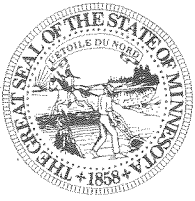


**BOARD OF MEDICAL EXAMINERS
FINANCIAL AND COMPLIANCE AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1986**

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

Dr. Jack Bert, President
Board of Medical Examiners

Mr. David Ziegenhagen, Executive Director
Board of Medical Examiners

Audit Scope

We have completed a financial and compliance audit of the Board of Medical Examiners 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 May 22, 1987.

The objectives of the audit were to:

- study and evaluate major internal control systems including receipts, disbursements, and payroll of the Board of Medical Examiners 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 146-148, 214, and 319A, and other finance-related laws and regulations; and
- determine the status of prior audit recommendations.

Management Responsibilities

The Board of Medical Examiners 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 by the board staff and entering the biweekly payroll on the statewide accounting system. The Board of Medical Examiners is ultimately responsible for its financial operations.

Representative Phillip J. Riveness, Chairman
Members of the Legislative Audit Commission
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The management of the Board of Medical Examiners 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 Board of Medical Examiners 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 Board of Medical Examiners had, in all material respects, administered its 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, based on the issues raised in Section II, recommendations 1-8, the system of internal accounting control of the Board of Medical Examiners including the administrative support provided by the Department of Health, in effect as of March 1, 1987, taken as a whole, results in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the financial activities of the board, may occur and not be detected within a timely period.

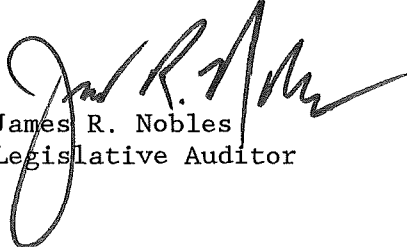
In our opinion, for the three years ended June 30, 1986, the Board of Medical Examiners properly recorded, in all material respects, its financial transactions in the statewide accounting system.


Representative Phillip J. Riveness, Chairman
Members of the Legislative Audit Commission
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In our opinion, except for the issue raised in Section II, recommendation 9, for the three years ended June 30, 1986, the Board of Medical Examiners administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

The current recommendations included in this report are presented to assist the board in improving accounting procedures and controls. We will be monitoring and reviewing the Board of Medical Examiners' progress on implementing these recommendations. 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 August 20, 1982 is shown in Section III entitled "Status of Prior Audit Recommendations and Progress Toward Implementation."

We would like to thank the Board of Medical Examiners' staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

July 29, 1987

BOARD OF MEDICAL EXAMINERS

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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
Chuck Hoistad, CPA	Staff Auditor
Leslie Dosh	Intern

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Board of Medical Examiners on June 8, 1987:

David Ziegenhagen	Executive Director
Richard Auld	Assistant Executive Director
Lois Kauppila	Office Manager

BOARD OF MEDICAL EXAMINERS

I. INTRODUCTION

The Board of Medical Examiners is composed of 11 members appointed by the Governor. Seven members are medical doctors, one member is a doctor of osteopathy, and three are public members. The board is authorized to appoint a physical therapy examining committee consisting of five members. This committee serves as an advisor to the board in matters relating to qualifications and examination of physical therapists. The Board of Medical Examiners has a staff of 13 employees. Four of the staff work in the area of discipline and complaint monitoring.

The board is responsible for:

- examining and licensing medical doctors, osteopaths, and physical therapists;
- licensing medical professional corporations;
- registering licensees annually; and
- establishing rules and regulations necessary to carry out the provisions of law regarding the medical profession.

The Board of Medical Examiners is authorized to establish fees with the approval of the Commissioner of Finance so that total fees collected will approximately equal 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, board fees are set to cover the Attorney General's costs, as well. The fiscal year 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>\$444,547</u>	<u>\$547,116</u>	<u>\$808,673</u>
Disbursements	<u>\$413,923</u>	<u>\$483,655</u>	<u>\$609,796</u>

BOARD OF MEDICAL EXAMINERS

II. CURRENT FINDINGS AND RECOMMENDATIONS

Internal controls over receipts need to be improved.

The Medical Examiners Board collects fees for examinations, and original and renewal licensing of medical practitioners and corporations. The board office collected over \$800,000 in fees during fiscal year 1986. This figure is expected to increase if recent fee revisions are approved.

At the board office, the receptionist receives the applications and checks and gives them to various staff for processing. These individuals review the application and determine whether sufficient information is present to complete the transaction. Even if insignificant data is missing, the board returns the checks and applications. After this review, the checks are restrictively endorsed, and are given to the office manager for deposit. The office manager prepares the deposit, takes the money to the bank, and at the end of the month reconciles the receipts deposited to the statewide accounting (SWA) system receipt reports.

To strengthen current receipt procedures, there needs to be an adequate segregation of accounting duties so that one individual is not in the position to perpetrate and conceal errors or irregularities. Therefore, the custody of receipts should be separate from the authorization and processing of applications. Someone independent from processing applications should review them to determine if the checks can be deposited. Then the checks could be restrictively endorsed, a listing of receipts prepared, and checks submitted for deposit. The receipt listing could later be reconciled to the deposit records, SWA receipt reports, and statewide licensing reports to ensure that all receipts collected were properly deposited. Also, checks should be deposited if the applications only have minor exceptions.

The inadequate separation of duties is even more serious for corporate renewals, since the office manager processes corporation license applications and renewals, prepares board deposits for all receipts, and reconciles deposit records to SWA receipt reports. Under a good system of controls, these responsibilities would not be concentrated with the same individual. In particular, the reconciliation of receipts would be performed by someone independent of the receipt process.

Receipts also were not deposited promptly, which may be a result of the way in which applications are currently processed. Many fees were deposited between three to seven days after receipt. However, Minn. Stat. Section 16A.275 requires that state agencies deposit receipts when they total \$250 or more, unless they have received a waiver from the Department of Finance. All receipt documentation needs to be date stamped, so the board can assure receipts are deposited promptly.

RECOMMENDATIONS:

1. The board office should revise current receipt accounting duties to ensure that:

BOARD OF MEDICAL EXAMINERS

- the custody of receipts is separate from application processing for both individual and corporate licenses; and
 - there is an independent reconciliation of board receipt records to statewide accounting and statewide licensing receipt reports.
2. Applications should be date stamped and receipts should be deposited promptly in accordance with Minn. Stat. Section 16A.275.

Physical therapist application and testing fees charged during calendar year 1987 were incorrect.

During September of 1986, changes in various fees charged by the Medical Examiners Board were approved. Among these changes was an increase in the application fee for physical therapists from \$15 to \$40 and an increase in the examination fee from \$75 to \$90. These fee changes were to be effective for examinations taken during calendar year 1987.

The changes in fees were not communicated to the staff in charge of processing applications and administering examinations. As a result, physical therapist applicants for the February, May, and July 1987 examinations underpaid the stated fees by \$40, and the board did not collect \$3,800 in fees that should have been received for these examinations.

RECOMMENDATION:

3. The executive director should ensure that the physical therapist fee changes are implemented and that all future fees are assessed as approved.

Controls over consulting contracts at the Medical Examiner's Board need to be adopted.

The Board of Medical Examiners is responsible to investigate patients' claims of physician malpractice. The board often consults with the Attorney General's Office on these matters, and the Attorney General's Office frequently hires outside consultants on behalf of the board in order to determine the merits of a given case. The board also hires physicians to provide advice concerning various medical practices involved in these complaints.

State agencies may request approval of an annual professional/technical services plan at the beginning of each fiscal year. An approved plan allows agencies to contract for professional/technical services without authorization of each contract by the Contract Management Division of Administration. The Board of Medical Examiners is authorized to spend up to \$2,000 per vendor, without submitting the contract to Administration.

During fiscal year 1986, the Medical Examiners Board made payments in excess of the \$2,000 professional/technical services plan limit to two

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vendors. One vendor was paid \$6,365; the other \$2,550. One reason that contributed to payments exceeding the state plan limitations was the lack of coordination between the Attorney General's Office and the Medical Examiners Board. The Attorney General hires consultants without informing the Medical Examiners Board. Therefore, if these obligations exceed the state plan limits, the board would not be in compliance with Minn. Stat. Section 16A.15, Subd. 3 which requires that an encumbrance be established before an obligation is incurred. This practice can create budgeting problems with the agency in that they are not aware of all liabilities outstanding. Another problem is that the board is not able to accurately estimate the amount it will pay a consultant, which varies significantly depending on the nature of the case. Furthermore, board staff misunderstood that the limitation was per vendor and thought it applied only to each individual contract. Based on this misunderstanding, board staff limited each contract to \$2,000 but exceeded the limit by contracting with vendors more than once during the year.

The Medical Examiners Board spent over \$25,000 in fiscal year 1986 for consultant services which did not have to be authorized by Contract Management. However, written contracts were not executed between the board and these vendors. Contracts with vendors are needed to protect the rights and responsibilities of each party, and are intended to specify the terms of the agreements, including fees to be paid, eligible travel expenses and limitations, and services to be performed.

RECOMMENDATIONS:

4. The board should comply with the limitations of the approved professional/technical services plan or obtain special authorizations from the Contract Management Division.
5. The board should establish the written procedures the Attorney General's Office will use to inform the board of contractual obligations incurred on behalf of the board.
6. The board should develop formal contracts with vendors whose contracts are included in the professional/technical services plan.

The Board of Medical Examiners needs to have established policies for board members travel.

The Board of Medical Examiners is composed of 11 members. Most of these members live in the seven county metropolitan area and do not incur significant travel costs. The board members who live outside the metropolitan area charge lodging costs and meals to the state which are incurred in performing board functions. The manager's plan provides the broad guidelines for board lodging expenses. The plan states that an individual may be reimbursed for "hotel and motel accommodations provided that managers exercise good judgment in incurring lodging costs and that charges are reasonable and consistent with the facilities available." In fiscal year 1986, one board member incurred hotel costs of between \$80 and

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\$120 per night while attending board meetings in the metropolitan area. In our judgment, this is not reasonable based on the Twin Cities market.

RECOMMENDATION:

7. The Board of Medical Examiners should develop comprehensive policies that address travel reimbursement rates.

An insufficient segregation of duties for payroll/personnel functions exists at the board.

The office manager of the board carries out the majority of payroll and personnel processing functions. These responsibilities include approval of time reports and leave requests; preparation and authorization of position action forms and employee action forms; preparation of the payroll time roster and payroll precertification reports; and reconciliation of time and leave reports to statewide accounting system reports. The executive director approves the precertification and certification reports.

An adequate segregation of duties provides for the prevention or detection of errors or irregularities in a timely manner. In testing board payroll expenses, the employment dates which determine employee leave accrual, were incorrect on employment action forms (EAFs) for five employees. If someone other than the individual preparing the EAFs authorized them, internal control would be strengthened and these exceptions may have been detected.

RECOMMENDATION:

8. The executive director should approve all position action forms and employee action forms for employees of the board.

The Board of Medical Examiners needs to monitor corporate compliance with the statute requiring the filing of annual reports.

In accordance with Minn. Stat. Section 319A.21, professional corporations practicing medicine are required to file annual reports with the Medical Examiners Board. A fee of \$100 is required for the initial filing, and each successive annual filing is \$25.

The annual report contains a statement made under oath that all employees, agents, and corporate members rendering professional service are licensed or meet the standards determined by the profession. This statement is intended to provide some assurance of the quality of service rendered in Minnesota.

Approximately 1,000 corporations have been licensed by the Medical Examiners Board. However, only 750 have filed the required report and applicable fee. Of the remaining 250 corporations, the board office does not know how many corporations have been dissolved and how many are not in compliance with the statutory requirements.

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RECOMMENDATION:

9. Each year, the Board of Medical Examiners' staff should determine the status of corporations and follow up on those that do not renew by filing the required report.

BOARD OF MEDICAL EXAMINERS

III. STATUS OF PRIOR AUDIT RECOMMENDATIONS
AND
PROGRESS TOWARD IMPLEMENTATION

A time sheet, leave accrual cards and leave requests slips are not maintained for the board's executive secretary, Arthur Poor.

1. The executive secretary and the Department of Health personnel section should determine an annual leave balance for the executive secretary not to exceed 275 hours.

RECOMMENDATION IMPLEMENTED. In August 1982, the executive secretary's annual leave balance was reduced to 275 hours.

2. The calculated balance should be used as a starting balance and subsequent entries should be maintained on leave records by the board office manager.

RECOMMENDATION IMPLEMENTED. Leave has been adequately controlled since August 1982.

3. The executive secretary should prepare annual and sick leave requests and submit them to the office manager for posting to the accrual record.

RECOMMENDATION IMPLEMENTED. Leave requests have been used by the executive secretary since August 1982.

4. The executive secretary should prepare biweekly time reports and submit them to the board office manager as support for his salary payments.

RECOMMENDATION IMPLEMENTED. The executive secretary began using biweekly time reports in January 1984.

The use of affidavits to support the payment of lodging for board members is excessive.

5. Board members should submit actual lodging receipt forms to support reimbursement for expenses while in travel status.

RECOMMENDATION IMPLEMENTED. Board members have submitted travel expense documentation at least since fiscal year 1983.

Administrative policies over alternate loan repayment schedules are inadequate.

6. The executive secretary should obtain formal board approval for or have a board officer sign all alternate loan repayment schedules.

BOARD OF MEDICAL EXAMINERS

RECOMMENDATION WITHDRAWN. Upon reexamination, we believe the executive secretary as the chief administrative officer, has the authority to change the terms of repayment in order to attempt collection on delinquent loans.

7. Follow-up procedures for unpaid loans to medical students should be established in writing and approved by the board. The use of the provisions of Minn. Stat. Chapter 270A, the Revenue Recapture Act, should be explored with the Department of Revenue.

RECOMMENDATION IMPLEMENTED. The Medical Examiners Board obtained an Attorney General's opinion regarding the status of the student loans which stated that the statute of limitations had lapsed and that the board has no legal recourse for collection.

The board is not directly accountable for all disbursement batches processed.

8. The board should maintain a log of disbursements and reconcile it to the statewide accounting disbursements report monthly.

RECOMMENDATION IMPLEMENTED. Beginning in July 1985, the board established a disbursement control ledger which is reconciled to statewide accounting reports.



Minnesota Board of Medical Examiners

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July 29, 1987

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

Dear Mr. Nobles:

I want to acknowledge receipt of your office's draft audit report, summarizing the results of audit work for three years ended June 30, 1986. The purpose of this letter is to formally respond to the comments and recommendations contained in that report.

RECOMMENDATION 1

We have revised our current receipt accounting duties so that the custody of receipts is separate from application processing for both individual and corporate licenses. The person responsible for implementation is Lois Kauppila, the Board's Office Manager. Implementation of these changes for all new applications is taking place this month. In addition, procedures are being changed to assure that there is an independent reconciliation of Board receipt records to state accounting and statewide licensing receipt records.

We are still working on development of a system to separate custody of receipts from applications in the case of license renewals. Because more than 14,000 renewal applications are received during approximately a three month period, it would be necessary to hire additional staff in order to fully implement your recommendation in the renewal process. Lois Kauppila is also responsible for development of procedures in the renewal area which come as close as possible to meeting the recommendations contained in your report.

RECOMMENDATION 2

We are presently date stamping all applications when they are opened, noting on the application receipt of payment with the application and depositing all receipts promptly in accordance with Minnesota Statutes § 16A.275. Lois Kauppila is responsible for making sure this process works smoothly.

James R. Nobles
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RECOMMENDATION 3

All new physical therapy fees have been implemented and, since July 1, 1987, have been charged as authorized in the fee rule. Rita Dalbec is responsible for communicating fee information to physical therapists, for processing applications and for making sure that correct fees are paid.

I am personally responsible for ensuring that all future fees are assessed as approved.

RECOMMENDATION 4

The Board believes it fully complies with the limitations of the approved professional/technical services plan. If it is necessary to deviate from this plan, we will obtain special authorization from the Contract Management Division. In the past, it was our understanding that a standard contract was needed if fees in a single disciplinary case exceeded \$2,000. It is now our understanding that a contract is needed if the fees paid to a single consultant exceed \$2,000 in a fiscal year. This understanding is now fully implemented. All consultants are approved by Richard Auld, Assistant Executive Director, and contracts are processed by Lois Kauppila.

RECOMMENDATION 5

The Board has established written procedures with the Attorney General's office concerning the use of expert consultants in the discipline process. No consultant will be retained by the Attorney General's office directly. All proposed expert consultants are approved by Richard Auld, and once he has negotiated an agreement with the proposed consultant, contractual documentation is prepared by Lois Kauppila.

RECOMMENDATION 6

Since July 1, 1987, the Board has developed formal contracts with all vendors whose contracts are included in the professional/technical services plan. If a consultant is expected to earn less than \$2,000 in a single fiscal year, a short form contract developed by the Board is used. If total fees are expected to exceed \$2,000 in a fiscal year or at the point where it is recognized that total fees will exceed \$2,000 in a fiscal year, a standard form personal services contract is prepared. Lois Kauppila is responsible for ensuring that necessary documentation is prepared, signed and recorded.

It should be noted that although in the past, under the professional/technical services plan, formal contracts were not used with expert consultants where fees did not exceed \$2,000 in a single case, all proposed expenditures were fully encumbered.

James R. Nobles
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RECOMMENDATION 7

At their July 11, 1987 meeting, the Board of Medical Examiners approved a policy concerning travel costs. All state of Minnesota regulations concerning travel apply, as well, to Board members. When it is necessary for a Board member who lives outside the seven county metropolitan area to travel to attend a meeting, meals may total no more than \$25 per day. Hotel reimbursement is limited to \$60 per day when attending Board meetings, unless specifically approved otherwise by the Executive Director. I am personally responsible for implementing this policy.

RECOMMENDATION 8

Effective July 1, 1987, the Executive Director personally approves all position action forms and employee action forms for employees of the Board. I am personally responsible for making sure that this policy is fully implemented.

RECOMMENDATION 9

The Board is currently reviewing corporation registration documentation to identify medical corporations which have not renewed by filing the required report. As they are identified, Lois Kauppila will be responsible for contacting them to determine their status. Ms. Kauppila is also responsible for the initial processing of all new corporation registrations.

We wish to thank you for your assistance in reviewing our operations and for making recommendations in areas where improvement can be achieved.

Sincerely,



David M. Ziegenhagen
Executive Director

DMZ:lk