



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

Minnesota Board of Podiatric Medicine

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.

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

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

Through its Program Evaluation Division, OLA conducts several evaluations each year.

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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

Keith Hovland, Executive Director
Minnesota Board of Podiatric Medicine

We have audited the Minnesota Board of Podiatric Medicine 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: February 3, 2005

Minnesota Board of Podiatric Medicine

Table of Contents

	Page
Report Summary	1
Chapter 1. Introduction	3
Chapter 2. Financial Operations	5
Status of Prior Audit Issues	9
Agency Response	11

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 Podiatric Medicine at an exit conference on October 27, 2004:

Keith Hovland	Executive Director
Juli Vangsness	Accounting Supervisor, Administrative Services Unit

Report Summary

Conclusions:

- The board needs to strengthen 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 the one finding included in our prior audit report concerning controls over license receipts.

Audit Scope:

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

Programs Audited:

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

Agency Background:

The Board of Podiatric Medicine regulates the licensing of podiatrists practicing in the state of Minnesota. In fiscal year 2003, the board collected approximately \$85,000 and incurred \$78,000 in both direct and indirect costs. During that time, the board renewed about 90 licenses.

Minnesota Board of Podiatric Medicine

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Minnesota Board of Podiatric Medicine

Chapter 1. Introduction

The Board of Podiatric Medicine regulates the licensing of doctors of podiatric medicine to ensure compliance with the rules of the practice of podiatric medicine in the state of Minnesota. The board consists of seven members appointed by the Governor and operates under Minn. Stat. Chapters 153 and 214. Keith Hovland 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 the direct and indirect costs of its operations.

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

Table 1-1
Sources and Uses of Funds ⁽¹⁾
By Fiscal Year

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Sources:			
Appropriation	\$46,165	\$56,020	\$47,821
Balance Forward In (Out)	1,313	(9,635)	9,635
Cancellations	(944)	0	(3,546)
Total Sources	<u>\$46,534</u>	<u>\$46,385</u>	<u>\$53,910</u>
Uses:			
Direct Expenditures	\$42,369	\$43,365	\$51,089
Statewide Indirect Costs	<u>4,165</u>	<u>3,020</u>	<u>2,821</u>
Total Uses	<u>\$46,534</u>	<u>\$46,385</u>	<u>\$53,910</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.

Minnesota Board of Podiatric Medicine

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Chapter 2. Financial Operations

Chapter Conclusions

The Minnesota Board of Podiatric Medicine did not develop mitigating accounting controls to ensure the propriety of its receipts and disbursements, and did not adequately 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 cover its operating costs.

The Minnesota Board of Podiatric Medicine 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 from 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. However, 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, and rent is the largest class of non-payroll administrative expenditures. The office employs one half-time person who is the executive director of the board.

Receipts

The board receives application fees, renewal fees, and late fees from the licensing of podiatrists. In fiscal year 2003, the board issued about 90 licenses. 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 Podiatric Medicine

Administrative Services

Beginning in fiscal year 1994, 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 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	\$53,376	\$54,486
Application Fees	10,200	6,600
Fines, Penalties, and Filing Fees	400	600
Other	<u>12,780</u>	<u>23,000</u>
Total Revenues	<u>\$76,756</u>	<u>\$84,686</u>
Direct Expenditures		
Payroll and Per Diem	\$37,113	\$43,415
Rent, Maintenance, and Utilities	3,521	3,872
Other Operating Costs	<u>2,731</u>	<u>3,801</u>
Total Direct Expenditures	<u>\$43,365</u>	<u>\$51,088</u>
Indirect Costs		
Administrative Services Unit ⁽²⁾	\$ 2,298	\$ 2,852
Health Professional Services Program ⁽²⁾	1,034	2,362
Attorney General Services ⁽²⁾	9,246	18,923
Statewide Indirect Costs	<u>3,020</u>	<u>2,822</u>
Total Indirect Expenditures	<u>\$15,598</u>	<u>\$26,959</u>
Total Direct and Indirect Expenditures	<u>\$58,963</u>	<u>\$78,047</u>
Fiscal Year Surplus ⁽³⁾	<u>\$17,793</u>	<u>\$ 6,639</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.

Minnesota Board of Podiatric Medicine

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 needs to strengthen mitigating controls to ensure the propriety of its receipts and disbursements and further 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 one individual, the executive director, who works half-time. Therefore, the executive director is responsible for all of the financial operations of the board. This concentration of duties negatively impacts controls over receipts and expenditures. The executive director is responsible for preparing deposits and reconciling bank activity with the licensing database and the state's accounting system (MAPS). The executive director is also responsible for ordering goods, authorizing purchases, preparing receiving reports, authorizing payments, and reconciling payments to vendor invoices. Similarly, the executive director is responsible for both authorizing and reconciling payroll and personnel activity recorded in SEMA4. While the Administrative Services Unit provides some controls, providing board members with monthly revenue and expenditure accounting transaction reports would further strengthen their oversight of the board's financial operations.
- 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

Minnesota Board of Podiatric Medicine

accounting and human resources systems to back-up ASU employees. We think this compromises the confidentiality of the Board of Podiatric Medicine's data.

Lack of separation of critical control procedures exposes the organization to unnecessary risks that receipts could be stolen 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 the person performing receipt reconciliations to be independent of the depositing and data entry processes for receipts. The policy requires similar independent reconciliations for the authorization and processing of expenditure transactions.

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 to the needs of 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

- *Board members should be provided detailed, monthly revenue and expenditure accounting transaction reports for their review and approval during regularly scheduled board meetings.*
- *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 Podiatric Medicine

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 one audit finding pertaining to reconciliation of license fee revenue. The board resolved the finding.

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.

Minnesota Board of Podiatric Medicine

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Board of Podiatric Medicine

2829 University Avenue S.E., Suite 430 • Minneapolis, MN 55414-3245

Phone: (612) 617-2200 • Fax: (612) 617-2698

www.podiatry.state.mn.us

January 28, 2005

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
Room 140 Centennial Building
658 Cedar St.
St. Paul, MN 55155-1603

Dear Mr. Nobles,

The Board of Podiatric Medicine appreciates the opportunity to respond to the December 14, 2004 audit letter from your office (revised), regarding the results of the financial and compliance audit of the Minnesota Board of Podiatric Medicine for the three years ended June 30, 2003.

Board actions taken in response to the recommendations outlined in the draft audit report are outlined as follows:

Recommendation: The Board needs to strengthen mitigating controls to ensure the propriety of its receipts and disbursements and further restrict access to its business systems.

Response: Beginning with the Board meeting on March 1, 2005, Board members will be provided with detailed, monthly revenue and expenditure accounting transaction reports for their review and approval during regularly scheduled board meetings.

In addition, additional controls have been added to further restrict access to its business systems. Personnel from another Board (formerly used only in a backup role) no longer have access to any personnel and payroll data for the Board of Podiatric Medicine. Also, personnel and payroll access profiles for ASU personnel have been reviewed and adjusted as appropriate to properly separate duties while yet providing employees with the system access necessary to fulfill their job responsibilities. In the future, the Board of Podiatric Medicine will coordinate with the ASU accounting supervisor on an annual basis to verify that ASU employees only have the system access necessary to fulfill their job responsibilities and to ensure that personnel and payroll access profiles recommended by the Department of Employee Relations are used to properly separate duties.

Keith Hovland, Executive Director, will be responsible for all follow-up activities regarding this audit recommendation. If you should have any further questions about this audit response, please contact me at (612) 617-2200.

Sincerely,

/s/ Keith Hovland

Keith Hovland
Executive Director

Cc: Judith Sperling, Chair
Juli Vangness, Administrative Services Unit