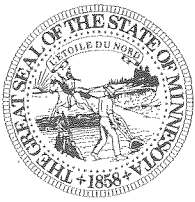


**MINNESOTA BOARD OF PHARMACY
FINANCIAL AND COMPLIANCE AUDIT
FOR THE YEARS ENDED JUNE 30, 1986 AND 1987**

AUGUST 1987

**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Phillip J. Riveness, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Joseph F. Zastera, Jr., President
Minnesota Board of Pharmacy

Mr. David Holmstrom, Executive Director
Minnesota Board of Pharmacy

Audit Scope

We have completed a financial and compliance audit of the Minnesota Board of Pharmacy for the three years ended June 30, 1986. Section I includes a brief description of the board's activities and finances. Our audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, and accordingly, included such audit procedures as we considered necessary in the circumstances. Field work was completed on June 3, 1987.

The objectives of the audit were to:

- study and evaluate major internal control systems including receipts, disbursements, and payroll of the Minnesota Board of Pharmacy in addition to any administrative support provided by the Department of Health;
- verify that financial transactions were properly recorded in the statewide accounting (SWA) system;
- verify that financial transactions were made in accordance with the requirements of applicable laws, regulations, and policies including Minn. Stat. Chapters 151, 152, 214, and 319A, and other finance-related laws and regulations; and
- determine the status of prior audit recommendations.

Management Responsibilities

The Minnesota Board of Pharmacy staff process and deposit original application and annual corporate reporting fees and annual license renewal fees. The Department of Health provides administrative support for purchasing supplies and processing invoices for payment after initial authorization

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Page 2

by the board staff . The board enters the biweekly payroll on the state-wide accounting system. The Minnesota Board of Pharmacy is ultimately responsible for its financial operations.

The management of the Minnesota Board of Pharmacy is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

The management of the Minnesota Board of Pharmacy is also responsible for the agency's compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs administered by the board. The purpose of our testing of transactions was to obtain reasonable assurance that the Minnesota Board of Pharmacy had, in all material respects, administered their programs in compliance with applicable laws and regulations.

Audit Techniques

During our audit, we employed a variety of audit techniques. These included, but were not limited to, auditor observation, interviews with agency staff, analytical reviews to identify unusual transactions or trends, and the examination of documentation supporting a representative number of transactions. Random sampling techniques were used to assure that representative samples of transactions were chosen. However, the use of random sampling did not prohibit us from reviewing additional transactions which may have come to our attention during the audit.

Conclusions

In our opinion, except for the issue addressed in Section II, recommendation 1, the system of internal accounting control of the Minnesota Board of Pharmacy including the administrative support provided by the Department of Health, in effect as of March 1, 1987, taken as a whole, was sufficient to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorizations.

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Page 3


In our opinion, for the three years ended June 30, 1986, the Minnesota Board of Pharmacy properly recorded, in all material respects, its financial transactions in the statewide accounting system.

In our opinion, for the three years ended June 30, 1986, the Minnesota Board of Pharmacy administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

The current recommendation included in this report is presented to assist the board in improving accounting procedures and controls. We will be monitoring and reviewing the Minnesota Board of Pharmacy's progress on implementing this recommendation. A summary of the progress made on all audit recommendations discussed in our last audit report covering the years ended June 30, 1980 and 1981, dated July 21, 1982 is shown in Section III entitled "Status of Prior Audit Recommendations and Progress Toward Implementation."

We would like to thank the Minnesota Board of Pharmacy's staff for their cooperation during this audit.

James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

July 22, 1987

MINNESOTA BOARD OF PHARMACY

TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION	1
II. CURRENT FINDING AND RECOMMENDATION	2
III. STATUS OF PRIOR AUDIT RECOMMENDATIONS AND PROGRESS TOWARD IMPLEMENTATION	3
AGENCY RESPONSE	4

AUDIT PARTICIPATION

The following members of the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Warren Bartz, CPA	Audit Manager
Jim Riebe	Auditor-in-Charge
Ellen Merlin	Staff Auditor

EXIT CONFERENCE

The finding and recommendation in this report were discussed with the following staff of the Minnesota Board of Pharmacy on June 10, 1987:

David Holmstrom	Executive Director
Alice Hummer	Office Services Supervisor II

MINNESOTA BOARD OF PHARMACY

I. INTRODUCTION

The Minnesota Board of Pharmacy was established in 1884 to protect the public from contaminated, misbranded, and illicit drugs and to provide reasonable assurance of the professional competency in the practice of the pharmacy profession. The board consists of five pharmacists and two public members appointed to four year terms by the Governor. The board employs seven full-time staff. Mr. David Holmstrom is the Executive Director of the board.

Duties of the Minnesota Board of Pharmacy include:

- examination and licensure of pharmacists including the review of continuing education requirements for license renewals;
- licensure of pharmacies, drug wholesalers and manufacturers;
- registration of pharmacist-interns; and
- regulation of controlled substances, including inspections and investigations of registrants and nonregistrants for compliance with applicable laws and regulations.

The Minnesota Board of Pharmacy is authorized to establish fees with the approval of the Commissioner of Finance so that total fees collected will approximate anticipated expenditures during the biennium. Prior to fiscal year 1986, the financial activities of the board were financed by appropriations from the General Fund, and the fees for applications and license renewals were deposited into the General Fund as nondedicated receipts. In fiscal year 1986, the board began accounting for its financial operations in the Special Revenue Fund. During fiscal year 1986, the Attorney General's Office also received an appropriation from the Legislature to finance the costs of providing services to the board. However, the board fees are intended to cover the Attorney General's costs as well. The 1986 disbursements listed below do not include expenses incurred by the Attorney General's Office. Receipts and disbursements for the three years ending June 30, 1986 were:

	<u>Year Ended June 30</u>		
	<u>1984</u>	<u>1985</u>	<u>1986</u>
Receipts	<u>\$337,579</u>	<u>\$410,263</u>	<u>\$430,480</u>
Disbursements	<u>\$320,085</u>	<u>\$333,692</u>	<u>\$374,112</u>

MINNESOTA BOARD OF PHARMACY

II. CURRENT FINDINGS AND RECOMMENDATIONS

Receipts are not deposited promptly.

The Minnesota Board of Pharmacy collects fees for occupational and non-occupational licenses, pharmacist-intern registrations, and professional examinations. The board's staff deposit receipts into an established state depository. Fees collected vary from \$20 to \$150. In a sample of 24 receipt transactions tested, six were held five or more days after collection. Two of these deposits totaled over \$20,000.

Minn. Stat. Section 16A.275 requires that agencies deposit receipts totaling \$250 or more in the state treasury daily, unless they have received a waiver from the Department of Finance. Prompt depositing of receipts assures that money held at the board office is kept to a minimum and interest is earned on receipts collected.

RECOMMENDATION:

1. Receipts totaling in excess of \$250 should be deposited in accordance with Minn. Stat. Section 16A.275.

MINNESOTA BOARD OF PHARMACY

III. STATUS OF PRIOR AUDIT RECOMMENDATIONS
AND
PROGRESS TOWARD IMPLEMENTATION

The Minnesota Board of Pharmacy does not maintain a system of positive time reporting.

1. The Minnesota Board of Pharmacy should require its employees to report time worked each pay period on biweekly time sheets. The time sheets should be signed by the employee and by the supervisor to ensure accountability for the time for which the employee is being compensated.

RECOMMENDATION IMPLEMENTED. As of July 1, 1982, the Minnesota Board of Pharmacy implemented the use of biweekly time sheets which are signed by the supervisor.

The Minnesota Board of Pharmacy does not conduct a physical inventory of its fixed assets.

2. The board should conduct a complete physical inventory of its fixed assets as soon as possible.

RECOMMENDATION IMPLEMENTED. A complete physical inventory of fixed assets was taken during August 1982.

3. The board should design procedures for annual spot-checks of the fixed asset inventory for all subsequent years as required by the Materials Management Division.

RECOMMENDATION SUBSTANTIALLY IMPLEMENTED. In July 1982, procedures were established which require a complete inventory every two years, with spot-checks conducted every other year. However, the last complete inventory was taken in July 1984, and the last spot-check of fixed assets was made in September 1986. Therefore, the board should comply with established inventory procedures.

MINNESOTA BOARD OF PHARMACY



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July 22, 1987

Mr. James R. Nobles
Legislative Auditor
Veterans Service Bldg.
St. Paul, MN 55155

Dear Mr. Nobles:

I have reviewed the Audit Report Draft prepared subsequent to the audit recently conducted of the Minnesota Board of Pharmacy by your office. I am pleased that the auditors found us to be in general compliance with the generally accepted auditing standards.

I offer the following comments to the recommendations made by your office.

1. Receipts totaling in excess of \$250 should be deposited in accordance with Minn. Stat. Section 16A.275.

Response: Every effort will be made to see that deposits in excess of \$250 are deposited appropriately. Ms. Patricia Eggers, of our staff, will be responsible for implementation of this recommendation. Implementation will begin immediately.

Very truly yours,

A handwritten signature in cursive script, reading "David E. Holmstrom", is written over a horizontal line.

David E. Holmstrom
Executive Director

DEH:pe