

Board of Boxing

Financial Audit

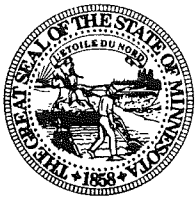
For the Three Years Ended June 30, 1994

July 1995

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

95-34



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Members of the Legislative Audit Commission

Mr. Joseph Azzone, Chair
Board of Boxing


Members of the Board of Boxing


Mr. James O'Hara, Executive Secretary
Board of Boxing

We have audited the Board of Boxing (board) for the period July 1, 1991 through June 30, 1994, as further explained in Chapter 1. Our audit scope included employee payroll, administrative disbursements, and license receipts. The following Summary highlights the audit objectives and conclusions. We discuss these issues more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the board complied with provisions of laws, regulations, contracts, and grants that are significant to the audit.

This report is intended for the information of the Legislative Audit Commission and the management of the board. This restriction is not intended to limit the distribution of this report, which was released as a public document on July 28, 1995.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: May 24, 1995

Report Signed On: July 24, 1995

SUMMARY

State of Minnesota

Office of the Legislative Auditor

Centennial Office Building • St. Paul, MN 55155
612/296-4708

Board of Boxing

Financial Audit

For the Three Years Ended June 30, 1994

Public Release Date: July 28, 1995

No. 95-34

Agency Background

The Board of Boxing (board), established pursuant to Minn. Stat. Chapter 341, is responsible for governing the conduct of boxing and providing the safety of boxing in Minnesota. The board consists of seven members. The Governor appoints two public members and five nonpublic members. Board members serve a four-year term. The board appoints an executive secretary who is its chief administrative officer. The executive secretary is responsible for directing the board's professional staff in accordance with its policies. Mr. James O'Hara is the current executive secretary of the board.

The board received annual state appropriations of approximately \$63,000 per year during the audit period. The board is not required to set license fees to recover its direct and indirect operating costs. The board deposits its receipts into the state treasury.

Audited Areas and Conclusions

Our audit scope included employee payroll, administrative expenditures, and license revenue for the period July 1, 1991, through June 30, 1994.

We concluded that the board charged the approved fees for licenses. However, the board needs to improve its control structure over receipts and franchise licenses. The board needs to adequately segregate the receipt duties and revise its numbering system for franchise licenses.

We also found that the board spent its state appropriations within appropriation limits and statutory authority. Payroll, rent, and travel expenditures were reasonable and in compliance with laws and regulations.

Contact the Financial Audit Division for additional information.

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Board of Boxing

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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
Jim Riebe, CPA	Audit Manager
Jenny Lee	Auditor-in-Charge

Exit Conference

The findings and recommendations in this report were discussed with the following staff of the board on July 17, 1995. We also noted other matters involving the internal control structure and its operation that we reported to the management of the Board of Boxing at that meeting.

Jim O'Hara	Executive Secretary
Gerry Kasprzak	Staff

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Chapter 1. Introduction

The Board of Boxing (board) was established pursuant to Minn. Stat. Chapter 341. The board consists of seven members. The Governor appoints two public members and five nonpublic members. Board members serve four-year terms.

The board has one part-time executive secretary and one full-time staff assistant. The board is responsible for governing the conduct of boxing and sparring exhibitions and regulating the safety of boxing. It issues licenses to individuals or organizations desiring to promote or conduct boxing or sparring exhibitions.

The board receives administrative support from the Department of Commerce in accordance with Minn. Stat. Section 214.04. The Department of Commerce provides services such as processing payroll and personnel transactions, allotting, encumbering, and disbursing funds, depositing receipts into the state treasury, and maintaining the board's accounting records. The board also receives legal and investigative services from the Attorney General's Office under Minn. Stat. Section 214.10. The board is required to promptly forward any communication to the Attorney General's Office that implies a violation of a statute or rule under the board's jurisdiction.

The board received a direct appropriation for operations of \$63,000 for fiscal years 1992 and 1993, and \$64,000 for fiscal year 1994. Chapter 2 provides further information on the board's revenues.

Chapter 2. Revenues

Chapter Conclusions

The board set license fees in compliance with statutes and rules and properly accounted for license revenues. However, the board did not have adequate separation of duties and controls over the receipts process and franchise licenses.

The board receives an appropriation from the Legislature to fund its operations. Notwithstanding Minn. Stat. Section 16A.128, Subd. 1a, the license fees are not subject to approval by the commissioner of Finance and need not recover all direct and indirect operating costs. The board deposits license fees collected from issuing various types of licenses in the state treasury. The types of licenses issued include professional and amateur franchises, seconds, boxers, referees, karate, and contestants.

During the audit period, the board issued about 620 professional and amateur licenses which generated \$10,827 of total revenue. The board initially collects its receipts, makes a listing of receipts, and submits them to the Department of Commerce for processing. The Department of Commerce endorses the checks, makes the deposits, and enters the transactions into the statewide accounting (SWA) system. Commerce also reconciles the deposits each month to SWA reports for the board.

We focused our review of receipts on the following objectives:

- Did the board collect and deposit the approved amount of license receipts based on the license issued?
- Did the board deposit receipts timely?

The methodology we used to audit revenues included interviewing board staff and Commerce staff to determine how the board processed receipts. We performed analytical procedures to determine and evaluate changes in revenues during the audit period. We also selected a sample of deposits and traced them to the statewide accounting (SWA) system and to the board's records.

Our review of receipts found that the board set license fees as specified in statutes and rules. The board charged the approved fees for each type of license. The board properly collected, deposited, and recorded the amount of license fees. However, the board did not have adequate control over the receipts process and franchise licenses as disclosed in finding 1.

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1. The board did not adequately control the receipts process and franchise licenses.

The board did not adequately separate duties over receipts, restrictively endorse incoming checks, or adequately control franchise licenses. One board employee was responsible for the entire receipt process. This employee received and opened the mail, made a listing of receipts, sent the receipts to the Department of Commerce for deposit, and reconciled the licenses issued to the daily deposit reports. Proper internal controls require that the duties be separated so that no one person has complete control of the receipt process. The lack of separation of duties increases the risk that errors or irregularities could occur and not be detected.

The board did not restrictively endorse incoming checks immediately upon receipt. The board received checks from the various licensees. The board recorded the check amounts in its accounting records and sent the checks with the supporting documentation to the Department of Commerce. Commerce then restrictively endorsed the checks, prepared the deposits, and entered the deposits into the SWA system. The checks were not endorsed until Commerce staff started processing the receipts. This delay in endorsing the incoming checks increases the risk that checks could be lost or stolen.

The board also needs to improve its control over franchise licenses. These licenses account for the majority of the revenues collected by the board. Currently, the board staff manually type the license number on the certificate when issuing franchise licenses. In contrast, the board used pre-printed license numbers for other types of licenses. Furthermore, the board used the same numbering sequence for both amateur and professional franchise licenses which have different fees. Internal controls would be improved if the board separately numbered amateur and professional franchise licenses and considered pre-numbering those licenses. Therefore, possible errors or irregularities could be detected timely if they occur.

Recommendations

- *The board should separate duties so that no employee has complete control of the receipt process and should restrictively endorse checks immediately upon receipt.*
- *The board should use a separate numbering system for amateur and professional franchise licenses and should consider pre-numbering franchise licenses.*

Chapter 3. Administrative Expenditures

Chapter Conclusions

The board spent its state appropriations within its appropriation limits and statutory authority. The board disbursements were properly authorized and consistent with its purpose. Payroll, rent, and travel expenditures of the board were reasonable and in compliance with laws and regulations.

The board receives an appropriation from the legislature to finance its operating activities. During the audit period, the appropriation was about \$63,000 a year. Table 3-1 summarizes the board's expenditures for the three-year audit period. The board's largest administrative expenditures were payroll, rent, and travel. The executive director approves the disbursements, including payroll. The Department of Commerce processes board payments through the statewide accounting (SWA) system and maintains accounting records for the board.

Table 3-1
Summary of Administrative Expenditures
For the Three Years Ended June 30, 1994

	1992	1993	1994
Payroll	\$51,281	\$51,729	\$51,573
Rent	6,003	6,646	7,116
Communications	1,248	1,020	983
Travel	3,407	1,905	1,937
Other	448	741	495
Commerce Indirect Costs	1,154	1,472	1,457
Statewide Indirect Costs	784	849	(410)
Total	<u>\$64,325</u>	<u>\$64,362</u>	<u>\$63,971</u>

Source: Statewide accounting system reports.

The methodology we used to audit administrative expenditures included interviewing the board staff and Commerce staff to gain an understanding of the disbursement process. We performed analytical procedures for administrative expenditures to evaluate any trends in specific account classes throughout the audit period. We also selected a sample of payroll and disbursement transactions and tested compliance with applicable legal provisions and employee bargaining unit agreements. We applied audit procedures at both the board and Department of Commerce.

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Payroll

The board has two employees, an executive secretary who works part-time and one full-time assistant. The executive secretary approves the employee time sheets and the assistant submits them to the Department of Commerce for processing. Commerce prepares and approves the personnel forms for the employee's salary, benefits, and leave activity. Commerce also enters the payroll information into the state's payroll system. The board incurred payroll costs of approximately \$51,000 each year during the audit period.

We focused our review of payroll on the following objectives:

- Were board employees paid at the proper amounts according to the applicable bargaining unit agreements?
- Were payroll expenditures properly authorized, adequately supported, and accurately processed and reported on the SWA system?

Our review of payroll expenditures concluded that board employees were paid at the proper amounts according to the applicable bargaining unit agreements. We found the board properly authorized, adequately supported, and accurately processed and recorded its payroll on the SWA system.

Rent

The Department of Administration negotiated the lease for board office space. The lease covers the term and amount of the rent for the board. The rent schedule is based upon the number of usable square feet of space occupied by the board. The Department of Commerce receives the monthly rent statement and allocates and calculates the monthly rent for the board according to its usable square feet of occupied space. Commerce processes the payments and retains records for the board.

We focused our review of rent on the following objectives:

- Were rent payments properly authorized?
- Did the board properly record rent expenditures and retain adequate documentation?

Our review of rent expenditures found the payments were properly authorized. We found the board properly retained documentation for rent expenditures. We concluded that rent disbursements were reasonable, accurate, and properly recorded.

Employee Expense Reimbursements

The bargaining unit agreements allow the staff and board members to seek reimbursement from the state for certain personal expenses incurred while performing their jobs. Eligible costs include transportation, meals, lodging, and other miscellaneous expenses. The executive secretary

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reviews and approves the expense claims. The Department of Commerce processes the approved claims. During the audit period, the board reimbursed board members and staff \$7,249 for related travel costs.

We focused our review of employee travel expense reimbursements on the following objectives:

- Were employee and board members' expense reimbursements adequately documented and approved?
- Were the expense reimbursements in compliance with the applicable bargaining unit agreements?

Our review of employee expense reimbursements found that the expenses were adequately documented and approved. The expenses claimed were reasonable and complied with the applicable bargaining unit agreements.



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133 E. 7th. STREET
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THE GOLDEN RULE BLDG.
85 E. 7th. Place
St Paul MN 55101

July 18, 1995

James R. Nobles
Legislative Auditor
Centennial Building
St Paul MN 55155

Dear Sir:

To add to our letter of response to your audit of the boxing board, after meeting with Mr. Jim Riebe, Audit Manager and auditor Jenny Lee, we agree that it would be best for the person receiving the checks at the Board office to endorse them by stamping them with the endorsement stamp before sending them to the cashier at the Commerce Department.

We also agreed to change the numbering system of the franchises. We will continue to use the current numbers for the professional franchises but start with number one for the amateurs at the beginning of each fiscal year.

Thank you,

James J. O'Hara
James J. O'Hara
Executive Secretary
Board of Boxing

JJO'H/gk

cc Tammy McGlone