

**STATE BOARD OF DENTISTRY
FINANCIAL AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1989**

JULY 1990

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

90-41

SUMMARY

State of Minnesota
Office of the Legislative Auditor
Veterans Service Building • St. Paul, MN 55155
612/296-4708

STATE BOARD OF DENTISTRY FINANCIAL AUDIT FOR THE THREE YEARS ENDED JUNE 30, 1989

Public Release Date: July 20, 1990

No. 90-41

OBJECTIVES:

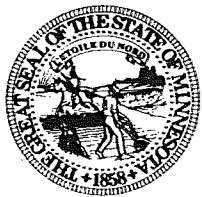
- EVALUATE INTERNAL CONTROL STRUCTURE: Licensing and examination receipts, administrative disbursements, and payroll and per diem.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

We found one area where the internal control structure and compliance with finance-related legal provisions needed improvement:

- Expense reimbursements resulted in some ineligible payments to board members and employees.

Contact the Financial Audit Division for additional information.
(612) 296-1730



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator John E. Brandl, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. Harry Dorvinen, President
State Board of Dentistry

Members of the State Board of Dentistry

Douglas Sell, Executive Director
State Board of Dentistry

Audit Scope

We have conducted a financial related audit of the State Board of Dentistry as of and for the three years ended June 30, 1989. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the Dentistry Board, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the Dentistry Board in effect at February 28, 1990.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transaction of the State Board of Dentistry are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Dentistry Board's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Management Responsibilities

The management of the State Board of Dentistry is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;

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- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and
- transactions are recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- licensing and examination receipts,
- administrative disbursements, and
- payroll and per diem.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Conclusions

Our study and evaluation disclosed the conditions discussed in finding 1 involving the internal control structure of the State Board of Dentistry. We consider these conditions to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe the reportable condition described in finding 1 is not a material weakness.

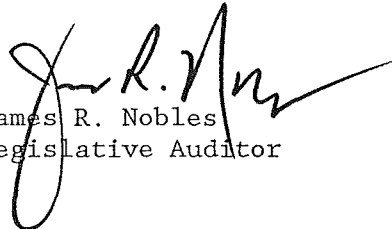
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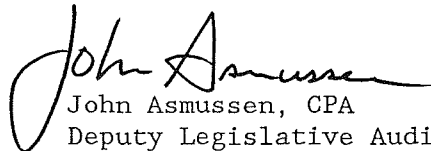
We also noted other matters involving the internal control structure and its operation that we reported to the management of the State Board of Dentistry at the exit conference held on May 31, 1990.

The results of our tests indicate that, except for the condition discussed in finding 1, with respect to the items tested, the State Board of Dentistry complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the State Board of Dentistry had not complied, in all material respects, with those provisions.

This report is intended for the information of the Legislative Audit Commission and management of the Dentistry Board. This restriction is not intended to limit the distribution of this report, which was released as a public document on July 20, 1990.

We would like to thank the State Board of Dentistry staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: May 25, 1990

REPORT SIGNED ON: July 17, 1990

STATE BOARD OF DENTISTRY

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AUDIT PARTICIPATION

The following staff from the Office of the Legislative Auditor prepared the report:

John Asmussen, CPA	Deputy Legislative Auditor
Warren Bartz, CPA	Audit Manager
Chris Buse, CPA	Auditor-in-Charge

EXIT CONFERENCE

The finding and recommendations in this report were discussed with the following staff of the Minnesota Board of Dentistry on May 31, 1990:

Douglas Sell	Executive Director
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STATE BOARD OF DENTISTRY

I. INTRODUCTION

The State Board of Dentistry operates pursuant to Minn. Stat. Section 150A.02. The board is appointed by the governor and consists of two public members, five dentists, one dental assistant, and one dental hygienist. The board elects from its members a president, vice president, and secretary. The executive director is appointed by and serves at the pleasure of the board. Douglas Sell has served as the executive director since June 11, 1986. The board examines and licenses every dentist, dental hygienist, and dental assistant in Minnesota. The board annually registers approximately 10,000 dentists, assistants, and hygienists. Fees are set by the board to offset the cost of operations.

The board receives a Special Revenue Fund appropriation to finance its activities. Expenditures for the year ended June 30, 1989 were as follows:

Personnel Services	\$163,068
Board Member Per Diem	19,015
Travel and Subsistence	31,185
Communications	23,960
Rents and Leases	20,342
Printing	17,160
Data Processing	16,000
Indirect Costs	11,474
Capital Equipment	8,720
Other	<u>17,829</u>
Total	<u>\$328,753</u>

Source: Department of Finance Managers Financial Report
as of September 2, 1989.

Annual registration fees account for approximately 81 percent of all board receipts. The board deposits registration and other fees in the Special Revenue Fund as nondedicated receipts. The board collected nondedicated receipts totalling \$467,549 for the year ended June 30, 1989.

STATE BOARD OF DENTISTRY

II. CURRENT FINDING AND RECOMMENDATIONS

1. Inadequate controls over expense reimbursements resulted in ineligible payments to board members and employees.

Dentistry Board members and employees are receiving reimbursements for ineligible and unreasonable travel expenses. Department of Finance policies and state compensation plans describe categories of eligible expenses and procedures for reimbursement. Board members are subject to the expense reimbursement conditions of the Commissioner's Plan. The board's executive director follows the guidelines of the Managerial Plan. The executive director is responsible for approving the expense reports of the board members and office personnel. The executive director informed us that he was unfamiliar with requirements governing expense reimbursements. Since fiscal year 1987, board members and employees received at least \$648 of ineligible reimbursements for mileage and lodging. The following is a summary of ineligible and unreasonable reimbursements:

- The board reimbursed the executive director \$410 and his secretary \$44 for mileage for commuting to and from their homes to board meetings. Board meetings take place after normal working hours and the executive director and his secretary must attend. Department of Finance policies state that employees who must report back to their work stations after normal working hours cannot receive mileage reimbursements unless authorized by a compensation plan. These miles were ineligible for reimbursement under either the Managerial Plan or the AFSCME contract.
- Two board members received lodging reimbursements for more than the single person rate. Department of Finance policies limit lodging reimbursements to the single person rate. The additional ineligible cost to the board for these extra persons was \$66.
- The board reimbursed one board member for unreasonable lodging costs. Board members from outside the metropolitan area stay at local hotels when performing board activities. Board members' average cost per night for lodging was approximately \$61. However, one board member's average cost was \$98 per night, with some lodging costs as high as \$122 per night. The Commissioner's Plan limits reimbursements for lodging to costs that are reasonable and consistent with the facilities available. We believe that these costs are both unreasonable and inconsistent with available facilities.
- One board member stayed three nights at a local hotel at a cost of \$95 per night. On his expense report he claimed four nights, resulting in a \$95 overpayment. The board also reimbursed this board member \$32 for a limousine ride from his hotel to a board meeting. The board member had his own car at the hotel and was also reimbursed for local mileage. The cost of the limousine ride and the lodging overpayment were ineligible expenses.

STATE BOARD OF DENTISTRY

Board members and employees are not following Department of Finance procedures for completing expense reports. The failure to follow procedures increases the risk of ineligible and inaccurate payments. Board members and employees do not document travel times for many trips. Travel times are necessary to verify that meals are eligible for reimbursement. Compensation plans do not provide for breakfast reimbursements unless persons leave home before 6:00 A.M. Dinners are not reimbursable unless persons arrive home after 7:00 P.M. We were unable to verify the eligibility of meals on 7 of 30 travel claims tested. Board members and employees do not always separate trip and local miles on their expense reports. Trip miles are miles traveled from city to city. Department of Finance policies limit trip miles to amounts in the official state mileage book. Trip miles exceeded the official state mileage book limits on 4 of 30 travel claims tested. Board members and employees do not document odometer readings to support local miles. Failing to document odometer readings increases the risk of reimbursing more than the actual miles traveled.

RECOMMENDATIONS:

- The executive director and his secretary should repay \$454 of improper mileage reimbursements. In the future, the Dentistry Board should not reimburse the executive director or other employees for mileage to and from home to board meetings.
- Dentistry Board members should repay \$66 of improper lodging costs. In the future, the board should only reimburse lodging costs at the single person per room rate.
- The Dentistry Board member should repay the \$95 lodging overpayment and a \$32 limousine ride that were improperly reimbursed.
- The Dentistry Board should establish a policy to define what is considered to be reasonable lodging costs.
- Dentistry Board members and employees should follow the Department of Finance policies and procedures when completing expense reports. Specifically, board members and employees should:
 - document travel times;
 - separate trip and local miles;
 - limit trip miles to amounts in the official state mileage book; and
 - document odometer readings for local miles.



Board of Dentistry

EXECUTIVE OFFICE

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July 13, 1990

Mr. Warren Bartz
Audit Manager
Office of the Legislative Auditor
Veteran's Service Building
St. Paul, Minnesota 55155

Dear Mr. Bartz;

We have reviewed your draft audit report of June 26, 1990 and offer the following comments.

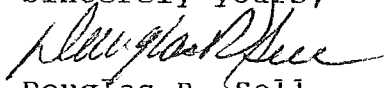
In your conclusions, you have noted one finding as a significant deficiency in the internal control structure, but, this finding is not considered to be a material weakness. We concur with the finding in that the payments noted were effected. However, as we discussed with you and your audit staff, payments made were consistent with previous payments to Board staff and, these type payments were reviewed as part of a previous audit without concern.

With respect to your recommendations, the Board has identified the alleged inappropriate payments over the past four years to the individuals involved and will proceed to effect collection. Recommendations relating to documentation of official travel have been implemented. An additional policy is currently being developed for lodging costs that will be incorporated into the board's policy manual.

There is one additional item that we believe needs to be incorporated into the report. The board expends funds, through a transfer within the Department of Finance between the Special Revenue Fund and the General Fund, for legal services provided by the Health Law Division of the Attorney General's Office. These costs are over \$100,000 per annum and statutes require that revenue collected by the board be sufficient to cover the cost of these services. To reflect the total operation of the board, these costs should be reflected as a cost such that the reader of the audit report is not misled by the excess of revenue over expenditures as it is currently portrayed.

Thank you and your staff for providing us the opportunity to add comments to the report. Should you have any additional questions or concerns, please do not hesitate to contact this office.

Sincerely yours,


Douglas R. Sell
Executive Director

drs/ds