



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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December 18, 2006

Mr. Ray Mitchell Jr., Board Chairman
North Carolina State Board of Cosmetic Art Examiners
559 Jones Franklin Road Suite 150
Raleigh, North Carolina 27606

Dear Mr. Mitchell:

We received a complaint through the State Auditor's Hotline concerning the overpayment of fees to the North Carolina Board of Cosmetic Arts Examiners (the Board). The following findings and recommendations are based on our investigation of this matter.

Licensing Fees

According to the Board's records, as of June 30, 2006, there were 73,635 active licensees including cosmetologists, manicurists, estheticians, instructors and apprentices. Manicurists, estheticians and apprentices renew their license annually for a \$10 fee. Instructors renew their license every two years for \$10 and cosmetologists renew their license every three years for \$39. During the period July 1, 2005 through June 30, 2006 there were 15,754 renewals of these licenses.

Overpayment of Fees

According to the Board's Executive Director, overpayment of fees is a common occurrence. The Executive Director said the correct payment of fees is the responsibility of licensees as the Board does not send renewal notifications. Fees are posted on the Board's license application forms as well as its website. Fee schedules are also included in the Board's quarterly newsletter.

In 2002, the Board adopted a policy to credit the overpayment of licensee fees of \$5.00 or less to the account of the licensee instead of refunding the overpayment in order to minimize processing costs. The licensee retains the credit indefinitely and may apply it to future fees or request a refund. However, licensees are not notified of overpayments and if a license is not renewed, no refund occurs. Overpayments exceeding \$5.00 are still refunded to the licensee.

During the period July 1, 2005 through June 30, 2006, there were 957 overpayments of which 480 were in amounts less than \$5.00. The total amount associated with the overpayments was \$23,682.02 and \$1,687.09 was the amount related to overpayments less than \$5.00 or 7.12% of the total.

Noncompliance with Statutory Reporting Requirement

North Carolina General Statute § 116B – Escheats and Abandoned Property, requires the Board to report funds considered to be abandoned property¹ to the North Carolina State Treasurer Unclaimed Property Program by November 1 of each calendar year. Since adopting its overpayment policy in 2002, the Board has failed to comply with this reporting requirement. Noncompliance with this reporting requirement may subject the Board to monetary penalties under North Carolina General Statute § 116B-77.

Financial Reporting Deficiency

In addition to active licensees with credit balances, the Executive Director determined that 8,767 licenses have expired since the overpayment policy was implemented in 2002. Thus, credit balances may exist for expired licensee accounts as well. Yet, the Board's accounting system and financial statements do not reflect the cumulative credit balances of licensee accounts.

Credit balances associated with overpayments of fees represent a financial liability of the Board. This liability should be summarized through the Board's accounting system and reported as a liability in the Board's financial statements. A footnote disclosure to the financial statements explaining the origin of the liability may also be required.

Recommendations

The Board should develop a plan to address the statutory and financial reporting deficiencies identified above. The plan should include improvements to the Board's accounting system to summarize credit balances resulting from licensee fee overpayments. The plan should also include the development of internal procedures to ensure compliance with North Carolina General Statute § 116B – Escheats and Abandoned Property and disclose the financial liability resulting from overpayments of fees. In addition, the Board should develop a mechanism to periodically notify licensees of its overpayment policy.

Please provide your written response to these findings and recommendations, including corrective actions taken or planned, by December 22, 2006. In accordance with North Carolina General Statute § 147-64.6(c)(12), the Governor, the Attorney General, and

¹ According to North Carolina General Statute § 116B-53, accounts maintained by a government agency are considered "dormant" and become "abandoned" property if unclaimed after one year.

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other appropriate officials, will receive a copy of this management letter. If you have any questions or wish to discuss this matter further, please contact us. We appreciate the cooperation received from the staff of the North Carolina State Board of Cosmetic Art Examiners.

Sincerely,

A handwritten signature in black ink that reads "Leslie W. Merritt, Jr." in a cursive script.

Leslie W. Merritt Jr., CPA, CFP
State Auditor

Management letters and responses receive the same distribution as audit reports.

North Carolina State
Board of Cosmetic Art Examiners



December 14, 2006

Leslie W. Merritt, Jr., CPA, CFP
State Auditor
2 S. Salisbury
20601 Mail Service Center
Raleigh, NC 27699-0601

Dear Mr. Merritt:

In response to your letter dated December 11, 2006, the Board has decided to implement a postage and handling fee of \$5, as authorized by 21 NCAC 14B .0603, for all fee overpayments and the subsequent processing/mailing of refund checks.

Despite informing licensees of the exact license renewal amount, we have continued to receive overpayments for those fees. To cover the ever increasing expense of processing and mailing refunds, we have decided to apply a postage and handling fee on all future overpayments received. We will initiate this policy on January 1, 2007, and advise licensees through the Board's newsletter, our website, and on future license renewal applications. All funds identified in your letter as overpayments equal to or less than \$5.00 being held by the Board since 2002, will be identified and studied to determine a cost effective method of reporting/submitting these funds to the NC State Treasurer Unclaimed Property Program. Unfortunately, our data system currently does not have a way to identify which accounts are due a small refund. We will discuss solutions to this issue with our system programmer.

I have already advised the Board's Executive Director of our intentions and he has assured me that the plan will be implemented, discouraging overpayments and providing for the change in our data processing system.

We wish to thank you and your staff for bringing this discrepancy to our attention.

Sincerely,

A handwritten signature in cursive script that reads "Baldwin R. Mitchell, Jr.".

Baldwin R. Mitchell, Jr.
Chairman, NC State Board of Cosmetic Art Examiners