OLA

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

Minnesota Board of Marriage and Family Therapy

July 1, 2000, through June 30, 2003

FEBRUARY 3, 2005 **05-08**

Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota state government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately forty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of representatives and senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

Representative Tim Wilkin, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Robert Butler, Executive Director
Minnesota Board of Marriage and Family Therapy

We have audited the Minnesota Board of Marriage and Family Therapy for the period July 1, 2000, through June 30, 2003. Our audit scope included license and fee receipts, payroll, and administrative expenditures. The Report Summary highlights our overall audit conclusions. The specific audit objectives and conclusions are contained in the Financial Operations Chapter of this report.

We selected the board for audit based on our annual assessment of state agencies and programs. We used various criteria to determine the entities to audit, including the size and type of each agency's financial operations, length of time since the last audit, changes in organizational structure and key personnel, and available audit resources.

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 the board's internal controls relevant to the audit objectives. We used the guidance contained in *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission, as our criteria to evaluate agency controls.

The standards also require that we plan the audit to provide reasonable assurance that the board complied with financial-related legal provisions that are significant to the audit. In determining the board's compliance with legal provisions, we considered requirements of laws, regulations, contracts, and grant agreements.

To meet the audit objectives, we gained an understanding of the board's financial policies and procedures. We considered the risk of misstatements in the accounting records and noncompliance with relevant legal provisions. We analyzed accounting data to identify unusual trends or significant changes in financial operations. We examined a sample of evidence supporting the board's internal controls and compliance with laws, regulations, contracts, and grant provisions.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: April 30, 2004

Report Signed On: January 28, 2005

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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
Ken Vandermeer, CPA	Audit Director
George Deden, CPA	Auditor
Susan Mady	Auditor
Alan Sasse, CPA	Auditor
Trihn Bui	Intern
Titima To	Intern

Exit Conference

We discussed the results of the audit with the following staff of the Board of Marriage and Family Therapy at an exit conference on October 28, 2004:

Robert Butler	Executive Director
Nancy O'Brien	Office Manager
Juli Vangsness	Accounting Supervisor, Administrative Services Unit

Report Summary

Conclusions:

- The Minnesota Board of Marriage and Family Therapy needs to strengthen its independent review of receipt and disbursement transactions and further restrict access to its business systems. However, we did not identify any erroneous or improper financial activities during our audit. (Finding 1, page 7)

- The board complied with legal provisions for the items tested.

The report contained one finding relating to internal control. The office resolved the one finding included in our prior audit report.

Audit Scope:

Audit Period: July 1, 2000, through June 30, 2003

Programs Audited:
- Licensing and Fee Receipts
- Payroll Expenditures
- Administrative Expenditures

Agency Background:

The Board of Marriage and Family Therapy regulates the licensing of professional marriage and family therapists engaged in practice in the state of Minnesota. In fiscal year 2003, the board collected approximately $156,000 and incurred $141,000 in both direct and indirect costs. During that time, the board issued about 950 license renewals, including 150 associate renewals.

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Chapter 1. Introduction

The Board of Marriage and Family Therapy regulates the licensing of professional marriage and family therapists to ensure compliance with the rules of practice for their profession in the state of Minnesota. The board consists of seven members appointed by the Governor and operates under Minn. Stat. Chapters 148B and 214. Robert Butler is the executive director of the board.

The board processes applications for licensure and issues original licenses and renewal certificates. The board also investigates complaints filed against licensees. The board obtains administrative support from the Administrative Services Unit (ASU) and legal services from the Attorney General's Office. ASU provides various services for all health boards, such as processing personnel and payroll transactions, purchasing, disbursing funds, and depositing receipts. ASU also assists the boards with budget development and monitoring financial activity throughout the year. The Attorney General's Office supports the board's legal and investigative services pursuant to Minn. Stat. Section 214.10. According to statute, the board must establish fees sufficient to cover both direct and indirect costs of its operations.

Table 1-1 shows the board's sources and uses of funds during the audit period.

Table 1-1
Sources and Uses of Funds [1]
By Fiscal Year

	2001	2002	2003
Sources:			
Appropriation	$120,356	$119,604	$123,385
Balance Forward In (Out)	5,377	(11,459)	11,849
Receipts [1]	20,475	0	0
Cancellations	(12,974)	0	(12,010)
Total Sources	$133,234	$108,145	$123,224
Uses:			
Direct Expenditures	$123,878	$102,541	$117,839
Statewide Indirect Costs	9,356	5,604	5,385
Total Uses	$133,234	$108,145	$123,224

Note (1): Except for the miscellaneous receipts shown in fiscal year 2001, board receipts are deposited in a special revenue fund as nondedicated revenue. See Table 2-1 in Chapter 2 for information on the board's receipts.

Source: Minnesota Accounting and Procurement System.

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Chapter 2. Financial Operations

Chapter Conclusions

The Minnesota Board of Marriage and Family Therapy needs to provide an independent review of receipt and disbursement transactions and further restrict access to its business systems.

For the items tested, the board complied with applicable finance-related legal requirements, including the statutory requirement that it set its fees to recover its operating costs.

The Minnesota Board of Marriage and Family Therapy's budget is funded from a State Government Special Revenue Fund appropriation. The appropriation is established to cover both direct and indirect costs of operations. The board pays direct costs associated with board operations from its state appropriation. Indirect costs result from the centralized services of the Administrative Services Unit, Health Professional Services Program, and Attorney General's Office. Centralized service costs are pooled costs allocated to each health-related licensing board and paid from the Special Revenue Fund but not from the board's appropriation. The Legislature requires the board to consider both direct and indirect costs when establishing its fees.

The board deposits license, examination, and other fees into the health occupations licensing account in the State Government Special Revenue Fund as nondedicated revenue. According to Minn. Stat. Section 214.06, fees collected should approximate anticipated total expenditures for both direct operations and indirect costs during the biennium.

Expenditures

Payroll is the board's largest expenditure. The office employs two staff, representing 1.5 full-time equivalent positions, an executive director and an office manager, who belong to different compensation plans. Rent was the largest class of nonpayroll administrative expenditures.

Receipts

The board receives application fees, renewal fees, and late fees from the licensing of marriage and family therapists. In fiscal year 2003, the board processed about 800 licenses. Licenses expire annually on December 31. The board's fees are set in statute. Fee changes must be approved by the commissioner of Finance and the Legislature during the biennial budget process.

Minnesota Board of Marriage and Family Therapy

Administrative Services

Beginning in fiscal year 1994, the board entered into an agreement with 15 other health-related licensing boards to jointly fund the operations of the Administrative Services Unit (ASU). The board utilized the full range of services provided by ASU, a six-employee team who serve as administrative support for all health-related licensing boards. ASU inputs the board's purchasing and disbursement transactions into the Minnesota Accounting and Procurement System (MAPS) and employee expense reimbursements into the Statewide Employee Management System (SEMA4). The board also relies on the services of the ASU for central depositing of receipts, budget preparation, reporting financial activity, and processing of payroll/personnel transactions.

Table 2-1 summarizes the board's receipts, expenditures, and indirect costs for the two years of the biennium ended June 30, 2003.

Table 2-1
Receipts, Expenditures, and Indirect Costs
By Fiscal Year

	2002	2003
Receipts [(1)]		
License Fees	$ 96,224	$103,022
Application Fees	20,500	32,820
Fines, Penalties, and Filing Fees	4,000	1,600
Miscellaneous	17,575	18,360
Total Revenues	$138,299	$155,802
Direct Expenditures		
Payroll and Per Diem	$ 76,704	$ 82,463
Rent, Maintenance, and Utilities	11,185	11,315
Supplies and Equipment	2,166	12,139
Other Operating Costs	12,485	11,923
Total Direct Expenditures	$102,540	$117,840
Indirect Costs		
Administrative Services Unit (2)	$ 4,597	$ 5,704
Health Professional Services Program (2)	1,000	1,000
Attorney General Services (2)	6,604	11,481
Statewide Indirect Costs	5,604	5,385
Total Indirect Expenditures	$ 17,805	$ 23,570
Total Direct and Indirect Expenditures	$120,345	$141,410
Fiscal Year Surplus [(3)]	$ 17,954	$ 14,392

Notes:
(1) Board receipts are deposited in a special revenue fund as nondedicated revenue.
(2) Although the board does not pay these indirect costs directly from its appropriation, the Legislature requires the board to include these costs when setting fees. The indirect costs are paid from the State Government Special Revenue Fund.
(3) By statute, the board is required to set fees sufficient to recover its costs each biennium.

Source: Minnesota Accounting and Procurement System and ASU Subsidiary Records.

Minnesota Board of Marriage and Family Therapy

Audit Objectives and Methodology

We focused our review of receipts, payroll, and administrative expenditures on the following objectives:

- Did the board's controls provide reasonable assurance that assets were safeguarded and financial transactions were proper, accurately recorded on the state's accounting system, and processed in accordance with management's authorization?
- Did the board process transactions in accordance with material finance-related legal provisions, including employee compensation plans?
- Did the board set fees to recover costs as required by statute?

Finding and Recommendations

Finding 1 discusses the weaknesses we identified in the department's controls over financial operations.

1. The board did not provide an independent review of its financial transactions and did not adequately restrict access to its business systems.

The board needs to strengthen its independent review of receipt and disbursement transactions and further restrict access to its business systems. We identified the following weaknesses in the board's financial procedures. However, we did not identify any erroneous or improper financial activities during our audit.

- The board assigned a concentration of duties to the office services supervisor. In the receipts area, the supervisor prepares the deposits and also reconciles the deposits to the accounting system (MAPS) and the board's licensing system. The supervisor also issues licenses. In the purchasing cycle, the supervisor authorizes purchases, receives supplies, authorizes payments, and reconciles authorized payments to the accounting system. In payroll, the supervisor authorizes payroll and personnel actions and verifies the information was accurately recorded in the personnel system (SEMA4). The executive director should reconcile the accounting information to the supporting records in order to timely identify potential errors or irregularities. Alternatively, if the office services supervisor continues to have these functional responsibilities, the executive director could independently verify and approve the reconciliation. Evidence documenting the review of reconciliations by the executive director should be retained. Providing board members with monthly revenue and expenditure accounting transaction reports would further strengthen their oversight of the board's financial operations.
- Several state employees have unnecessary access to the board's business systems. The current access profiles for payroll and personnel at ASU do not follow requirements established by the Department of Employee Relations. Ideally, access to human resources functions, such as adding new staff to the personnel system and adjusting pay

rates are separate from payroll functions, such as processing biweekly payroll and retroactive pay increases. Third, two individuals at the Board of Medical Practice have access to the accounting and human resources systems to back-up ASU employees. We think this compromises the confidentiality of the Board of Marriage and Family Therapy's data.

Lack of separation of critical control procedures exposes the organization to unnecessary risks that receipts could be stolen or misplaced. For expenditures, unauthorized or inappropriate transactions could be processed, incorrect charges could post to the board's budget, or errors and irregularities could occur and remain undetected. Department of Finance policy 102-01 requires the person performing receipt reconciliations to be independent of the depositing and data entry processes for receipts. The policy requires similar independent reconciliations for the authorization and processing of expenditure transactions.

Department of Finance policy 102-01 also requires agencies to periodically review and restrict access to its computer systems. Access to computer systems should be restricted based on each individual's job duties. Individuals responsible for reconciliations of system activity could be limited to view-only access to prevent intentional or unintentional alteration of system balances.

Recommendations

- *The executive director should reconcile accounting records to supporting documentation. Alternatively, the executive director could verify and approve the reconciliations prepared by the office services supervisor. Board members should also be provided detailed, monthly revenue and expenditure accounting transaction reports for their review and approval during regularly scheduled board meetings.*

- *The board should restrict or limit access to its business systems, including access by ASU and Medical Practices Board personnel. Personnel and payroll access profiles recommended by the Department of Employee Relations should be used to properly separate duties. The board should also perform periodic reviews to ensure that employees only have the system access necessary to fulfill their job responsibilities.*

Status of Prior Audit Issues
As of April 30, 2004

Most Recent Audit

Legislative Audit Report 98-54 covered the two fiscal years ending June 30, 1997. The audit focused on the internal control structure over license receipts, personnel services, rent, and other administrative expenditures. The report contained one audit finding pertaining to reconciliation of license fee revenues. The board resolved the finding.

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 metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

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Minnesota Board of Marriage and Family Therapy
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January 26, 2005

James Riebe, CPA
Audit Manager
Office of the Legislative Auditor
1st Floor Centennial Building
658 Cedar Street
St Paul MN 55155

Dear Mr. Riebe:

On January 20, 2005, I received by e-mail what I hope is the final version of the report on the Minnesota Board of Marriage and Family Therapy. I appreciate the changes made to more adequately reflect the board's operations.

I have the following responses to the recommendations outlined on page 8:

- The Executive Director will continue to verify reconciliations done by the "Office Services Supervisor." Verification will be initialed, dated, and kept on file.

- The monthly expenditure and receipt report currently provided to the board will be expanded to show expenditures and receipts in greater detail.

- Questions were raised in all drafts of this report about access to various aspects of the board's databases. All boards regardless of size need back-up technical help when regular personnel are ill, on vacation, etc. To let the database sit idle during such times simply is not in the public interest and it violates the board's sole function of public protection.

- It is my opinion that access is now in compliance with state standards and this process will be will be reviewed annually to ensure continued compliance.

If you have questions, you may contact me at the address or telephone number listed above, or e-mail robert.butler@state.mn

Sincerely,

/s/ Robert C. Butler

Robert C. Butler
Executive Director

RCB/no