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# Board of Accountancy

## Financial Audit

### For the Three Years Ended June 30, 1994

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June 1995

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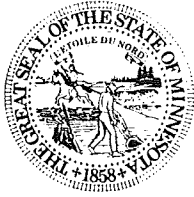
Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota

95-30

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STATE OF MINNESOTA  
**OFFICE OF THE LEGISLATIVE AUDITOR**  
CENTENNIAL BUILDING, ST. PAUL, MN 55155 • 612/296-4708  
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Members of the Legislative Audit Commission

Mr. Eugene Braam, Chair  
Board of Accountancy

Members of the Board of Accountancy

Mr. David J. O'Connell, Executive Secretary  
Board of Accountancy

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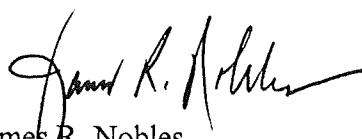
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We have audited the Board of Accountancy (board) for the period July 1, 1991, through June 30, 1994, as further explained in Chapter 1. Our audit scope included employee payroll, administrative disbursements, examination receipts, and license receipts. The following Summary 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 June 23, 1995.

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

End of Fieldwork: March 17, 1995

Report Signed On: June 15, 1995

# SUMMARY

State of Minnesota

Office of the Legislative Auditor

Centennial Office Building • St. Paul, MN 55155

612/296-4708

## Board of Accountancy

### Financial Audit For the Three Years Ended June 30, 1994

Public Release Date: June 23, 1995

No. 95-30

#### Agency Background

The Board of Accountancy (board) exists to protect 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. The board of directors consists of five certified public accountants (CPA), two licensed public accountants (LPA), and two public members. The board meets about eight times a year. Statutes mandate that the board certify, license, and regulate CPA and LPA individuals and firms. The board appoints an executive secretary who is its chief administrative officer. The executive secretary directs the board's professional staff in accordance with its policies. Ms. Pam Smith was the executive assistant through August 1992. The board appointed David O'Connell, who is the current executive secretary of the board, in September 1992.

The board finances its operations through appropriations from the State of Minnesota. It received annual General Fund appropriations ranging from \$451,000 - \$466,000 during the audit period. The board sets the fees it charges to recover its direct and indirect costs. The board deposits its receipts into the state's General Fund as nondedicated revenue.

#### Audited Areas and Conclusions

Our audit scope included employee payroll, administrative expenditures, and license and examination revenues for the period July 1, 1991, through June 30, 1994.

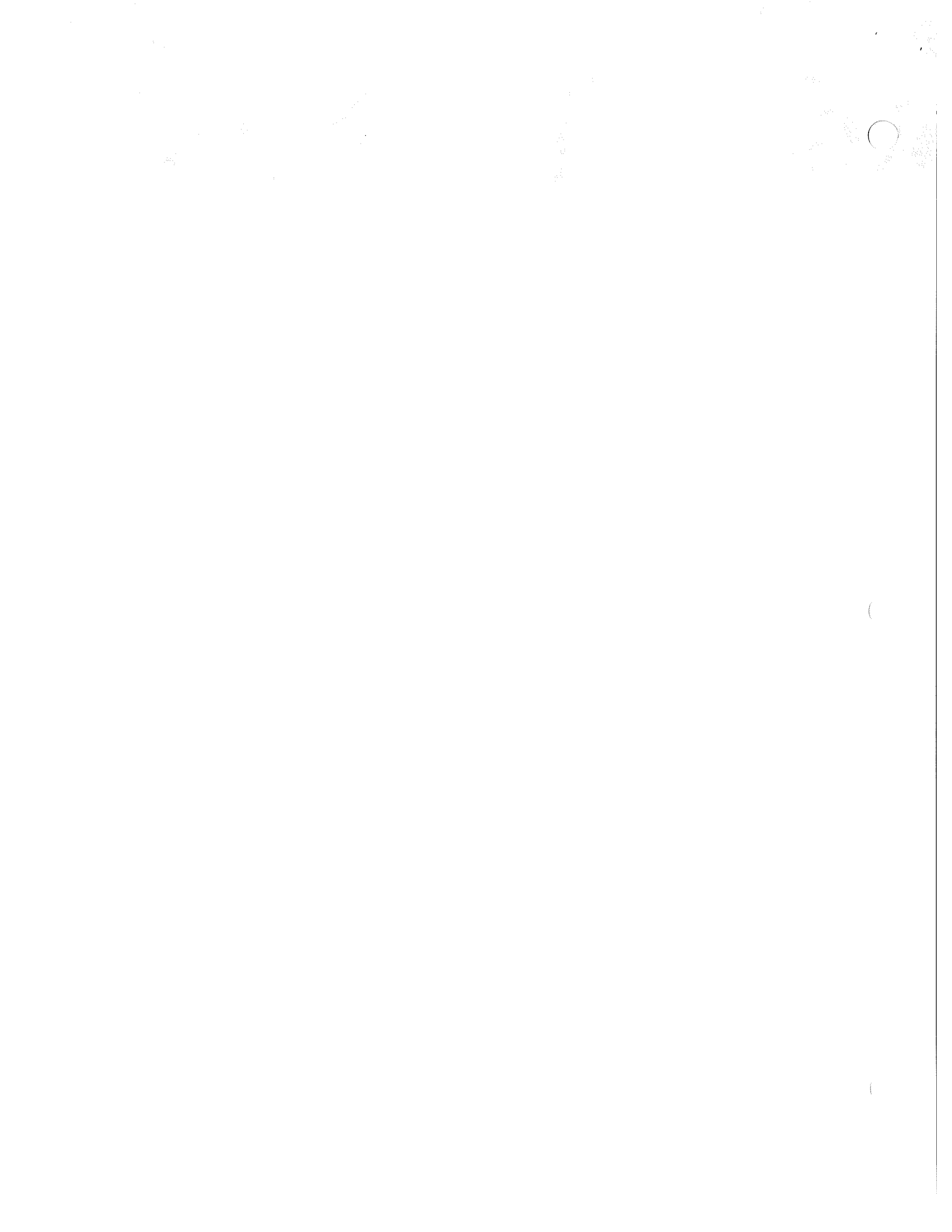
We audited the board's license and examination revenues. We concluded that the board charged the approved fees for examinations and licenses and set the fees to recover its direct and indirect operating expenses. However, the board needs to improve its control structure over receipts. Receipts were not adequately safeguarded until deposited and deposits were not made timely. In addition, the board did not retain documentation for out of state proctor fee receipts.

We also audited the board's expenditures for compliance with appropriations. The board spent its state appropriations within its appropriation limits and statutory authority. However, the board did not comply with certain employee reimbursement regulations. The board paid its employees at the proper amounts according to the respective bargaining unit agreements and/or board authorization. However, the board could improve its control over payroll and administrative expenditures by verifying detailed transaction reports.

Contact the Financial Audit Division for additional information.

296-1730





# 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
Jim Riebe, CPA	Audit Manager
David Polisen, CPA	Auditor-in-Charge

### Exit Conference

The findings and recommendations in this report were discussed with the following staff of the board on May 23, 1995. We also noted other matters involving the internal control structure and its operation and compliance with laws and regulations that we reported to the management of the Board of Accountancy at this meeting.

David O'Connell	Executive Secretary of the Board
Deby Knupp	Board Staff
Robert Hyde	Chair of the Board's Audit Committee
Louis Hoffman	Attorney General's Office

# Board of Accountancy

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## Chapter 1: Introduction

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Minn. Stat. Section 326.165 to 326.229 mandates the Board of Accountancy (board) to govern and regulate the practice of public accounting in Minnesota. Sections of Minn. Stat. Chapter 214 on examining and licensing boards also pertain to board operations. The board is responsible for protecting the public and assuring Minnesota citizens that persons engaged in public accounting meet the qualifications and standards necessary to competently practice public accounting. The board's program for administering the law is comprised of three parts: examining, licensing, and enforcing. To carry out this program, the board adopted Chapter 1100 of the Minnesota Rules.

The board reviewed and processed about 2,500 applications for the Uniform Certified Public Accountant's (CPA) Examination each year during the audit period. The board administers the exam twice a year. After successfully passing the CPA exam, candidates must pass an ethics exam. At that point, the board issues the candidate a CPA certificate. Holders of CPA certificates must complete a public accounting experience requirement prior to application for licensure. In fiscal years 1993 and 1994, the board issued 1,462 certificates and 859 new licenses. The board also licenses licensed public accountants (LPAs) pursuant to Minn. Stat. Section 326.191. 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 10,000 individual licenses per year.

The board receives written complaints about individuals and firms. It investigates and resolves the complaints in cooperation with the Minnesota Attorney General's office. The board also monitors each active licensee for compliance with continuing professional education regulations.

The board receives administrative support from the Department of Commerce under Minnesota Statute 214.04. The Department of Commerce provides services such as processing payroll and personnel transactions, allotting, encumbering, and disbursing funds, depositing receipts into the state treasury, and maintaining the board's accounting records. The extent of Commerce's involvement varies by accounting function. The board receives legal and investigative services from the Attorney General's Office.

The board receives a direct appropriation for operations. It sets fees to recover its direct and indirect operating expenses. Chapter 2 provides further information on the board's funding sources.

## Board of Accountancy

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## Chapter 2: Sources of Funds

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### *Chapter Conclusions*

*The board set the examination and licensing fees to recover expenses as specified in statute and rule. It charged the approved fees for those services. However, the board office did not have adequate controls to ensure that the approved amount of examination fees and license revenues were collected and deposited promptly. Also, the board did not retain documentation for out of state proctor fees.*

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The board receives an appropriation from the legislature to fund its operations. By statutory and rule authority, the board sets its fees to recover operating costs. The board deposits the fees collected from exam candidates and licensees into the General Fund as nondedicated revenue.

The methodology used to audit revenues included interviewing agency staff to determine how they process receipts and how the board sets the examination and license fees. We performed analytical procedures to determine and evaluate changes in revenues during the three year period. We also selected a sample of deposits and traced them through the accounting system and to the examination or license records.

### **Examination and License Fees**

The board charges fees for individuals taking the CPA exam and for individuals and corporations requesting to be licensed. Minn. Stat. Section 326.22 states:

The state board shall charge for each examination and certificate provided for in sections 326.17 to 326.229 a fee to be prescribed in the rules of the board, to meet the expenses of such examination. Each person or partnership to whom a license is issued shall pay a renewal fee at the rate set by the board for such year.



## Board of Accountancy

Table 2-1 shows revenues and expenditures for the board for the three year audit period.

	<u>1992</u>	<u>1993</u>	<u>1994</u>
<b>Revenues</b>			
License fees	\$266,605	\$278,305	\$383,905
Examination fees	215,400	213,500	259,338
Other revenue	<u>24,533</u>	<u>26,585</u>	<u>37,561</u>
Subtotal	\$506,538	\$518,390	\$680,804
Refunds	<u>(19,031)</u>	<u>(18,965)</u>	<u>(20,908)</u>
Net Revenues	<u>\$487,507</u>	<u>\$499,425</u>	<u>\$659,896</u>
<b>Expenditures</b>			
Charges to board appropriations	\$404,038	\$441,432	\$458,130
Indirect costs	26,000	43,000*	29,000*
Attorney General services	<u>40,000</u>	<u>40,000*</u>	<u>40,000*</u>
Total Expenditures	<u>\$470,038</u>	<u>\$524,432</u>	<u>\$527,130</u>
* Estimated amounts			
Source: Statewide Accounting System Reports.			

In addition to expenditures charged to its appropriations, the board incurs indirect costs and charges for Attorney General services. The board considers all three categories of expenditures when it sets license and examination fees.

Revenues increased significantly in 1994 primarily due to the board's aggressive attempt to locate and license CPAs and LPAs whose licenses had lapsed. For example, between fiscal year 1993 and 1994 the number of individual active CPA licenses increased from 5,469 to 6,438 (a 17 percent increase). Other license categories, including inactive licenses and firm licenses, also increased during this period. The disparity between revenues and expenditures in 1994 will decrease in the future due to new practice monitoring requirements. Effective April 1994, the board requires every licensed practice unit (LPU) to undergo a quality review every three years as a condition of holding a license. This will increase the workload of the board and result in additional payroll and other operating costs.

Each year the board analyzes the fees charged and submits a report to the Department of Finance. Finance has determined that the board sets the fees appropriately. In Winter 1993, the board changed the fees charged for certain services. The fee for taking all parts of the CPA examination increased from \$115 to \$150. Individual parts of the examination went from \$30 to \$40. The fee for an active CPA or LPA license rose from \$30 to \$45. These increases were approved and incorporated into the agency rules.

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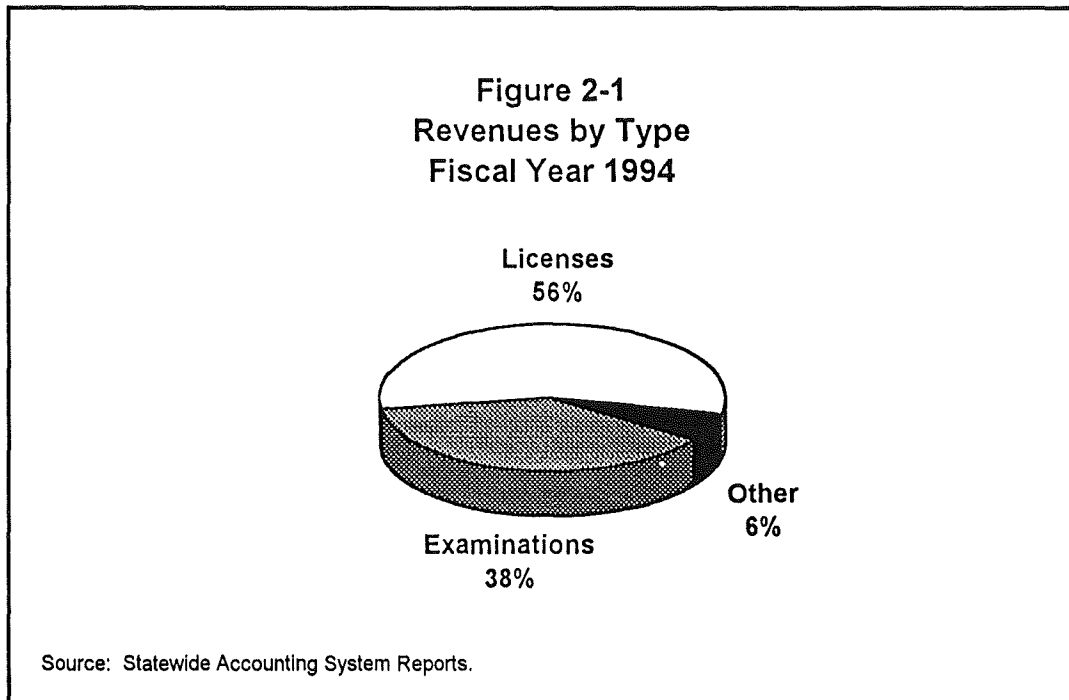
Our review of the fee setting process addressed the following objectives:

- Did the board set examination and license fees sufficient to cover operating expenses as specified in statute and rule?
- Did the board charge the approved fees for examinations and licenses in accordance with statutes and rules?

We concluded that the board charged the approved fees for examinations and licenses. The board also set the fees sufficient to cover operating expenses as specified in statute and rule.

## Receipt Processing

Examination and license fees represent the majority of the receipts the board collects. Figure 2-1 shows the percentage of each type of revenue for fiscal year 1994.



In addition to license and examination receipts, the board assesses and collects fines and penalties as part of its regulatory function. Those fees result from the board receiving and investigating complaints.

During the audit period, the board assumed more responsibility for processing its own receipts. Initially, the Department of Commerce received board receipts and made the deposits. After the board moved to a new location physically separate from Commerce, it assumed more responsibility for processing receipts. Since February 1994, the board receives all of its receipts and prepares the deposits. Commerce continued to make the deposits and enter transactions into the statewide accounting system (SWA).

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We focused our review of receipts on the following objectives:

- Has the board collected and deposited the correct amount of examination fees and license receipts based on the examinations given and licenses issued?
- Were receipts deposited promptly in accordance with Minn. Stat. Section 16A.275?

We found that the board did not have adequate controls to ensure that the correct amount of examination fees and license receipts were collected and deposited as disclosed in finding 1. The board did not deposit receipts timely in accordance with Minn. Stat. Section 16A.275 as disclosed in finding 2. Also, the board did not retain documentation to support out of state proctor fees as disclosed in finding 3.

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

The board did not adequately separate receipt duties or verify deposits to SWA reports. One board employee was primarily responsible for the entire receipt and deposit process. This person received and opened the mail, recorded the receipts into the board's computer system, endorsed the checks, reconciled the system output reports to the receipts, and prepared and approved the deposit slip. The board did not independently verify the employee's work or the deposits to SWA. Proper internal controls require that duties be adequately segregated so that no one person has complete control of the deposit process. The lack of separation of duties increases the risk that errors or irregularities could occur and not be detected.

The board did not verify its deposits to SWA in accordance with Department of Finance policy 06:06:03. The policy requires agencies to reconcile deposit slips each month with either the Receipts by APID (Appropriation) or Deposit Reports. The reconciliation provides agencies with assurance that deposits were properly deposited and recorded on SWA. Although the Department of Commerce performs this reconciliation as part of its depositing function, the board is ultimately responsible for the accuracy of its deposits and should perform this procedure.

Although the board has a limited staff, controls could be strengthened by involving another person in the process. A second person could review and approve the deposits and reconcile them to SWA on a monthly basis. Also, with the board's new computer system, staff could perform some high level or summary reconciliations by receipt type. For instance, board staff could multiply the number of licenses issued by amount and type and compare that calculation to the amount recorded on SWA and their system by source code.

### *Recommendations*

- *The board should segregate duties so that no employee has complete control of the process.*
- *The board should reconcile receipts to SWA on a monthly basis and perform other reconciliations by receipts type as necessary.*

## Board of Accountancy

### **2. The board did not restrictively endorse incoming checks promptly or deposit receipts timely.**

The board did not make timely deposits or endorse checks until just prior to making deposits. The board receives checks from exam candidates and license holders. The candidates and license holders also submit other documentation with their checks such as exam applications or license renewal forms. Board staff prepare receipts for deposit and prepare the other documentation for further processing. During some of the busy times of the year, such as license renewals and CPA examinations, the receipts were not prepared for deposit until after the other documentation was processed. When the board started preparing deposits in February 1994, it made weekly instead of daily deposits. In February and March 1994, the weekly deposits ranged from \$8,000 to \$65,000. Minn. Stat. Section 16A.275 states that, "Except as otherwise provided by law, an agency shall deposit receipts totaling \$250 or more in the state treasury daily." The board did not restrictively endorse the checks until just prior to making the deposit.

The delay in depositing the receipts and endorsing the checks increases the risk that they could be lost or stolen. Also, the delay in depositing the receipts prevents the state from investing those funds and earning interest income.

#### *Recommendations*

- *The board should deposit receipts daily in accordance with Minn. Stat. Section 16A.275.*
- *The board should restrictively endorse checks immediately upon receipt.*

### **3. The board did not retain documentation to support out of state proctor fees.**

The board did not retain documentation to support out of state proctor fee receipts. The board received \$9,750 for out of state proctor fees during our audit. Out of state applicants who want to take the CPA exam in Minnesota complete an application and remit \$50 to the board. However, because the board has no further processing responsibilities for these candidates, it did not create a separate licensee file for these applicants. The board retained the name of the candidate and the amount paid, but it did not retain the application.

The board has not prepared a record retention schedule for the office. The Department of Administration requires state agencies to complete a record retention schedule detailing the documents they accumulate, the length of time they will keep them, and the manner they will dispose of them. The record retention schedule will help ensure the board that adequate documentation exists to support board activities.

#### *Recommendations*

- *The board should retain documentation to support out-of-state proctor's fees.*
- *The board should work with the Department of Administration to develop a record retention schedule.*

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## Chapter 3: Administrative Expenditures

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### *Chapter Conclusions*

*The board spent its state appropriations within its appropriation limits and statutory authority. The board paid its employees at the proper amounts according to their respective bargaining unit agreements and/or board approval. The board's disbursements were properly approved and consistent with the board's purpose. However, the board did not comply with certain employee reimbursement regulations and could improve controls over administrative disbursements.*

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The board receives an appropriation from the legislature to finance its activities. During the audit period, the appropriation was about \$460,000 a year. Table 3-1 summarizes the board's expenditures. The board's largest nonpayroll costs are paid to the American Institute of Certified Public Accountants (AICPA) for CPA exam booklets and calculators. The board recoups these costs through the fees charged to the candidates sitting for the exam. The executive secretary approves the administrative disbursements, including payroll, and the Department of Commerce processes them through the statewide accounting system (SWA).

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**Table 3-1**  
**Summary of Administrative Expenditures**  
**For the Three Years Ended June 30, 1994**

	<u>1992</u>	<u>1993</u>	<u>1994</u>
Payroll/Personnel	\$157,558	\$175,256	\$183,551
Contract Services	8,010	19,015	14,361
CPA Exam Material	115,057	113,708	107,387
Travel	4,888	9,394	12,954
Other	<u>118,525</u>	<u>124,059</u>	<u>139,877</u>
Total Disbursements	<u>\$404,038</u>	<u>\$441,432</u>	<u>\$458,130</u>

Source: Statewide Accounting System Reports.

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The methodology we used to audit the administrative expenditures included interviewing personnel to gain an understanding of the disbursement process. We performed analytical reviews to evaluate any trends in specific account classes throughout our audit period. We selected a sample of payroll and disbursement transactions and tested compliance with applicable legal provisions and employee bargaining agreements and/or the board of directors' authorization. We applied audit procedures at both the board and the Department of Commerce. Commerce processed payroll and personnel documents and entered disbursement transactions onto SWA for the board. Commerce also maintained the accounting records for the board.

## **Board of Accountancy**

### **Payroll**

The board has four full-time employees and several temporary employees as the workload dictates. The employees review and process applications for the CPA exam, review and process license renewals, monitor continuing professional education requirements, and answer questions from the general public, exam candidates, and licensees. The executive secretary approves the employees' time sheets and submits them to the Department of Commerce for processing. Commerce prepares and approves the personnel forms for the employees' salary, benefits, and leave activity. Commerce also enters the payroll information into the state's payroll system for processing.

We focused our review of payroll on the following objective: Were board staff paid at the proper amounts according to the applicable bargaining unit agreements or board authorizations? Our review of payroll found that board staff were paid at the proper amounts according to the applicable bargaining unit agreements or board authorizations. However, finding 4 shows that the executive secretary does not review the various payroll reports to verify these transactions.

### **Purchased Goods and Services**

The board purchases goods and services such as office supplies, envelopes, and printing from outside vendors. It also contracts for services such as exam proctor services. The board determines what to purchase and handles the procurement responsibilities. The board staff inform Commerce of their actions so Commerce can properly encumber the funds. The board receives the goods and services, approves the invoice for payment, and sends them to Commerce for payment and record keeping. Our audit focused on professional/technical service contracts, office supply purchases, payments to the AICPA for exam booklets, and employee expense reimbursements.

We focused our review of purchases on the following objectives:

- Were payments made to vendors properly authorized and consistent with the board's purpose?
- Did the board follow appropriate state procurement regulations?
- Were purchases reasonable and in compliance with applicable criteria?

Our review of purchased goods and services found the payments made to vendors were properly authorized and consistent with the board's purpose. Purchases were also reasonable and in compliance with applicable criteria. However, the board could improve its control over disbursements as disclosed in finding 4.

## Board of Accountancy

### 4. The board did not review various statewide accounting (SWA) reports to verify administrative disbursements.

The board did not review SWA payroll and disbursement reports to verify that the board disbursed funds to the appropriate parties for the intended purposes. The board prepares its own payroll and disbursement documentation. Board staff send the source documents to the Department of Commerce for further processing and payment. The executive secretary reviewed a monthly SWA report, the Managers Financial Report, to monitor the board's budget. However, the board did not review more detailed accounting reports to ensure the transactions had been properly processed and accounted for. For example, the board did not review the SWA disbursement reports such as Expenditures by AID Report, Allotment Balance Report, or the Encumbrance Report. The board is responsible for the accuracy of its financial information and, without the review, errors could occur that the board would not detect.

#### *Recommendation*

- *The board should work with the Department of Commerce to ensure it receives the detailed accounting reports and knows how to verify the accuracy of the financial information contained in the reports.*

## Employee Expense Reimbursements

Board members and staff incur personal expenses while performing their jobs. The various bargaining agreements allow them to receive reimbursement from the state. The state reimburses employees for travel costs such as transportation, meals, lodging, and other miscellaneous costs. The employees fill out an employee expense report and claim the amount spent, not to exceed maximum limits established in the agreements. The employees also may need to submit receipts to support certain expenses if required. The executive secretary reviews and approves the reports and sends them to Commerce for processing. During our three year audit period, the board reimbursed board members and staff \$27,236 for related travel costs.

We focused our review of employee expense reimbursements on the following objectives:

- Were the employee expense reimbursements approved and adequately documented?
- Were the expenses reasonable and within the bargaining agreement limits?
- Did board employees use expense reimbursements only for appropriate purposes?

Our review of employee expense reimbursements found that the expenses were not always supported by required documentation as disclosed in finding 5. We found that expenses claimed were not always reasonable or allowable as disclosed in finding 6. Also, due to the method of reimbursement, we could not determine if some limits were exceeded, as shown in finding 7.



## Board of Accountancy

### **5. The board did not adequately document special expenses incurred or cost savings associated with weekend stayovers to reduce airfare costs.**

The board did not routinely complete the special expense forms to support special expenses incurred. It also did not document weekend stayovers to save airfare costs when traveling. The board incurred costs for food and beverages for board meetings, monitoring CPA exams, and attending local conferences and meetings. The board's special expense plan allows for these expenditures. However, the board did not routinely complete the special expense forms as required. The Department of Employee Relations (DOER) developed a "special expense" policy that allows reimbursement for most of these expenses. DOER Administrative Policy 4.4 states that, "Special expenses are expenses incurred in connection with official functions of an agency or assigned duties of a state employee which are not reimbursable through the regular expense regulations." The policy requires agencies to develop a written plan for special expenses and submit the plan to DOER and Finance for approval. The board then must complete the special expense forms, but only submit the ones to DOER that the plan does not cover. The forms should document the reasons the expenses are being incurred and who is incurring the expenses. Except for the expenses cited in finding 6, all of the expenses seemed allowable under the special expense policy.

The board also did not document the cost savings from scheduling airline flights over weekends rather than during the week. The state's travel policy permits employees to travel on the weekend at the state's expense (limited to the cost savings) to take advantage of lower airfares. Finance policy 06:05:15 requires that employees who stay over on weekends at the state's expense document the cost savings on the out of state travel form. Our review of the board's expense reports showed that employees took advantage of this opportunity but did not document the airfare savings. Without adequate documentation, there is no assurance that the incremental cost did not exceed the savings to the state.

#### *Recommendations*

- *The board should complete and approve the special expense form for each special expense incurred.*
- *Board members and employees should document the savings to the state when they elect to stay over on weekends, at the state's expense, to save airfare costs.*

### **6. The executive secretary purchased alcohol and unallowable meals for staff with state funds.**

The board spent \$45 on wine that was served at a board holiday party. The executive secretary obtained reimbursement from the state for the cost of the wine. The state's and the board's special expense policies prohibit the purchase of alcohol with state funds.

The executive secretary also spent \$64 on food or meals for himself and his staff while working late or on weekends. During the year, staff worked additional hours to get certain projects

## Board of Accountancy

completed on time, such as issuing licenses. The executive secretary purchased the food and obtained reimbursement from the state for these expenses. The special expense policy does not allow the purchase of meals under these circumstances.

### *Recommendation*

- *The executive secretary should repay the state \$45 for the alcohol purchased with state funds and \$64 for meals and refreshments that are not reimbursable.*

### **7. Board members did not submit their own reimbursement requests for expenses incurred.**

While performing board activities, board members can receive compensation for their expenses as authorized by the commissioner's plan adopted under Minn. Stat. Section 43A.18. This generally includes meals, lodging, and transportation. The executive secretary paid some of these costs for board members and then obtained reimbursement for them. Department of Finance policy 06:05:15 requires that each employee complete the employee expense form in order to receive reimbursement expenses incurred.

The executive secretary received \$1,665 in reimbursements for meals during our audit period, which mostly included the costs for board members. The documentation supporting these expenses did not list the number of board members present or which board members incurred which costs. Without the individual breakdown of costs, there is no assurance that the state only reimbursed for eligible expenses or that board members stayed within authorized limits. Also, in some cases the reimbursements would qualify as meals without lodging which would be taxable income to the board members. When board members do not submit their own expense reimbursements, there is no documentation to determine taxable income. The executive secretary has also paid the hotel costs for board members including the costs for one room because a board member did not cancel the room reservation in time. Board members should incur these costs and then submit the charges to the state for reimbursement. For hotel costs, the board could request vendors to bill the board directly.

### *Recommendation*

- *Each board member should pay for his or her own expenses and seek reimbursement through the employee expense reimbursement process.*

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June 13, 1995

Mr. Jim Riebe  
Audit Manager  
Office of the Legislative Auditor  
Centennial Bldg.  
658 Cedar Street  
St. Paul, Minnesota 55155

Dear Mr. Riebe:

In your letter of June 6, 1995, you ask for a written response to your draft report. For each finding you ask me to "identify the person(s) responsible for resolving the finding and the date you (I) expect the issue to be resolved." You state that you will then include my formal response in the distribution of the final audit report. Here, then, are my responses to each of your findings:

Finding # 1. The Board did not have adequate controls to ensure that the correct amount of examination fees and license revenues were collected and deposited.

We agree with both of your recommendations in regard to this finding, and we have already segregated the duties so that one staff person does not have complete control of the process. (Deby will verify Lynette's work.)

Finding # 2. The Board did not restrictively endorse incoming checks promptly or deposit receipts timely.

We have already started having Lynette restrictively endorse checks immediately upon receipt.

Mr. Jim Riebe  
June 13, 1995  
Page 2

At three times during the year - license renewals, the May exam application period, and the November exam application period - the office may take in literally hundreds of applications and thousands of dollars in fees. Our mail does not arrive until noon. This makes the daily depositing of receipts at these certain times of the year virtually impossible. Our procedure has been to process what we can, then lock the daily receipts into a fireproof safe, and then lock the door to the storeroom where the safe is kept. We make every effort to process the checks as quickly as possible.

We understand from your field auditor that other agencies and departments have a similar problem and have been able to get an exception from the daily depositing requirement from the Department of Finance to solve this problem. Since it is not possible for us to comply with Minn. Stat. Section 16A.275, the Executive Secretary of the Board will ask the Department of Finance for an exception during these three periods of time.

Finding # 3. The Board did not retain documentation to support out-of-state proctor fees.

The Board has been processing out-of-state proctor fees the same way for as long as anyone can remember. Past audits have found nothing wrong with our practice. The Board will keep documentation as outlined in its new record retention policy, and because of a new computer system, the Board will be able to retain better back-up documentation as recommended.

This finding also includes a recommendation that the Board develop a record retention schedule. Again, this is something that past audits have not identified as a problem. The Executive Secretary of the Board has drafted a proposed schedule and submitted it to the Board for preliminary approval, prior to submitting it to the Department of Administration for their approval.

Finding # 4. The Board did not review various statewide accounting (SWA) reports to verify administrative disbursements.

Because of its size and the costs involved, the Board is not on the State Wide Accounting System (SWA), and receives reports only from or through its "host" agency, the Department of Commerce.

Mr. Jim Riebe  
June 13, 1995  
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As your field auditor correctly identified, as Executive Secretary of the Board, I am asked to sign blank payroll precertification forms so that the Commerce Department can input our payroll into the state payroll system. We, also, do not get all of the SWA reports each month.

We agree with the recommendation that the Board (through its Executive Secretary) should work with the Department of Commerce to ensure it receives the detailed accounting reports and knows how to verify the accuracy of the financial information contained in the reports. We will no longer sign blank payroll documents, and we will ask the Department of Finance to send us our SWA reports directly rather than having them go through the Commerce Department.

As we pointed out during the exit conference, however, this finding might be more appropriate in an audit of the Commerce Department than in an audit of this Board.

Finding # 5. The Board did not adequately document special expenses incurred or cost savings associated with weekend stayovers to reduce airfare costs.

The Board agrees with the report's recommendations on this finding, and the Board's Executive Secretary will make sure that all savings are documented in the future.

Finding # 6. The Executive Secretary purchased alcohol and unallowable meals for staff with state funds.

For many, many years this Board has held an annual holiday party for the Board members. It has traditionally been held at a club where one of the Board members is a member. The member puts the entire bill on his or her membership charge and then sends each Board member a bill for their portion of the party.

The charge in question occurred at the December 1993 holiday party. In this case, the Board held several business meetings during the day at the same facility where the holiday party was to be held

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that evening. Meeting costs during the day were to be paid for as state business by the Executive Secretary on his charge card. The members' holiday party that night was to be billed to the host member's reciprocal club membership and then he would bill each member personally.

The Board member who hosted the party was not a member at this particular club but had reciprocal privileges there. There were numerous billing problems between clubs and his account and the charges submitted by the Executive Secretary of the Board for business purposes. Somehow in this process \$45 of wine for the Board members' evening party got billed to the Executive Secretary's charge card and he was reimbursed for the charge. The charge should have gone on the Board member's personal account and been divided up amongst all the Board members who attended the holiday party. (The Executive Secretary of the Board does not even drink wine.) The Executive Secretary will re-pay the \$45 to the State.

(Note: The Board member who hosted this particular Board event insisted he was owed \$25.01 by the State, but he had no records to prove it other than his own private reconciliation of his account and the bills from the reciprocal club. So the Executive Secretary paid the Board member out of his own pocket prior to the Board member resigning and moving to California. The Executive Secretary did not seek reimbursement for this amount.)

As to the \$64 spent on "food or meals for himself and his staff while working late or on weekends", the Executive Secretary will re-pay the \$64 to the State.

The Executive Secretary is extremely proud of his staff for their commitment to their jobs and felt it was well worth the cost of a pizza to the State to feed employees working on re-licensing on New Year's Day!

Department heads have a \$1,500 fund created by statute (Minn. Stat. Section 15A.081 Subd. 8) which covers these types of expenses. The Executive Secretary of the Board assumed that he had such a fund as well, but for some reason not all agency heads are covered by this statute. As suggested by you, the Board will ask the Departments of Administration, Finance, and Employee Relations for permission to amend its special expense policy to include such a fund in the amount of \$500.

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Finding # 7. Board members did not submit their own reimbursement requests for expenses incurred.

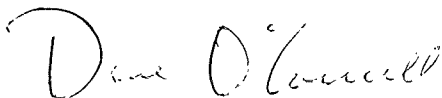
Since he has been Executive Secretary of the Board, each Board Chair has asked him to look for ways to help the Board members reduce the paperwork for their expenses, get their expense money back faster, not turn in expenses at all when there is some other way to handle it, and to make it easier for Board members to obtain reimbursement. One Board Chair refused to take any expense money because he did not want to be bothered with the paperwork. The Executive Secretary works for the Board Chair.

A good example of the position the Executive Secretary of the board is put in occurred with the 1994 Board holiday party. A Board dinner was held at a local hotel. When the check came all nine diners were on one bill. When the Executive Secretary refused to put the entire bill on his credit card a past Board Chair complained and told him to do it. So all nine dinners were put on his credit card. He then divided the cost up and sent individual bills to each board member. The past Board chair who wanted the Executive Secretary to put the entire bill on his charge card did not repaid the Executive Secretary (after repeated reminders) for her dinner or her husband's - a total of \$40 - until June 9th.

The Executive Secretary will work to make sure that in the future all Board members comply with the report's recommendation that they seek individual reimbursement for their expenses.

As you asked, this addresses each of your findings.

Sincerely,



Dave O'Connell  
Executive Secretary  
Minnesota State Board of Accountancy