



FINANCIAL AUDIT DIVISION REPORT

**Board of Behavioral Health
and Therapy**

Internal Control and Compliance Audit

July 1, 2004, through June 30, 2008

October 23, 2008

Report 08-28

FINANCIAL AUDIT DIVISION

Centennial Building – Suite 140

658 Cedar Street – Saint Paul, MN 55155

Telephone: 651-296-4708 • Fax: 651-296-4712

E-mail: auditor@state.mn.us • Web site: <http://www.auditor.leg.state.mn.us>

Through Minnesota Relay: 1-800-627-3529 or 7-1-1



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. Nicholas Ruiz, Chair
Board of Behavioral Health and Therapy

Ms. Kari Rechtzigel, Executive Director
Board of Behavioral Health and Therapy

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

This report presents the results of our internal control and compliance audit of the Board of Behavioral Health and Therapy (board) for the period July 1, 2004, through June 30, 2008.

The Health Licensing Boards – Administrative Services Unit (services unit) provides financial management assistance to all of the health-related licensing boards, including the Board of Behavioral Health and Therapy.

Our fieldwork ended on August 29, 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 Bridgette Leonard (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

Table of Contents

	<u>Page</u>
Report Summary	1
Agency Overview	3
Objectives, Scope, and Methodology	4
Conclusions.....	5
Findings and Recommendations	7
1. The board did not adequately safeguard or promptly deposit its receipts and did not reconcile receipts to licenses issued	7
2. The board did not review key payroll output reports	8
3. The board did not verify per diem eligibility of certain board members before making per diem payments	8
4. The board did not have adequate inventory control for its fixed assets and sensitive items.....	9
Agency Response.....	11

Report Summary

Conclusions

The Board of Behavioral Health and Therapy (board) did not have adequate internal controls to safeguard receipts and sensitive assets. However, the board generally had adequate internal controls to ensure that it accurately paid employees and vendors in accordance with management's authorization, properly oversaw and authorized financial transactions, produced reliable financial information, and complied with finance-related legal requirements. It did not, however, review some key payroll reports.

For the items tested, the board generally complied with finance-related legal requirements over its financial activities. However, it did not always deposit receipts daily, as required by statute, or ensure compliance with statutory per diem provisions.

Key Findings

- The board did not adequately safeguard or promptly deposit its receipts and did not reconcile receipts to licenses issued. ([Finding 1, page 7](#))
- The board did not review key payroll output reports. ([Finding 2, page 8](#))
- The board did not have adequate inventory control for its fixed assets and sensitive items. ([Finding 4, page 9](#))

Audit Objectives and Scope

Objectives

- Internal Controls
- Compliance

Period Audited

- July 1, 2004, through June 30, 2008

Programs Audited

- Payroll Expenditures
- License Revenue
- Other Administrative Expenditures

Background

The Board of Behavioral Health and Therapy was formed by 2003 legislation and began operations on December 4, 2003. In fiscal year 2006, the board was expanded to include the licensing of alcohol and drug counselors, which had previously been handled by the Department of Health. The board operates to promote quality and effective counseling services by ensuring that licensed counselors are qualified to perform their duties. The board operates under [Minnesota Statutes](#) 2007, chapters 148B, 148C, and 214 and [Minnesota Administrative Rules](#) 2007, chapters 2150 and 4747. It is classified as a health-related licensing board pursuant to [Minnesota Statutes](#) 2007, chapter 214.01. The board collects fees for applications, licenses, and other miscellaneous charges that it uses for operations.

Board of Behavioral Health and Therapy

Agency Overview

The Board of Behavioral Health and Therapy was established in 2003 with authority to license professional counselors. The board authority was expanded in 2006 to include licensing alcohol and drug counselors, which had previously been issued by the Department of Health. The board operates under [Minnesota Statutes](#) 2007, chapters 148B, 148C, and 214 and [Minnesota Administrative Rules](#) 2007, chapters 2150 and 4747.

The board consists of thirteen members appointed by the Governor, including five alcohol and drug counselors, five professional counselors, and three public members. The board is responsible for hiring the executive director. Nicholas Ruiz is the current board chair. Kari Rechtzigel has been the executive director since 2003 and is responsible for the daily management of the board. The board is responsible for setting licensing requirements and examination standards; setting standards of practice and conduct; responding to inquiries, complaints, and reports regarding licensure and conduct of applicants and licensed and unlicensed practitioners; and providing information and education to the public and other interested parties.

The Board of Behavioral Health and Therapy is one of seventeen health-related licensing boards that operate under [Minnesota Statutes](#) 2007, chapter 214. The board uses the financial services provided to all of the boards from the Health Licensing Boards – Administrative Services Unit (services unit). Each board is charged a fee based on the extent of centralized support services provided by the services unit. The services unit, located in the same building as the board, provides services in the areas of budgeting, fiscal analysis, human resources, transaction processing, purchasing, operations analysis, contracts, information technology, and research and policy analysis.

The board collects application fees, license fees, and other miscellaneous fees to fund the operations of the board. The board's spending authority, however, is based on the amount of appropriations it receives from the state's health care fund. Table 1 summarizes the board's revenues and expenditures for the period July 1, 2004, through June 30, 2008.

Table 1
Revenues and Expenditures
July 1, 2004, through June 30, 2008

	Fiscal Years ¹			
<u>License and Fee Revenues²</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Licensed Alcohol and Drug Counselors	\$ 0	\$369,190	\$422,854	\$476,612
Licensed Professional Counselors	<u>77,370</u>	<u>72,936</u>	<u>101,372</u>	<u>171,556</u>
Total	<u>\$ 77,370</u>	<u>\$442,126</u>	<u>\$524,226</u>	<u>\$648,168</u>
<u>Expenditures</u>				
Payroll and Board Per Diems	\$175,620	\$239,003	\$198,224	\$220,065
Rent	19,622	24,088	23,947	24,625
Supplies and Equipment	32,709	9,015	15,750	4,836
Computers and System Services and Communication	17,712	9,254	14,463	9,692
Travel	7,468	5,632	4,428	2,724
Other ³	<u>20,887</u>	<u>35,410</u>	<u>40,186</u>	<u>31,495</u>
Total	<u>\$274,018</u>	<u>\$322,402</u>	<u>\$296,998</u>	<u>\$293,437</u>

¹ The state's fiscal year is July 1 through June 30.

² The board also received appropriations of \$350,000 in 2005, 2006, and 2007 with an additional \$340,672 in 2006 and \$350,474 in 2007 when the board added the alcohol and drug counselor program. The total appropriation for 2008 was \$419,940. The reduction in the appropriation for fiscal year 2008 is the result of a budget adjustment to more accurately reflect the financial activity of the board.

³ Other expenditures include repairs, printing and advertising, professional/technical services, employee development, other operating costs, statewide indirect costs, and Attorney General costs.

Source: Minnesota Accounting and Procurement System as of August 28, 2008.

Objectives, Scope, and Methodology

Our audit of the Board of Behavioral Health and Therapy's licensing revenue, payroll, and other administrative expenditures focused on the following audit objectives for the period July 1, 2004, through June 30, 2008:

- Were the board's internal controls 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?

- For the items tested, did the board comply with significant finance-related legal requirements over its financial activities, including state laws, regulations, contracts, and applicable policies and procedures?

To answer these questions, we interviewed board staff to gain an understanding of the controls related to the board's financial operations. In determining our audit approach, we considered the risk of errors in the accounting records and potential noncompliance with finance-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 controls were effective and if the transactions complied with laws, regulations, policies, and grant and contract provisions. We also gained an understanding of the controls provided by the Health Licensing Boards – Administrative Services Unit related to the financial activity processed on behalf of the board.

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. We used as our criteria to evaluate agency controls 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 Behavioral Health and Therapy did not have adequate internal controls to safeguarded receipts and sensitive assets. However, the board generally had adequate internal controls to ensure that it accurately paid employees and vendors in accordance with management's authorization, properly oversaw and authorized financial transactions, produced reliable financial information, and complied with finance-related legal requirements. It did not, however, review some key payroll reports.

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.

For the items tested, the board generally complied with finance-related legal requirements over its financial activities. However, it did not always deposit receipts daily, as required by statute, or ensure compliance with statutory per diem provisions.

In addition, the Health Licensing Boards – Administrative Services Unit did not accurately record liability dates in the state’s accounting system for the financial activity of the health-related licensing boards, including the Board of Behavioral Health and Therapy. See Finding 2 in the report for the Board of Examiners for Nursing Home Administrators and the Health Licensing Boards – Administrative Services Unit.²

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

² Office of the Legislative Auditor, Financial Audit Division [Report 08-26](#), Board of Examiners for Nursing Home Administrators and the Health Licensing Boards – Administrative Services Unit.

Findings and Recommendations

The board did not adequately safeguard or promptly deposit its receipts and did not reconcile receipts to licenses issued.

Finding 1

The board had the following significant internal control weaknesses over license and fee receipts:

- The board did not adequately safeguard its receipts before deposit. The board held cash receipts in unlocked desk drawers until it forwarded the receipts to the Health Licensing Boards – Administrative Services Unit for entry into the state's accounting system and deposited into the bank.
- The board did not always promptly deposit receipts. Statutes³ require state agencies to deposit receipts greater than \$250 within one day. Four of eleven tested deposits were two days or more after the receipts were collected. The board held one receipt for 16 days before it was deposited.
- The board did not perform a key reconciliation necessary to ensure accurate reporting of license and fee receipts in the state's accounting system. The board did not reconcile licenses issued, recorded on a subsidiary computer system, to the receipts recorded on the state's accounting system. A reconciliation of these systems could identify unexplained differences which may be an indication of errors or irregularities.

By not adequately safeguarding and promptly depositing receipts and not performing a key reconciliation, the board is subjecting its receipts and assets to an increased risk of theft, loss, and abuse.

Recommendations

- *The board should adequately safeguard receipts by keeping all receipts physically secure until deposit and limiting access to the receipts.*
- *The board should deposit receipts totaling \$250 or more on a daily basis, as required by statute.*
- *The department should reconcile receipts recorded on the state's accounting system to the licenses issued.*

³ [Minnesota Statutes](#) 2007, chapter 16A.275.

Finding 2

The board did not review key payroll output reports.

The board did not review key payroll reports to ensure the accuracy of wages and employee reimbursements and to verify that the accounting system posted payroll expenditures to the correct accounts. State policy⁴ requires the board to review these reports.

The board incurred about \$220,000 of payroll expenditures during fiscal year 2008, which represented approximately 75 percent of its expenditures. Because the board relied on the Health Licensing Boards – Administrative Services Unit to enter its bi-weekly payroll information, it is important that the board review the transactions to detect any erroneous or unauthorized transactions.

Recommendation

- *The board should review the key payroll reports to verify the accuracy of payroll transactions.*

Finding 3

The board did not verify per diem eligibility of certain board members before making per diem payments.

The board paid per diem to board members who were employees of the state or a political subdivision, without verifying their work schedules or timesheets. This verification is necessary to ensure they are not paid both by their employers and by the board for attending board meetings. *Minnesota Statutes*⁵ outline the criteria for per diem eligibility paid to board members who are employed by the state or a political subdivision. The board did not require these board members to provide class schedules, regular work hours, or proof that they had taken time off when attending board meetings or participating on committee activities.

Recommendation

- *The board should ensure compliance with statutory per diem limitations by requiring board members who are also employees of the state or political subdivision to provide timesheets, work schedules, or other proof to show that they are eligible for the per diem payment.*

⁴ Department of Finance policy PAY0028.

⁵ *Minnesota Statutes* 2007, chapter 15.059, subd. 3.

The board did not have adequate inventory control for its fixed assets and sensitive items.**Finding 4**

The Board of Behavioral Health and Therapy 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*⁶ requires state agencies to conduct a physical inventory of capital assets at least biennially.

The health-related boards, including the Board of Behavioral Health and Therapy, rely on the Health Licensing Boards – 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.

In addition, the board did not report that a laptop was stolen from its office in May 2006. The board neglected to file a report with the Office of the Legislative Auditor. In addition to being a statutory requirement,⁷ reports of stolen items allow our office to assess whether a serious internal control weakness exists and whether the agency has taken appropriate action to address the theft. The board also did not notify the services unit to remove the stolen laptop from its fixed assets schedule.

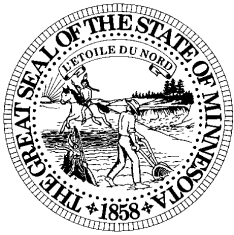
Without an accurate inventory of fixed assets and sensitive items, there is a greater risk that theft or errors could occur and not be detected. In addition, a regular inventory would assist the board in verifying the accuracy of the financial reporting of its assets.

Recommendations

- *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 board should report stolen property to the Office of the Legislative Auditor, as required by state statutes.*

⁶ Department of Administration Policy ADMIN 06-03 *Property Management User Guide*.

⁷ [Minnesota Statutes](#) 2007, chapter 609.456.



Minnesota Board of Behavioral Health and Therapy

October 14, 2008

Michael R. Hassing, CPA, CISA
Audit Manager
Office of the Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, MN 55155-1603

Re: Response to Findings of Select Scope Audit of the Board of Behavioral Health and Therapy
July 1, 2004 through June 30, 2008

Dear Mr. Hassing:

This letter represents the Board's response to the findings and recommendations contained in the report from the Office of the Legislative Auditor. Thank you for the opportunity to respond.

Finding 1: The board did not adequately safeguard or promptly deposit its receipts and did not reconcile receipts to licenses issued.

The Board agrees with this finding. The Board has not consistently made daily deposits of receipts greater than \$250 as required by statute. The Board has not consistently safeguarded receipts before deposit. The Board does not have a separate report that generates a reconciliation of receipt data to licenses issued.

The overall responsibility to ensure that deposits, asset protection, and financial reports are completed rests with the Executive Director, Kari Rechtzigel. Responsibility for daily deposits and asset protection is shared by the licensing coordinators for each licensing program: Lori Strom, LPC/LPCC Licensing Coordinator, and Samantha Larson, LADC Licensing Coordinator.

The Board has only three full time employees to share all the responsibilities of regulating the LPC/LPCC and LADC licenses. The workload is heavy and any change in the daily staffing level affects our ability to always meet our deadlines. The Board has been hindered by program debt and therefore has been unable to increase the size of the staff or make improvements to its databases.

Nevertheless, the Board staff members are aware of the importance of complying with deposit regulations and will make compliance with daily deposit regulations a top priority. All receipts not deposited (if received after the daily deposit has already been made) will be locked in a secure area in the BBHT office.



Minnesota Board of Behavioral Health and Therapy

Response to Legislative Auditor
October 14, 2008
Page 2

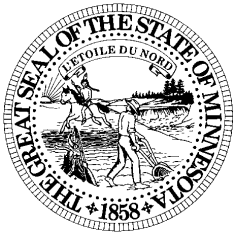
The Board will consult with staff from other licensing board offices and explore its electronic capabilities to generate the following reconciliation report recommended in the audit: a reconciliation of "licenses issued . . . to the receipts recorded on the state's accounting system." The Board already has measures in place to ensure that all licenses issued are accompanied by the required fee. All initial license applications and renewal applications are reviewed when they arrive in the Board office, and no application is accepted unless the fee accompanies it. Applications without fees are returned. Each application or other fee related document is marked with the date the fee is received, the check number, and the amount of the fee payment. The payment data (person paying, check number, fee amount) is recorded on a separate report which accompanies the daily deposit record. Payment data is also entered into the LPC/LPCC database. Staff members prepare monthly reports of all permits and licenses issued. Staff members also can generate reports of lapsed licenses, licenses terminated for non-renewal, or voluntary terminations of a license.

Finding 2: The board did not review key payroll output reports.

The Board agrees with this finding. Both payroll entry and review of reports was being performed by staff in the Administrative Services Unit (ASU). The audit findings recommend that the Board review the payroll reports to verify the accuracy of payroll transactions. When this practice was pointed out during the audit, Rick Davern from the ASU began sending the payroll reports to Kari Rechtzigel, Executive Director of the Board, for review. The issue related to this finding has been corrected and the recommendation of the audit has been followed.

Finding 3: The board did not verify per diem eligibility of certain board members before making per diem payments.

The Board agrees with this finding. It is the responsibility of the Executive Director, Kari Rechtzigel, to direct staff to obtain necessary information from Board members related to per diem payments. Four members of the thirteen-member Board are persons who are employees of the state or a political subdivision. The Board staff did not consistently collect information from these Board members to ensure that they did not receive payment from both their employers and the Board for attending Board meetings. When this practice was noted during the audit, the matter was placed on the agenda for the August 2008 Board meeting, and all Board members received a copy of the law related to per diem payments. Board staff will henceforth collect scheduling information from affected Board members to ensure proper per diem payments.



Minnesota Board of Behavioral Health and Therapy

Response to Legislative Auditor
October 14, 2008
Page 3

Finding 4: The board did not have adequate inventory control for its fixed assets and sensitive items.

The Board agrees with this finding. It is the responsibility of the Executive Director, Kari Rechtzigel, to ensure the protection of the Board's assets. The Board will conduct a physical inventory of fixed assets and file the information with the Health Licensing Boards-Administrative Services Unit (ASU) by January 2009. The Board will notify the ASU of any changes in assets.

It is accurate that in May, 2006, the Board did not file a report with the Legislative Auditor when a laptop computer was stolen, nor did the Board notify the ASU to remove the stolen laptop from the fixed assets of the Board. Board staff and ASU staff gathered the necessary data to complete the report, and Kari Rechtzigel, Executive Director, filled out a "Stolen, Lost, Damaged or Recovered Property Report" form, but did not file it with the Office of the Legislative Auditor. Ms. Rechtzigel regrets not following through with filing the report and instead setting it aside in the wake of other administrative duties.

Ms. Rechtzigel was the last staff member to use the laptop and had personal knowledge that the laptop did not contain any confidential information. Documents stored on the laptop pertained to Board member training and continuing education approval letters. These documents contained only public information. After the laptop incident, the Board initiated a policy to lock the office entry door during business hours if only one staff member is present. The Board installed a doorbell so visitors to the office can ring for assistance when the office door is locked. In addition, the replacement laptop and other equipment are now in a locked cabinet. The presence of these items will be monitored with periodic spot checks.

The Board wishes to thank the Office of the Legislative Auditor for the courteous and professional manner in which the audit was conducted and for the opportunity to learn ways in which to improve Board operations.

Sincerely,

/s/ Kari Rechtzigel

Kari Rechtzigel
Executive Director