

STATE BOARD OF CHIROPRACTIC EXAMINERS

FINANCIAL AUDIT

FOR THE FOUR YEARS ENDED JUNE 30, 1993

OCTOBER 1994

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

94-53

Centennial Office Building, Saint Paul, MN 55155 • 612/296-1727

SUMMARY

State of Minnesota

Office of the Legislative Auditor

Centennial Office Building • St. Paul, MN 55155

612/296-4708

STATE BOARD OF CHIROPRACTIC EXAMINERS

FINANCIAL AUDIT FOR THE FOUR YEARS ENDED JUNE 30, 1994

Public Release Date: October 5, 1994

No. 94-53

OBJECTIVES:

- ASSESS INTERNAL CONTROL STRUCTURE: License registration and renewal fees, examination fees; and payroll.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

We found two areas where the internal control structure needed improvement:

- The board did not verify the accuracy of receipts deposited.
- The board's record retention schedule is outdated.

We also found that the board had not complied with Minn. Stat. Section 138.7, by not keeping records for the length of time specified by the Records Disposition Panel.

Contact the Financial Audit Division for additional information.

296-1730

FINANCIAL AUDIT DIVISION



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Phil Riveness, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. Kerry Johnson, President
State Board of Chiropractic Examiners

Members of the State Board of Chiropractic Examiners

Larry Spicer, D.C., Executive Director
State Board of Chiropractic Examiners

Audit Scope

We have completed a financial related audit of the State Board of Chiropractic Examiners for the four years ended June 30, 1993, as outlined below and as further discussed in the Introduction. We conducted our audit in accordance with generally accepted governmental auditing standards. Those standards require that we consider the internal control structure in order to plan our audit, and that we perform tests of the department's compliance with certain material provisions of laws and regulations and contracts. However, our objective was not to provide an opinion on the internal control structure or on overall compliance with finance-related legal provisions.

Internal Control Structure

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

- License registration and renewal fees, examination fees
- Payroll

For 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.

Management Responsibilities

Management of the State Board of Chiropractic Examiners is responsible for establishing and maintaining the internal control structure. This responsibility includes compliance with applicable

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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 is to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;
- 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 the Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may still occur and not be detected. Also, projection of any evaluation of the internal control 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.

Conclusions

Our audit disclosed the conditions discussed in findings 1 and 2 involving the internal control structure of the State Board of Chiropractic Examiners. We consider these conditions to be reportable conditions under the standards established by the American Institute of Certified Public Accountants. A reportable condition involves matters coming to our attention that relate 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 do not reduce to a relatively low level the risk that errors or irregularities in amounts that could 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 that neither of the findings are material weaknesses.

The results of our tests indicate that, except for the issues discussed in finding 2, with respect to items tested, the State Board of Chiropractic Examiners complied, in all material respects, with


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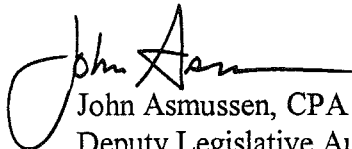
the provisions referred to in the audit scope paragraph. With respect to the items not tested, nothing else came to our attention that caused us to believe that the State Board of Chiropractic Examiners had not complied, in all material respects, with those provisions.

We also noted other matters involving the internal control structure that we reported to the management of the State Board of Chiropractic Examiners at the exit conference held on July 20, 1994.

This report is intended for the information of the Legislative Audit Commission and management of the State Board of Chiropractic Examiners. This restriction is not intended to limit the distribution of this report, which was released as a public document on October 5, 1994.

We thank the State Board of Chiropractic Examiners staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: July 5, 1994

Report Signed On: September 27, 1994

State Board of Chiropractic 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
Christina Weiss	Auditor-in-Charge

Exit Conference

The findings and recommendations in this report were discussed with the following staff of the State Board of Chiropractic Examiners on July 20, 1994:

Larry Spicer, D.C.	Executive Director
Lori Campbell	Administrative Secretary

State Board of Chiropractic Examiners

Introduction

The State Board of Chiropractic Examiners operates pursuant to Minn. Stat. Section 148.01. The board consists of five chiropractors and two public members appointed by the governor for four year terms. The board appoints an executive director to carry out its responsibilities. Dr. Larry Spicer has served as executive director since January 1993.

The board establishes rules and regulations necessary to comply with laws concerning chiropractic care. Among the duties performed by the board are:

- examining candidates for licensure,
- annually reviewing licenses for practicing individuals and corporations, and
- approving programs for continuing education.

Another major duty of the board is to investigate complaints received. Complaints are reviewed by one of three complaint panels consisting of two board members and the executive director. If, as a result of a complaint, action is warranted, that action is taken by the full board.

Additionally, the board appoints a peer review committee. This committee, upon request, reviews patient records for the appropriateness, quality, utilization, and cost of health care and health services provided to a patient.

An appropriation finances board activities. The board is authorized to establish fees with the approval of the Commissioner of Finance so that total fees collected approximate anticipated expenditures during the biennium. The fees set by the board are also to be sufficient to cover attorney general costs, as the board does not receive an appropriation to pay for these services.

State Board of Chiropractic Examiners

Table 1 summarizes board revenue and expenditures for fiscal years 1990 through 1993.

Table 1
Revenue and Expenditures
For Fiscal Years 1990 through 1993

	Year Ended June 30			
	1990	1991	1992	1993
Revenue:				
License examination and related fees	\$174,905	\$358,870	\$321,295	\$301,453
Other revenue	<u>14,846</u>	<u>15,587</u>	<u>47,141</u>	<u>68,775</u>
Total revenue	<u>\$189,751</u>	<u>\$374,457</u>	<u>\$368,436</u>	<u>\$370,228</u>
Expenditures:				
Payroll	\$157,648	\$174,405	\$174,565	\$182,986
Other expenditures	<u>107,167</u>	<u>90,443</u>	<u>87,426</u>	<u>95,864</u>
Total expenditures	<u>\$264,815</u>	<u>\$264,848</u>	<u>\$261,991</u>	<u>\$278,850</u>
Attorney General costs	<u>54,744</u>	<u>55,697</u>	<u>44,137</u>	<u>68,304</u>
Total expenditures and costs	<u>\$319,559</u>	<u>\$320,545</u>	<u>\$306,128</u>	<u>\$347,154</u>

Note: Revenue for fiscal year 1990 did not cover all board expenditures and costs because a fee increase did not become effective until fiscal year 1991. The board also enacted a one time \$50 fee in fiscal year 1991 to recover the lost revenue.

Sources: (1) Statewide accounting system, Estimated/Actual Receipts for the fiscal years 1990, 1991, 1992, and 1993 as of the closing date.
(2) Statewide accounting system, Manager's Financial Reports for the fiscal years 1990, 1991, 1992, and 1993 as of the closing date.
(3) Attorney General quarterly billings for the respective fiscal years.

Current Findings and Recommendations

1. PRIOR AUDIT RECOMMENDATION NOT RESOLVED: The State Board of Chiropractic Examiners did not verify the accuracy of receipts deposited.

The State Board of Chiropractic Examiners did not reconcile the number of each type of fee issued to the amount of fees collected. As shown in the Introduction, revenue ranged from approximately \$190,000 to \$374,000 in fiscal years 1990 to 1993. License fees comprise the majority of the board's revenue.

Reconciliation is particularly important because the board cannot separate receipt processing duties. Currently, one employee is responsible for receiving money, updating agency files, issuing registrations, and reconciling deposits to statewide accounting reports. Ideally, separate staff should receive cash, maintain accounting records, and reconcile deposits to statewide accounting reports. A full separation of duties would help prevent errors and irregularities. It would be difficult for the agency to provide an adequate separation of receipt controls, due to the limited number of staff. Therefore, to ensure that the appropriate fees are collected and deposited, the board needs to rely on detection controls, such as having a separate person reconcile the number of various fees issued to the total receipts. The standard fee amounts make the reconciliation less difficult.

Recommendation

- *The State Board of Chiropractic Examiners should assign a staff member that is independent of receipt processing to reconcile the number of fees collected to the amount deposited.*

2. The board's record retention schedule is outdated.

Some records relating to license issuance and renewal were destroyed prior to the audit. Each calendar year, license renewal forms are sent to licensed doctors. On the renewal form, the doctor supplies a signature, details of the continuing education received during the prior year, and various professional requirements.

During our audit work, we found some records were prematurely disposed of under the following informal board policies:

- License renewal applications are kept for the current license year, but not for prior years.
- Files are not retained after death of the individual.

State Board of Chiropractic Examiners

- Requests for continuing education seminar approval are kept for one year past the current license year.
- Corporation files are disposed when the corporation is dissolved.

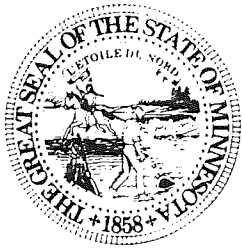
In addition, new activities such as acupuncture licensing and independent examinations, were not included on the record retention schedule. It has not been updated since April 1990.

We were able to conduct the audit, as alternative financial records sufficed, for our purposes. Therefore, the missing documents did not impose a scope limitation for the audit. However, the licensee's signature on the renewal form may raise certain legal issues. The premature destruction of these records could jeopardize the board's ability to substantiate some facts. For example, during a complaint investigation, it may be important to establish a licensee's attendance at particular continuing education seminars.

Agency records are to be kept for the length of time specified by the Records Disposition Panel, as provided by Minn. Stat. Section 138.17.

Recommendation

- *The State Board of Chiropractic Examiners should review the record retention schedule and add any provisions not included in the schedule.*



Minnesota Board of Chiropractic Examiners

September 14, 1994

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

Dear Mr. Nobles:

I am in receipt of the draft audit report for the Minnesota Board of Chiropractic Examiners' (MBCE) fiscal years ending June 30, 1993. Following extensive conversations on-site with Christina Weiss, auditor-in-charge, the MBCE has implemented mechanisms for change which we believe satisfactorily address the report's findings and recommendations. It is our expectation that these changes will prevent similar findings in future audits.

Current findings and recommendations are being addressed by the MBCE in the following ways:

1. *The State Board of Chiropractic Examiners did not verify the accuracy of receipts deposited.*

It is my understanding that this prior audit recommendation was not resolved for two reasons.

First, the MBCE staff involved in your 1990 audit was new to the process and did not understand what information was necessary to satisfy this recommendation. More detailed receipts recordkeeping and reconciliation of deposits to SWA reports was thought to be sufficient.

Second, the MBCE went through a major transition shortly after the 1990 audit. Initial licensing and license renewal, previously administered through the Statewide Licensing System at the Department of Health, was taken over by the MBCE. It was the first time licensing had been done on-site. This change in operation required a new computer system and new software. The new license management software included a fee tracking system which staff thought adequately attended to the 1990 audit recommendation.

These explanations are shared with the intention of showing that the lack of prior audit recommendation resolution was due to naiveté, not inattention.

The MBCE hired a clerk typist 1 in August 1994. This additional staff member will allow the MBCE to attend to the issue of separation of duties. The clerk typist 1 will receive cash, the clerk typist 3 will post receipts to individual licensees' files, and the office manager will reconcile deposits to statewide accounting reports.

While Ms. Weiss was still working conducting her audit in our office, MBCE staff created a reconciliation worksheet which will be used on a monthly basis to reconcile the number of various fees issued to the total receipts. A copy of that reconciliation worksheet is attached. This reconciliation has now been completed for July 1993 through August 1994. A standard procedure has been established and it seems to be working well.

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Lastly, the clerk typist 3 will run an annual report of fees received by type. This report will assist not only in receipt reconciliation, but will be available to future auditors as a testing tool. Ms. Weiss indicated while she was here that such a report could have been of use to her.

2. *The board's records retention schedule is outdated.*

At their March 30, 1994 staff meeting, MBCE staff spent almost two hours reviewing the MBCE records retention schedule item by item. Decisions were made that day which were intended to be implemented. Due to workload, those changes had not been implemented prior to the audit by your office. I believe the delay in implementation worked to the MBCE's benefit, because issues arose during the audit which had not been addressed previously. The office manager will take responsibility for updating the MBCE records retention schedule and submitting it for approval.

Also underway at the time Ms. Weiss was working on-site at the MBCE was an extensive project designed to increase the practical function of individual license files (paper). The project involves transferring historical information from the computer license management system to individual license files (paper). The capabilities of software is limited in its ability to maintain historical data. Unfortunately, the timing of this project was such that individual license information had been printed, purged and filed, leaving the MBCE unable to create computer reports useful to Ms. Weiss.

I believe that the reconciliation process and annual reports mentioned under the previous audit finding will allow the MBCE to maintain information in an easily accessible format for auditing purpose and still allow for continuation of the MBCE's new recordkeeping system for individual licensees.

The executive director will discuss with the MBCE Attorney General's representative the possible legal issues raised by Ms. Weiss. Recommendations by legal counsel will be implemented.

Finally, I would like to compliment your audit team for the way in which they handled this audit. Our questions were answered knowledgeably and promptly at all times by both Mr. Bartz and Ms. Weiss. Ms. Weiss made very helpful suggestions as to ways in which the MBCE could address concerns raised by the audit.

If I can answer any questions or provide additional information, I hope that you will not hesitate to contact me.

Sincerely,



Larry A. Spicer, D.C.
Executive Director

/lac
Attachment

RECONCIL.XLS

Deposit Numbers to (per Receipts by Deposit report for) FY:

SOURCE CODE:FEE	# Paid	x	\$	=	Total \$	-	NSF \$	=	Total Adjusted \$
001: Examination		x	250	=		-		=	
002: Examination Regrade		x	30	=		-		=	
003: Graduate Preceptorship		x	100	=		-		=	
004: License Renewal		x	200	=		-		=	
005: License Penalty	5: 150:	x	150/mo.	=		-		=	
006: Inactive Renewal		x	150	=		-		=	
007: Inactive Reinstatement		x	100	=		-		=	
008: IE Registration		x	150	=		-		=	
009: IE Renewal		x	100	=		-		=	
010: Acupuncture Registration		x	100	=		-		=	
011: Acupuncture Renewal		x	50	=		-		=	
012: Corporation Registration		x	100	=		-		=	
013: Corporation Renewal		x	25	=		-		=	
014: Disciplinary Penalty		x	varies	=		-		=	
015: Stipulations/Orders		x	10	=		-		=	
016: Peer Review		x	100	=		-		=	
017: Continuing Education	100: 500:	x	varies	=		-		=	
018: Certificate of Standing		x	10	=		-		=	
019: Lawbook		x	10	=		-		=	
020: Lists	10: 100: 150:	x	varies	=		-		=	
021: Miscellaneous		x	varies	=		-		=	
022: Prior Year Renewal		x	varies	=		-		=	
023: Prior Year Penalty	10: 150:	x	varies	=		-		=	