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**Board of Accountancy**

**Financial Audit**

**For the Four Years Ended June 30, 1998**

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**May 1999**

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Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota

**99-29**

# SUMMARY

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## **Board of Accountancy**

### **Financial Audit For the Four Years Ended June 30, 1998**

Public Release Date: May 19, 1999

No. 99-29

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#### **Agency Background**

The Board of Accountancy is established pursuant to Minn. Stat. Chapter 326. The board also operates under Minn. Stat. Chapter 214 which governs boards and commissions generally. By statute, the board is responsible for protecting the public by ensuring that individuals practicing public accounting meet and maintain the qualifications, standards, and professionalism required to competently practice public accounting in Minnesota. Statutes mandate that the board certify, license, and regulate certified public accountant (CPA) and licensed public accountant (LPA) individuals and firms. The board consists of five CPAs, two LPAs, and two public members. The board appoints an executive secretary who is its chief administrative officer. The board appointed Dennis Poppenhagen as executive secretary in January 1996.

The board finances its operations through General Fund appropriations. It received annual appropriations ranging from \$474,000 to \$572,000 during the audit period. The board sets the fees it charges to recover its direct and indirect costs. The board deposits the receipts into the state's General Fund as non-dedicated revenue.

#### **Audit Scope and Conclusions**

Our audit scope included examination, license, and disciplinary fine revenues, employee payroll, and other administrative expenditures for the period July 1, 1994, through June 30, 1998.

We concluded that the board appropriately accounted for license, examination, and disciplinary fine revenues. The board charged the fees established in Chapter 1100 of the Minnesota Rules for licenses, fees, and examinations. The board did not, however, implement a prior audit recommendation to deposit receipts in a timely manner. However, the board implemented a new licensing system for the board's most recent renewal period which should improve the timeliness of deposits.

We also found that the board spent its state appropriations within appropriation limits and statutory authority. Payroll and other administrative expenditures, including rent and travel, were reasonable and complied with laws and regulations for the items tested.

#### **Agency Response**

The board agreed with the audit finding and believes its new licensing system will enable it to deposit receipts timely.



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

Representative Dan McElroy, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Robert Hyde, Chair  
Board of Accountancy

Members of the Board of Accountancy

Mr. Dennis Poppenhagen, Executive Secretary  
Board of Accountancy

We have audited the Board of Accountancy for the period July 1, 1994, through June 30, 1998, as further explained in Chapter 1. Our audit scope included examination, license, and disciplinary fine revenues, employee payroll, and other administrative expenditures.

We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of internal 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 May 19, 1999.

James R. Nobles  
Legislative Auditor

Claudia J. Gudvangen, CPA  
Deputy Legislative Auditor

End of Fieldwork: April 16, 1999

Report Signed On: May 13, 1999

## Board of Accountancy

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### Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Jim Riebe, CPA	Audit Manager
Terry Hanson	Auditor-in-Charge

### Exit Conference

The findings and recommendations in this report were discussed with the following staff of the board on May 10, 1999:

Dennis Poppenhagen	Executive Secretary
Robert Hyde	Board Chair

# Board of Accountancy

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## Chapter 1. Introduction

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The Board of Accountancy is established by Minn. Stat. Chapter 326 and operates under Chapter 1100 of Minnesota Rules. The board also is responsible for complying with Minn. Stat. Chapter 214 which governs the operations of boards and commissions generally. By statute, the board is responsible to protect the public by assuring Minnesota citizens that persons engaged in public accounting meet the qualifications and standards necessary to competently practice public accounting.

The board consists of five CPAs, two LPAs, and two public members, all appointed by the Governor. Board members serve four-year terms. 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. In January 1996, the board appointed Dennis Poppenhagen as executive secretary. Mr. Poppenhagen succeeded Deborah Knupp, the interim executive secretary who replaced David O'Connell.

The board's programs include examinations, licensing, and enforcement. The board administers exams, processes license applications and renewals, and monitors and regulates candidates, applicants, and licensees. In fiscal year 1998, the board processed approximately 1,760 applications for the Uniform Certified Public Accountant's examination (offered every May and November). After successfully passing the CPA exam, candidates must also pass an ethics exam.

After a candidate successfully passes both the CPA exam and the ethics exam, the board issues the candidate a CPA certificate. Holders of CPA certificates must complete a public accounting experience requirement prior to applying to the board for licensure. In fiscal year 1998, the board issued approximately 590 certificates and 360 new individual licenses. Individual CPAs and LPAs must renew their licenses annually, whether they hold active or inactive (not currently practicing public accounting) licenses. The board processed and renewed about 11,560 individual licenses in fiscal year 1998. The board also monitors each active licensee for compliance with continuing professional education requirements. In addition, the board receives written complaints about individuals and firms practicing in Minnesota. It investigates and resolves the complaints with the assistance of the Minnesota Attorney General's Office.

Table 1-1 shows the appropriations, expenditures, and revenues of the board for the last three fiscal years. Although fiscal year 1995 activity was included in our audit scope, we do not present financial information for that year because of changes in accounting systems and classifications.

## Board of Accountancy

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**Table 1-1**  
**Summary of Financial Activity**  
**Fiscal Years 1996-1998**

	Fiscal Years		
	<u>1996</u>	<u>1997</u>	<u>1998</u>
Appropriation	<u>\$537,000</u>	<u>\$558,000</u>	<u>\$572,000</u>
Expenditures			
Payroll	\$205,305	\$216,047	\$227,549
Supplies	110,312	111,509	111,380
Rent	59,705	46,087	48,360
Postage/Communication	34,951	28,837	33,504
Other	<u>66,495</u>	<u>64,594</u>	<u>69,696</u>
Total Expenditures	<u>\$476,768</u>	<u>\$467,074</u>	<u>\$490,489</u>
Revenues			
Non-dedicated	<u>\$645,809</u>	<u>\$674,095</u>	<u>\$753,153</u>

Source: MAPS (budget year basis).

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The board receives administrative support from the Department of Commerce and services from the Attorney General's Office under Minn. Stat. 214.04. The Department of Commerce provides services such as payroll and personnel transaction processing, allotting, encumbering, and disbursing funds, depositing receipts into the State Treasury, and maintaining the board's accounting records. The Attorney General's Office provides legal and investigative services to the board. The indirect costs of these services are factored into the determination of the board's fees and appropriations. According to the Department of Finance's *Departmental Earnings Report*, indirect costs for the board totaled approximately \$108,000 each fiscal year during the audit period.

Chapter 2 provides further information on the board's revenues. Chapter 3 discusses administrative expenditures.

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## Chapter 2. Revenues

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### *Chapter Conclusions*

*The board provided reasonable assurance that revenue collections were safeguarded and accurately reported in the accounting records. The board collected and deposited the correct amount of examination fees, license receipts, and disciplinary fines based on the examinations given, licenses issued, and fines assessed. In addition, for the items tested, the board collected receipts in accordance with Minnesota Statutes and board rules. We found, however, that the board did not deposit receipts in a timely manner during the audit period. The board implemented a new licensing system for its most recent renewal period, which should improve the timeliness of deposits.*

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The board receives revenue from examinations, licensing, disciplinary fines, and penalties. By statutory and rule authority, the board sets its fees to recover its direct and indirect operating costs. Each year the board analyzes the fees charged and submits a fee report to the Department of Finance. Finance determines if the board set fees appropriately. Approved board fees are established in Chapter 1100 of Minnesota Rules. The board deposits the fees it collects into the General Fund as non-dedicated revenue. Table 2-1 shows the revenues of the board for the last three fiscal years.

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**Table 2-1**  
**Summary of Non-Dedicated Revenues**  
**Fiscal Years 1996 – 1998**

Revenue Type:	Fiscal Years		
	<u>1996</u>	<u>1997</u>	<u>1998</u>
Licenses	\$397,282	\$399,211	\$435,755
Examinations	221,892	203,339	217,120
Disciplinary Fines (1)	<u>26,635</u>	<u>71,545</u>	<u>100,278</u>
Total Revenues	<u>\$645,809</u>	<u>\$674,095</u>	<u>\$753,153</u>

(1) The board became more active in enforcing regulations during the audit period, which resulted in the increases in disciplinary fines.

Source: MAPS (budget year basis).

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### **Audit Objectives and Methodology**

We focused our review of license receipts on the following objectives:

- Did the board provide reasonable assurance that revenue collections were safeguarded and accurately reported in the accounting records?

## Board of Accountancy

- Did the board collect and deposit the correct amount of examination fees, license receipts, and disciplinary fines based on the examinations given, licenses issued, and fines assessed?
- Were receipts collected and deposited in accordance with Minnesota Statutes and board rules?

To address these objectives, we interviewed board staff and Department of Commerce staff to gain an understanding of the receipt process and related internal controls. We performed analytical procedures to determine and evaluate changes in revenues during the audit period. In addition, we selected a sample of deposits and traced them through the accounting system to the appropriate supporting documentation.

### Conclusions

The board provided reasonable assurance that revenue collections were safeguarded and accurately reported in the accounting records. The board collected and deposited the correct amount of examination fees, license receipts, and disciplinary fines based on the examinations given, licenses issued, and fines assessed. In addition, for the items tested, the board collected receipts in accordance with Minnesota Statutes and board rules. However, we found the board did not promptly deposit receipts, as discussed in Finding 1.

#### **1. PRIOR AUDIT FINDING NOT RESOLVED: The board did not deposit receipts in a timely manner.**

The board did not deposit receipts in a timely manner, as required by state law. Untimely deposits could result in receipts being lost or stolen. Lack of timely deposits also results in lost interest income to the state. The board receives checks and supporting documentation from exam candidates, license applicants, and license holders. Board staff entered the information, such as payees, check numbers, dollar amounts, and demographic information on new applicants, in the licensing system and then prepared the receipts for deposit. During some of the busy times of the year, such as when license renewals were due, board staff did not prepare the deposit until all of the day's transactions had been entered in the system. We tested individual receipt transactions that varied from \$10 to \$165 and found that the board staff deposited the receipts between 2 to 25 days late. The individual transactions make up larger deposits that average about \$4,000 during the busy season. Minn. Stat. Section 16A.275 requires state agencies to deposit receipts totaling \$250 or more in the State Treasury daily. In fiscal year 1999, the board implemented a new licensing system and established new processing procedures. The board now enters information into the system using a batch process. The process allows the board to prepare deposits in a more timely manner.

#### *Recommendation*

- *The board should deposit receipts in compliance with state statutes.*



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## Chapter 3. Administrative Expenditures

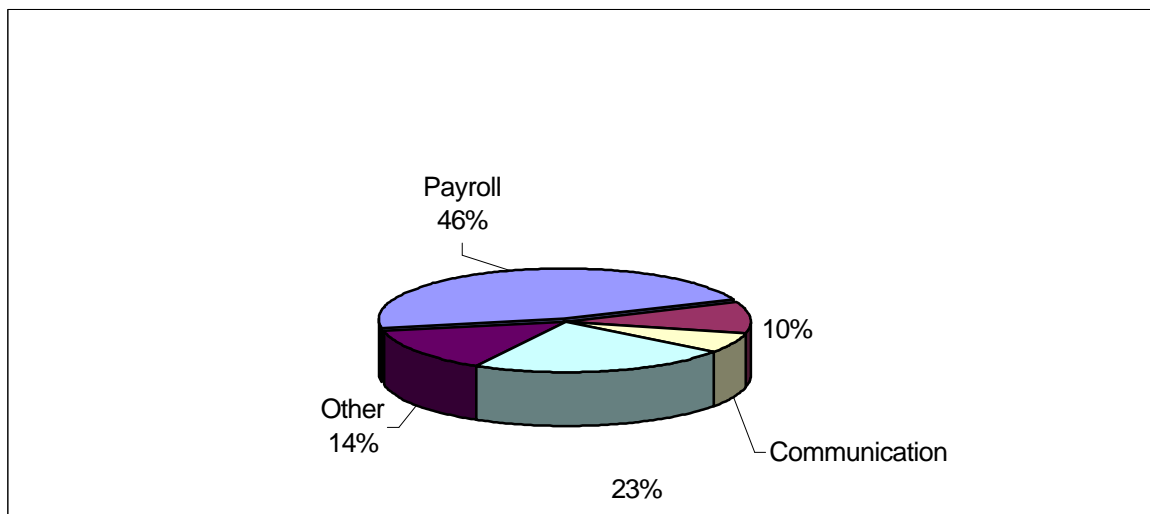
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### *Chapter Conclusions*

*The board provided reasonable assurance that administrative expenditures were accurately recorded in the accounting records and in compliance with applicable legal provisions and management's authorization. The board paid staff at the proper amounts according to the applicable bargaining unit agreements or board authorizations. In addition, the board's disbursements were reasonable and complied with appropriate state procurement regulations and management's authorization, for the items tested.*

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The board receives an appropriation from the Legislature to finance its activities. During the audit period, the appropriations ranged from \$474,000 to \$572,000 per year. The board's largest administrative expenditures were payroll and supplies. Figure 3-1 shows fiscal year 1998 expenditures by type.



In the following sections, we discuss the methodology we used to audit the board's administrative expenditures and the specific audit objectives and conclusions for the material types of expenditures.

### **Methodology**

The methodology used to audit administrative expenditures included interviewing the board staff and Department of Commerce staff to gain an understanding of the disbursement process and related internal controls. We performed analytical procedures for administrative expenditures to

## **Board of Accountancy**

evaluate any trends in specific account classes throughout the audit period. We also tested compliance with applicable legal provisions and employee bargaining unit agreements on a sample basis. We applied audit procedures at both the board and Department of Commerce.

## **Payroll and Per Diem**

The board incurs expenditures for employee payroll and per diem expenditures. The board employs an executive secretary, four full-time staff, and one part-time employee. The employees fill out timesheets that the executive secretary approves. The board members received \$55 per day for board activities by submitting an expense reimbursement form, also approved by the executive secretary. The Department of Commerce employees enter payments into the accounting system.

We focused our review of payroll on the following objectives:

- Did the board provide reasonable assurance that payroll and per diem expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions?
- Did the board pay staff at the proper amounts according to the applicable bargaining unit agreements and/or board authorizations?

Our review of payroll and per diem expenditures concluded that the board provided reasonable assurance that payroll expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions. In addition, the board paid staff at the proper amounts according to the applicable bargaining unit agreements and/or board authorizations for the items tested.

## **Non-Payroll Administrative Expenditures**

The board purchases goods and services, rents office space, contracts for services, and reimburses employees and board members for eligible expenses related to board activities. The board uses purchase orders, contracts, invoices, and expense reimbursement forms for the various expenditures. The executive secretary approves all forms before Commerce processes the encumbrance or payment.

The largest non-payroll administrative expenditure is supplies. These expenditures include purchases of CPA examinations from the AICPA, which accounted for about 81 percent of supply expenditures during the audit period.

We focused our review of non-payroll administrative expenditures on the following objectives:

- Did the board provide reasonable assurance that disbursements were accurately recorded in the accounting records and in compliance with applicable legal provisions and management's authorization?

## **Board of Accountancy**

- Were the board's disbursements reasonable, in compliance with appropriate state procurement regulations, and within management's authorization?

Our review of non-payroll expenditures found the board provided reasonable assurance that disbursements were accurately recorded in the accounting records and in compliance with applicable legal provisions and management's authorization. In addition, for the items tested, the board's disbursements were reasonable, in compliance with appropriate state procurement regulations, and within management's authorization.

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**Status of Prior Audit Issues  
As of April 16, 1999**

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**Most Recent Audit Report 95-30**, issued in June 1995, examined the Board of Accountancy's activities for fiscal years 1992, 1993, and 1994. The scope included license revenues and administrative expenditures. We found the board needed to improve the receipt process in several areas. Since the last audit, the board implemented most of our recommendations on receipts. The board did not, however, implement the prior audit recommendation to deposit receipts in a timely manner. We discuss this issue in Finding 1 of this report.

The last audit also concluded that the board needed to improve the disbursement process in several areas. The board implemented our recommendations regarding disbursements.

**State of Minnesota Audit Follow-up Process**

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as the metropolitan agencies, or the State Agricultural Society, the state constitutional officers, or the judicial branch.



STATE OF MINNESOTA  
BOARD OF ACCOUNTANCY

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May 10, 1999

Mr. James R. Nobles, Legislative Auditor  
1<sup>st</sup> Floor South – Centennial Office Building  
658 Cedar Street  
St. Paul, Minnesota 55155

RE: Minnesota Board of Accountancy audit 7/1/94 – 6/30/98

Dear Mr. Nobles:

As a follow-up to our exit conference of today, please be advised that I did forward the Management Representation letter dated April 16, 1999 to your office via the inter-office mail.

While it is accurate that the Board did not comply with the **PRIOR AUDIT FINDING NOT RESOLVED** (p.4) **the Board did not deposit receipts in a timely manner** within the subject audit period, please note that corrective action has been taken and that under the current program (implemented in the latest, December 31, 1998 license renewal campaign) the majority of deposits were made within 24 hours and at the latest within 48 hours of receipt. This is rather commendable as most of the renewals come into the office within a 10 to 15 day period of time.

On behalf of the Board, staff and myself, I want to thank you for your thoughtful and considerate suggestions. Your audit of the Board was done in an efficient and professional manner.

Sincerely,

A handwritten signature in cursive script, reading "Dennis J. Poppenhagen".

Dennis J. Poppenhagen, Executive Secretary

Cc: Bob Hyde  
Gene Braam  
Barb Freund  
Barb Schnoor