

STATE BOARD OF ACCOUNTANCY
FINANCIAL AND COMPLIANCE AUDIT
FOR THE PERIOD JANUARY 1, 1984
THROUGH JUNE 30, 1986

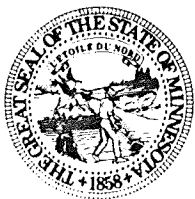
JULY 1987

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

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STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Phillip J. Riveness, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Bonnie Russ, Chairman
State Board of Accountancy

Ms. Pamela Smith, Executive Secretary
State Board of Accountancy

Audit Scope

We have completed a financial and compliance audit of the State Board of Accountancy for the period January 1, 1984 through June 30, 1986. Section I includes a brief description of the State Board of Accountancy activities and finances. Our audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, and accordingly, included such audit procedures as we considered necessary in the circumstances. Field work was completed on April 24, 1987.

The objectives of the audit were to:

- study and evaluate internal control systems of the Board in addition to any administrative support provided by the Department of Commerce including receipts, payroll, and administrative disbursements as of December 31, 1986;
- verify that financial transactions were made in accordance with applicable laws, regulations and policies, including Minn. Stat. Section 326.165 to 326.231 and Chapter 214, and other finance-related laws and regulations; and
- evaluate the recording and reporting of financial transactions on the Statewide Accounting System.

Management Responsibilities

The State Board of Accountancy staff process examination and license applications and renewals. The Department of Commerce prepares the deposit and deposits all fees for the board. The Department of Commerce also provides administrative support for processing payroll, purchasing supplies, and processing invoices for payment after initial authorization by the board staff. The State Board of Accountancy is ultimately responsible for its financial operations.

Representative Phillip J. Riveness, Chairman
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Ms. Bonnie Russ, Chairman
Ms. Pamela Smith, Executive Secretary
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The management of the State Board of Accountancy is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

The management of the State Board of Accountancy is also responsible for the agency's compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs administered by the State Board of Accountancy. The purpose of our testing of transactions was to obtain reasonable assurance that the State Board of Accountancy had, in all material respects, administered their programs in compliance with applicable laws and regulations.

Conclusions

In our opinion, except for the issues raised in Section II, recommendations 1 and 2, the State Board of Accountancy's system of internal accounting control in effect on December 31, 1986, taken as a whole, was sufficient to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.


In our opinion, for the period January 1, 1984 through June 30, 1986, the State Board of Accountancy administered its programs in compliance, in all material respects, with Minn. Stat. Section 326.165 to 326.231 and Chapter 214, and other applicable finance-related laws and regulations.


In our opinion, for the period January 1, 1984 through June 30, 1986, the State Board of Accountancy properly recorded, in all material respects, its financial transactions on the Statewide Accounting System.

Representative Phillip J. Riveness, Chairman
Members of the Legislative Audit Commission
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The recommendations included in this report are presented to assist the State Board of Accountancy in improving accounting procedures and controls. We will be monitoring and reviewing the State Board of Accountancy's progress on implementing these recommendations. A summary of the progress made on the recommendation discussed in our last audit report covering July 1, 1982 to December 31, 1983, dated October 1984 is shown in Section III entitled "Status of Prior Audit Recommendation and Progress Toward Implementation."

We would like to thank the State Board of Accountancy staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

July 9, 1987

STATE BOARD OF ACCOUNTANCY

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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
Margaret Jenniges, CPA	Audit Manager
J. Michael Stoffel	Auditor-in-Charge

EXIT CONFERENCE

The finding and recommendations in this report were discussed with the following staff of the State Board of Accountancy at an exit conference held on July 1, 1987:

Pamela Smith	Executive Secretary
Bonnie Russ	Board Chairman
Kathy Briesemeister	Administrative Assistant

STATE BOARD OF ACCOUNTANCY

I. INTRODUCTION

The State Board of Accountancy regulates the licensing of certified public accountants and public accountants. The board consists of five licensed certified public accountants, two licensed public accountants and two public members appointed by the Governor for four year terms. The board employs an executive secretary and three clerical staff. Pamela Smith is the Executive Secretary of the board.

The board establishes rules and regulations necessary to comply with laws governing the practice of public accounting. Duties performed by the board include: examining applicants; issuing certificates; licensing public accountants and certified public accountants; and monitoring continued professional education requirements for license renewal.

The activities of the board are financed by appropriations from the General Fund, and the fees for examinations and annual licenses are deposited into the General Fund as nondedicated receipts. The board is required to generate sufficient fee revenues to fund its activities.

STATE BOARD OF ACCOUNTANCY

II. CURRENT FINDING AND RECOMMENDATIONS

Controls over the issuance of licenses and the receipt and deposit of license fees need improvement.

The State Board of Accountancy examines and licenses certified public accountants, licenses public accountants, and registers public accounting corporations and partnerships. The board collected license receipts totaling approximately \$113,000 in fiscal year 1985 and \$114,000 in fiscal year 1986.

Applications for licenses and the checks are received in the mail room at the Department of Commerce. They are then routed to the central cashiers in the Department for deposit. The applications are stamped with the date and the amount received and are forwarded to the board by the cashiers. When the cashiers find an incorrect fee or an improperly prepared application, both are forwarded to the board. The board reviews the amount of the remittance and the application for accuracy and if either is improper, will return it to the applicant requesting a correction. No documentation is kept, however, of the checks received by the board from the cashiers and whether those checks were eventually sent back to the cashiers for deposit or were returned to the applicants.

Internal control over receipts need to be strengthened to ensure that all receipts are deposited and accurately accounted for and recorded on the statewide accounting (SWA) system. The board should maintain a list or other documentation to record the disposition of checks and applications received from the cashiers. This would provide a method to monitor all receipts of the board, especially if questions are received from applicants. It could also be used to prevent the issuance of a license to someone who has not submitted a complete application.

Also, a reconciliation of licenses issued to deposits on SWA should be performed periodically. Currently, no such reconciliation is performed by the board. Most of the information necessary to perform this reconciliation is available to the board already. Reports are available that indicate the total deposits of the board recorded on SWA. It may also be possible to obtain reports from the computerized licensing system used by the board that would summarize the number of licenses issued by type as of a given date. Once the number of licenses issued is known, that amount can be multiplied by the amount of the fee to determine the amount that should have been deposited. This total can then be compared to the actual deposits on SWA and any differences reconciled. The list used to record the disposition of checks received from the cashiers could be used to determine amounts deposited for which no license was issued. A reconciliation such as this would strengthen controls of the receipt process. Without this reconciliation, the board cannot be assured that all licenses have been paid for and deposited.

STATE BOARD OF ACCOUNTANCY

RECOMMENDATIONS:

1. A list or other documentation should be maintained to record the disposition of all checks and applications received by the board from the cashiers.
2. The number of licenses issued should be periodically reconciled to the deposits on SWA.

STATE BOARD OF ACCOUNTANCY

III. STATUS OR PRIOR AUDIT RECOMMENDATION
AND
PROGRESS TOWARD IMPLEMENTATION

The State Board of Accountancy members are being reimbursed for ineligible expenses.

1. Metropolitan area board members should not be reimbursed for lunch while carrying out board duties within the seven county metropolitan area.

RECOMMENDATION IMPLEMENTED. Effective December 1984, metropolitan area board members are no longer being reimbursed for lunch.

MINNESOTA
STATE BOARD OF ACCOUNTANCY

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July 9, 1987

James R. Nobles
Legislative Auditor
Office of the Legislative Auditor
Veterans Service Building
St. Paul, MN 55155

Dear Mr. Nobles:

The Minnesota State Board of Accountancy has reviewed the preliminary audit report for the period January 1, 1984, through June 30, 1986. The Board concurs with the findings and recommendations indicated in the report and discussed in the exit interview.

The following measures will be taken to improve control over the issuance of licenses and the receipt and deposit of licensing fees:

1. A list (daily deposit batch) is currently maintained of all checks deposited and applications received by the cashiers. Additionally, beginning immediately, the Board staff will maintain a record of the disposition of all checks and applications received from the cashier. Checks that are returned to the applicants will be copied and noted with the date of return. A copy of the check and the application will be retained in a pending file until the appropriate fee and application are submitted to the Board office.
2. The Board staff will begin reconciling statewide accounting deposit reports with the number of licenses issued. It appears that it is possible to input into the statewide licensing system the fee paid by the licensee. If this is possible, the IMB report could be reconciled with SWA deposit reports and the list of checks in #1 above. Some appropriate method of reconciliation will be operational by the end of the 1988 renewal period on December 31, 1987.

If you have further questions or comments, please contact Pamela K. Smith, Executive Secretary, Minnesota State Board of Accountancy, (612) 296-7937.

Thank you for your efforts and cooperation.

Sincerely,



Bonnie R. Russ
Chair

BRR:kmb