



FINANCIAL AUDIT DIVISION REPORT

**Board of Examiners for
Nursing Home Administrators
and the
Health Licensing Boards –
Administrative Services Unit
Internal Control and Compliance Audit
July 1, 2004, through June 30, 2008**

October 23, 2008

Report 08-26

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

October 21, 2008

Representative Rick Hansen, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Kyle Nordine, Chair
Board of Examiners for Nursing Home Administrators

Mr. Randy Snyder, Executive Director
Board of Examiners for Nursing Home Administrators

Ms. Juli Vangness, Administrative Director
Health Licensing Boards – Administrative Services Unit

This report presents the results of our internal control and compliance audit of the Board of Examiners for Nursing Home Administrators, for the period July 1, 2004, through June 30, 2008. This report also includes the results of our audit work related to the Health Licensing Boards – Administrative Services Unit for the period July 1, 2004, through June 30, 2008.

The board serves as the fiscal agent for the Health Licensing Boards – Administrative Services Unit (services unit). The services unit provides financial management assistance to all of the health-related licensing boards.

Our fieldwork ended on August 4, 2008, and we discussed the results of the audit with department staff on October 7, 2008. The audit was conducted by Michael Hassing, CPA, CISA (Audit Manager) and Zach Yzermans (Auditor-in-Charge).

We received the full cooperation of the board and services unit staff while performing this audit.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

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Report Summary

Conclusions

The Board of Examiners for Nursing Home Administrators generally had adequate internal controls to ensure that it safeguarded receipts and other assets, accurately paid employees and vendors in accordance with management's authorization, produced reliable financial information, and complied with finance-related legal requirements. For the items tested, the board complied with finance-related legal requirements over its financial activities.

The Health Licensing Boards – Administrative Services Unit (services unit) generally had adequate internal controls to ensure that it safeguarded receipts and other assets, accurately recorded financial transactions in accordance with managements' authorization, produced reliable financial information, and complied with finance-related legal provisions on behalf of the health-related licensing boards and for its own operations. For the items tested, the services unit complied with finance-related legal requirements regarding its financial management responsibilities.

Findings

- The Board of Examiners for Nursing Home Administrators did not have adequate inventory controls for its fixed assets and sensitive items. ([Finding 1, page 9](#))
- The Health Licensing Boards – Administrative Services Unit did not properly identify the liability date for most of the expenditure transactions it recorded on behalf of the health-related licensing boards. ([Finding 2, page 9](#))

Audit Objectives and Scope

Objectives

- Internal Controls
- Compliance

Period Audited

- July 1, 2004, through June 30, 2008

Programs Audited

- Payroll
- License and Fee Revenue
- Other Administrative Expenditures

Background

The Board of Examiners for Nursing Home Administrators licenses and regulates over 800 nursing home administrators in Minnesota. The board's main responsibilities include setting qualifications for licensure, reviewing and acting on complaints against licensed administrators, and assisting consumers needing to solve problems about care provided in Minnesota nursing homes.

The board also served as fiscal agent for the Health Licensing Boards – Administrative Services Unit (services unit). The services unit provided centralized administrative and budget management support for all 17 health-related licensing boards.

The Board of Examiners for Nursing Home Administrators and the Health Licensing Boards – Administrative Services Unit

Agency Overview

The Board of Examiners for Nursing Home Administrators licenses and regulates over 800 nursing home administrators in Minnesota. The board's main responsibilities include setting qualifications for licensure, reviewing and acting on complaints against licensed administrators, and assisting consumers needing to solve problems about care provided in Minnesota nursing homes. The Board of Examiners for Nursing Home Administrators is governed by [Minnesota Statutes 2007, chapter 144A](#). Kyle Nordine is the current board chair. Randy Snyder has been the executive director since 2000 and is responsible for daily management of the board. The Board of Examiners for Nursing Home Administrators is one of seventeen health-related licensing boards.

The Board of Examiners for Nursing Home Administrators uses application fees, license fees, and other miscellaneous fees to fund its operations. The board's spending authority, however, is based on the amount of appropriations it received from the state's Health Care Fund. These appropriations were \$198,000 for each fiscal year from 2005 to 2007, and \$203,000 for fiscal year 2008. Table 1 (on the next page) summarizes the board's revenues and expenditures for the period July 1, 2004, through June 30, 2008.

The board also serves as fiscal agent for the Health Licensing Boards – Administrative Services Unit (services unit) and houses the services unit within its offices. The services unit provides centralized administrative services to all 17 health-related licensing boards in the areas of budgeting, fiscal analysis, human resources, transaction processing, purchasing and printing services, operations analysis, contracts, information technology, and research and policy analysis. The various responsibilities of the services unit are established in [Minnesota Statutes 2007, chapter 214](#). Juli Vangness, the administrative director, is responsible for the daily management of the services unit.

Table 1
Board of Examiners for Nursing Home Administrators
Revenues and Expenditures
Fiscal Years 2005 through 2008

<u>Revenues</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
License Fees	\$168,200	\$162,000	\$162,800	\$165,100
Application and Exam Fees	10,450	13,850	11,350	11,250
Other Fees ¹	<u>14,774</u>	<u>14,067</u>	<u>13,750</u>	<u>17,235</u>
Total	<u>\$193,424</u>	<u>\$189,917</u>	<u>\$187,900</u>	<u>\$193,585</u>
<u>Expenditures</u>				
Payroll	\$135,543	\$132,947	\$140,071	\$135,834
Space Rental	10,006	9,253	9,520	9,787
Travel	3,685	4,565	4,280	6,312
Equipment	4,902	935	6,197	1,753
Indirect Costs	5,082	5,748	360	3,588
Other Administrative Expenditures ²	<u>9,928</u>	<u>11,614</u>	<u>14,845</u>	<u>8,144</u>
Total	<u>\$169,146</u>	<u>\$165,062</u>	<u>\$175,273</u>	<u>\$165,417</u>

¹ Other fees include continuing education fees, reinstatement fees, mailing label fees, education review fees, recipient verification fees, and late fees.

² Other administrative expenditures include repairs, alterations, and maintenance; printing and advertising; state agency and outside vendor professional technical contracts; computer and system services; communications; supplies; employee development; and other operating costs.

Source: Minnesota Accounting and Procurement System.

The services unit is funded by receipts from all boards through a formula designed to approximate the share of centralized services used by each board. The Emergency Medical Services Regulatory Board and the Board of Barber and Cosmetologist Examiners pay the services unit directly for their share of services. The other boards transfer their share of centralized services costs into the State Government Special Revenue Fund. The services unit received a direct appropriation from the state government special revenue fund in fiscal years 2005, 2006, 2007, and 2008 of \$359,000, \$418,000, \$421,000, and \$430,000, respectively. The services unit's total spending authority is its appropriations plus the receipts from the Emergency Medical Services Regulatory Board and the Board of Barber and Cosmetology Examiners.

Table 2 summarizes the services unit's revenues and expenditures for fiscal years 2005 through 2008.

Table 2
Health Licensing Boards – Administrative Services Unit
Revenues and Expenditures
Fiscal Years 2005 through 2008

<u>Revenues</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Interagency Agreements ¹	\$337,795	\$ 0	\$360,977	\$ 0
Other Revenue	350	250	400	604
Total	<u>\$338,145</u>	<u>\$ 250</u>	<u>\$361,377</u>	<u>\$ 604</u>
<u>Expenditures</u>				
Payroll	\$318,442	\$336,627	359,000	468,961
Space Rental	45,348	78,441	80,505	82,570
Computers and System Services	23,035	23,483	4,614	35,669
Other Operating Expenditures ²	<u>59,561</u>	<u>99,808</u>	<u>68,500</u>	<u>159,812</u>
Total	<u>\$446,386</u>	<u>\$538,359</u>	<u>\$512,619</u>	<u>\$747,012</u>

¹ The Emergency Medical Services Board and the Board of Barber and Cosmetology Examiners fund their share of the Administrative Services Unit's costs through an interagency agreement paid biennially.

² This amount includes repairs, alterations, and maintenance; printing and advertising; professional technical contracts; communications; travel; supplies; equipment; employee development; statewide indirect costs; and other operating expenditures.

Source: Minnesota Accounting and Procurement System.

Objectives, Scope, and Methodology

Our audit of the Board of Examiners for Nursing Home Administrators and the Health Licensing Boards – Administrative Services Unit's payroll, license and fee revenue, and other administrative expenditures focused on the following audit objectives for the period of July 1, 2004, to June 30, 2008:

- Were the board's and the services unit's internal controls adequate to ensure that they safeguarded receipts and other assets, accurately paid employees and vendors in accordance with managements' authorizations, produced reliable financial information, and complied with finance-related legal requirements?
- For the items tested, did the board and services unit comply with significant finance-related legal requirements over their financial activities, including state laws, regulations, contracts, and applicable policies and procedures?

To answer these questions, we interviewed board and services unit staff to gain an understanding of the controls related to the board's and services unit's financial operations. In determining our audit approach, we considered the risk of errors in the accounting records and potential noncompliance with financial related legal provisions. We also analyzed accounting data to identify unusual transactions or significant changes in financial operations for further review. In addition, we selected a sample of financial transactions and reviewed supporting documentation to test whether the board's and services unit's controls were effective and if the transactions complied with laws, regulations, policies, and grant and contract provisions.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

We used various criteria to evaluate internal control and compliance. Included in our criteria to evaluate agency controls was the guidance contained in the *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission.¹ We used state laws, regulations, and contracts, as well as policies and procedures established by the departments of Finance and Administration and the board's internal policies and procedures as evaluation criteria over compliance.

Conclusions

The Board of Examiners for Nursing Home Administrators' internal controls were generally adequate to ensure that it safeguarded receipts and other assets, accurately paid employees and vendors in accordance with management's authorization, produced reliable financial information, and complied with finance-related legal requirements. However, the board needs to improve controls over its fixed assets.

The Health Licensing Boards – Administrative Services Unit's internal controls were generally adequate to ensure that it safeguarded receipts and other assets, accurately paid employees and vendors in accordance with managements' authorization, produced reliable financial information, and complied with finance-related legal requirements. However, it needs to improve controls to ensure that it

¹ The Treadway Commission and its Committee of Sponsoring Organizations were established in 1985 by the major national associations of accountants. One of their primary tasks was to identify the components of internal control that organizations should have in place to prevent inappropriate financial activity. The resulting Internal Control-Integrated Framework is the accepted accounting and auditing standard for internal control design and assessment.

accurately records the date the state incurred a liability when processing payments for the various health-related boards and its own expenditure transactions.

For the items tested, the Board of Examiners for Nursing Home Administrators and the Health Licensing Boards – Administrative Services Unit complied with finance-related legal requirements over its financial activities.

The following *Findings and Recommendations* provide further explanation about the exceptions noted above.

Findings and Recommendations

The Board of Examiners for Nursing Home Administrators did not have adequate inventory controls for its fixed assets and sensitive items.

Finding 1

The Board of Examiners for Nursing Home Administrators did not conduct a physical inventory of its fixed assets or sensitive items during fiscal years 2005 through 2008. The Department of Administration's *Property Management User Guide*² requires state agencies to conduct a physical inventory of capital assets at least biennially.

The health-related boards, including the Board of Examiners for Nursing Home Administrators, rely on the Administrative Services Unit to maintain the master schedule of fixed assets for each board. The services unit records additions and deletions to fixed asset records based on the financial activity it processes on behalf of the boards. The board, however, is ultimately responsible for its assets and to ensure the accuracy of the fixed asset schedule.

Without an accurate inventory of fixed assets and sensitive items, there is a greater risk that theft or errors could occur and not be detected. In addition, a regular inventory would assist the board in verifying the accuracy of the financial reporting of its assets.

Recommendation

- *The board should improve its security and safeguarding over its fixed assets by conducting periodic physical inventories and spot checks of fixed assets and sensitive items.*

The Health Licensing Boards – Administrative Services Unit did not properly identify the liability date for most of the expenditure transactions it recorded on behalf of the health-related licensing boards.

Finding 2

The services unit did not properly record the date the state incurred a liability for many expenditure transactions. The services unit incorrectly recorded the liability date in the state's accounting system in over 86 percent of the 119 sample

² Department of Administration Policy ADMIN 06-03 *Property Management User Guide*.

transactions tested for itself and four of the health-related licensing boards.³ The services unit recorded a liability date that was inconsistent with the supporting documentation provided by the boards. In many cases, it used the invoice date or allowed the date of liability to default to the date the payment was entered into the state's accounting system.

The Department of Finance requires agencies to record the date that the state became liable for an expenditure. Typically, this is the date when the agency received the goods or services. The accounting system uses this date to recognize the expenditure in the proper accounting period.⁴ If the agency uses an incorrect liability date, the transaction may accrue to the wrong fiscal year, and the reliability of the financial information is reduced.

Recommendation

- *The Health Licensing Boards – Administrative Services Unit should ensure that it accurately records the date of liability in the state's accounting system.*

³ Incorrect record dates by board: Administrative Services Unit – 11 of 12 transactions, Nursing Home Administrators – 22 of 26 transactions, Emergency Medical Services – 39 of 45 transactions, Barber and Cosmetology – 10 of 10 transactions, and Behavioral Health and Therapy – 21 of 26 transactions.

⁴ Department of Finance Policy 0901-01.



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October 7, 2008

Mr. James R. Nobles, Legislative Auditor
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Dear Mr. Nobles:

The Board of Examiners for Nursing Home Administrators officially responds to your recent audit. The Board staff greatly appreciates the professional conduct of the Office of the Legislative Audit staff and for their thorough review of the internal control and compliance audit as recently completed. In response to your noted recommendations, we offer the following response:

Recommendation # 1 – The board should improve its security and safeguarding over its fixed assets by conducting periodic physical inventories and spot checks of fixed assets and sensitive items.

Board Response to OLA Recommendation: *The board acknowledges your finding and will draft policy to conduct physical inventory of our fixed assets every six months. It should be disclosed that BENHA has ten items listed in our fixed asset inventory and is visually aware of their presence as a regular part of our work day. However, we acknowledge and have written a internal policy for the recommended financial control.*

Recommendation # 2 The Health Licensing Boards – Administrative Services Unit should ensure that it accurately records the date of liability in the state’s accounting system.

Board Response to OLA Recommendation: *As the administering board for the Administrative Services Unit, the board acknowledges the intent of the Department of Finance Policy 0901-01 and will record the date of liability in the state’s accounting system as it applies to purchasing guidelines per your recommendation. This will be reviewed with staff and completed by November 1, 2008.*

We thank you and your staff for the professional observations in assuring the citizens of this state that sound internal controls are routinely completed as evidenced by your findings.

Sincerely,

BOARD OF EXAMINERS FOR
NURSING HOME ADMINISTRATORS

/s/ Randy D. Snyder

Randy D. Snyder, LNHA
Executive Director

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