

O L A

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

**Minnesota Board of Veterinary
Medicine**

July 1, 2000, through June 30, 2003



JANUARY 27, 2005

05-04

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.

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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

John King, Executive Director
Minnesota Board of Veterinary Medicine

We have audited the Minnesota Board of Veterinary 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: January 20, 2005

Minnesota Board of Veterinary Medicine

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

John King	Executive Director
Nancy Carolus	Office Manager
Juli Vangness	Accounting Supervisor, Administrative Services Unit

Report Summary

Conclusions:

- The Minnesota Board of Veterinary Medicine needs to develop mitigating controls to ensure the propriety of its 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 board did not collect fees sufficient to cover its costs for the fiscal year ended June 30, 2003; however, the under recovery was about three percent of biennial revenues which we concluded was reasonable.

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 veterinarians engaged in practice in the state of Minnesota. In fiscal year 2003, the board collected approximately \$288,000 and incurred \$321,000 in both direct and indirect costs. During that time, the board processed about 2,800 licenses.

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Minnesota Board of Veterinary Medicine

Chapter 1. Introduction

The Board of Veterinary Medicine regulates the licensing of veterinarians to ensure compliance with the rules of the practice of veterinary medicine in the state of Minnesota. The board consists of seven members appointed by the Governor and operates under Minn. Stat. Chapters 156 and 214. John King is the executive director of the board.

The board's staff 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	\$160,040	\$162,694	\$194,481
Balance Forward In (Out)	12,458	(8,191)	8,191
Cancellations	<u>(12,296)</u>	<u>0</u>	<u>(2,609)</u>
Total Sources	<u>\$160,202</u>	<u>\$154,503</u>	<u>\$200,063</u>
Uses:			
Direct Expenditures	\$153,162	\$149,809	\$194,582
Statewide Indirect Costs	<u>7,040</u>	<u>4,694</u>	<u>5,481</u>
Total Uses	<u>\$160,202</u>	<u>\$154,503</u>	<u>\$200,063</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 Veterinary Medicine did not develop mitigating controls to ensure the propriety of its 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 costs. The board did not recover its costs for the fiscal year ended June 30, 2003; however, the under recovery was about three percent of biennial revenues which we concluded was reasonable.

The Minnesota Board of Veterinary Medicine'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 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. The Legislature requires the board to consider both direct and indirect costs when establishing its fees.

The board is authorized to establish fees with the approval of the commissioner of Finance and the Legislature. 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 staff (1.75 full-time equivalent positions), an executive director and an office manager, who belong to different compensation plans. Rent was the largest class of nonpayroll administrative expenditures.

Receipts

The board receives application fees, renewal fees, and late fees from the licensing of veterinarians. In fiscal year 2003, the board processed about 2,800 licenses. Active and inactive licenses expire annually on February 28. The board's fees are set in statute. Fee changes must

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be approved by the commissioner of Finance and the Legislature during the biennial budget process.

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.

Table 2-1		
Receipts, Expenditures, and Indirect Costs		
By Fiscal Year		
	<u>2002</u>	<u>2003</u>
Receipts ⁽¹⁾		
License Fees	\$243,925	\$253,150
Application Fees	13,000	16,100
Fines, Penalties, and Filing Fees	4,900	5,800
Other	<u>6,946</u>	<u>13,107</u>
Total Revenues	<u>\$268,771</u>	<u>\$288,157</u>
Direct Expenditures		
Payroll and Per Diem	\$121,301	\$156,299
Rent, Maintenance, and Utilities	10,657	11,063
Supplies and Equipment	1,978	8,477
Other Operating Costs	<u>15,873</u>	<u>18,633</u>
Total Direct Expenditures	<u>\$149,809</u>	<u>\$194,472</u>
Indirect Costs		
Administrative Services Unit ⁽²⁾	\$ 9,960	\$ 12,359
Health Professional Services Program ⁽²⁾	2,576	1,734
Attorney General Services ⁽²⁾	87,853	106,511
Statewide Indirect Costs	<u>4,694</u>	<u>5,481</u>
Total Indirect Expenditures	<u>\$105,083</u>	<u>\$126,085</u>
Total Direct and Indirect Expenditures	<u>\$254,892</u>	<u>\$320,557</u>
Fiscal Year Surplus (Loss) ⁽³⁾	<u>\$ 13,879</u>	<u>(\$32,400)</u>

Note:

- (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 disbursements and did not adequately restrict access to its business systems.

The board did not separate incompatible duties in its disbursement processes and did not adequately restrict access to its business systems.

We identified the following weaknesses in the board's financial procedures:

- The board assigned a concentration of duties for processing disbursements to the office services supervisor. The supervisor authorizes purchases, orders goods, prepares receiving reports, authorizes payment, and reconciles payments to vendor invoices. For payroll, the supervisor both authorizes and reconciles activity recorded in the payroll system (SEMA4). 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. If the office services supervisor continues to have these functional responsibilities, the executive director could independently approve and verify the reconciliation to supporting records. ASU could perform reconciliations. In accordance with the Executive Directors Forum Bylaws, the board could enter into an interagency agreement to have ASU perform the independent reconciliation disbursements.
- Several state employees have unnecessary access to the board's business systems. First, under the current structure, if the executive director does not update information in the licensing system, controls would be strengthened if the director only had view access to the licensing system. Second, 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 resources functions, such as adding new staff to the payroll

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system and adjusting pay rates are separate from payroll functions, such as processing biweekly payroll and retroactive pay increases. Third, 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 Veterinary Medicine's data.

Lack of separation of critical control procedures exposes the organization to unnecessary risks. 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 reconciliations to be independent of 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 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 over disbursements.*
- *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.*

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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 prompt depositing of receipts, reconciliation of license fee revenues, and completion of the biennial report of operations. 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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Minnesota Board of Veterinary Medicine

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January 25, 2005

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

Dear Mr. Nobles:

The Board of Veterinary Medicine appreciates the opportunity to respond to the audit letter from your office dated December 14, 2004, regarding the results and findings of the financial and compliance audit for the three years ending June 30, 2003.

The following finding was made in the Audit Report:

Finding: *The board did not develop mitigating controls to ensure the propriety of disbursements and did not adequately restrict access to its business systems.*

Specifically the Audit Report identified weaknesses in the following areas:

1. Concentration of duties processing disbursements.
2. Unnecessary access by non board personnel to the board's business systems.

Two recommendations were made to the Board of Veterinary Medicine by the audit team in the Audit Report and will be addressed and resolved as follows.

Recommendation: *The board should design mitigating controls that achieve improved separation of duties over disbursements.*

Response: The following controls are in use or will be implemented soon to resolve the identified weakness.

- All payment reports of purchases authorized by the Office Manager will be reconciled and verified by the Executive Director. Also amounts of goods received will be reconciled with package invoice and payment authorization by the Executive Director.

- Payroll is authorized by Executive Director for each payroll submission. Payroll information is entered into SEMA4 payroll system by a separate individual in ASU and payroll is reconciled independently by the Board of Veterinary Medicine Office Manager and an employee from ASU.
- Total payments and disbursements are reconciled independently monthly and annually by the Board of Veterinary Medicine Executive Director and verified by the Board of Veterinary Medicine Office Manager thus requiring two individuals with different board authorization and duties to ensure accuracy.

Recommendation: *The board should restrict or limit access to its business systems, including access by ASU and Medical Practices 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.*

Response: Personnel from the Board of Medical Practice no longer have access to any personnel or payroll data for the Board of Veterinary Medicine. In addition, 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. The ASU accounting supervisor verifies Department of Employee Relations personnel and payroll access profiles on a yearly basis. In the future, the Board of Veterinary 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.

John King, DVM, Executive Director of the Board of Veterinary Medicine, will be responsible for all follow-up activities regarding these two audit recommendations. If you have any further questions about these audit recommendations or the actions taken to address them, please contact me at (612) 617-2170.

Sincerely,

/s/ John King

John King, DVM
Executive Director

Cc: Jim Riebe, Audit Manager
Joanne Schulman, DVM, Board Chair
Juli Vangsness, ASU Accounting Supervisor