



**OFFICE OF THE LEGISLATIVE AUDITOR**  
STATE OF MINNESOTA

Financial Audit Division Report

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**Minnesota Board of Nursing**  
**July 1, 2000, through June 30, 2003**



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## 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.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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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

Shirley Brekken, Executive Director  
Minnesota Board of Nursing

We have audited the Minnesota Board of Nursing 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 Nursing

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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 Nursing at an exit conference on October 27, 2004:

Shirley Brekken	Executive Director
Sheryl Meyer	Operations Manager
Juli Vangness	Accounting Supervisor, Administrative Services Unit

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## Report Summary

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### Conclusions:

- The Minnesota Board of Nursing needs to perform an independent review of expenditure transactions and further restrict access to its business systems and safe. (Finding 1, page 8)
- The board complied with legal provisions for the items tested except that the board over-recovered its costs by \$1.8 million for the biennium ended June 30, 2003. (Finding 2, page 9)

The report contained one finding related to internal control. A second finding pertained to legal compliance. The board resolved two prior audit findings.

### 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 Nursing regulates the licensing of nurses engaged in the practice of nursing in the state of Minnesota. In fiscal year 2003, the board collected approximately \$4.6 million and incurred \$4.1 million in both direct and indirect costs. During the biennium ended June 30, 2003, the board processed about 67,000 registered and 23,000 practical nursing license renewals.

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# Minnesota Board of Nursing

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## Chapter 1. Introduction

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The Board of Nursing is a regulatory agency of the state of Minnesota. According to board staff, the agency's mission is to protect the public's health and safety by providing reasonable assurance that nurses are competent, ethical practitioners with the necessary knowledge and skills appropriate to their titles and roles. The board carries out the following functions to effect this mission: licenses and registers practical and professional nurses, registers public health nurses, disciplines licensees, approves nursing programs, registers nursing corporations, and regulates the practice of certified clinical nurse specialists, nurse anesthetists, nurse-midwives, and nurse practitioners, including verification of advanced-practice registered nurses to the Drug Enforcement Agency regarding prescriptive authority. The board consists of 16 members appointed by the Governor and operates under Minn. Stat. Section 148.171 - 148.299 and Chapter 214. Shirley Brekken 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.

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	<u>2001</u>	<u>2002</u>	<u>2003</u>
Sources:			
Appropriation	\$2,304,565	\$2,794,442	\$2,936,078
Transfers-In <sup>(2)</sup>	383,558	126,102	(364,138)
Balance Forward In (Out)	382,137	(876,943)	843,725
Cancellations	(371,843)	0	(329,958)
Total Sources	<u>\$2,698,417</u>	<u>\$2,043,601</u>	<u>\$3,085,707</u>
Uses:			
Direct Expenditures	\$2,638,852	\$2,018,159	\$3,051,629
Statewide Indirect Costs	<u>59,565</u>	<u>25,442</u>	<u>34,078</u>
Total Uses	<u>\$2,698,417</u>	<u>\$2,043,601</u>	<u>\$3,085,707</u>

Notes:

- (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.
- (2) Transfers pertain primarily to the health professional services program and information technology projects.

Source: Minnesota Accounting and Procurement System.

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**Minnesota Board of Nursing**

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## Chapter 2. Financial Operations

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### *Chapter Conclusions*

*The Minnesota Board of Nursing needs to provide an independent review of expenditure transactions and further restrict access to its business systems and safe.*

*For the items tested, the board complied with applicable finance-related legal requirements except that the board collected about \$1.8 million more than its costs for the biennium ended June 30, 2003.*

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The Minnesota Board of Nursing'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. These services are separately funded within each centralized service agency budget and are not paid directly by the board. 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 26 staff who belong to various compensation plans. The largest class of nonpayroll administrative expenditures 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 nurses. During the biennium ended June 30, 2003, the board processed about 67,000 registered and 23,000 practical nursing license renewals. Active and inactive licenses expire annually. The

## **Minnesota Board of Nursing**

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.

### **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.

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**Table 2-1**  
**Receipts, Expenditures, and Indirect Costs**  
**By Fiscal Year**

	<u>2002</u>	<u>2003</u>
<b>Receipts <sup>(1)</sup></b>		
License Fees	\$3,529,390	\$3,801,351
Application Fees	403,590	468,856
Fines, Penalties, and Filing Fees	246,257	221,157
Other	<u>105,645</u>	<u>65,947</u>
<b>Total Revenues</b>	<b><u>\$4,284,882</u></b>	<b><u>\$4,557,311</u></b>
 <b>Direct Expenditures</b>		
Payroll and Per Diem	\$1,418,429	\$1,738,701
Rent, Maintenance, and Utilities	161,193	160,647
Computers and System Development	94,057	541,092
Communications and Printing	175,140	286,244
Supplies and Equipment	85,938	223,801
Other Operating Costs	<u>83,402</u>	<u>101,145</u>
<b>Total Direct Expenditures</b>	<b><u>\$2,018,159</u></b>	<b><u>\$3,051,630</u></b>
 <b>Indirect Costs</b>		
Administrative Services Unit <sup>(2)</sup>	\$ 52,099	\$ 65,597
Health Professional Services Program <sup>(2)</sup>	253,390	277,107
Attorney General Services <sup>(2)</sup>	449,710	547,196
HIV/HBV Services Program <sup>(2)</sup>	97,043	137,108
Statewide Indirect Costs	<u>25,442</u>	<u>34,078</u>
<b>Total Indirect Expenditures</b>	<b><u>\$ 877,684</u></b>	<b><u>\$1,061,086</u></b>
 <b>Total Direct and Indirect Expenditures</b>	<b><u>\$2,895,843</u></b>	<b><u>\$4,112,716</u></b>
 <b>Fiscal Year Surplus <sup>(3)</sup></b>	<b><u>\$1,389,039</u></b>	<b><u>\$ 444,595</u></b>

**Notes:**

- (1) Board receipts are deposited in a special revenue fund as non-dedicated 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.

## Audit Objectives and Methodology

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

## Minnesota Board of Nursing

- 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?

## Findings and Recommendations

Finding 1 discusses the weaknesses we identified in the department's controls over financial operations. Finding 2 addresses concerns with the board's fee setting process.

### **1. The board did not provide an independent review of administrative disbursements or adequately restrict access to its business systems or safe.**

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

- The board assigned a concentration of duties in the purchasing cycle to the office manager. The office manager is responsible for ordering goods, authorizing purchases, preparing receiving reports, authorizing payments, and reconciling payments to vendor invoices. Ideally, someone independent of these 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 perform these duties, someone else could independently approve and verify the reconciliation to supporting records.
- Several state employees have unnecessary access to the board's business systems. First, the board granted incompatible access to two employees. One individual responsible for the deposit function has access to create, update, and delete licensing records. Another individual responsible for creating, updating, and deleting licensing records also has access to the deposit function. 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 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. Third, two individuals at the Board of Medical Practice also have access to the accounting and human resources systems to back-up ASU employees. We think this compromises the confidentiality of the Board of Nursing's data.

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- Too many individuals have access to the board's safe. In order to protect the receipts contained in the safe, the board must restrict access to the safe and ensure that the combination to the safe is secured.

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 computer systems. Access to computer systems should be restricted based on each individual's job duties. The assignment of back-up duties for staff should not create control weaknesses unless mitigating controls are implemented to reduce the risk of errors and irregularities. 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 disbursement reconciliations performed by the office manager.*
- *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.*
- *The board should restrict access to the safe and protect the combination.*

## **2. The board collected about \$1.8 million more in fees for the biennium ended June 30, 2003, than necessary to cover its costs during that period.**

As shown in Table 2-1, for the biennium ended June 30, 2003, the board collected approximately \$1.8 million (\$1.4 million in fiscal year 2002 and \$0.4 million in fiscal year 2003) more in fees than necessary to cover its costs. According to Minn. Stat. Section 16A.1285, Subd. 2, "Unless otherwise provided by law, specific charges...must be set at a level that neither significantly over recovers or under recovers costs...involved in providing the services."

An analysis of the board's past revenues and expenditures indicates several potential factors that contributed to the over recovery of costs. In fiscal year 2002, the board incurred reduced payroll expenditures of approximately \$237,000 due to a state employee strike. License receipts also increased because replacement workers needed to be licensed. In fiscal year 2003, actual

## Minnesota Board of Nursing

revenues exceeded revenue projections by approximately \$800,000. Future revenue projections remain lower than the actual fiscal year 2003 revenues. At the same time, the board's future expenditure projections are also lower than the board's actual expenditures in fiscal year 2003. Each of these projections could result in the board continuing to over recover its costs in the future.

### *Recommendation*

- *The board needs to conduct a critical analysis of projected revenues and expenditures to determine whether it needs to reduce its fees in order to avoid over recovering its costs in the future.*

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**Status of Prior Audit Issues  
As of April 30, 2004**

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**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 two audit findings; one related to payroll and the other to prepaying a vendor. The board resolved both issues.

**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 Nursing**

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STATE OF MINNESOTA  
**BOARD OF NURSING**

2829 University Avenue SE, #500 Minneapolis, MN 55414-3253

January 5, 2005

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

Dear Mr. Nobles:

Thank you for the opportunity to respond to the draft report of the recent financial audit of the Board of Nursing. It was a pleasure working with Jim Riebe, Ken Vandermeer and their team. They were extremely comprehensive yet asked challenging questions and requested multitudinous documentation in a consistently courteous manner and were not intimidating.

We have reviewed the draft of the report and make the following clarifications and statements regarding approaches to address the recommendations.

The following weaknesses were identified in the Findings and Recommendations:

1. *The board did not provide an independent review of administrative disbursements or adequately restrict access to its business systems or safe.*
- *The board assigned a concentration of duties in the purchasing cycle to the office manager. The office manager is responsible for ordering goods, authorizing purchases, preparing receiving reports, authorizing payments, and reconciling payments to the vendor invoices.*

Response: The operations manager authorizes purchase requests and submits the requests to the Administrative Services Unit (ASU). ASU purchases goods in compliance with the Department of Administration's policies and procedures, including recording the purchase in MAPS and assigning state property ID numbers when appropriate. The operations administrative assistant prepares receiving reports. The operations manager authorizes payment and reconciles payments to vendor invoices. As recommended in your report, in January 2005, the Board has determined to modify the procedure by continuing to have the operations manager perform these duties and have the executive director independently approve and verify the payment reconciliation.

- *Several state employees have unnecessary access to the board's business systems. First the board granted incompatible access to two employees. One individual responsible for the deposit function has access to create, update and delete licensing records. Another individual responsible for creating, updating and deleting licensing records also has access to the deposit function.*

Response: The operations administrative assistant is the primary depositor. A customer service specialist was the back-up depositor. As a small staff, we have found it efficient to cross-train staff. However, acknowledging the need for critical control procedures to reduce the risk of error and irregularities, the data systems manager will remove the operations administrative assistant's access to create, update and delete licensing records. Additionally, in January 2005, the Board will reassign the duties of back-up depositor to the executive director's administrative assistant. This individual's access to the licensing function will continue to be limited to view-only.

*Second, the current access profiles for payroll and personnel at ASU do not follow requirements established by the Department of Employee Relations.*

Response: ASU worked with DOER in December 2004 to ensure personnel and payroll access profiles are in compliance with DOER guidelines. The Board will request an annual report from ASU to confirm continued compliance effective January 2005.

*Third, two individuals at the Board of Medical Practice also have access to the accounting and human resources systems to back-up ASU employees.*

Response: This was a past practice of ASU necessitated by a lack of ASU personnel to provide back-up personnel and payroll tasks. ASU worked with DOER in January 2005 to remove Medical Practice staff's access to Board of Nursing records and has now verified that staff no longer has access to Board of Nursing records. The Board will request an annual report from ASU to confirm continued compliance effective January 2005.

- *Too many individuals have access to the board's safe.*

Response: The combination to the safe was changed in December 2004, and the combination is limited to the depositor and three managerial staff.

2. *The board collected about \$1.8 million more in fees for the biennium ended June 30, 2004, than necessary to cover its costs during that period.*

Response: As identified in the report, several unforeseen events contributed to the over recovery. One, members of the Minnesota Nurses Association implemented a strike against Minneapolis and St. Paul hospitals. Generally, the board processes approximately 1,300 applications for licensure by endorsement annually. In anticipation of being replacement workers, approximately 3,200 out of state nurses applied for licensure in Minnesota. Subsequently, a significant number of those nurses requested verification of license to other state boards of nursing, again resulting in a collection of fees not anticipated. Additionally,

James R. Nobles  
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January 5, 2005

the state employee strike in FY02 reduced the board's payroll expenditures by approximately \$240,000.

The report recommends the board conduct a critical analysis of projected revenues and expenditures to determine whether it needs to reduce its fees in order to avoid over recovering its costs in the future. Board fees must go through the biennial budget process. Fees are set in statute. The board analyzes projected revenues and expenditures as part of the budget preparation process. Due to decreased authority to spend in FY04 and FY05 and projected revenue increases, the board recognized it would over collect in FY04 and FY05. The board proposed a fee reduction in FY04 and FY05; however, the proposed fee reduction was not forwarded to the legislature. The board again recognizes a need to reduce fees. At its December meeting, the Board voted to propose a fee reduction. The FY06 and FY07 biennial budget has been submitted to Finance and includes the proposed fee reduction.

As executive director, I will assure that all of the above revisions are implemented. Thank you for your assistance and guidance in a review and revision of the controls to provide that the Board's assets are safeguarded and financial transactions are proper and accurately accounted.

Please contact me if I may be of further assistance at 612-617-2296.

Sincerely,

A handwritten signature in cursive script, appearing to read "Shirley A. Brekken".

Shirley A. Brekken  
Executive Director