Board of Pharmacy

Financial Audit
For the Five Years Ended June 30, 1995

November 1995

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

95-50

Centennial Office Building, Saint Paul, MN 55155 ● 612/296-4708

STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
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JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Mr. Howard Juni, President
Board of Pharmacy

Members of the Board of Pharmacy

Mr. David Holmstrom, Executive Director
Board of Pharmacy

We have audited the Board of Pharmacy for the period July 1, 1990, through June 30, 1995, as further explained in Chapter 1. Our audit scope included revenue fees and administrative expenditures. The summary on the next page 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 November 8, 1995.

We thank the Board of Pharmacy staff for their cooperation during this audit.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: September 7, 1995

Report Signed On: November 2, 1995

SUMMARY

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

Board of Pharmacy

Financial Audit
For the Five Years Ended June 30, 1995

Public Release Date: November 8, 1995 No. 95-50

Agency Background

The Board of Pharmacy (board) exists to protect the public from adulterated, misbranded, and illicit drugs and from unethical or unprofessional conduct on the part of pharmacists or other licensees. The board consists of two public members and five pharmacists. The board appoints an executive director, who is its chief administrative officer, and has the responsibility of directing the board's operations in accordance with its policies.

The board finances its operations through appropriations from the State of Minnesota. The board receives about $600,000 a year in state appropriations. The board sets its charges to recover the appropriation and indirect costs, mainly attorney general services.

Audited Areas and Conclusions

Our audit scope included several revenue classifications with a focus on licensure and examination application fees. In addition, our audit scope included administrative expenditures with a focus on payroll and travel disbursements for the period July 1, 1990, through June 30, 1995.

We concluded that the board set licensure and examination fees sufficient to cover expenses as specified in statute and rule. We found that the board properly recorded receipts and deposited them timely.

The board spent its state appropriations within its appropriation limits and statutory authority. Except for the problems with reimbursing travel expenditures, we concluded that the board's expenditures were authorized and consistent with the board purposes. We also concluded the board accurately paid, recorded, and retained documentation for payroll expenditures. However, we found that the board does not have adequate internal controls to ensure compliance with rules and regulations governing mileage reimbursement. We found that the board inappropriately paid some travel expenditures.

Contact the Financial Audit Division for additional information.
296-1235

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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
Joan Haskin, CPA	Auditor-in-Charge
Sonya Hill, CPA	Auditor

Exit Conference

We discussed the results of the audit at an exit conference with the following Board of Pharmacy staff on October 26, 1995:

David E. Holmstrom	Executive Director
Patricia A. Eggers	Assistant Director

Chapter 1. Introduction

The Board of Pharmacy, pursuant to Minn. Stat. Section 151.02, is a health-related licensing board. The board operates and regulates application of examinations and licensure of pharmacists under Minn. Stat. Chapter 214. The board also licenses and inspects pharmacies, drug wholesalers, drug manufacturers, medical gas distributors, and controlled substance researchers. The governor appoints two public members and five qualified pharmacists to the board. Board members serve a four-year term.

David Holmstrom is the executive director of the board. Board staff consists of an office manager, four pharmacist surveyors, and three clerks. The board is responsible for receiving and accounting for all fees and maintaining the records of the board. The Attorney General's Office supports the board's legal and investigative services pursuant to Minn. Stat. Section 214.10. The Department of Health, under Minn. Stat. Section 214.04, provided the board with administrative services through May 1994. In May 1994, the health-related boards formed an Administrative Services Unit to provide services such as processing payroll; allotting, encumbering, and disbursing appropriations; and recording receipts. The board determines the extent of the Administrative Services Unit's support services. During the audit period, the board began using the unit to process expenditures. Board expenditures are discussed further in Chapter 3.

The board receives its legislative appropriation as a health-related board. The Legislature traditionally appropriates a direct amount to each health-related board and an indirect amount for all health boards from the state Special Revenue Fund. The commissioner of finance controls the allocation of the indirect appropriation. The commissioner of finance is responsible for ensuring the board does not allot, encumber, or expend money appropriated in excess of the anticipated biennial revenue fees. Chapter 2 provides further information on the board's revenue.

Board of Pharmacy

Table 1-1 shows the appropriations, revenues, and expenditures of the board for the five-year audit period.

Table 1-1
Summary of Financial Activity
Fiscal Years 1991 - 1995

	Year Ended June 30				
	1991	1992	1993	1994	1995
Direct appropriations (1)	$446,560	$544,000	$599,000	$600,000	$602,000
Revenues from fees	$580,537	$632,577	$664,440	$684,373	$692,654
Expenditures:					
Payroll and board per diems	$315,969	$327,604	$376,819	$422,700	$411,832
Other expenditures	169,335	216,618	184,340	163,749	200,900
Statewide indirect costs	9,873	2,730	17,957	16,689	7,959
Attorney General's costs (2)	18,019	18,994	26,600	12,952	27,182
Total Expenditures and Costs	$513,196	$565,946	$605,716	$616,090	$647,873

Notes:

(1) Direct appropriation amounts shown do not include legislative indirect appropriations that are allotted at the discretion of the commissioner of finance.

(2) The board is not required to pay Attorney General's Office costs from its appropriation, but must consider them when setting its fees.

Source: Minnesota Laws.
Statewide Accounting System Estimated/Actual Receipts Reports and Manager's Financial Reports as of August 31, 1991; September 5, 1992; September 3, 1993; September 3, 1994; and August 1, 1995.
Attorney General's Office quarterly billings during each of the fiscal years.

Chapter 2. Revenues

Chapter Conclusions

The board set licensure and examination fees sufficient to cover expenses, including Attorney General's Office costs, as specified in statute. The board deposited all fees promptly and recorded them properly on the statewide accounting (SWA) system. For each license issued and fee incurred, a corresponding receipt was recorded on the SWA system records. The board complied with Minn. Rule 6800 relating to the different fees charged for board examinations, reciprocity requests, and pharmacy, pharmacist, manufacturer, and wholesaler licenses.

The board receives a direct appropriation for operations from the Legislature. Each year during the budget process, the board and the Department of Finance review the current fee structure to determine if fees are sufficient to cover board expenditures for the year. Once there is a decision to increase fees, the board goes through the rule-making process to change the fees. In February 1992, the board approved fee increases for specific license and fee types.

The board must observe several legal provisions in setting fees. Minn. Stat. Section 151 grants the board authority to set fees. The board, with the approval of the commissioner of finance, may adjust, as needed, any board fee pursuant to Minn. Stat. Section 214.06. An adjustment to fees results when total board fees collected do not closely equal anticipated expenditures during the fiscal biennium. The board had various revenue classifications throughout the audit period, as shown in Table 2-1.

Table 2-1
Summary of Revenue Classifications
Fiscal Years 1991 - 1995

	Year Ended June 30				
	1991	1992	1993	1994	1995
Pharmacy license fees	$124,025	$131,150	$131,550	$129,050	$132,750
Pharmacist license and renewal fees	307,345	367,060	369,975	378,900	388,425
Examination application fees	29,250	32,175	29,975	37,700	30,725
Professional corporation fees	125	25	25	25	25
Late fees and fees in arrears	7,250	8,005	11,790	10,188	11,226
Reciprocity application fees	12,870	14,190	13,300	16,975	12,075
Wholesaler license fees	31,200	41,900	64,350	66,100	69,625
Manufacturer license fees	19,400	26,500	33,150	35,125	34,275
Medical gas distributor license fees	2,000	1,600	1,850	1,700	1,400
Drug researcher license fees	1,600	2,025	1,900	2,213	2,175
Intern registration fees	3,540	3,500	3,220	3,680	3,800
Miscellaneous service charges	3,461	4,158	3,355	1,434	4,024
Transfers in	38,471	0	0	1,065	2,129
Miscellaneous	0	289	0	218	0
Total Revenue	$580,537	$632,577	$664,440	$684,373	$692,654

Source: Statewide Accounting System Estimated/Actual Receipts Reports as of August 31, 1991; September 5, 1992; September 4, 1993; September 3, 1994; and August 1, 1995.

The majority of the receipts the board collects are pharmacist license and renewal fees; pharmacy, wholesaler, and manufacturer license fees; and examination application and reciprocity fees. In May 1995, the board began entering its own receipts on the SWA system. As of July 1, 1995, the Administrative Services Unit for the health boards assumed responsibility for recording all receipts on the SWA system.

We focused our review of receipts on the following objectives:

- Were the board's fees sufficient to cover anticipated operating expenses (including Attorney General costs) as specified in the statutes?

- Did the board collect, deposit, and properly record renewal fees, license fees, and examination and reciprocity fees received?

- For each license issued and fee incurred, was there a corresponding entry on the SWA records?

- Did the board charge fees properly according to those set in Minn. Rules?

- Did the board deposit receipts promptly?

The methodology used to audit revenues included interviewing the office manager to determine how the board processed receipts. We performed analytical procedures to determine and evaluate changes in revenues during the five-year audit period. We also reconciled all licenses issued and fees incurred to amounts recorded on the SWA system.

On the basis of our review of receipts during the audit period, we conclude that the board set licensure and examination fees sufficient to cover expenses, including Attorney General's Office costs, as specified in statute. The board complied with Minn. Rules 6800 relating to fees charged for board examinations, reciprocity requests, and pharmacy, pharmacist, manufacturer, and wholesaler licenses. The board deposited all fees promptly and recorded them properly on the SWA system. For each license issued and fee incurred, a corresponding receipt was recorded on the SWA system.

Chapter 3. Expenditures

Chapter Conclusions

The board spent its state appropriations within its appropriation limits and statutory authority. Expenditures were authorized and consistent with the board's purposes. The board accurately paid, recorded, and retained documentation for payroll expenditures. Payroll expenditures were in compliance with rules and regulations. We found that the board needs to improve internal controls over travel expenditures. Some travel expenditures were not in compliance with rules and regulations governing mileage reimbursement.

The board receives a direct appropriation from the Legislature to finance the board's operating activities. The board receives an allocation from an indirect appropriation to the health-related boards. The commissioner of finance allocates the indirect appropriation to the board based on the board's general government services.

Table 3-1 summarizes the board's direct and indirect expenditures for the five-year audit period.

Table 3-1
Summary of Expenditures
Fiscal Years 1991 - 1995

	1991	1992	1993	1994	1995
Payroll/Personnel	$315,969	$327,604	$376,819	$422,700	$411,832
Rent	40,691	34,187	37,230	37,236	35,825
Printing/Binding	4,422	14,269	12,931	11,595	14,492
Statewide Indirect Costs	9,873	2,730	17,957	16,689	7,959
Travel	36,265	44,328	35,404	37,521	42,448
Communication	12,675	13,254	16,165	18,561	20,404
Data Processing & Systems Services	10,921	52,215	26,418	16,072	14,069
Purchased Services	29,576	28,033	24,484	26,178	29,609
Supplies/Materials	8,737	10,286	8,942	4,449	12,052
Capital Equipment	19,204	11,253	5,021	0	25,323
Other	6,844	8,795	17,747	12,138	6,678
Total Expenditures	$495,177	$546,954	$579,118	$603,139	$620,691

Source: Statewide Accounting System Manager's Financial Reports as of August 31, 1991; September 5, 1992; September 4, 1993; September 3, 1994; and August 1, 1995.

The board's largest direct administrative expenditure was payroll. We also reviewed travel expenditures to follow up on a finding from the previous audit. The executive director approves payroll and other disbursements. The office manager enters payroll data onto the state payroll personnel system. The board's support service section has shared in processing expenditures. It prepares batches, which the Department of Health entered into the statewide accounting (SWA) system through May 1994. In May 1994, the Administrative Support Unit for health related boards began entering batches.

We focused our review of payroll and travel disbursements on the following objectives:

- Did the board spend its state appropriations within its appropriation limits and statutory authority?
- Were expenditures authorized and consistent with the board's purposes?
- Were expenditures reasonable and in compliance with applicable rules and regulations?
- Did the board properly record expenditures and retain expenditure documentation?

The methodology we used to audit the administrative expenditures included interviewing the executive director and office manager to gain an understanding of the disbursement process. We performed analytical reviews to evaluate trends in specific account classes throughout our audit period. We also performed analytical procedures to determine and evaluate changes in expenditures and compliance with appropriation limits during the five-year audit period. We selected a sample of payroll and travel disbursement transactions and performed tests of detail and tests of compliance. Because of concerns about employee travel expenses, we obtained a sworn statement from one employee about his understanding and method of preparing his expense claims.

In our review of expenditures, we found the board's expenditures were within its appropriation limits and statutory authority. We found the board properly retained documentation for expenditures. In addition, except for the problems in reimbursing employee travel expenses, we found expenditures were properly authorized and consistent with the board's purposes. We concluded that payroll expenditures were reasonable, accurate, and properly recorded. We found that payroll expenditures were in compliance with rules and regulations. Our preceding audit report cited problems with reimbursement for some meals and mileage. The board addressed the specific instances cited in that audit report. However, we found that internal controls over travel expenditures need improvement to ensure compliance with rules and regulations governing mileage reimbursement. This area is discussed further in Finding 1.

1. Internal controls over travel reimbursement need improvement.

Internal controls over employee expense reports need improvement. The board office does not have adequate procedures in place to ensure that employees record the correct mileage on their expense reports. The board office does not compare the trip miles reported on the expense forms to the official mileage table or state map. The board office does not verify the propriety of mileage reported to and from the employees' homes.

We tested 23 employee expense reports. As part of our review we noted the mileage recorded on the reports. We found incorrect mileage recorded on 5 of the 23 reports tested. All five of those expense reports were prepared by one pharmacy surveyor. This employee claimed excess trip miles and mileage to and from his home. On these five reports, the board reimbursed the surveyor $3,089.18, of which $247.59 was for 917 miles that was not allowable under the DOF policy and employee plans. The board reimbursed the employee $35,264.73 on 60 employee expense reports for the period July 1990 to June 1995.

Pharmacy surveyors, who receive the majority of travel reimbursements, are subject to the reimbursement provisions of the Commissioner's Plan (July 1, 1990 - June 30, 1993), the Non-managerial Unrepresented Employees Plan (July 1, 1993 - June 30, 1995), and the Department of Finance (DOF) policy 06:05:15. The DOF policy states that trip mileage recorded on expense reports must be the mileage listed in the official state map or the official state mileage book published by the Department of Transportation (DOT) or Public Service. The compensation plans also state that the mileage claimed must be the most direct route according to DOT records.

When employees claim mileage to or from their homes, the board does not determine the mileage from the employee's home to the stop and the mileage from the office to the stop to verify that the employee claimed the lesser mileage.

The DOF policy and the compensation plans both state that "when an employee does not report to the permanent work location (office) during the day or makes business calls before or after reporting to the office, the allowable mileage is: (1) the lesser of the mileage from the employee's residence to the first stop or from the office to the first stop, (2) all mileage between points visited on state business during the day, and (3) the lesser of the mileage from the last stop to the employee's residence or from the last stop to the office".

Not reviewing and verifying the mileage reported increases the risk that employees are being reimbursed for unallowable mileage.

Recommendations

- *The board office should develop an adequate monitoring system to review mileage on expense reports to ensure that it only reimburses employees for allowable miles.*

- *The board employee should repay $247.59 of improper mileage reimbursement claimed on five reports. In addition, the board should analyze all of the employee's expense reports for the audit period, determine any overpayments, and work out an appropriate repayment schedule with this employee.*

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MINNESOTA BOARD OF PHARMACY

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October 27, 1995

Mr. James R. Nobles
Legislative Auditor
Centennial Building
658 Cedar St.
St. Paul, MN 55155

Dear Mr. Nobles:

This letter is in response to the findings and recommendations contained in the draft audit report, issued by your office, summarizing the results of the audit of the financial records of the Minnesota Board of Pharmacy, for the five-year period ending June 30, 1995. The field work involved with the audit was completed September 7, 1995, and an exit conference, wherein the findings and recommendations were discussed with me and my office manager, was conducted on October 26, 1995.

The findings indicated that one Board employee was reimbursed for mileage not allowable under the DOF Policy and employee plans. A recommendations was made that the Board office develop a better monitoring system to review mileage on expense reports, to ensure that it only reimburses employees for allowable miles. A further recommendation was that the Board employee involved repay $247.59 of improper mileage reimbursement, that the Board analyze all of the employee's expense reports, for the audit period, to determine whether and to what extent other overpayments were made and, if necessary, work out an appropriate repayment schedule with the employee.

The Board of Pharmacy has taken the following steps to implement the recommendations:

1) The Board has obtained copies of the Official Minnesota Highway Mileage Tables, published by the Department of Public Service, for each employee regularly submitting travel expense forms.

2) The Executive Director of the Board and the Office Manager of the Board have discussed proper procedures for the completion of expense reports with the employee involved, and with other employees who regularly submit employee expense reports.

3) The employee involved in the overpayment of mileage expenses has repaid the $247.59 of the identified

overpayment, and work has begun to review all of the expense reports for that employee for the audit period, in order to identify any other overpayments.

4) While it will be extremely time-consuming, the Executive Director or the Office Manager will review each expense report submitted during the next six months, in its entirety, paying particular attention to mileage reimbursements, in order to limit such reimbursements to those maximums established in DOF Policy and employee plans, and will spot check expense reports submitted in the future.

It is our firm belief that these procedures will guard against inadvertent excess reimbursements, such as those discovered in the audit.

Very truly yours,

David Holmstrom

David E. Holmstrom
Executive Director

DEH:jmk