



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

Minnesota Board of Dentistry
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.

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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

Marshall Shragg, Executive Director
Minnesota Board of Dentistry

We have audited the Minnesota Board of Dentistry 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 27, 2005

Minnesota Board of Dentistry

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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 Dentistry at an exit conference on October 28, 2004:

Linda Boyum	Board President
Marshall Shragg	Executive Director
Sheryl Herrick	Office Manager
Juli Vangsness	Accounting Supervisor, Administrative Services Unit

Report Summary

Conclusions:

- The Minnesota Board of Dentistry needs to provide an independent review of receipt and disbursement transactions and 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 sufficient fees to recover its costs for the biennium ended June 30, 2003; however, the under recovery was about five percent of biennial revenues which we concluded was reasonable.

The report contained one finding relating to internal control. The board resolved the one finding 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 of Dentistry regulates the licensing of dentists, dental assistants, and dental hygienists engaged in the practice of dental medicine in the state of Minnesota. In fiscal year 2003, the board collected approximately \$1.1 million and incurred \$1.2 million in both direct and indirect costs. During that time, the board issued about 14,000 licenses.

Minnesota Board of Dentistry

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Minnesota Board of Dentistry

Chapter 1. Introduction

The Board of Dentistry regulates the licensing of dentists, dental assistants, and dental hygienists to ensure compliance with the rules of the practice of dental medicine in the state of Minnesota. The board consists of nine members appointed by the Governor and operates under Minn. Stat. Chapters 150A, 319A, and 214. Marshall Shragg 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	\$828,209	\$959,268	\$948,072
Balance Forward In (Out)	144,143	(212,106)	212,106
Cancellations	<u>(90,939)</u>	<u>0</u>	<u>(168,553)</u>
Total Sources	<u>\$881,413</u>	<u>\$747,162</u>	<u>\$991,625</u>
Uses:			
Direct Expenditures	\$859,204	\$733,894	\$976,553
Statewide Indirect Costs	<u>22,209</u>	<u>13,268</u>	<u>15,072</u>
Total Uses	<u>\$881,413</u>	<u>\$747,162</u>	<u>\$991,625</u>

Note (1): Board receipts are deposited in a special revenue fund as nondedicated revenue. According to statute, the board must establish fees sufficient to cover both the direct and indirect costs of its operations. See Table 2-1 in Chapter 2 for information on the board's receipts.

Source: Minnesota Accounting and Procurement System.

Minnesota Board of Dentistry

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Chapter 2. Financial Operations

Chapter Conclusions

The Minnesota Board of Dentistry needs to provide an independent reconciliation of financial activity and further restrict access to its business systems.

For the items tested, the board complied with applicable finance-related legal requirements. The board did not recover its costs for the biennium ended June 30, 2003; however, the under recovery was about five percent of biennial revenues which we concluded was reasonable.

The Minnesota Board of Dentistry'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, Health Services Prevention Programs (HIV/HBV/HCV), 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 ten staff who belong to various compensation plans. Supplies and equipment was the largest class of non-payroll administrative expenditures. The second largest class of outlays was a significant investment in information technology that allows licensees to submit their license renewal applications on a web-based system.

Receipts

The board receives application fees, renewal fees, and late fees from the licensing of dentists, dental assistants, and dental hygienists. In fiscal year 2003, the board issued approximately 14,000 licenses. Active and inactive licenses expire annually on December 31. 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.

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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 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>
Receipts ⁽¹⁾		
License Fees	\$1,035,467	\$1,060,983
Application Fees	41,000	40,958
Fines, Penalties, and Filing Fees	21,385	18,449
Other	<u>13,288</u>	<u>14,959</u>
Total Revenues	<u>\$1,111,140</u>	<u>\$1,135,349</u>
Direct Expenditures		
Payroll and Per Diem	\$ 487,277	\$ 554,552
Rent, Maintenance, and Utilities	61,377	58,323
Computers and System Development	4,770	102,055
Communications and Printing	66,347	78,890
Supplies and Equipment	34,911	73,416
Professional/Technical Services	16,277	37,473
Other Operating Costs	<u>62,935</u>	<u>71,844</u>
Total Direct Expenditures	<u>\$ 733,894</u>	<u>\$ 976,553</u>
Indirect Costs		
Administrative Services Unit ⁽²⁾	\$ 29,114	\$ 37,077
Health Professional Services Program ⁽²⁾	14,203	23,545
Attorney General Services ⁽²⁾	336,641	184,053
HIV/HBV Services Program ⁽²⁾	1,423	2,003
Statewide Indirect Costs	<u>13,268</u>	<u>15,072</u>
Total Indirect Expenditures	<u>\$ 394,649</u>	<u>\$ 261,750</u>
Total Direct and Indirect Expenditures	<u>\$1,128,543</u>	<u>\$1,238,303</u>
Fiscal Year (Loss) ⁽³⁾	<u>(\$ 17,403)</u>	<u>(\$ 102,954)</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 Dentistry

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 provide an independent review of receipt and disbursement transactions, and did not adequately restrict access to its business systems.

The board did not provide an independent review of receipt and disbursement transactions, and did not review or restrict access to its business systems. We identified the following weaknesses in the board's financial procedures:

- The board assigned a concentration of duties to the office services supervisor. In the receipts area, this position is responsible for preparing the deposits and also reconciling the deposits to the accounting system (MAPS) and the board's licensing system. In the purchasing cycle, the supervisor authorizes purchases, receives supplies, authorizes payments, and reconciles authorized payments to the accounting system. In payroll, the supervisor authorizes payroll and personnel actions and verifies the information was accurately recorded in the personnel 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. Alternatively, if the office services supervisor continues to have these functional responsibilities, someone else could independently approve and verify the reconciliation to supporting records.
- Certain state employees have unnecessary access to the board's business systems. 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 also have access

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to the accounting and human resources systems to back-up ASU employees. We think this compromises the confidentiality of the Board of Dentistry'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 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 segregate incompatible duties or perform an independent review of the reconciliations prepared by the office supervisor.*
- *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.*

**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 prompt depositing of receipts. In our current audit we concluded that 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 Dentistry

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MINNESOTA BOARD OF DENTISTRY

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December 29, 2004

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

Mr Nobles:

Thank you for the opportunity to respond to the recent financial and compliance audit that was conducted related to Board of Dentistry activities.

Mr Riebe, Mr Vandemeer, and the audit staff handled a challenging multi-agency audit with great professionalism. Your office and ours share a common desire to ensure the integrity of the Board's financial concerns. To that end, we welcomed the audit team, and looked forward to any recommendations that might ensue.

Having reviewed a draft of the report, I wish to make the following comments to respond to and clarify various aspects of Board operations that have been highlighted, as well as describe what our Board anticipates it will do going forward...

- Two conclusions are drawn in the report summary and Chapter 2. The first, and primary recommendation, is that the Board institute stronger separation of functions. We acknowledge that there is room for improvement in this area. The Board has a small staff, and we have found it to be most efficient to cross-train staff members to do the work that needs to be done at any given time. Although efficient, this may not provide for ideal checks and balances. The Board will explore structures that will accomplish this goal.
- The second conclusion in the summary and in Chapter 2 relates to collection of fees. The report states that the Board's recovery of fees was within reasonable limits. It bears stating, however, that the sole reason for under-recovery is the Board's compliance with Legislative and Department of Finance directives to reduce fees and initiate deficit spending beginning in 1999. Monies that had been deposited to the Special Revenue Fund and dedicated to the Board of Dentistry had grown to "excessive" reserve amounts that the State wished the Board to spend down.
- Chapter 2. Additional references to non-dedicated revenues in the State Government Special Revenue Fund are in apparent contradiction to the Boards' and ASU's records, which document that the money has historically been considered dedicated revenue to each of the health related Boards. We continue to monitor those reserves accordingly.

- The report makes reference throughout to "licensure/licensees" as generic terms for the regulated dental professionals in Minnesota. To clarify, dentists and hygienists are *licensed* in Minnesota, and dental assistants are currently *registered*. This may change in upcoming legislative sessions to reflect that the requirements in Minnesota for dental assisting would more appropriately be regarded as licensure. For the purposes of the report, the generic term is acceptable.
- Chapter 2. Footnote #3 cites a statutory requirement for the Board to "set fees sufficient to recover its costs." Please note that there is conflicting statutory direction as to whether fees and costs are to balance within a biennium or within a 5-year period. Regardless, the Board was instructed to deficit spend to reduce Special Revenue reserves.
- Finding and Recommendations. The Board of Dentistry has concentrated many duties as the responsibility of the Office Manager, as noted. This has resulted in greater operational efficiencies with no demonstrable negative effect. References to Finance policy 102-01 are helpful, however. The recommendation of the auditors to better separate functions and/or establish a third party reconciliation protocol are good suggestions, and will be considered.
- Finding and Recommendations. The audit process identified individuals who were previously not known to have access to Board of Dentistry business systems. Although we recognize that backup systems and personnel need to be in place, the Board greatly appreciates being made aware of this finding, and will work to establish stronger controls to IT access. We have also confirmed that IT staff from the Board of Medical Practice no longer have access to Board of Dentistry confidential data.

As Executive Director, I will be responsible for exploring and implementing any changes resulting from the audit. Board staff will be focusing energies on the renewal period through the beginning of April, 2005. At that time, we will begin to evaluate the systems that have been the subject of this report.

Thank you for your assistance and guidance.

Sincerely,



Marshall Shragg, MPH
Executive Director

cc: Jim Riebe, Audit Manager
Linda Boyum, Board President
Juli Vangness, ASU Accounting Supervisor