

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

SEPTEMBER 1990

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

90-63

STATE BOARD OF MEDICAL EXAMINERS

FINANCIAL AUDIT FOR THE THREE YEARS ENDED JUNE 30, 1989

Public Release Date: September 7, 1990

No. 90-63

OBJECTIVES:

- **EVALUATE INTERNAL CONTROL STRUCTURE:** Application and original license receipts, license renewal receipts, payroll and board per diem, travel expenses, contracts, and other administrative disbursements.
- **TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.**

CONCLUSIONS:

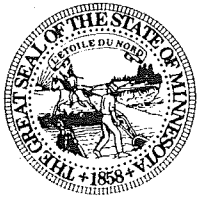
We found one area where the internal control structure needed improvement:

- Internal controls over receipts are inadequate to safeguard assets.

We reported on two areas where the board had not complied with finance-related legal provisions:

- Contracting procedures do not comply with state requirements.
- Board members are not paid per diems in accordance with the policy adopted by the board.

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



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator John E. Brandl, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. Cassius M.C. Ellis, III., President
State Board of Medical Examiners

Members of the State Board of Medical Examiners

Mr. H. Leonard Boche, Executive Director
State Board of Medical Examiners

Audit Scope

We have conducted a financial related audit of the State Board of Medical Examiners 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 State Board of Medical Examiners, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the Board of Medical Examiners in effect at March 30, 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 transactions of the State board of Medical Examiners are free of material misstatements.

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

Management Responsibilities

The management of the State Board of Medical Examiners is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, and contracts. 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 of 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 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:

- application and original license receipts,
- license renewal receipts,
- payroll and board per diem,
- travel expenses,
- contracts, and
- other administrative disbursements.

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.

Scope Limitation

We were unable to audit fiscal year 1987 license renewal transactions of the State Board of Medical Examiners because licensing reports could not be located. Batches for original licensing for the months of July, August, and September 1987 also could not be located. These records are necessary to determine that fees were collected for all licenses issued.

Conclusions

Our study and evaluation disclosed the condition discussed in finding 1 involving the internal control structure of the State Board of Medical Examiners. We consider this condition to be a reportable condition 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.

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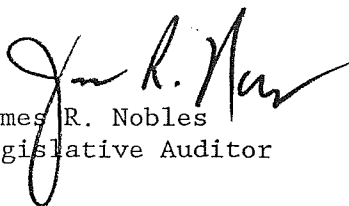
A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that material errors or irregularities in amounts that would be material to the financial activities being audited may 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 is not a material weakness.


We also noted other matters involving the internal control structure and its operation that we reported to the management of the State Board of Medical Examiners at the exit conference held on June 27, 1990.

The results of our tests indicate that, except for the issues discussed in findings 2 and 3, with respect to the items tested, the State Board of Medical Examiners 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 Medical Examiners 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 State Board of Medical Examiners. This restriction is not intended to limit the distribution of this report, which was released as a public document on September 7, 1990.

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


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: June 21, 1990

REPORT SIGNED ON: August 30, 1990

STATE BOARD OF MEDICAL EXAMINERS

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AUDIT PARTICIPATION

The following members of the Office of the Legislative Auditor participated in this audit:

John Asmussen, CPA	Deputy Legislative Auditor
Warren Bartz, CPA	Audit Manager
Connie O'Brien, CPA	Auditor-in-Charge

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the State Board of Medical Examiners on June 27, 1990:

H. Leonard Boche	Executive Director
Richard Auld	Assistant Executive Director
Lois Kauppila	Office Manager

STATE BOARD OF MEDICAL EXAMINERS

I. INTRODUCTION

The State Board of Medical Examiners consists of 11 Minnesota residents appointed by the governor. Seven board members must be medical doctors, one must be a doctor of osteopathy, and three are public members. Beginning August 1990 the board will consist of 16 members. The board appoints a seven member physical therapy council which advises and assists the board. The Board of Medical Examiners has a staff of 23 employees. Leonard Boche has served as the executive director since April 1988.

The board is responsible for the following:

- Testing and interviewing each candidate for licensure or registration as a physician, physical therapist, physician assistant, or corporation;
- Registering annually every physician, surgeon, or osteopathic physician, physical therapist, physician assistant, or corporation;
- Receiving and taking action on every complaint or report of malpractice alleging a violation of the statutes, investigating allegations, conducting hearings, and taking disciplinary action as indicated;
- Endorsing applications of Minnesota residents to other states for licensure; certifying status of licenses and registration to the public, drug enforcement agencies, state licensing boards, hospitals and clinics, specialties boards, medical societies; and
- Enforcing continuing medical education requirements.

The board is authorized to establish fees with the approval of the Commissioner of Finance so that total fees collected will approximately equal anticipated expenditures during biennium. Expenditures for fiscal year 1989 doubled because the board remodeled new quarters, installed new computer equipment for licensing and discipline functions, hired additional staff to process complaints, and sponsored training courses for Minnesota doctors. Revenue and expenditures for the three years ending June 30, 1989 were:

	Year Ended June 30		
	1989	1988	1987
Revenue	<u>\$2,084,560</u>	<u>\$1,985,945</u>	<u>\$1,066,979</u>
Expenditures	<u>\$1,351,660</u>	<u>\$ 776,477</u>	<u>\$ 578,829</u>

Source: Estimated/Actual Receipts Reports dated September 6, 1987, and September 4, 1989. Managers Financial Report dated September 6, 1987, September 4, 1988, and September 4, 1989.

STATE BOARD OF MEDICAL EXAMINERS

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. The internal control structure over license receipts is inadequate.

Internal controls over receipts are ineffective to safeguard assets. Checks are not restrictively endorsed upon receipt, duties are not properly separated for processing license renewals, and receipts are not reconciled to statewide licensing reports by a person independent of the receipts and licensing process.

The receptionist receives the original applications, renewal forms, endorsements, verifications, and fees. She date stamps the forms, records the fee received on the forms, and then places the forms with the checks attached in the safe. For all fees except renewals, the licensure clerk separates fees from the forms, restrictively endorses checks, and prepares a receipts listing. Checks need to be restrictively endorsed at the earliest point in the receipts process to safeguard assets.

Original licenses require board approval, so the fee is deposited before the license is issued. The discipline coordinator prepares the deposits. At month end, the office manager reconciles deposits to statewide accounting reports. However, receipts are not reconciled to the statewide licensing report. The reconciliation would provide evidence that a fee was collected for each license issued.

License renewals during fiscal year 1989 totaled \$1.7 million. The renewal clerk compares the renewal form with the check, verifying that the fee paid is correct. The renewal clerk batches the renewals by type and generates licenses. The duties of generating licenses and receiving checks are incompatible. When duties are incompatible, errors and irregularities may occur without detection. An example of proper separation would be to have someone independent of the license process compare fees received with renewal forms and prepare the batches, thereby preventing the renewal clerk from accessing the fees. Checks need to be removed before licenses are processed.

RECOMMENDATIONS

- The mail opener should restrictively endorse checks immediately upon receipt.
- The board should separate the license function from the receipts process. For instance, the renewal clerk should not have access to the fees.
- An employee independent of the receipts and licensing process should reconcile receipts to licenses generated from the statewide licensing system.

STATE BOARD OF MEDICAL EXAMINERS

2. Contracting procedures did not comply with state requirements.

Professional/technical services occurred without processing a contract as required by the Department of Administration Policy and Procedure ADM-188. The Department of Administration Contract Management Division established Policy and Procedure Statement ADM-188 governing contracts for professional/technical and purchased services. The Department of Finance also established Policy and Procedure 06:04:05 for contractual services. Both procedures require a written contract for vendors receiving \$500 or more in a fiscal year unless the agency's annual spending plan establishes a higher limit. The board established a limit of \$2000 per vendor in their annual spending plan. Vendors receiving less than \$2,000 would be under the agency's annual spending plan and would not require a contract. However, since the board contracts with so many professional consultants who are under the \$2,000 limit, it has become the board's practice to establish memorandum agreements with these consultants.

The board did not develop contracts with three vendors who exceeded the \$2,000 limit and numerous vendors requiring memorandum agreements. One reason that contributed to the contracts not being established was the lack of coordination between the Attorney General's Office and the board. The Attorney General's Office hires consultants without informing the board. Therefore, if these obligations exceed the state plan limits, the board would not be in compliance with Minn. Stat. Section 16A.15, Subdivision 3 which requires that an encumbrance be established before an obligation is incurred. Without a written contract, the board cannot properly monitor contractual services for compliance with Administration and Finance procedures.

In addition, the board received services from contractors before the funds were encumbered and the contract executed. The board staff also did not compare rates charged on professional/technical contracts to the fee schedules established in the contract. Because this procedure was not completed, one vendor was overpaid by \$825 and another vendor was underpaid by \$75 and \$450 on two separate occurrences. The overpayment occurred because the contractor charged \$125 per hour for services when the contract established a rate of \$100 per hour. The underpayments appeared to be calculation errors.

RECOMMENDATIONS

The Board of Medical Examiners should:

- establish written contracts for all vendors over the annual spending plan limits in one fiscal year and memorandum agreements with vendors under the limit before services are rendered.
- review contract payments for compliance with contract requirements, including fee schedules.
- seek repayment of \$825 from the overpaid vendor and pay additional amounts due other vendors.

STATE BOARD OF MEDICAL EXAMINERS

3. Board members are not paid per diems in accordance with the policy adopted by the board.

Board members are not being paid in compliance with policy outlined in the board minutes. Currently, board members are paid one per diem for each board meeting. They also are paid per diems for every four hours of work performed on board activities. When calculating per diem payments, the board staff add all hours the board member worked, divide by 4 hours, and multiply the equivalent days by the \$35 per day rate. The board minutes state, "For purposes of calculating per diem, time may be accumulated but not divided, meaning that if a Board member works eight hours in one day, only one day's per diem may be claimed, but if a Board member works two hours one day and two hours another day, the time may be accumulated and one day's per diem claimed." We believe the intention of the policy was to allow board members to accumulate hours when they work under four hours; however, when they work more than four hours they would only receive one per diem irrespective of the number of hours worked that day.

Furthermore, according to Minn. Stat. Section 214.09 Subdivision 3, "board members shall be compensated at the rate of \$35 per day spent on board activities." Because of the board practice, a board member may receive two per diems for the same day's work. No examples of this were found. However, we saw occurrences in which the board violated its own policy. For example, a board member showed 12 days of working one to six hours each day for a total of 40 hours. The member was reimbursed for ten per diems. If the board member had only been paid one per diem for each day when more than four hours were worked, only eight per diems would have been paid.

Board members also automatically receive one per diem for meeting preparation for each board meeting. Therefore, for each board meeting attended, a board member is generally paid two per diems. The board members are not authorizing that they actually worked the day before the board meeting other than signing the board meeting attendance form.

RECOMMENDATION

- The Board of Medical Examiners should follow the procedures outlined in the July 11, 1987, board minutes for paying per diems.
- Board members should document their own board meeting preparation time on a monthly per diem log and include the actual time when calculating per diems for board activities.



MINNESOTA BOARD OF MEDICAL EXAMINERS

2700 University Avenue West, #106 St. Paul, MN 55114-1080 (612) 642-0538

August 23, 1990

To: James R. Nobles
Legislative Auditor
Veteran's Service Building
St. Paul, MN 55155

From: H. Leonard Boche
Executive Director

Re: Response to Legislative Auditor's Report and
Recommendations dated August 13, 1990

The audit report and recommendations are received with interest and appreciation. It was a pleasure to work with your staff with special reference to Connie O'Brien and Warren Bartz. They were thorough in their work and helpful in their suggestions.

Finding #1 -

We understand finding #1 and the resulting recommendations. We are less sure how to implement the recommendations, given the staff complement assigned to licensing and financial management, and the separations suggested. It is proposed that the 1991 renewals be handled under present procedures (which have been in place for at least 12 years), and as we implement the new computerized licensing system in 1991, the recommendations for finding #1 will be incorporated. In the interim, we will be able to make additional separations in deposits and reconciliation of deposits. Target date for implementing those recommendations is July 1, 1991.

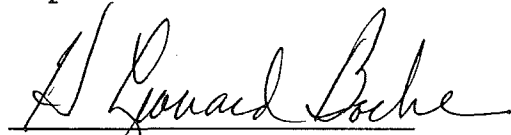
Finding #2 -

This office will continue to execute contracts before the onset of work. Exceptional situations do occur and it is our intention to see that these exceptions occur infrequently. Procedures have been implemented to accomplish this goal. Repayment has been received from the vendor who was overpaid, and the additional payments have been made to vendors who were underpaid.

August 23, 1990
James R. Nobles, Legislative Auditor
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Finding #3 -

Attached is Board Action dated July 7, 1990 which implements the recommendations of finding #3.

A handwritten signature in cursive script, reading "H. Leonard Boche", written over a horizontal line.

H. Leonard Boche
Executive Director

HLB:blm
Attachment

DATE: July 7, 1990

SUBJECT: Board Per Diem

SUBMITTED BY: Lois Kauppila

Payments

REQUEST FOR BOARD ACTION
MINNESOTA BOARD OF MEDICAL EXAMINERS

REQUESTED ACTION:

Adopt the following:

Clarification of the Board's per diem payment policy:

The Board shall authorize payment of per diem to Board members for work performed in preparation for Board and committee meetings. For purposes of calculating per diem, time may be accumulated but not divided. For example, 0-4 hours worked in one day may be accumulated, but if a member works up to 8 hours in one day, only one per diem may be claimed. Four hours of preparation equals one per diem payment.

MOTION BY:

G. Bertson

SECOND:

K. Kelly

☒ Passed ☐ Passed Amended ☐ Layed Over ☐ Defeated

BACKGROUND:

This is a clarification of the per diem policy adopted at the Board's July 11, 1987 meeting. The legislative auditor has reviewed the policy, and felt it was necessary to clarify the number of hours which equals a per diem payment.

Preparation for Board and Complaint Review Committee meetings will no longer be paid automatically. You will need to include all preparation time on your monthly log.

Effective August 1, 1990, per diem payments will be raised from \$35 to \$55.