

Financial-Related Audit

Board of Accountancy
July 1, 1998, through June 30, 2001



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 fifty 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 and one best practices review.

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
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Mr. Thomas Alagna, Chair
Board of Accountancy

Members of the Board of Accountancy

Mr. Dennis Poppenhagen, Executive Secretary
Board of Accountancy

We have audited the Board of Accountancy for the period July 1, 1998, through June 30, 2001. Our audit scope included examination and license revenues, payroll, travel, and other administrative expenditures. The audit objectives and conclusions are highlighted in the individual chapters of this report.

We conducted our audit in accordance with *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards require that we design the audit to provide reasonable assurance that the Board of Accountancy complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. The management of the Board of Accountancy is responsible for establishing and maintaining the internal control structure and complying 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 Accountancy. This restriction is not intended to limit the distribution of this report, which was released as a public document on May 23, 2002.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: April 5, 2002

Report Signed On: May 20, 2002

Board of Accountancy

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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
James Riebe, CPA	Audit Manager
Alan Sasse, CPA	Auditor-in-Charge

Exit Conference

We discussed the results of the audit with the following staff of the Board of Accountancy at an exit conference on April 18, 2002:

Dennis Poppenhagen	Executive Secretary
Eleanor Anderson	Audit Committee Chair

Board of Accountancy

Report Summary

Overall Audit Conclusion:

The Board of Accountancy managed its financial activities in a reasonable and prudent manner. The board collected the appropriate level of fees to recover its operating costs. Except as noted below, the board provided reasonable assurance that assets were safeguarded, financial activity was properly recorded in the accounting system, and financial operations complied with applicable legal provisions.

Key Findings:

- The board did not open and date-stamp license applications immediately upon receipt during peak renewal periods. Also, the board suspended date-stamping applications during the 2002 peak license renewal period. Therefore, we could not verify if the board receipts were deposited daily in compliance with statutory requirements. Our analysis of license renewals due by December 31, 2000, however, showed that approximately \$100,000 was deposited during the first two weeks of January. Furthermore, over half of the renewals we tested were date-stamped as received three or more weeks after the applicant signed the renewal form. In fiscal year 2001, the board collected approximately \$700,000 in revenues. (Finding 1, page 5)
- The board did not execute contracts or encumber funds before incurring certain obligations. Contracts for exam space rental, worth approximately \$5,600 each, were not executed prior to the May 1999 and 2001 exams. Also, contracts were not executed for computer consulting services totaling approximately \$77,000 in fiscal year 1999 and early fiscal year 2000. In addition, the board did not encumber funds for exam order and grading costs, ranging from \$62,000 to \$71,000 each, prior to the November 1998, 1999, and 2000 exams. Not executing contracts or encumbering funds before incurring obligations could cause budgeting problems or contract performance concerns. (Finding 2, page 8)

Background:

The Board of Accountancy is responsible for ensuring that persons engaged in public accounting meet and maintain the qualifications, standards, and professionalism required to competently practice public accounting in Minnesota. Pursuant to Minn. Stat. Chapters 214 and 326.165-326.229 (2001), the board administers the Uniform Certified Public Accountant Examination, issues and renews licenses to certified public accountants, renews licenses to licensed public accountants, and regulates the profession. The board regulates the practice of public accounting by enforcing its rules and applicable laws on ethics and by monitoring continuing professional education requirements and investigating complaints. Dennis Poppenhagen is the executive secretary of the board.

Board of Accountancy

Chapter 1. Introduction

The Board of Accountancy, established pursuant to Minn. Stat. Chapter 326.165 – 326.229 (2001), is responsible for ensuring that persons engaged in public accounting meet and maintain the qualifications, standards, and professionalism required to competently practice public accounting in the state of Minnesota. The board administers the Uniform Certified Public Accountant Examination, issues and renews licenses to certified public accountants, renews licenses to licensed public accountants, and regulates the profession. The board regulates the practice of public accounting by enforcing its rules and applicable laws on ethics and by monitoring continuing professional education requirements and investigating complaints. The board also follows the Minn. Stat. Chapter 214 (2001), which generally governs boards and commissions charged with regulating certain occupations in Minnesota.

The board is comprised of five certified public accountants, two licensed public accountants, and two public members. Dennis Poppenhagen is the executive secretary of the board. Four employees assist the executive secretary with licensing, investigation, exam preparation, and other duties.

The Department of Commerce provides administrative support to the board. Its duties include processing payroll and personnel transactions, allotting, encumbering, and disbursing funds, and maintaining the accounting records. The Department of Commerce records the financial activity in the state's accounting system, MAPS, while the payroll activity is recorded in the state's human resources system, SEMA4.

The Department of Finance provides standard financial reports for the board. The executive secretary is responsible for reviewing the financial reports and working with the Department of Finance to resolve any discrepancies. According to Minn. Stat. Chapter 214.06 and Minn. Stat. Chapter 326.22 (2001), the board is required to collect sufficient fees to recover both its direct and indirect costs. The Department of Finance works with the board to ensure that fees charged recover board costs.

Table 1-1 summarizes the board's sources and uses of funds during fiscal years 1999, 2000, and 2001.

Board of Accountancy

Table 1-1
Sources and Uses of Funds by Fiscal Year

	<u>1999</u>	<u>2000</u>	<u>2001</u>
Sources: ^(Note 1)			
Appropriations	\$587,000	\$607,000	\$624,000
Transfers-In ^(Note 2)	0	31,766	23,234
Balance Forward In (Out)	84,492	(79,323)	79,323
Cancellations	<u>(89,917)</u>	<u>0</u>	<u>(78,495)</u>
Total Sources	<u>\$581,575</u>	<u>\$559,443</u>	<u>\$648,062</u>
Uses:			
Payroll/Per Diems	\$244,994	\$268,133	\$268,889
Supplies/Equipment	174,025	124,873	131,276
Rent	53,128	52,107	53,235
Printing/Communications	46,920	41,690	32,845
Prof/Tech Services	29,040	23,136	20,755
Travel	15,640	27,890	33,494
Other	<u>17,828</u>	<u>21,614</u>	<u>24,337</u>
Total Uses	<u>\$581,575</u>	<u>\$559,443</u>	<u>\$564,831</u>

Note 1: The board deposits receipts into the General Fund as non-dedicated revenue.

Note 2: Transfers In from Department of Administration (Small Agency Infrastructure) Information System Upgrades.

Source: Minnesota Laws and Minnesota Accounting and Procurement System (MAPS).

Chapter 2. Revenues

Chapter Conclusions

The board's controls provided reasonable assurance that receipts were accurately reported in the accounting records, adequately safeguarded, and in compliance with applicable legal provisions and management's authorization.

For the items tested, the board complied with significant finance-related legal provisions concerning receipts. The board collected the appropriate level of fees to recover its operating costs. However, we found that the board did not open and date-stamp license applications during peak renewal periods in a timely manner. Therefore, we could not determine if the board daily deposited receipts totaling \$250, as required by statute.

The board receives revenue for examinations, licensing, and disciplinary fines. Per Minn. Stat. Chapter 214.06 (2001) and Minn. Stat. Chapter 326.22 (2001), the board sets its fees to recover its direct and indirect operating costs. The Department of Finance determines if the fees are appropriate. The approved fees are listed in Chapter 1100 of Minnesota Rules. The board deposits the fees into the General Fund as non-dedicated revenue.

The board had revenues of \$833,559 in fiscal year 1999, \$715,493 in fiscal year 2000, and \$700,428 in fiscal year 2001. Receipts were higher in 1999 due to the board's additional efforts to collect license fees associated with reinstated licensees. The board collected reinstatement fees for each year a licensee held an expired license. Individual license receipts and examination receipts respectively make up 58 percent and 28 percent of total revenues. Fines and penalties account for the remainder of the board receipts. The board receives the majority of the revenues at the end of each calendar year when all of the firm and individual license renewals are due.

Audit Objectives and Methodology

Our audit of revenue focused on the following objectives:

- Did the board's internal controls provide reasonable assurance that receipts were accurately reported in the accounting records, adequately safeguarded, and in compliance with applicable legal provisions and management's authorization?
- For the items tested, did the board comply with significant finance-related legal provisions concerning receipts?

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To answer these questions, we obtained an understanding of the internal control structure over the receipt process. We performed detailed transaction testing and determined whether the correct amount was collected and recorded in the accounting system. We also reviewed the documentation to determine if license renewals were timely deposited.

Conclusions

The board's controls provided reasonable assurance that receipts were accurately reported in the accounting records, adequately safeguarded, and in compliance with applicable legal provisions and management's authorization.

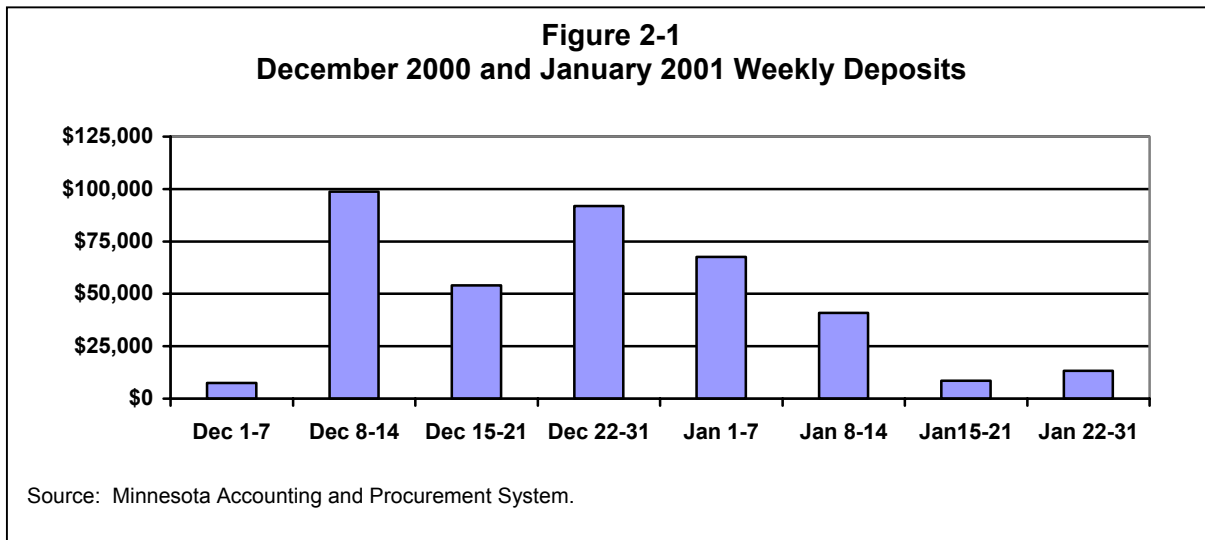
For the items tested, the board complied with significant finance-related legal provisions concerning receipts. The board collected the appropriate level of fees to recover its operating costs. However, we found that the board did not timely open and date-stamp license applications during peak renewal periods. Therefore, we could not verify that board receipts were deposited promptly in compliance with statutory requirements. We discuss this issue in Finding 1.

1. PRIOR FINDING PARTIALLY RESOLVED: The board did not deposit receipts in a timely manner.

In our last audit report, we concluded that the board did not timely deposit receipts. The board indicated that a new license system would improve the timeliness of deposits. During the current audit, we could not verify the timeliness of deposits since the board date-stamped license applications during peak renewal periods at the time the mail was opened, which was not necessarily the date the renewals were received in the office. Furthermore, during the December 2001 renewal period, the board did not date-stamp any applications during peak renewal periods.

During our testing, we noted the board did make daily deposits. As shown in Figure 2-1, however, large amounts of 2001 individual and firm renewals that were due by December 31 were deposited in January 2001, which could indicate board delays in depositing receipts. Furthermore, when we compared the date-stamp on the renewal to the date the applicant signed the application, over half of the renewals tested were date-stamped three weeks or more after the date the applicant signed the renewal form.

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Minn. Stat. Section 16A.275 (2001) requires that state agencies daily deposit receipts totaling \$250 or more in the state treasury. By not making timely deposits, receipts could be lost or stolen. If the board is not able to deposit receipts daily due to the limited number of board staff and the volume of receipts being collected at one time during the license renewal period, it should consider alternative ways to comply with the timely deposit requirement. The board could pursue a waiver from the Department of Finance to be exempt from the timely deposit statute for a limited time during peak renewal periods. The board could also consider other alternatives, such as implementing a staggered licensing cycle, to ensure prompt deposit of receipts.

Recommendations

- *The board should open and date-stamp license renewals immediately upon receipt to provide evidence of compliance with state statutes requiring timely deposit of receipts.*
- *If the board is unable to deposit all license receipts daily, it should request a waiver from the statutory requirements, or consider altering its license renewal cycle.*

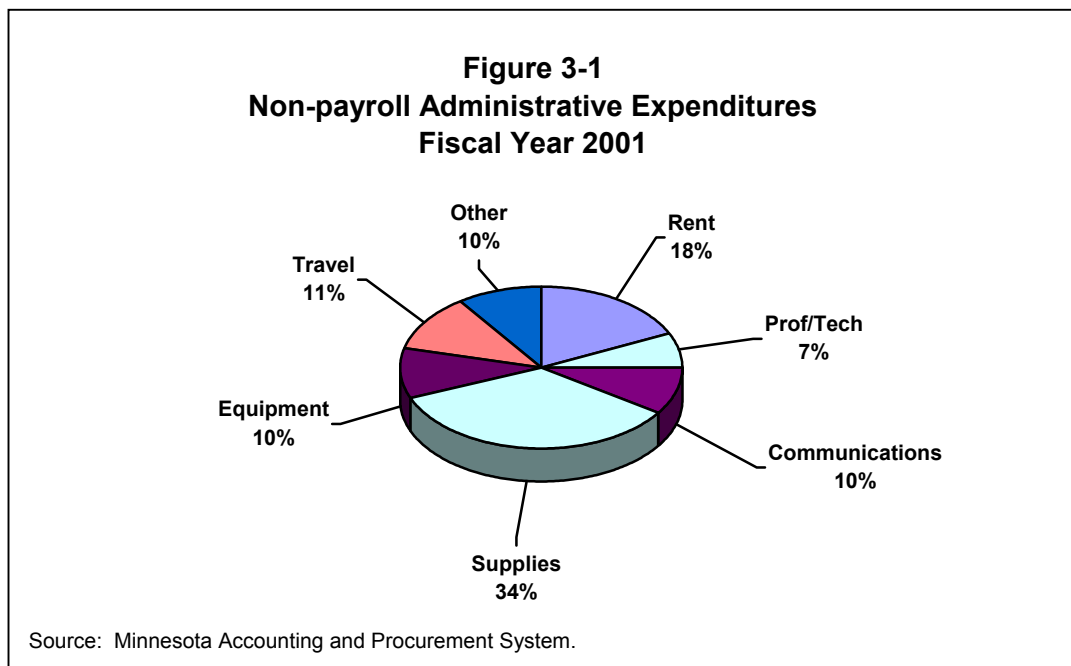
Chapter 3. Administrative Expenditures

Chapter Conclusions

The board's internal controls provided reasonable assurance that payroll and other administrative expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. For the financial transactions tested, the board complied with significant legal provisions concerning payroll and other administrative expenditures, including applicable bargaining unit provisions. However, we found that the board did not execute contracts and encumber funds before incurring certain obligations.

The board receives appropriations from the Legislature to finance its operations. The board's largest expenditure is payroll, which totaled approximately \$269,000 in fiscal year 2001. Board employees belong to various bargaining units or personnel plans including the American Federation of State, County, and Municipal Employees; the Minnesota Association of Professional Employees; and the Managerial Plan.

Other non-payroll administrative expenditures include rent, professional/technical services, communications, equipment, travel, and supplies. Payments twice a year to the American Institute of Certified Public Accountants for exam costs cause supply expenditures to be the largest non-payroll administrative expenditure. Figure 3-1 highlights the allocation of the board's non-payroll administrative expenditures for fiscal year 2001.



Board of Accountancy

Audit Objectives and Methodology

Our audit of payroll and other administrative expenditures focused on the following objectives:

- Did the board's internal controls provide reasonable assurance that payroll and other administrative expenditures were accurately reported in the accounting records, processed in accordance with management's authorization, and in compliance with applicable legal provisions and management's authorization?
- For the items tested, did the board comply with significant finance-related legal provisions concerning payroll and other administrative expenditures?

To answer these questions, we obtained an understanding of the internal control structure over the payroll and administrative expenditure processes. We reviewed controls and tested transactions related to payroll and the acquisition of equipment, materials, supplies, services, rent, and travel. We tested transactions to determine whether the board properly procured goods and services, paid the correct amount, accurately recorded transactions in the accounting system, and complied with applicable state purchasing policies.

Conclusions

The board's internal controls provided reasonable assurance that payroll and other administrative expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization.

For the items tested, the board complied with the significant finance-related legal provisions concerning payroll and other administrative expenditures. However, as noted in Finding 2, we found that the board did not execute contracts and encumber funds before incurring obligations.

2. The board did not execute contracts and encumber funds before incurring certain obligations.

The board had not executed contracts for approximately \$77,000 in computer consulting services received in fiscal year 1999 and early fiscal year 2000. The board also did not execute contracts for exam space rental before the May 1999 and 2001 exams. Rental costs for each exam totaled \$5,600. The May 1999 contract was executed on June 1, 1999, and the May 2001 contract was executed on August 21, 2001. In addition, the American Institute of Certified Public Accountants' exam costs were not encumbered prior to the November 1998, 1999, and 2000 exams. The exam costs ranged from \$62,000 to \$71,000 each.

Minn. Stat. Section 16A.15 (2001), requires that either funds be encumbered or agencies verify sufficient funds are available prior to incurring obligations. The Department of Finance policy requires state agencies to encumber funds for obligations exceeding

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\$2,500. Not executing contracts or encumbering funds before incurring obligations could cause budgeting problems or contract performance concerns.

Recommendation

- *The board should improve its process of executing contracts and encumbering funds before incurring obligations.*

**Status of Prior Audit Issues
As of April 5, 2002**

Legislative Audit Report 99-29, issued May 1999, covered fiscal years 1995 through 1998. The audit scope included examination, license, and disciplinary fine revenues along with employee payroll and other administrative expenditures. The audit report contained one finding concerning depositing receipts in a timely manner. As discussed in Finding 1 of this report, we could not determine if the board implemented the prior recommendation.

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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May 20, 2002

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

Re: Financial and Compliance audit for the three years ending June 30, 2001

Dear Mr. Nobles:

Under Key Findings:

- “The Board did not open and date stamp license applications immediately upon receipt during peak renewal periods.” The Board acknowledges that this lapse occurred during the peak periods in both FY01 & 02 renewal campaigns you also mentioned “2002 peak renewal period” which of course would be in FY2003 which would not be included in the scope of this audit. A written policy has been developed which addresses this issue and requires the clerks to date stamp and deposit all checks on the day of receipt or as soon as there is an accumulative total of \$250.00. Due to the small size of this Boards clerical staff (3) the Board may hire part time clerical help to expedite this. Further, the board has sought a waiver of deposit required during peak license renewal season from the Department of Revenue to MS16A.275(2001). To change the entire license renewal scheme would be neither practicable nor cost effective at this time. However, beginning with the next renewal campaign we will mail both individual and firm renewals in early October urging early renewal to help alleviate such a severe peak at years end.
- “The Board did not execute contracts or encumber funds before incurring certain obligations.” Each obligation was completely budgeted for and anticipated. Corrective action has been taken to calendar each exam event and payment schedule 60 days in advance so encumbrances are prepared by our host agency in a timely fashion. The Boards contracts are likewise being calendared for the Executive Director.

The Board and its staff wish to thank the Legislative Auditor and his Audit Staff for a very professional and helpful audit experience. Together we can improve and enhance our service to the Public which we serve.

Sincerely,

/s/ Dennis J. Poppenhagen

Dennis J. Poppenhagen
Executive Director

Cc: Audit Committee Members (3)
Board Chair

hj