for central depositing of receipts, budget preparation, reporting financial activity, and processing of payroll/personnel transactions.

Table 2-1 summarizes the board's receipts, expenditures, and indirect costs for the two years of the biennium ended June 30, 2003.

	<u>2002</u>	<u>2003</u>
Revenues ⁽¹⁾		
License Fees	\$84,225	\$88,950
Application Fees	10,400	10,238
Fines, Penalties, and Filing Fees	1,688	3,075
Other	<u>350</u>	<u>410</u>
Total Revenues	<u>\$96,663</u>	<u>\$102,673</u>
Direct Expenditures		
Payroll and Per Diem	\$49,406	\$53,724
Rent, Maintenance, and Utilities	5,373	7,010
Other Operating Costs	<u>8,050</u>	<u>6,823</u>
Total Direct Expenditures	<u>\$62,829</u>	<u>\$67,557</u>
Indirect Costs		
Administrative Services Unit ⁽²⁾	\$ 3,065	\$ 3,803
Health Professional Services Program ⁽²⁾	3,043	2,259
Attorney General Services ⁽²⁾	89	1,460
Statewide Indirect Costs	<u>6,724</u>	<u>5,652</u>
Total Indirect Expenditures	<u>\$12,921</u>	<u>\$13,174</u>
Total Direct and Indirect Expenditures	<u>\$75,750</u>	<u>\$80,731</u>
Fiscal Year Surplus ⁽³⁾	<u>\$20,913</u>	<u>\$21,942</u>

Notes:

- (1) Board receipts are deposited in a special revenue fund as nondedicated revenue.
- (2) Although the board does not pay these indirect costs directly from its appropriation, the Legislature requires the board to include these costs when setting fees. The indirect costs are paid from the State Government Special Revenue Fund.
- (3) By statute, the board is required to set fees sufficient to recover its costs each biennium.

Source: Minnesota Accounting and Procurement System and ASU Subsidiary Records.

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Audit Objectives and Methodology

We focused our review of receipts, payroll, and administrative expenditures on the following objectives:

- Did the board's controls provide reasonable assurance that assets were safeguarded and financial transactions were proper, accurately recorded on the state's accounting system, and processed in accordance with management's authorization?
- Did the board process transactions in accordance with material finance-related legal provisions, including employee compensation plans?
- Did the board set fees to recover costs as required by statute?

Finding and Recommendations

Finding 1 discusses the weaknesses we identified in the department's controls over financial operations.

1. The board did not develop mitigating controls to ensure the propriety of its receipts and disbursements, and did not adequately restrict access to its business systems.

The board cannot separate incompatible duties in its receipt and disbursement processes because of its limited number of staff. Also, the board did not adequately restrict access to its business systems. We identified the following weaknesses in the board's financial procedures:

- The board employs only two part-time positions (1.25 full-time equivalent positions). Both individuals process receipts and disbursements. The executive director authorizes disbursements and payroll transactions, and reconciles the authorized amounts to the accounting system. Ideally, someone independent of these accounting processes should reconcile the accounting information to the supporting records in order to timely identify potential errors or irregularities.
- The current access profiles for payroll and personnel at ASU do not follow requirements established by the Department of Employee Relations. Ideally, access to human resource functions such as adding new staff to the personnel system and adjusting pay rates are separate from payroll functions such as processing biweekly payroll and retroactive pay increases. In addition, two individuals at the Board of Medical Practice have access to the accounting and human resources systems to back-up ASU employees. We think this compromises the confidentiality of the Board of Dietetics and Nutrition Practice's data.

Lack of separation of critical control procedures exposes the organization to unnecessary risks that receipts could be lost or misplaced. For expenditures, unauthorized or inappropriate transactions could be processed, incorrect charges could post to the board's budget, or errors and irregularities could occur and remain undetected. Department of Finance policy 102-01 requires

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the person performing reconciliations to be independent of the authorization and processing of expenditure transactions. The independent reconciliations could be performed by ASU. In accordance with the Executive Directors Forum Bylaws, the board could enter into an interagency agreement with ASU to perform the independent reconciliation of receipts and expenditures. Another option would be for a board member to verify and approve reconciliations performed by the executive director.

Department of Finance policy 102-01 also requires agencies to periodically review and restrict access to its computer systems. Access to computer systems should be restricted based on each individual's job duties. Individuals responsible for reconciliations of system activity could be limited to view-only access to prevent intentional or unintentional alteration of system balances.

Recommendations

- *The board should design mitigating controls that achieve improved separation of duties.*
- *The board should restrict or limit access to its business systems, including access by ASU and Medical Practices Board personnel. Personnel and payroll access profiles recommended by the Department of Employee Relations should be used to properly separate duties. The board should also perform periodic reviews to ensure that employees only have the system access necessary to fulfill their job responsibilities.*

Minnesota Board of Dietetics and Nutrition Practice

Status of Prior Audit Issues As of April 30, 2004

Most Recent Audit

Legislative Audit Report 98-54 covered the two fiscal years ending June 30, 1997. The audit focused on the internal control structure over license receipts, personnel services, rent, and other administrative expenditures. The report contained three findings pertaining to reconciliation of license fee revenues, completion of the biennial report of operations, and achievement award maximums. The board resolved all three 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.

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State of Minnesota
Board of Dietetics and Nutrition Practice

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January 11, 2005

James R Nobles
Legislative Auditor
Office of the Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St Paul, MN 55155

Mr. Nobles:

I am taking this opportunity to respond to the findings and recommendations made by your office, following the recent audit of the Minnesota Board of Dietetics and Nutrition Practice. This audit covered the period July 1, 2000 through June 30, 2003.

I have reviewed the draft of the audit report and offer the following comments on the recommendations included in that report.

The board should design mitigating controls that achieve improved separation of duties.

While the Board may employ only two persons, it is believed that the office functions in an efficient manner. However, to provide for additional oversight by the Board, detailed reports received from the Department of Finance will be reviewed and accepted on a quarterly basis.

The board should restrict or limit access to its business systems, including access by ASU and. Personnel and payroll access profiles recommended by the Department of Employee Relations should be used to properly separate duties. The board should also perform periodic reviews to ensure that employees only have the system access necessary to.

There are a number of required personnel and payroll functions provided by ASU. The accounting supervisor for ASU annually reviews the security profiles for all ASU staff. Previous authorization of Medical Practices Board personnel to provide backup to ASU staff has been removed. The annual review of security profiles ensures that ASU Staff profiles are correct and that the profiles allow ASU staff to fulfill their job responsibilities.

As Executive Director, I will continue to explore and implement changes that could decrease financial operation weaknesses and increase security of personnel and payroll functions.

Sincerely,

/s/ Laurie Mickelson

Laurie Mickelson
Executive Director

cc: Linda Dieleman, Board Chair
Juli Vangsness, ASU Accounting Supervisor