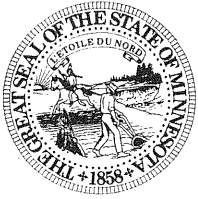

**MINNESOTA BOARD OF NURSING
FINANCIAL AND COMPLIANCE AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1986**

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

Ms. Mary Bray, President
Board of Nursing

Ms. Joyce M. Schowalter, Executive Director
Board of Nursing

Audit Scope

We have completed a financial and compliance audit of the Board of Nursing 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 21, 1987.

The objectives of the audit were to:

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

Management Responsibilities

The Board of Nursing staff process and deposit original application fees for registered nurses and licensed practical nurses. The board also processes and deposits original licensure and renewal fees for corporations. The Department of Health staff process and deposit license renewal fees. The Department of Health also provides administrative support for purchasing supplies and processing invoices for payment after initial

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authorization by the board staff. The board processes the biweekly payroll on the statewide accounting system. The Board of Nursing is ultimately responsible for its financial operations.

The management of the Board of Nursing 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 Nursing 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 Nursing 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, except for the issues addressed in Section II, recommendations 1-4, the system of internal accounting control of the Board of Nursing 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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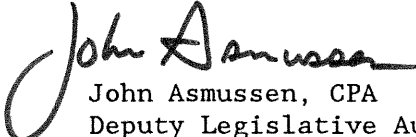
In our opinion, for the three years ended June 30, 1986, the Board of Nursing properly recorded, in all material respects, its financial transactions in the statewide accounting system.

In our opinion, for the three years ended June 30, 1986, the Board of Nursing 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 Nursing's 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 July 26, 1982 is shown in Section III entitled "Status of Prior Audit Recommendations and Progress Toward Implementation."

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


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

August 17, 1987

BOARD OF NURSING

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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
Kari Bergum, CPA	Staff Auditor
Tammy Noren	Intern

EXIT CONFERENCE

The finding and recommendation in this report were discussed with the following staff of the Board of Nursing on May 21, 1987:

Joyce M. Schowalter	Executive Director
Marilyn Wolner	Office Manager

BOARD OF NURSING

I. INTRODUCTION

The Board of Nursing regulates the licensing of the nursing profession to ensure that only qualified persons are licensed to serve the public. The board consists of five registered nurses, three licensed practical nurses, and three public members. Board members are appointed by the Governor to serve four year terms. The board employs approximately 16 staff to administer its activities. Ms. Joyce Schowalter is the Executive Director of the board.

The Board is responsible for the following functions:

- conducting examinations for licensure;
- issuing initial licenses and renewal certificates;
- registering nursing corporations;
- approving nursing education programs; and
- investigating consumer complaints.

The Board of Nursing 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:

	Year Ended June 30		
	<u>1984</u>	<u>1985</u>	<u>1986</u>
Receipts	<u>\$886,710</u>	<u>\$634,557</u>	<u>\$871,764</u>
Disbursements	<u>\$597,663</u>	<u>\$589,047</u>	<u>\$784,909</u>

BOARD OF NURSING

II. CURRENT FINDINGS AND RECOMMENDATIONS

The controls over the receipt and licensing functions for the Board of Nursing need to be improved.

During fiscal years 1985 and 1986, the Board of Nursing collected \$634,557 and \$871,764 in receipts. Two sections at the Board of Nursing collect receipts:

- The licensing section receives fees for initial licensure for registered nurses and licensed practical nurses.
- The registration section is responsible for collecting miscellaneous fees for registrations for nurses whose certifications lapse, issuing replacement certificates, and verifying examinations and transcripts.

The Department of Health collects renewal receipts and mails renewal certificates.

The present receipt system does not provide adequate control over receipts, as follows:

- Duties are not adequately segregated between the custody of receipts and the processing of applications, since the documents are processed with receipts attached. Since the same personnel issue licenses and collect receipts or process miscellaneous documents, they could misappropriate receipts and still issue licenses without detection. Not separating custody of receipts from application processing may also contribute to late depositing.
- Even though daily receipt logs are prepared, they only show total fees by license type. Detailed cashier listings of receipts by applicant or licensee are not prepared. As a result, an audit trail does not exist to verify individual receipts comprising deposits to applications or to determine whether receipts were deposited promptly. This listing could be used by the board staff to reconcile receipt records to deposit totals.

To separate duties more effectively, the checks need to be given to one clerk for deposit. The clerk could verify that the amount submitted was correct and also review the application to ensure that the pertinent information from the check was contained on the application. If the amount was correct, the check would be restrictively endorsed and deposited, and the application given to the appropriate clerk for processing. Otherwise, the applications could be verified against the cashier listings.

The Board of Nursing is planning to begin issuing renewal certificates and collecting renewal receipts independent from the Department of Health. At that time, the number of renewal certificates issued should also be reconciled to receipts recorded on SWA records.

BOARD OF NURSING

RECOMMENDATIONS:

1. A cashier listing should be maintained and reconciled to SWA receipt reports by someone independent of the licensing process.
2. To segregate duties more effectively, receipts should be separated from applications upon receipt, and processed by a person independent of the licensing function.

Internal controls over the disbursement function need to be strengthened.

In order to have a strong system of internal control, duties should not be concentrated in one individual. An adequate separation of duties promotes the prevention or detection of errors or irregularities in a timely manner.

At the Board of Nursing, the office manager controls the majority of the disbursement process. Even though all transactions are input into the SWA system at the Department of Health, she is responsible for authorizing purchases, receiving the goods, and approving the invoices for payment. She also reconciles the SWA Expenditure by Aid report to the paid invoices at the end of each month. She then prepares a summary financial report (based on the Expenditure by Aid report) which is submitted to the executive secretary for review. Even though the executive secretary receives this report, it does not provide the detail necessary to detect irregularities, coding errors, unauthorized purchases, or duplicate payments. More involvement by the executive secretary would also help to detect errors in processing disbursements.

RECOMMENDATION:

3. To adequately separate duties for disbursements, the executive secretary should review the Expenditure by Aid report for discrepancies or sign disbursement batches. Also, someone independent of authorizing purchases and payments should sign for the receipt of goods.

Action has not been taken on the outstanding loans for the Grant-in-Aid program.

Prior to 1977, the Board of Nursing operated the "Grant-in-Aid" program under the authority of Minn. Stat. 148.286, for students training to be nurses. Students were only required to repay the grant if they did not work for one year as a nurse upon graduation. If applicable, a loan repayment schedule would be established by the board. However, a formal contract was not executed between the board and the student.

Approximately \$8,460 remains outstanding on these loans; three individual loans have balances of \$1,000 each. No loans have been granted since 1976. The board has been unable to locate most of the individuals with outstanding loan balances. They have attempted to contact them by letter but no further action has been taken.

BOARD OF NURSING

The statute of limitations states that obligations are no longer collectible after seven years. However, if the payments were to be made in installments, then amounts due after the seven year limitation would still be collectible. We were unable to determine whether these loans fall under the installment clause since the board office never set up a formal contract with the students. An installment plan was not set up for those persons who never responded to letters sent to them. Without a formal contract with the student, and considering the statute of limitations, the collectibility of the outstanding loans is questionable.

The Board of Nursing needs to contact the Attorney General's Office to determine whether there is a legal obligation for individuals to repay the grant-in-aid loans. If a legal obligation exists, the board could attempt collection through the Revenue Recapture Act. Otherwise, the loans are to be written off in accordance with Minn. Stat. Section 10.12.

RECOMMENDATION:

4. The Board of Nursing should determine whether to pursue collection of the outstanding loans for the Grant-in-Aid program, or to write off the loans as uncollectible.

BOARD OF NURSING

III. STATUS OF PRIOR AUDIT RECOMMENDATIONS
AND
PROGRESS TOWARD IMPLEMENTATION

The preparation of individual receipt forms for all payments received has resulted in duplication of work and increased operating costs.

1. The board staff should only prepare prenumbered receipts for cash payments.

RECOMMENDATION IMPLEMENTED. Since August 1982, prenumbered receipt forms are only issued to applicants who pay fees in cash.

The personnel and payroll duties are inadequately separated.

2. The duties of preparing and approving the payroll time rosters and personnel forms should be segregated.

RECOMMENDATION SUBSTANTIALLY IMPLEMENTED. The executive secretary began signing the certification reports and the personnel forms (EAF's and PAF's) in April 1982. The office manager, however, still has the authority to sign these reports when the executive secretary is unavailable. To adequately separate the personnel and payroll functions, another board employee or board member should be authorized to sign personnel documents in the absence of the executive director. The office manager should not be authorized to sign them.

The request forms to support paid leave taken by some board employees could not be located.

3. Employees should submit leave request forms to their supervisors for all leave taken. Such leave requests forms, approved by the employee's supervisor, should be properly filed to support all leave paid.

RECOMMENDATION IMPLEMENTED. The office manager has required and retained leave requests since July 1982.



MINNESOTA BOARD OF NURSING

2700 University Avenue West #108 St. Paul, MN 55114 Telephone: (612) 642-0567

August 17, 1987

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

Dear Mr. Nobles:

Thank you for the opportunity of responding to the draft audit report for the three years ended June 30, 1986.

We do not agree that the present receipt system fails to provide adequate control over licensure receipts. For the history of the Board there is no evidence to show or even imply that misappropriation of receipts, unauthorized issuance of licenses or other documents or late depositing has occurred. However, we will attempt to make changes in our procedures.

Recommendation II.1.

An entry operator shall generate a computer listing of records processed daily by batch. The listing will contain names, type of transaction and fee amounts. The financial clerk shall reconcile the listing to SWA receipt reports. This shall begin October 1 for renewal and January 1, 1988 for licensing.

Recommendation II.2.

A mail processor shall separate receipts from applications as batches are prepared. Receipts will be deposited by the financial clerk. Applications will be processed by other clerks. This procedure shall begin when the computerized information system is implemented. The first stage is expected to begin October 1, 1987.

Recommendation II.3.

The Executive Director will review the Expenditure by Aid report monthly. The receptionist shall sign for receipt of goods. This began August 1, 1987.

Recommendation II.4.

The Executive Director shall pursue collecting outstanding grants-in-aid or writing them off as uncollectible. This shall be done during Fiscal Year 1988.

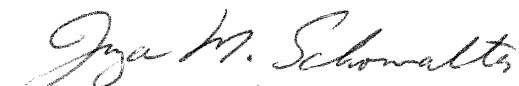
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Recommendation III. 2.

The Board president has authorization to sign personnel documents in the absence of the Executive Director. This became effective July 1, 1987.

If you have any questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in cursive script, reading "Joyce M. Schowalter".

Joyce M. Schowalter
Executive Director

JMS:kp

cc: Mary Bray
President