

Board of Examiners for Nursing Home Administrators

Financial Audit

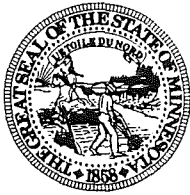
For the Four Years Ended June 30, 1995

August 1996

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

96-33



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Michael Gibson, President
Board of Examiners for Nursing Home Administrators

Members of the Board of Examiners for Nursing Home Administrators

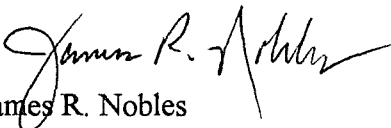
Ms. Julie Vikmanis, Executive Director
Board of Examiners for Nursing Home Administrators


We have audited the Board of Examiners for Nursing Home Administrators for the period July 1, 1991, 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. Management of the Board of Examiners for Nursing Home Administrators is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

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 August 30, 1996.

We thank the Board of Examiners for Nursing Home Administrators for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: July 3, 1996

Report Signed On: August 23, 1996

SUMMARY

State of Minnesota

Office of the Legislative Auditor

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

Board of Examiners for Nursing Home Administrators

Financial Audit

For the Four Years Ended June 30, 1995

Public Release Date: August 30, 1996

No. 96-33

Agency Background

The Board of Examiners for Nursing Home Administrators (board) exists to protect the public by ensuring that individuals employed as nursing home administrators meet and maintain the qualifications, standards, and professionalism necessary to competently operate a nursing home. The board consists of nine board members appointed by the Governor and two nonvoting members appointed by the commissioner of health and the commissioner of human services.

The board finances its operations through appropriations from the state of Minnesota. The board received State Government Special Revenue Fund appropriations ranging from \$166,000 - \$194,000 during the audit period. The board sets its fees to recover its direct and indirect costs. Attorney General costs make up the largest portion of indirect costs. The board deposits its receipts into the State Government Special Revenue Fund as nondedicated revenue.

Audited Areas and Conclusions

Our audit scope included several revenue classifications with a focus on licensure, application, and examination fees. In addition, our audit scope included administrative expenditures with a focus on payroll, rent, and purchased services for the period July 1, 1991, through June 30, 1995.

We concluded that the board charged the approved fees for licenses, applications, and examinations and set the fees to recover its direct and indirect operating expenses. However, the board needs to improve controls to ensure that the approved amount of license, application, and examination fees are collected and deposited promptly.

The board spent its state appropriations within its appropriation limits and statutory authority. However, the board did not comply with Department of Administration contract provisions. The board paid its employees at the proper amounts according to the respective bargaining unit agreements and/or board authorization.

Contact the Financial Audit Division for additional information.

296-1235

Board of Examiners for Nursing Home Administrators

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA
Warren Bartz, CPA
Lori Kloos

Deputy Legislative Auditor
Audit Manager
Auditor-in-Charge

Exit Conference

We discussed the results of the audit at an exit conference with the following Board of Examiners for Nursing Home Administrators staff on August 12, 1996:

Julie Vikmanis
Joann Benesh

Executive Director
Office Manager

Board of Examiners for Nursing Home Administrators

Chapter 1. Introduction

The Board of Examiners for Nursing Home Administrators regulates the licensing of nursing home administrators to ensure that competency standards as established by Minn. Stat. Section 144A.20 are met. The board processes applications for licensure and issues original and renewal licenses. It also administers license examinations, offers or approves educational seminars required for relicensure, and processes complaints filed against licensees. The board consists of one nonvoting member appointed by the commissioner of health, one nonvoting member appointed by the commissioner of human services, and nine members appointed by the Governor.

Julie Vikmanis currently is the executive director of the board. 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 of Examiners for Nursing Home Administrators is authorized to establish fees with the approval of the commissioner of finance so that total fees collected will approximately equal anticipated expenditures during the biennium. During the audit period the financial activities of the board were financed by appropriations from the State Government Special Revenue Fund and the fees for applications and license renewals were deposited as nondedicated revenue into the State Government Special Revenue Fund. During the audit period, the Attorney General's costs were financed from an appropriation to the Office of the Attorney General. However, board fees were to cover the Attorney General's costs as well.

A former executive director filed a lawsuit against the board for wrongful termination. The board terminated this employee on June 30, 1994. The Minnesota Supreme Court currently is reviewing the lawsuit to determine if the former employee has the legal right to pursue this case against the State of Minnesota. As a result of this case, Attorney General's costs have more than doubled from fiscal year 1994 to 1995. A further discussion of this lawsuit can be found in Chapter 2.

Board of Examiners for Nursing Home Administrators

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

Table 1-1
Summary of Financial Activity
Fiscal Years 1992-1995

	Year Ended June 30			
	1992	1993	1994	1995
Direct appropriations (1)	<u>\$166,174</u>	<u>\$193,555</u>	<u>\$177,918</u>	<u>\$177,338</u>
Revenues from fees	<u>\$150,104</u>	<u>\$179,477</u>	<u>\$196,094</u>	<u>\$194,005</u>
Expenditures:				
Payroll and board per diems	\$106,257	\$118,716	\$113,584	\$116,791
Rent	8,133	8,335	8,681	9,056
Purchased services	6,748	8,201	10,027	8,447
Other expenditures	17,199	29,219	34,166	24,045
Statewide indirect costs	1,128	405	6,918	5,938
Attorney General's costs (2)	12,229	10,267	9,086	21,776
Administrative services	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,484</u>
Total Expenditures and Costs	<u>\$151,694</u>	<u>\$175,143</u>	<u>\$182,462</u>	<u>\$188,537</u>

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 settling its fees.

Sources: Minnesota Laws.

Statewide Accounting System Estimated/Actual Receipts Reports and Manager's Financial Reports as of September 3, 1993 and October 13, 1995.

Attorney General's Office quarterly and monthly billings during each of the fiscal years.

Board of Examiners for Nursing Home Administrators

Chapter 2. Revenues

Chapter Conclusions

The board set the licensing, application, and examination fees to recover expenses as specified in statute and rule for fiscal years 1992 through 1995. It charged the approved fees for those services. However, the licensing and examination fees will not cover expenses for fiscal year 1996 due to extensive attorney fees to defend a lawsuit filed against the board. In addition, the board office did not have adequate controls to ensure that the approved amount of license, application, and examination fees were collected and deposited promptly.

The board receives a direct appropriation for operations from the Legislature. Each year, the board reviews the current fee structure to determine if fees are sufficient to cover board expenditures for the year. If the board determines that fees need to be increased, it goes through the rule-making process to change the fees. In September 1993, the board and the commissioner of finance approved fee increases for new and renewal licenses.

The board must observe several legal provisions in setting fees. Minn. Stat. Section 144A.19 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. Anticipated expenditures include Attorney General charges, indirect costs, and administrative services costs. The board had various revenue classifications throughout the audit period, as presented in Table 2-1.

Table 2-1
Summary of Revenue Classifications
Fiscal Years 1992-1995

	Year Ended June 30			
	1992	1993	1994	1995
Renewal licenses	\$104,500	\$131,800	\$131,400	\$136,950
New/acting licenses and applications	16,875	17,900	24,600	23,800
National and state examinations	12,275	15,225	18,850	16,350
Other revenue	14,579	14,552	21,244	16,905
Total Revenue	<u>\$148,229</u>	<u>\$179,477</u>	<u>\$196,094</u>	<u>\$194,005</u>

Source: Statewide Accounting System Estimated/Actual Receipts Reports as of July 2, 1992; September 4, 1993; September 3, 1994; and September 1, 1995.

Board of Examiners for Nursing Home Administrators

The majority of the receipts the board collects are for renewal licenses. In May 1995, the board began entering its own receipts on the statewide accounting (SWA) system. As of July 1, 1995, the administrative services unit for the health boards assumed responsibility for recording all receipts on the state accounting system.

We focused our review of receipts on the following objectives:

- Were licensing receipts properly collected according to statute and properly recorded and reported in the SWA system?
- Were receipts adequate to cover board expenses, including Attorney General costs of services?
- Did the board deposit receipts promptly?

Audit Methodology

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 four year period and to determine if actual receipts agreed with revenues earned. We also selected a sample of deposits and traced them through to the accounting system and to the license and examination records.

Conclusions

A current lawsuit filed against the board has resulted in the board's not collecting sufficient fees to cover expenditures and Attorney General costs. It came to our attention that a former executive director had been terminated by the board on June 30, 1994, after ten months of service. This employee filed a lawsuit against the board claiming wrongful discharge. On behalf of the board, the Office of the Attorney General filed a petition for Summary of Judgment to dismiss the case. The court denied the Summary of Judgment. It went to the Court of Appeals where it also was denied. Currently, the Minnesota Supreme Court is reviewing this case to determine if the case should be dismissed or if the former employee can pursue this case against the board and the State of Minnesota.

Due to this lawsuit, the board's Attorney General costs more than doubled from fiscal year 1994 to 1995. Under Minn. Stat. Section 214.06, the board's fees are supposed to cover board expenditures and Attorney General costs. However, for fiscal year 1996 the board estimates its fees will be \$25,000 less than its expenditures. The board has been exploring various options to cover this amount, including fee increases.

We determined that the board did not have adequate controls to ensure that the correct amount of license and examination receipts were collected and deposited as disclosed in finding 1. The board did not deposit receipts timely in fiscal years 1992 and 1993. We could not conclude on the timeliness of deposits for fiscal years 1994 and 1995 due to the lack of date stamping of

Board of Examiners for Nursing Home Administrators

receipts. Finally, deposit with state depository forms were not consistently authorized. A discussion of these issues can be seen in finding 2.

1. The board did not have adequate controls to ensure that the correct amounts of license and examination fees were collected and deposited.

The number of licenses and examinations issued by the board was not reconciled to receipts recorded on the statewide accounting (SWA) system. Because of the standard fee structure, this reconciliation would not be difficult. Reconciling receipts recorded on the state accounting system to the number of licenses issued and examinations administered would give assurance that the correct fees have been properly collected and recorded.

The board also did not account for its numbered licenses in sequential order nor did it maintain any record of the number of licenses that had been voided. Furthermore, we found several licenses that were void, but were not marked as such. Because sequential records of licenses issued and those voided were not maintained, the board could not verify that all licenses were accounted for and that the number of licenses issued shown on its records agreed with the number of licenses that had actually been distributed to individuals. This increases the risk that the correct amount of fees had not been properly collected and recorded.

Recommendations

- *The board should periodically reconcile the number of licenses issued and examinations given to receipts collected.*
- *A sequential record of licenses issued and voided should be maintained and used in the reconciliation of licenses issued to receipts collected.*
- *Voided licenses should be clearly marked as void.*

2. The board did not deposit receipts timely or date stamp receipts. In addition, deposit with state treasury forms were not authorized consistently.

During fiscal years 1992 and 1993, the board did not deposit receipts in excess of \$250 on a daily basis. Four deposits ranging from \$710 to \$1,250 had not been made for up to eight days after receipt collection. The state depository is across the street from the board office.

Minn. Stat. Section 16A.275 requires that receipts be deposited daily or when they total \$250, unless the agency received a waiver from the Department of Finance. Prompt depositing reduces the possibility of loss or theft and increases interest earnings for the state.

For fiscal years 1994 and 1995, six deposits were tested. Two of the six deposits included receipts that had not been date stamped with the date received. As a result, we could not conclude that receipts had been deposited within 24 hours. Under the board's policy, all receipts are to be date stamped upon arrival at the board office.

Board of Examiners for Nursing Home Administrators

In fiscal year 1995 the board made 119 deposits. Of those deposits, ten deposit forms did not have an authorized signature. The Department of Finance requires an authorized signature on the deposit with state depository forms. An authorized signature affixes responsibility for the deposits.

Recommendation

- *The board should deposit receipts of \$250 or more on a daily basis as required by Minn. Stat. Section 16A.275.*
- *All receipts should be date stamped as of the day they are received by the board office.*
- *All deposit with state treasury forms should be signed by an authorized employee of the board.*

Chapter 3. Expenditures

Chapter Conclusions

The board spent its state appropriations within its appropriation limits and statutory authority. The board accurately paid, recorded, and retained documentation for payroll expenditures. Payroll expenditures were in compliance with rules and regulations. Expenditures were authorized and consistent with the board's purpose. However, we found that the board needs to establish a contract with the National Association of Boards of Examiners for Nursing Home Administrators for national examinations purchased from the association.

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

Table 3-1
Summary of Expenditures
Fiscal Years 1992-1995

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
Payroll and board per diems	\$106,257	\$118,716	\$113,584	\$116,791
Rent	8,133	8,335	8,681	9,056
Purchased services	6,748	8,201	10,027	8,447
Other expenditures	<u>18,328</u>	<u>29,624</u>	<u>41,084</u>	<u>29,983</u>
Total Expenditures	<u>\$139,466</u>	<u>\$164,876</u>	<u>\$173,376</u>	<u>\$164,277</u>

Source: Statewide Accounting System Manager's Financial Reports as of September 3, 1993, and October 13, 1995.

The board's largest direct administrative expenditure was payroll. We also reviewed rent, purchased services, and other administrative expenditures. The executive director approves payroll and other disbursements. The office manager also has the authority to approve disbursements. The Department of Health shared in processing expenditures by recording transactions onto the statewide accounting (SWA) system through May 1994. In May 1994, some boards began using the administrative support unit for health related boards to record transactions onto the state's accounting and payroll system.

Audit Methodology

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 selected a sample of payroll and disbursement transactions and tested compliance

Board of Examiners for Nursing Home Administrators

with applicable legal provisions and employee bargaining agreements and/or the board of directors' authorization.

Payroll

The board employs two full-time employees and a part-time employee as the workload dictates. The employees review and process applications for nursing home administrator license examinations, review and process license renewals, monitor continuing professional education requirements, and process complaints filed against licensees.

We focused our review on the following objectives:

- Were policies and procedures in place to ensure the proper authorization, adequate documentation, and accurate processing of payroll expenditures?
- Were employees appropriately paid according to board policies and applicable bargaining unit agreements?
- Were payroll disbursements properly recorded and reported in the SWA system?
- Were per diems paid in accordance with board policies and statutes?
- Were per diem payments supported by adequate documentation?

In our review of payroll, we found that the board accurately paid, recorded, and retained documentation for payroll expenditures. The board paid its employees the proper amounts according to their respective bargaining unit agreements and/or board approval. Per diem payments were also paid in accordance with board policies and statutes and were supported by adequate documentation.

Rent

The board currently rents office space in a building located at 2700 University Avenue, St. Paul. All health-related boards currently rent office space at this location.

We focused our review of rent on the following objective:

- Was the amount paid for office space leased by the board in accordance with the lease agreement and were the provisions of the lease agreement being followed?

In our review of rent, we found that the proper amount of rent had been paid per the lease agreement and lease provisions were being followed. However, we found that the owner of the rented space recently filed a lawsuit against all health-related boards currently renting space in the building (including the Board of Examiners for Nursing Home Administrators) and the Department of Administration. This lawsuit resulted from a decision made by the boards to relocate to a different facility. The building representatives contend that damages would be

Board of Examiners for Nursing Home Administrators

forthcoming due to lost rental opportunities and expenses incurred to change the building's floor plan to accommodate the health boards' improvement plans. The outcome of this lawsuit and any financial impact on the board is uncertain.

Purchased Goods and Services

The purchase of national examinations for licensing of nursing home administrators results in the largest amount of expenditures in this category. The board determines what to purchase and handles the procurement responsibilities. Through May 1994, the board staff informed the Department of Health of their actions so the funds could be properly encumbered. Since that time, the administrative services unit for most health-related boards has assumed this responsibility. The board receives the goods and services, approves the invoices for payment, and sends them to the unit for the processing and entry of the payments.

We focused our review of purchased services on the following objectives:

- Were written contracts established for those vendors that exceed annual spending plan limits, and did the board comply with required legal provisions?
- Were memorandum agreements with vendors under the annual spending plan limits?
- Were contracts in place prior to the rendering of services?

In our review of purchased services, we found that the board did not have a contract in place with the National Association of Boards of Examiners for Nursing Home Administrators for the purchase of national exams. A further discussion of this issue can be seen in finding 3.

3. The board did not have a contract in place for the purchase of national examinations.

The board does not have a written contract with the National Association of Boards of Examiners for Nursing Home Administrators for the purchase of national examinations. Nearly all of the board's purchased services over fiscal years 1992-1995 were for national examinations. The amount disbursed for national examinations each fiscal year ranged from \$6,195 to \$9,500. Under the Department of Administration's requirements, annual spending plans with vendors in excess of \$5,000 require a written contract. In addition, because these examinations can only be obtained through the National Association, this contract needs to be a sole source contract.

By not having a written contract in place, the board increases the risk that the National Association could increase the fees for the national examinations without notice. Currently the board charges the same fee amount to administer the examination as it pays for the examination. Because the board has reached the maximum amount it can charge for the national examination under Minnesota Rules 1989, Chapter 6400, the board cannot increase the fee amount it charges without changing the rules and gaining Department of Finance approval. This process can be time consuming. If the National Association suddenly increased its national examination costs, the board would realize a loss until the fee could be increased.

Board of Examiners for Nursing Home Administrators

Recommendation

- *The board should comply with the Department of Administration's requirement regarding contracts and obtain a written contract with the National Association of Board of Examiners for Nursing Home Administrators for national examinations.*

Other Administrative Expenditures

Other administrative expenditures include expenditures for items such as computers and information systems, travel, supplies, and equipment. We completed a review of the general processing procedures for these expenditures and performed analytical reviews to determine areas where expenditures had significantly changed. We performed a more detailed analysis of large variances and unusual amounts to ensure that purchases were reasonable and consistent with the board's purpose.

In our review, we found other administrative expenditures spending patterns were reasonable. Large variances and unusual amounts were satisfactorily explained.



**MINNESOTA BOARD OF EXAMINERS FOR
NURSING HOME ADMINISTRATORS**

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August 16, 1996

Mr. James Nobles, Legislative Auditor
Office of the Legislative Auditor
First Floor, Centennial Office Building
St. Paul, MN 55155

Dear Mr. Nobles:

This letter is in response to the audit report concerning the Board of Examiners for Nursing Home Administrators for the period July 1, 1991 through June 30, 1995. I appreciate the opportunity to respond to the report and the recommendations it includes.

Recommendations:

- That the board should periodically reconcile the number of licenses issued and examinations given to receipts collected.
- A sequential record of licenses issued and voided should be maintained and used in the reconciliation of licenses issued to receipts collected.
- Voided licenses should be clearly marked as void.

A procedure has been instituted to maintain records of the numbers of all licenses issued and voided. These records will be maintained in the ongoing process of issuing original and acting licenses and in the annual renewal process. An annual reconciliation will be made and the results maintained for easy audit. Similar records of examinations given will be made with an annual reconciliation to receipts for examination fees. All voided licenses will be clearly marked as void.

Recommendations:

- The board should deposit receipts of \$250 or more on a daily basis as required by Minn. Stat. Section 16A.275.
- All receipts should be date stamped as of the day they are received by the board office.
- All deposits with state treasury forms should be signed by an authorized employee of the board.

Date stamping procedures for all receipts have been resumed. Deposits are being made on a timely basis and state treasury forms are being signed by either the executive director or office manager both of whom have authorized signatures for this purpose.

Recommendation:

- The board should comply with the Department of Administration's requirement regarding contracts and obtain a written contract with the National Association of Board of Examiners for Nursing Home Administrators for national examinations.

Information on contract procedures has been obtained and board staff are in the process of developing a contract with the National Association of Boards of Examiners for Nursing Home Administrators for examination services to be submitted to the Department of Administration for review and approval. Unless significant problems are encountered we should be able to have a contract in place for the purchase of examinations to be administered on October 10, 1996, and thereafter.

As executive director for the board, I will be responsible to see that the actions identified are implemented to respond to the recommendations made in the report.

We appreciate the care taken by your staff, particularly Ms. Lori Kloos who examined our records, in conducting the audit and for your helpful suggestions on improvement of our control mechanisms.

Sincerely,



Julie M. Vikmanis
Executive Director

Admin.Doc.: audites.896

JMV:jb