

# STATE OF NORTH CAROLINA

## OCCUPATIONAL LICENSING BOARDS AND COMMISSIONS FINANCIAL RELATED AUDIT

AUGUST 2014

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

## **EXECUTIVE SUMMARY**

### **PURPOSE**

This audit analyzes operational and financial information for occupational licensing boards and commissions (Boards) for the purpose of identifying areas that may warrant further attention or examination from legislators, auditors, state-level entities, and Boards.

While not the original objective, this audit also analyzes state-level oversight of Boards for the purpose of reporting on the level of oversight activity.

### **BACKGROUND**

Boards were created to oversee certain service industries. They generally were established to safeguard the public's health or welfare, to protect the public from unqualified or unscrupulous practitioners, or to safeguard the state's natural resources. Boards have the authority to determine who can operate within the regulated industry and what requirements individuals must meet to remain licensed to practice in that industry. There are 57 Boards reporting to state-level entities in North Carolina.

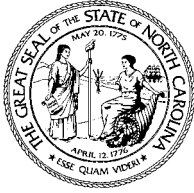
### **KEY FINDINGS**

- Boards operate with ineffective oversight from state-level entities.
- Twenty-one of 57 Boards (37%) did not comply with reporting deadlines set by the N.C. General Statutes.
- Six of 57 Boards (11%) did not comply with Board member training requirements.
- Analysis of Board operational and financial information identified items for further review. These items include complaint resolution, inspection efforts, and financial position.

### **KEY RECOMMENDATIONS**

- The General Assembly should clarify which state-level entities have oversight authority and specific responsibility for monitoring Board activities.
- Boards should comply with reporting and training requirements.
- A master list of occupational licensing boards should be maintained and shared among state-level entities.
- Responsible state-level entities should work with legislators and Boards to develop meaningful financial and performance measures.
- State-level entities should regularly monitor and follow-up on non-compliance and unusual measures as necessary.

*The key findings and recommendations in this summary are not inclusive of all the findings and recommendations in the report.*



Beth A. Wood, CPA  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet  
<http://www.ncauditor.net>

## AUDITOR'S TRANSMITTAL

---

August 21, 2014

The Honorable Pat McCrory, Governor  
The General Assembly of North Carolina  
Members of the Joint Legislative Program Evaluation Oversight Committee

This report presents the results of our financial related audit of North Carolina Occupational Licensing Boards. Our work was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes* and was conducted in accordance with the performance audit standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

This audit was conducted after members of the General Assembly's Program Evaluation Division Oversight Committee requested analyses of Board financial and operational data for the purpose of identifying Boards that may warrant further examination. While not the original objective, this audit also analyzes state-level oversight of Boards for the purpose of reporting on the level of oversight activity.

Boards and the state-level entities that receive annual Board operational and financial reports received drafts of applicable findings and recommendations. Their written comments are included after each finding and in Appendix F.

The results of our audit disclosed deficiencies in internal control and/or instances of noncompliance or other matters that are considered reportable under *Government Auditing Standards*. These items are described in the Audit Findings and Responses section of this report.

*North Carolina General Statutes* require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

# TABLE OF CONTENTS

---

	PAGE
BACKGROUND .....	1
AUDIT SCOPE AND OBJECTIVES .....	2
METHODOLOGY .....	3
RESULTS AND CONCLUSIONS .....	4
AUDIT FINDINGS AND RESPONSES .....	5
APPENDICES	
APPENDIX A: BOARD REPORTS .....	17
APPENDIX B: BOARD MEMBER TRAINING .....	22
APPENDIX C: COMPLAINTS .....	23
APPENDIX D: CASH/OPERATING EXPENSE RATIOS .....	25
APPENDIX E: LIABILITY TO ASSET RATIOS .....	27
APPENDIX F: DEPARTMENT RESPONSE .....	29
ORDERING INFORMATION .....	35

[ This Page Left Blank Intentionally ]

## BACKGROUND

---

Boards were created by *General Statutes* to oversee certain service industries. They generally were established to safeguard the public's health or welfare, to protect the public from unqualified or unscrupulous practitioners, or to safeguard the state's natural resources.

Board authority and responsibilities vary among the Boards but commonly include setting minimum standards for academic and practical experience prior to licensure or certification, administering examinations for licensure or certification, setting and collecting fees, performing investigations and inspections for compliance with regulations, and carrying out disciplinary actions against their members.

Boards in North Carolina regulate professions ranging from general contractors and landscape architects to dental examiners and nursing. There are 57 Boards reporting to state-level entities.

*General Statute 93B* requires Boards to submit operational and financial reports to certain state-level entities on an annual basis.

## AUDIT SCOPE AND OBJECTIVES

---

The general objective of this financial related audit is to analyze operational and financial results of occupational licensing boards and commissions (Boards) for the purpose of identifying areas that may warrant further attention or examination from legislators, auditors, state-level entities, and Boards.

While not the original objective, this audit also analyzes state-level oversight of Boards for the purpose of reporting on the current level of oversight activity.

Management is responsible for establishing and maintaining effective internal control, which is the process designed to provide reasonable assurance that management's objectives are achieved. Errors or fraud may nevertheless occur and not be detected because of the inherent limitations of internal control. Our audit does not provide a basis for rendering an opinion on internal control, and consequently, we have not issued such an opinion.

Our audit scope included an analysis of Board reports and related activities for the 2012 fiscal year.<sup>1</sup>

---

<sup>1</sup> Occupational licensing board fiscal year ends ranged from 6/30/12 to 12/31/12.

## METHODOLOGY

---

To accomplish the audit objective, auditors interviewed personnel and reviewed policies and applicable laws and regulations that were applicable to occupational licensing boards (Boards). Specifically, auditors reviewed annual reports, financial reports, and audited financial statements submitted by Boards for fiscal year 2012. In addition, a survey was sent to each Board to gather additional information not available in the required reports.<sup>2</sup>

As a basis for evaluating internal control, auditors applied the internal control guidance contained in professional auditing standards. As discussed in the standards, internal control consists of five interrelated components: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.

We conducted this audit in accordance with generally accepted government auditing standards applicable to performance audits. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

---

<sup>2</sup> Responses were obtained from 55 of 57 occupational licensing boards. Responses were not received from the Board of Examiners of Fee-Based Practicing Pastoral Counselors and the Hearing Aid Dealers and Fitters Board.



## RESULTS AND CONCLUSIONS

---

This report contains the results of the audit including findings and recommendations that are considered reportable under generally accepted government auditing standards. These items are described in the *Audit Findings and Responses* section of this report. Management's responses are presented after each audit finding. We did not audit the responses, and accordingly, we express no opinion on them.

# AUDIT FINDINGS AND RESPONSES

---

## 1. BOARDS OPERATE WITH INEFFECTIVE STATE-LEVEL OVERSIGHT

Occupational licensing boards and commissions (Boards) operate with ineffective oversight from state-level entities.<sup>3</sup> Oversight activities and efforts are minimal. None of the entities take an active approach to measure and analyze operational and financial performance of Boards. Furthermore, there is not a complete list of Boards.

The lack of oversight at the state-level increases the risk that Boards are not providing adequate services to licensees or the public or have financial issues that are not detected.

### **Oversight Activities Are Ineffective**

State-level monitoring of Board activities is ineffective. Oversight efforts of Board activities are primarily focused on receiving and filing required reports. For example, the Attorney General's office simply files reports received from Boards. It does not note the date the reports were received nor perform a follow-up on missing reports. The Secretary of State tracks the reports it receives from individual Boards in a spreadsheet and will contact a Board if a report is not filed timely.

When state-level entities do not examine report content, they cannot ensure Boards are following the applicable requirements or that the public is adequately protected.

### **Board Performance Is Not Measured**

None of the state-level entities analyze the operational or financial content of Board reports to identify potential service or financial issues that need explanation or correction.

State-level entities reported that their efforts ranged from performing sporadic report reviews to performing no reviews at all.

As a result, Boards that provide inadequate services to licensees or the public and Boards with fragile financial conditions may not be identified.

The National State Auditors Association<sup>4</sup> states:

“A governing body (i.e. the State) has the responsibility for developing a process for monitoring the regulated entities’ (i.e. Board) activities to ensure they are following the applicable requirements and the public is adequately protected. The monitoring process should include receiving reports from entities and the governing body should specify who should report, what they should report on,

---

<sup>3</sup> *General Statute 93B* establishes the authoritative guidance for occupational licensing board reporting and the state agencies and legislative committee to which they report (Secretary of State, Office of State Budget and Management, Attorney General's Office, Joint Legislative Regulatory Reform Committee. (*Note:* this committee changed its name to the Joint Legislative Administrative Procedure Oversight Committee. As of August 7, 2014, this change is not reflected in the General Statute displayed on the North Carolina General Assembly web site.) *General Statute 93B* does not specify state-level entity authority and responsibilities beyond receiving reports from Boards.

<sup>4</sup> Carrying Out a State Regulatory Program – A National State Auditors Association Best Practices Document – 2004.

## AUDIT FINDINGS AND RESPONSES

---

and how often. The governing body should also review the information submitted and follow-up as needed on any noncompliance or questionable results.”

The ineffective oversight exists for two reasons. First, state-level entities report confusion about the authority and responsibility they have to provide active oversight and monitoring of Boards beyond tracking reports received. Second, the General Statute identifying the state-level entities does not specify the responsibilities of the state-level entities.

### **No Complete List of Boards**

The list of Boards maintained by each state-level entity varies. The lists range in length from 55 Boards on the Attorney General’s list<sup>5</sup> to 57 Boards listed on the Joint Legislative Joint Legislative Administrative Procedure Oversight Committee list.

A complete listing of Boards is necessary to ensure that all Boards are known to, and monitored by, the state-level entities.

Without a complete listing, state-level entities cannot monitor all Boards.

When asked how state-level entities compile their Board listings, one entity responded that it initially received its listing from another state agency but it now receives updates by “word of mouth” from Board administrators and chairmen.

### ***Recommendations:***

The General Assembly should clarify the specific state-level entities responsible for monitoring Boards. Clarification should be given regarding the extent of oversight authority and responsibility for each state-level entity.

State-level entities should work with legislators and Boards to develop meaningful financial and operating performance measures.

Information needed to track performance should be included in the required reports.

As directed by the General Assembly, state-level entities should monitor these performance measures on a regular basis and follow-up on any unusual measures.

State-level entities with the authority and responsibility of providing oversight should maintain a list of all Boards and share the list of Boards with other state-level entities to ensure that all Boards are identified.

---

<sup>5</sup> The Attorney General’s Office log titled “Reports Received by Boards and Commissions during FY 2012-13” does not differentiate between occupational licensing boards and other types of boards and commissions.

## AUDIT FINDINGS AND RESPONSES

---

### ***Management Responses:***

#### **Department of Justice**

*We agree that the current vague statute should be clarified and revised. Having a state government office receive annual reports without corrective action or oversight authority fails to provide management value to these boards and commissions. The DOJ does add value by providing legal services for specific issues identified by board members and respective board managers. One of the core missions of the DOJ is to provide professional legal counsel and services to state entities and boards, however the statutes fail to dictate state agency establishment of performance measures, policy or management actions by these various boards.*

#### **Office of State Budget and Management**

*We are in agreement with the findings and recommendations regarding ineffective state-level oversight. As you clearly state in the report, "The ineffective oversight exists for two reasons. First, state-level entities report confusion about the authority and responsibility they have to provide active oversight and monitoring of Boards beyond tracking reports received. Second, the General Statutes identifying the state-level entities does not specify the responsibilities of the state-level entities."*

#### **Secretary of State**

*As outlined in footnote 3, page 5 of this audit report - the office of the Secretary of State, among others, is governed by General Statute 93B and is only authorized to serve as a repository to receive and provide publicly annual reports from these boards and commissions. As you know, this activity is a customary role that our office plays in providing access and transparency of reports and data from almost every state and local agency for the public.*

*In addition, we certainly agree with your core audit finding that the State should look at ways to provide improved oversight of Occupational Licensing Boards and Commissions, and we commend the Auditor for looking at this important matter.*

## **2. NONCOMPLIANCE WITH REPORTING AND TRAINING REQUIREMENTS**

A number of North Carolina Occupational Licensing Boards (Boards) did not comply with reporting and training requirements set in state law.<sup>6</sup> A review of 57 Boards found noncompliance with reporting deadlines or Board member training requirements at 25 different Boards.

---

<sup>6</sup> General Statute 93B-2.

## AUDIT FINDINGS AND RESPONSES

---

### **Reporting Timeliness**

Twenty-one of 57 Boards (37%) are not in compliance with the October 31 reporting requirement for annual and financial reports.<sup>7</sup> A review of documentation at the four primary state-level entities revealed many Board reports were not received timely and some Board reports were not submitted at all (See Appendix A for detail on all Boards).

When Board reporting requirements are not followed, state-level entities do not have the information necessary to provide intended oversight, accountability, and transparency to licensees and the public.

### Annual Report

Boards are required to submit an annual report to the Secretary of State, Attorney General's Office, and the Joint Legislative Administrative Procedure Oversight Committee (Committee) by October 31 each year.

For 2012, state-level entities reported the timeliness of the 57 annual reports as follows:

- Secretary of State – 49 reports on time, 6 reports late, and 2 reports not received.
- Attorney General<sup>8</sup> – 33 reports received and 24 reports not received.
- Committee – 47 reports on time, 7 reports late, and 3 reports not received.

### Financial Report

Boards are required to submit a financial report to the Secretary of State, Office of State Budget and Management (OSBM), Attorney General's Office and the Committee by October 31 each year.

For 2012, state-level entities reported the timeliness of the 57 financial reports as follows:

- Secretary of State – 44 reports on time, 10 reports late, and 3 reports not received.
- OSBM – 46 reports on time, 5 reports late, and 6 reports not received.
- Attorney General<sup>8</sup> – 33 reports received and 24 reports not received.
- Committee – 44 reports on time, 8 reports late, and 5 reports not received.

State law<sup>9</sup> specifies that Boards that do not comply with the reporting requirements will be prohibited from expending funds until the Board files the required reports.

However, none of the state-level entities reported taking steps to suspend a Board's authority to expend funds.

---

<sup>7</sup> Fiscal years vary by Board. Fiscal year ends range anywhere from June 30th to December 31st. Auditors did not count reports as late if Board year end was October 31, 2012 and report was submitted subsequent to October 31, 2012. The 2012 report was counted as late if it was not received by October 31, 2013. However, a board with year end of June 30, 2012 that submitted the 2012 report subsequent to October 31, 2012 was counted as late.

<sup>8</sup> The Attorney General does not record the timeliness of the report, only that it was received.

<sup>9</sup> *General Statute 93B-2 (d)*

## AUDIT FINDINGS AND RESPONSES

---

### **Board Member Training Not Delivered At Six Boards**

Six of 57 Boards (11%) reported that they did not deliver required training to Board members. (See Appendix B for the specific Boards and training requirement).

State law<sup>10</sup> requires that Board members receive training in six specific areas “to better understand the obligations and limitations of a State agency.” These areas include important transparency and accountability laws such as:

- Public record laws that specify which records and documents that can or cannot be seen by the media or public.
- Open meeting laws that specify how much notice of upcoming meetings are required so media or public can attend and when board meetings can go into closed session to discuss certain confidential issues.
- Ethics laws to ensure that board members exercise their authority honestly, fairly, and free from undue influence.

Without this training, there is increased risk that Board members do not comply with specific state laws.

#### ***Recommendations:***

Boards should submit required annual reports on time. Boards should ensure that the report content includes all required information.

Clarification should be given to state-level entities and to Boards about the deadlines for annual and financial reports due to state-level entities. Changing the deadline to a specific number of months after the Board’s fiscal year end will clarify reporting expectations and timeliness.

State-level entities should seek clarification on the action to take when Boards do not submit reports by the required deadline or submit incomplete reports.

Report content should include an assertion that the Board complies with all board member training requirements.

#### ***Management Responses:***

##### **Department of Justice**

*We concur that adequate and timely training for licensing board members is a necessity. However, the DOJ disagrees with respect to the assertion that the Private Protective Services Board (PPS) is non-compliant with these training requirements (Appendix B of the report). During the audit period covered, we have verified the required training was provided to twelve (12) out of the thirteen (13) board members, which constitutes meaningful compliance. The PPS board staff and agents indicate they*

---

<sup>10</sup> General Statute 93B-5 (g)

## AUDIT FINDINGS AND RESPONSES

---

*will continue to provide the required board member training and will add training days to the schedule if scheduling conflicts occur.*

### **Auditor Comment:**

As stated on page 9 of the report, state law requires that board members receive training in six specific areas “to better understand the obligations and limitations of a State agency.”

As noted in the Department of Justice response above, all PPS board members were not provided with required training. Therefore, PPS is non-compliant with the board member training requirement.

### **Office of State Budget and Management**

*We are in agreement with the findings and recommendations regarding noncompliance with reporting and training requirements. State-level entities should be provided clarification on the action to take when Boards do not submit reports by the required deadline or submit incomplete reports.*

### **Secretary of State**

*We certainly agree with your core audit finding that the State should look at ways to provide improved oversight of Occupational Licensing Boards and Commissions, and we commend the Auditor for looking at this important matter.*

### **Boards**

*Boards that responded to the audit findings agreed with the importance of meeting compliance requirements and stated that they will work to correct non-compliance issues. Several Boards questioned the purpose of the submission of annual reports and if anyone was looking at the information that is contained in these reports.*

## **3. OPERATIONAL AND FINANCIAL ANALYSES OF BOARDS IS NEEDED**

State-level entities do not perform operational and financial analysis of occupational licensing board (Board) activities.

Analysis is needed to identify and follow-up on questionable results as noted by best practices. The National State Auditors Association Auditor states:<sup>11</sup>

“A governing body (i.e. the State) has the responsibility for developing a process for monitoring the regulated entities’ (i.e. Board) activities to ensure they are following the applicable requirements and the public is adequately protected. The monitoring process should include receiving reports from entities and the governing body should specify who should report, what they should report on,

---

<sup>11</sup> Carrying Out a State Regulatory Program – A National State Auditors Association Best Practices Document – 2004.

## AUDIT FINDINGS AND RESPONSES

---

and how often. The governing body should also **review the information** submitted and follow-up as needed on any noncompliance or **questionable results** (emphasis added).”

As noted previously, the lack of oversight at the state-level increases the risk that Boards are not providing adequate services to licensees or the public. Additionally, there is an increased risk that Boards with unhealthy financial positions will not be identified.

Auditor analyses of select operational and financial items<sup>12</sup> identified several key areas that may warrant a more focused review of Board operations by auditors or appropriate state-level entities. These areas include complaints about and disciplinary actions taken against licensees, inspections of facilities, cash to expense ratios, liability to asset ratios, and Board fees.

***Special Note to Users of this Report** - Users of this report are cautioned that it is risky to make comparisons between Boards because of the unique activities and service areas they regulate as well as other Board specific factors. Any areas of concern noted would need to be examined further before any conclusions are drawn.*

### **Reporting of Disciplinary Actions and Complaints Received Varies By Board**

The reporting of disciplinary actions taken and complaints received does not allow users of Board annual reports to interpret the data clearly. A review of Board submitted annual reports disclosed varied amounts of disciplinary actions taken and complaints received (See Appendix C for a listing of all Boards).

For example, the North Carolina Board of Cosmetic Art Examiners took disciplinary action 2,463 times and received 415 complaints.<sup>13</sup> Further inquiry noted that the Board of Cosmetic Art Examiners reports disciplinary action taken because of inspection activities, not just for complaints received.

The North Carolina Board of Examiners for Speech and Language Pathologists and Audiologists took disciplinary action twice and received 14 complaints.<sup>14</sup> Further inquiry revealed that the North Carolina Board of Examiners for Speech and Language Pathologists and Audiologists reports disciplinary actions taken only as a result of actual complaints received.

Complaints, complaint resolution, and disciplinary actions taken are key operational areas that demand attention of state-level entities. Lack of proper complaint-handling processes can lead to people or entities operating outside of a board’s authority and out of

---

<sup>12</sup> Information was taken from Board annual and financial reports and responses to auditor surveys.

<sup>13</sup> The Board of Cosmetic Examiners reported 69,722 licensees and 15,453 registered sites.

<sup>14</sup> The NC Board of Examiners for Speech and Language Pathologist and Audiologist reported 6,469 licensees and no registered sites.



## AUDIT FINDINGS AND RESPONSES

compliance with applicable requirements and standards. Ultimately, this may result in the state’s citizens and resources not being adequately protected from unqualified or unscrupulous practitioners.

As noted by the National Association of State Auditors,<sup>15</sup> complaints are an important source of information for determining whether the people or entities operating within a regulated industry comply with all applicable requirements and standards. State-level entities need to understand the number of complaints and how the complaints are handled in order to monitor complaint resolution.

### Frequency of Facility Inspections Varies by Board

Not all Boards regulate licensees that operate in registered facilities. Only eight of 57 Boards (14%) report that they conduct physical inspections of licensees’ facilities. Seven of those eight Boards perform regular inspections while the other Board performs only an initial inspection (unless a specific complaint is received that warrants a second inspection).

The table below shows 2012 inspection activity for these eight boards.

	Total Inspections	Total Sites	% of Sites Inspected in 2012	# of Years for All Sites to be Inspected at Current Levels
<b>Periodic/Regular Inspections</b>				
<b>Board of Barber Examiners</b>	2,554	2,588	99%	1.01
<b>Board of Cosmetic Art Examiners</b>	16,823	15,453	109%	0.92
<b>Board of Electrolysis Examiners</b>	65	80	81%	1.23
<b>Board of Funeral Service</b>	323	1,580	20%	4.89
<b>Board of Opticians</b>	838	489	171%	0.58
<b>Board of Pharmacy</b>	597	2,740	22%	4.59
<b>Veterinary Medical Board</b>	668	1,160	58%	1.74
<b>Initial/ One-Time Inspections</b>				
<b>Board of Dental Examiners</b>	33	33	100%	N/A

<sup>15</sup> Carrying Out a State Regulatory Program – A National Association of State Auditors Best Practice Document

## AUDIT FINDINGS AND RESPONSES

---

Three other Boards that license professionals working in patient health related facilities do not perform inspections. Specifically, the Board of Optometry (2,539 facilities), the Board of Chiropractic Examiners (1,928 facilities), and the Acupuncture Licensing Board (439 facilities) reported that they do not conduct facility inspections.<sup>16</sup>

Lack of routine inspections can lead to people or entities operating outside of the Board's authority and out of compliance with applicable requirements and standards. Ultimately, this may result in the state's citizens and resources not being adequately protected from unqualified or unscrupulous practitioners.

As noted by the National State Auditors Association,<sup>17</sup> the agency (Board) should develop a systematic process for monitoring regulated people's or entities' activities to ensure that they are following applicable requirements and that the public is adequately protected.

Boards should set up a schedule for periodically inspecting regulated people and entities. Inspections should be frequent enough to provide reasonable safeguards to the public and be risk-based if possible. Inspection results, including violations and corrective actions, should be tracked to ensure problems are being addressed appropriately.

### **Cash and Operating Expense Ratios Vary Significantly**

A review of Board submitted financial data determined that some Boards are carrying high levels of cash while others are carrying low levels of cash when compared to annual operating expenses.<sup>18</sup> The average cash to expense ratio for all Boards was 101% (See Appendix D for all Boards).

Specific results varied significantly. For example, the Board of Athletic Trainer Examiners had a ratio of cash to expense of 416%. In comparison, the Medical Board had a cash to expense ratio of 2%.

This means that the Board of Athletic Trainer Examiners had enough cash to cover over four years' worth of expense. In comparison, the Medical Board had enough cash to cover a little more than one week worth of expenses.<sup>19</sup>

---

<sup>16</sup> The Department of Health and Human Services' Division of Health Service Regulation inspects medical facilities where medical doctors and nurses work such as hospitals and nursing homes.

<sup>17</sup> Carry Out a State Regulatory Program – A National State Auditors Association Best Practices Document – 2004.

<sup>18</sup> Cash refers to currency or currency equivalents that can be accessed immediately or near-immediately. Operating expenses are ongoing costs for running a business. A comparison of cash to operating expenses can provide an image into how much cash a Board is holding in comparison to what is conservatively needed to achieve short-term business objectives.

<sup>19</sup> The Medical Board reported short and long term investments of \$4,691,533 at year end. Together, cash and investments equate to a little more than six months of annual expenses.

## AUDIT FINDINGS AND RESPONSES

---

Boards carrying high amounts of cash reported that they had recently matured investments and were planning to reinvest the cash matured investments. The Board for the Registration of Foresters - with a cash to expense ratio of 215% - noted that it generally holds excess cash because a previous Board member advised that the board keep a cash reserve in case of possible litigation.

Excessive cash on hand is not always a benefit to the Board. Cash sitting in low interest earning accounts does not earn as much as higher yielding investments and could prevent the board from paying off high interest debt. Holding excess cash (or investments) could also imply that fees charged by these Boards are too high and could be reduced.

In contrast, not having enough cash on hand to cover operating expenses is risky to the continuity of Board operations.

State-level entities should be aware of and follow-up on questionable financial indicators, such as the amount of cash on hand compared to annual expenses.

### **Liability to Asset Ratios Varied Significantly**

A review of Board submitted financial data identified two Boards with notable liability to asset ratios at fiscal year-end.<sup>20</sup>

The North Carolina Board of Massage and Bodywork Therapy (Board of Massage) had a liability to asset ratio of 141%. Conversely, the Board of Pharmacy had a liability to asset ratio of 2%. (See Appendix E for ratios for all Boards).

Any ratio of more than 100% means that the Board has more debts than assets. A Board with a high liability to asset ratio is at risk of not paying off its debts. If all bills came due at once, the Board would not be able to pay them.

The Board of Massage stated that it has negative net assets due to significant costs incurred to start the Board of Massage's operations as well as the ongoing expense of monitoring and approving schools. The Board of Massage reports that it will show a loss in odd number years due to the timing of fee receipts and contractual services payments due. Per its 2012 audit report, the Board of Massage recognizes that it has a deficit in net assets and is slowly reversing the deficit through yearly savings.

Overall, 14 of 57 Boards<sup>21</sup> (25%) had a liability to asset ratio greater than 50%.

State-level entities should be aware of and follow-up on questionable financial indicators such as the ratio of liabilities to assets.

---

<sup>20</sup> The liability to asset ratio is a solvency ratio that examines how much a Boards assets are made of liabilities.

<sup>21</sup> Only 46 Boards submitted the financial information necessary to calculate this ratio. Of the Boards that submitted the necessary numbers, 30% had ratios greater than 50% (14/46=30%).

## AUDIT FINDINGS AND RESPONSES

### Fees Charged By Boards Comply With Statutes

All Boards are in compliance with fee schedules that are established by the North Carolina General Statutes and Administrative Codes.<sup>22</sup> Seventy-two of 337 (21%) of the fees reviewed<sup>23</sup> were below statutory limits.

Fees have increased slightly across fee types since 2002. A review of 55 Boards shows that fees have increased 10% - 38% over the past 10 years. Almost half of the fees have not changed over that same time period. See chart below for details:

Fee Type	Average Increase of Fee since 2002	Fees Not Changed since 2002
Application Fee	10%	49%
Exam Fee	38%	33%
Licensing Fee	13%	40%
Renewal Fee	27%	42%

Large exam fee increases were noted at the Board of Examiners for Engineers and Surveyors. Since 2002, exam fees at this Board increased by \$375 (300%) and \$260 (289%), respectively. However, the Board of Examiners for Engineers and Surveyors do not control its fee increases. The increases are controlled and passed on to the Board from the National Council of Examiners for Engineering and Surveying.

**Special Note to Users of this Report** – Auditors selected complaints and disciplinary actions taken, inspections of facilities, cash to expense ratios, liability to asset ratios, and Board fees as examples of operational and financial areas of potential interest. There are many other areas of operational and financial performance that may be of more use to the General Assembly, state-level entities, Boards, and licensees to determine Board performance.

### Recommendations:

The General Assembly should consider clarifying the operational and financial reporting elements it wants Boards to report and state-level entities to monitor.

Boards should establish appropriate licensee monitoring activities. This should include complaint handling and systematic inspections where appropriate. All complaints received should be screened and investigated to determine whether problems exist and how serious they are. Inspections should be conducted on a periodic basis and performed frequently enough to provide reasonable risk-based safeguards to the public.

<sup>22</sup> Responses were obtained from 55 of 57 occupational licensing boards. Responses were not received from the Board of Examiners of Fee-Based Practicing Pastoral Counselors and the Hearing Aid Dealers and Fitters and therefore are not included in this declaration or the related fee analysis.

<sup>23</sup> Application Fees, Exam Fees, Licensing Fees, and Renewal Fees were tested due to their application across a large number of the boards reviewed.

## AUDIT FINDINGS AND RESPONSES

---

Boards that do not perform site inspections should send their justification to the appropriate state-level entity. The state-level entity should review the justification to determine if it is reasonable. If determined to be unreasonable, the state-level entity should notify the Board and the General Assembly of its concerns.

Boards should review their individual financial positions and assess their financial health on an ongoing basis. In addition, Boards should set their own standards for the amount of cash held on hand based on the boards' individual needs and financial requirements. A plan should be made for any amounts determined to be in excess.

### ***Management Response:***

#### **Department of Justice**

*The DOJ concurs that the General Assembly should consider the above referenced recommendations.*

#### **Office of State Budget and Management**

*We are in agreement with the findings and recommendations regarding the need for operational and financial analyses. To avoid confusion, "The General Assembly should consider clarifying the operational and financial reporting elements it wants Boards to report and state-level entities to monitor."*

#### **Secretary of State**

*We certainly agree with your core audit finding that the State should look at ways to provide improved oversight of Occupational Licensing Boards and Commissions, and we commend the Auditor for looking at this important matter.*

#### **Boards**

*The North Carolina Medical Board questioned the usefulness of comparing information across Boards. Management of this Board agreed that representatives from oversight bodies with authority and responsibility over Boards should work with Boards to develop meaningful financial and performance measures.*

## APPENDIX A BOARD REPORTS

	Board	Annual Report			Financial Report			
		Secretary of State	AG's Office*	Joint Legislative Administrative Procedure Oversight Committee	Secretary of State	OSBM	AG's Office*	Joint Legislative Administrative Procedure Oversight Committee
1	Acupuncture Licensing Board	✓	✓	✓	✓	✓	✓	✓
2	Alarm Systems Licensing Board	✓	O	✓	✓	✓	O	✓
3	Appraisal Board	✓	NR	✓	✓	✓	✓	✓
4	Board of Architecture	✓	O	✓	✓	✓	O	✓
5	Board of Athletic Trainer Examiners	✓	✓	✓	✓	✓	✓	✓
6	Auctioneer Licensing Board	✓	✓	✓	✓	✓	✓	✓
7	Board of Barber Examiners	✓	✓	✓	✓	✓	NR	✓
8	Board of Certified Public Accountants Examiners	✓	✓	✓	✓	✓	✓	✓
9	Board of Chiropractic Examiners	✓	O	✓	✓	✓	O	✓
10	Code Qualifications Board	✓	O	X	✓	O	O	X
11	Board of Cosmetic Art	✓	✓	✓	✓	✓	✓	✓
12	Board of Dental Examiners	✓	O	✓	✓	✓	O	✓
13	Board of Dietetics and Nutrition	✓	✓	✓	✓	✓	✓	✓
14	Board of Examiners of Electrical Contractors	✓	O	✓	✓	✓	O	✓

## APPENDIX A BOARD REPORTS

	Board	Annual Report			Financial Report			
		Secretary of State	AG's Office*	Joint Legislative Administrative Procedure Oversight Committee	Secretary of State	OSBM	AG's Office*	Joint Legislative Administrative Procedure Oversight Committee
15	Board of Electrolysis Examiners	✓	O	✓	✓	✓	O	✓
16	Board of Employee Assistance Professionals	✓	✓	✓	X	O	✓	✓
17	Board of Examiners for Engineers and Surveyors	✓	O	✓	✓	✓	O	✓
18	Board of Examiners of Fee-Based Practicing Pastoral Counselors	NR	O	NR	NR	NR	O	NR
19	Board of Registration of Foresters	✓	✓	✓	✓	✓	✓	✓
20	Board of Funeral Service	✓	✓	✓	✓	✓	✓	✓
21	Hearing Aid Dealers and Fitters Board	✓	O	✓	✓	✓	O	✓
22	Home Inspector Licensure Board	✓	✓	✓	✓	✓	✓	✓
23	Interpreters and Translators Licensing Board	X	O	NR	X	X	O	NR
24	N.C. Irrigation Contractor Board	✓	✓	✓	✓	NR	✓	✓
25	Licensing Board for General Contractors	✓	✓	✓	✓	✓	✓	✓
26	Board for Licensing of Geologists	X	✓	X	X	X	✓	X
27	Board of Landscape Architects	✓	✓	✓	✓	O	✓	✓

## APPENDIX A BOARD REPORTS

	Board	Annual Report			Financial Report			
		Secretary of State	AG's Office*	Joint Legislative Administrative Procedure Oversight Committee	Secretary of State	OSBM	AG's Office*	Joint Legislative Administrative Procedure Oversight Committee
28	Landscape Contractors Registration Board	X	O	✓	X	✓	O	✓
29	Board of Law Examiners	✓	✓	✓	✓	✓	✓	✓
30	Board of Licensed Professional Counselors	NR	O	NR	X	✓	O	NR
31	Locksmith Licensing Board	✓	✓	✓	NR	X	✓	✓
32	Board of Marital and Family Therapy	✓	O	✓	X	✓	O	NR
33	Board of Massage and Body Work Therapy	X	✓	X	X	✓	✓	X
34	Medical Board	✓	✓	✓	✓	✓	✓	✓
35	Midwifery Joint Committee	X	NR	X	X	X	✓	X
36	Board of Nursing	✓	✓	✓	✓	✓	✓	✓
37	Board of Examiners for Nursing Home Administrators	✓	O	✓	✓	✓	O	✓
38	Board of Occupational Therapy	✓	✓	✓	✓	✓	✓	✓
39	On-Site Wastewater Contractors and Inspector Certification Board	✓	O	✓	✓	✓	O	✓
40	Board of Opticians	X	✓	X	X	✓	✓	X
41	Board of Optometry	✓	✓	✓	✓	✓	✓	✓
42	Board of Pharmacy	✓	✓	✓	✓	✓	✓	✓
43	Board of Physical Therapy Examiners	✓	O	✓	✓	✓	O	✓



## APPENDIX A BOARD REPORTS

	Board	Annual Report			Financial Report			
		Secretary of State	AG's Office*	Joint Legislative Administrative Procedure Oversight Committee	Secretary of State	OSBM	AG's Office*	Joint Legislative Administrative Procedure Oversight Committee
44	Board of Examiners of Plumbing, Heating and Fire Sprinkler Contractors	✓	✓	✓	✓	✓	✓	✓
45	Board of Podiatry Examiners	✓	✓	✓	✓	✓	✓	✓
46	Private Protective Services Board	✓	O	✓	✓	✓	O	✓
47	Psychology Board	✓	O	✓	✓	X	O	✓
48	Real Estate Commission	✓	✓	✓	✓	✓	✓	✓
49	Board of Recreational Therapy Licensure	✓	✓	✓	X	✓	NR	✓
50	Board of Refrigeration Examiners	✓	✓	✓	✓	✓	✓	✓
51	Respiratory Board	✓	✓	X	✓	✓	✓	X
52	Board of Environmental Health Specialist Examiners	✓	O	✓	✓	✓	O	✓
53	Social Work and Certification Board	✓	✓	✓	✓	✓	✓	✓
54	Board for Licensing of Soil Scientists	✓	O	✓	✓	✓	O	NR
55	Board of Examiners for Speech and Language Pathologists and Audiologists	✓	✓	✓	✓	✓	✓	✓
56	Substance Abuse Professional Practice Board	✓	O	X	NR	NR	O	X
57	Veterinary Medical Board	✓	✓	✓	✓	✓	✓	X

## APPENDIX A BOARD REPORTS

---

- ✓ - Received On-time
- X** - Received Late
- NR** - Not Received
- O** - Board Not Included in Agency Listing
- N/A** - Board Not Required to Submit
  
- \* - Attorney General's Office does not track whether reports are received on-time or late.

## APPENDIX B BOARD MEMBER TRAINING

---

Boards	Chapter 150B - Administrative Procedure Act	Chapter 132 - Public Records Law	Article 33C, Ch. 143 - Open Meetings Act	Article 31 & 31A, Ch. 143 - State Tort Claims Act/Defense of State Employees	Chapter 138A - State Government Ethics Act	Chapter 120C - Lobbying
<b>Auctioneer Licensing Board</b>	N	N	N	N	Y	N
<b>Board of Electrolysis Examiners</b>	N	N	N	N	N	N
<b>Board of Registration for Foresters</b>	N	N	Y	N	Y	N
<b>Locksmith Licensing Board</b>	N	N	N	N	N	N
<b>Private Protective Services Board</b>	N	N	N	N	N	N
<b>Board of Recreational Therapy Licensure</b>	N	N	N	N	N	N

Y – Board is in compliance with requirement

N – Board is not in compliance with requirement

## APPENDIX C COMPLAINTS

	Board	Complaints Reported	Disciplinary Actions	Licensed Individuals	Registered Firms
1	Acupuncture Licensing Board	2	0	439	NR
2	Alarm Systems Licensing Board	54	33	900	817
3	Appraisal Board	173	27	3,981	151
4	Board of Architecture	25	21	5,427	1,479
5	Board of Athletic Trainer Examiners	X	X	1,086	NR
6	Auctioneer Licensing Board	21	13	2,014	491
7	Board of Barber Examiners	47	277	10,019	2,588
8	Board of Certified Public Accountants Examiners	182	73	19,586	3,465
9	Board of Chiropractic Examiners	7	2	1,928	NR
10	Code Qualifications Board	X	X	4,071	NR
11	Board of Cosmetic Art	415	2,463	69,722	15,453
12	Board of Dental Examiners	231	65	10,075	NR
13	Board of Dietetics and Nutrition	15	15	2,230	NR
14	Board of Examiners of Electrical Contractors	280	168	13,596	13,277
15	Board of Electrolysis Examiners	NCR	NCR	74	22
16	Board of Employee Assistance Professionals	NCR	NCR	65	NR
17	Board of Examiners for Engineers and Surveyors	110	61	26,113	3,562
18	Board of Examiners of Fee-Based Practicing Pastoral Counselors	X	X		
19	Board of Registration of Foresters	NCR	NCR	932	NR
20	Board of Funeral Service (formerly Mortuary Science)	X	X	2,749	809
21	Hearing Aid Dealers and Fitters Board	28	5		
22	Home Inspector Licensure Board	20	13	1,086	NR
23	N.C. Interpreters and Transliterators Licensing Board	X	X	456	NR
24	N.C. Irrigation Contractor Board	X	X	1,022	596
25	Licensing Board for General Contractors	255	68	10,496	16,419
26	Board for Licensing of Geologists	4	1	1,371	240
27	Board of Landscape Architects	15	0	815	229
28	Landscape Contractors Registration Board	NCR	NCR	1,019	NR
29	Board of Law Examiners	X	X	1,216	NR
30	Board of Licensed Professional Counselors	X	X	6,523	342
31	Locksmith Licensing Board	1	0	733	NR
32	Board of Marital and Family Therapy	4	0	845	NR
33	Board of Massage and Body Work Therapy	39	28	8,253	NR
34	Medical Board	1,416	249	41,007	10,372
35	Midwifery Joint Committee	NCR	NCR	242	8

## APPENDIX C COMPLAINTS

	Board	Complaints	Disciplinary Actions	Licensed Individuals	Registered Firms
36	Board of Nursing	1,194	554	140,241	457
37	Board of Examiners for Nursing Home Administrators	9	6	825	NR
38	Board of Occupational Therapy	9	13	4,432	NR
39	On-Site Wastewater Contractors and Inspector Certification Board	6	2	1,881	1,881
40	Board of Opticians	10	21	1,082	489
41	Board of Optometry	9	0	1,291	NR
42	Board of Pharmacy	284	291	29,841	4,083
43	Board of Physical Therapy Examiners	50	22	9,470	NR
44	Board of Examiners of Plumbing, Heating and Fire Sprinkler Contractors	728	542	12,819	NR
45	Board of Podiatry Examiners	14	0	367	108
46	Private Protective Services Board	55	32	17,719	1,096
47	Psychology Board	39	9	3,987	550
48	Real Estate Commission	912	135	59,336	10,487
49	Board of Recreational Therapy Licensure	10	6	668	NR
50	Board of Refrigeration Examiners	19	10	1,944	NR
51	Respiratory Board	38	20	4,561	NR
52	Board of Environmental Health Specialist Examiners (formerly the Board of Sanitarian Examiners)	X	X	1,006	NR
53	Social Work and Certification Board	72	85	8,021	NR
54	Board for Licensing of Soil Scientists	NCR	NCR	177	27
55	Board of Examiners for Speech and Language Pathologists and Audiologists	14	2	6,469	NR
56	Substance Abuse Professional Practice Board	34	2	4,294	NR
57	Veterinary Medical Board	X	X	5,333	803

**NCR** = Board reported no complaints received

**NR** = Board does not license or register firms

**X** = Information not available because the Board did not submit a report or information was not provided in the Board reports.

**APPENDIX D  
CASH/OPERATING EXPENSE RATIOS**

	Board	Cash/Oper Exp
	<b>MEAN</b>	<b>101%</b>
1	Acupuncture Licensing Board	193%
2	Alarm Systems Licensing Board	50%
3	Appraisal Board	172%
4	Board of Architecture	158%
5	Board of Athletic Trainer Examiners	416%
6	Auctioneer Licensing Board	250%
7	Board of Barber Examiners	78%
8	Board of Certified Public Accountants Examiners	6%
9	Board of Chiropractic Examiners	177%
10	Code Qualifications Board	<b>X</b>
11	Board of Cosmetic Art Examiners	65%
12	Board of Dental Examiners	<b>X</b>
13	Board of Dietetics and Nutrition	141%
14	Board of Examiners of Electrical Contractors	41%
15	Board of Electrolysis Examiners	<b>X</b>
16	Board of Employee Assistance Professionals	<b>X</b>
17	Board of Examiners for Engineers and Surveyors	16%
18	Board of Examiners of Fee-Based Practicing Pastoral Counselors**	<b>X</b>
19	Board of Registration of Foresters	215%
20	Board of Funeral Service (formerly Mortuary Science)	105%
21	Hearing Aid Dealers and Fitters Board**	135%
22	Home Inspector Licensure Board	<b>X</b>
23	N.C. Interpreters and Transliterators Licensing Board	217%
24	N.C. Irrigation Contractor Board	<b>X</b>
25	Licensing Board for General Contractors	94%
26	Board for Licensing of Geologists	<b>X</b>
27	Board of Landscape Architects	<b>X</b>
28	Landscape Contractors Registration Board	118%
29	Board of Law Examiners	33%
30	Board of Licensed Professional Counselors	40%
31	Locksmith Licensing Board	59%
32	Board of Marital and Family Therapy	150%
33	Board of Massage and Body Work Therapy	2%
34	Medical Board	2%
35	Midwifery Joint Committee	<b>X</b>
36	Board of Nursing	9%
37	Board of Examiners for Nursing Home Administrators	92%
38	Board of Occupational Therapy	56%
39	On-Site Wastewater Contractors and Inspector Certification Board	182%

**APPENDIX D  
CASH/OPERATING EXPENSE RATIOS**

	<b>Board</b>	<b>Cash/Oper Exp</b>
	<b>MEAN</b>	<b>104%</b>
40	<b>Board of Opticians</b>	71%
41	<b>Board of Optometry</b>	102%
42	<b>Board of Pharmacy</b>	21%
43	<b>Board of Physical Therapy Examiners</b>	161%
44	<b>Board of Examiners of Plumbing, Heating and Fire Sprinkler Contractors</b>	124%
45	<b>Board of Podiatry Examiners</b>	90%
46	<b>Private Protective Services Board</b>	59%
47	<b>Psychology Board</b>	27%
48	<b>Real Estate Commission</b>	100%
49	<b>Board of Recreational Therapy Licensure</b>	82%
50	<b>Board of Refrigeration Examiners</b>	27%
51	<b>Respiratory Board</b>	55%
52	<b>Board of Environmental Health Specialist Examiners (formerly the Board of Sanitarian Examiners)</b>	110%
53	<b>Social Work and Certification Board</b>	94%
54	<b>Board for Licensing of Soil Scientists</b>	<b>X</b>
55	<b>Board of Examiners for Speech and Language Pathologists and Audiologists</b>	130%
56	<b>Substance Abuse Professional Practice Board</b>	82%
57	<b>Veterinary Medical Board</b>	59%

**X** – Information not available due not being received from board or information not provided in board submitted reports

## APPENDIX E LIABILITY TO ASSET RATIOS

	Board	Total Liabilities	Total Assets	Liability to Asset Ratio
			<b>MEAN</b>	<b>35%</b>
1	Acupuncture Licensing Board	84,021.00	183,663.00	46%
2	Alarm Systems Licensing Board	34,131	272,877	13%
3	Appraisal Board	1,146,936.00	4,655,019.00	25%
4	Board of Architecture	302,036.00	1,576,342.00	19%
5	Board of Athletic Trainer Examiners	24,937.00	244,131.00	10%
6	Auctioneer Licensing Board	796,854.00	1,436,028.00	55%
7	Board of Barber Examiners	295,411.00	562,028.00	53%
8	Board of Certified Public Accountants Examiners	627,044.00	2,908,296.00	22%
9	Board of Chiropractic Examiners	5,440.00	822,044.00	1%
10	Code Qualifications Board	X	X	N/A
11	Board of Cosmetic Art	1,038,184.00	1,562,420.00	66%
12	Board of Dental Examiners	X	X	N/A
13	Board of Dietetics and Nutrition	138,421.00	491,544.00	28%
14	Board of Examiners of Electrical Contractors	1,000,931.00	1,925,621.00	52%
15	Board of Electrolysis Examiners	X	X	N/A
16	Board of Employee Assistance Professionals	X	X	N/A
17	Board of Examiners for Engineers and Surveyors	178,344.00	1,144,241.00	16%
18	Board of Examiners of Fee-Based Practicing Pastoral Counselors	X	X	NA
19	Board of Registration of Foresters	27,553.00	139,687.00	20%
20	Board of Funeral Service (formerly Mortuary Science)	468,508.00	2,048,191.00	23%
21	Hearing Aid Dealers and Fitters Board	83,416.00	402,534.00	21%
22	Home Inspector Licensure Board	X	X	N/A
23	N.C. Interpreters and Translators Licensing Board	67,557.00	178,349.00	38%
24	N.C. Irrigation Contractor Board	X	X	N/A
25	Licensing Board for General Contractors	5,599,713.00	10,142,175.00	55%
26	Board for Licensing of Geologists	X	X	N/A
27	Board of Landscape Architects	X	X	N/A
28	Landscape Contractors Registration Board	30,441.00	82,357.00	37%
29	Board of Law Examiners	1,209,391.00	1,633,949.00	74%
30	Board of Licensed Professional Counselors	329,441.00	517,961.00	64%
31	Locksmith Licensing Board	5,644.00	19,404.00	29%



## APPENDIX E LIABILITY TO ASSET RATIOS

	Board	Total Liabilities	Total Assets	Liability to Asset Ratio
			<b>MEAN</b>	<b>35%</b>
32	Board of Marital and Family Therapy	68,495.00	116,004.00	59%
33	Board of Massage and Body Work Therapy	444,705.00	315,363.00	141%
34	Medical Board	4,506,127.00	7,375,926.00	61%
35	Midwifery Joint Committee	X	X	N/A
36	Board of Nursing	9,915,889.00	17,283,987.00	57%
37	Board of Examiners for Nursing Home Administrators	155,956.00	294,228.00	53%
38	Board of Occupational Therapy	219,631.00	752,046.00	29%
39	On-Site Wastewater Contractors and Inspector Certification Board	81,230.00	888,408.00	9%
40	Board of Opticians	102,463.00	156,591.00	65%
41	Board of Optometry	105,397.00	1,025,537.00	10%
42	Board of Pharmacy	149,657.00	6,462,660.00	2%
43	Board of Physical Therapy Examiners	108,638.00	1,990,900.00	5%
44	Board of Examiners of Plumbing, Heating and Fire Sprinkler Contractors	1,385,102.00	4,024,490.00	34%
45	Board of Podiatry Examiners	38,844.00	305,030.00	13%
46	Private Protective Services Board	91,194	830,846	11%
47	Psychology Board	58,772.00	126,085.00	47%
48	Real Estate Commission	5,879,963.00	13,858,682.00	42%
49	Board of Recreational Therapy Licensure	2,508.00	38,558.00	7%
50	Board of Refrigeration Examiners	84,554.00	480,197.00	18%
51	Respiratory Board	88,126.00	195,011.00	45%
52	Board of Environmental Health Specialist Examiners (formerly the Board of Sanitarian Examiners)	46,320.00	65,570.00	71%
53	Social Work and Certification Board	46,468.00	722,812.00	6%
54	Board for Licensing of Soil Scientists	X	X	N/A
55	Board of Examiners for Speech and Language Pathologists and Audiologists	404.00	690,627.00	0%
56	Substance Abuse Professional Practice Board	2,865.00	796,665.00	0%
57	Veterinary Medical Board	459,964.00	1,314,342.00	35%

**X** = Information not available due not being received from board or information not provided in board submitted reports.

# APPENDIX F

## DEPARTMENT RESPONSES

---



ROY COOPER  
ATTORNEY GENERAL

### State of North Carolina

Department of Justice  
PO Box 629  
Haleigh, North Carolina  
27602

Mr. Jared Cronk  
North Carolina Office of the State Auditor  
20601 Mail Service Center  
Raleigh, North Carolina 27699-0601

August 7, 2014

Dear Mr. Cronk:

On behalf of the North Carolina Department of Justice (DOJ), I am writing to respond to your recent draft audit report concerning Occupational Licensing Boards. In drafting these responses, I have pulled verbatim excerpts of your draft recommendations and included our agency response for these respective issues.

#### **OSA Recommendation #1:**

The General Assembly should clarify the specific state-level entities responsible for monitoring Boards. Clarification should be given regarding the extent of oversight authority and responsibility for each state-level entity.

State-level entities should work with legislators and Boards to develop meaningful financial and operating performance measures. Information needed to track performance should be included in the required reports.

As directed by the General Assembly, state-level entities should monitor these performance measures on a regular basis and follow-up on any unusual measures.

State-level entities with the authority and responsibility of providing oversight should maintain a list of all Boards and share the list of Boards with other state-level entities to ensure that all Boards are identified.

#### DOJ Management Response:

We agree that the current vague statute should be clarified and revised. Having a state government office receive annual reports without corrective action or oversight authority fails to provide management value to these boards and commissions. The DOJ does add value by providing legal services for specific issues identified by board members and respective board managers. One of the core missions of the DOJ is to provide professional legal counsel and services to state entities and boards, however the statutes fail to dictate state agency

## APPENDIX F DEPARTMENT RESPONSES

---

establishment of performance measures, policy or management actions by these various boards.

### **OSA Recommendation #2:**

Boards should submit required annual reports on time. Boards should ensure that the report content includes all required information.

Clarification should be given to state-level entities and to Boards about the deadlines for annual and financial reports due to state-level entities. Changing the deadline to a specific number of months after the Board's fiscal year end will clarify reporting expectations and timeliness.

State-level entities should seek clarification on the action to take when Boards do not submit reports by the required deadline or submit incomplete reports.

Report content should include an assertion that the Board complies with all board member training requirements.

### DOJ Management Response:

We concur that adequate and timely training for licensing board members is a necessity. However, the DOJ disagrees with respect to the assertion that the Private Protective Services Board (PPS) is non-compliant with these training requirements. During the audit period covered, we have verified the required training was provided to twelve (12) out of the thirteen (13) board members, which constitutes meaningful compliance. The PPS board staff and agents indicate they will continue to provide the required board member training and will add training days to the schedule if scheduling conflicts occur.

### **OSA Recommendations #3:**

The General Assembly should consider clarifying the operational and financial reporting elements it wants Boards to report and state-level entities to monitor.

Boards should establish appropriate licensee monitoring activities. This should include complaint handling and systematic inspections where appropriate. All complaints received should be screened and investigated to determine whether problems exist and how serious they are. Inspections should be conducted on a periodic basis and performed frequently enough to provide reasonable risk-based safeguards to the public.

Boards that do not perform site inspections should send their justification to the appropriate state-level entity. The state-level entity should review the justification to determine if it is reasonable. If determined to be unreasonable, the state-level entity should notify the Board and the General Assembly of its concerns.

Boards should review their individual financial positions and assess their financial health on an ongoing basis. In addition, Boards should set their own standards for the amount of cash held on hand based on the boards' individual needs and financial requirements. A plan should be made for any amounts determined to be in excess.

## APPENDIX F DEPARTMENT RESPONSES

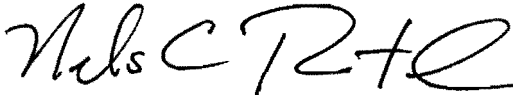
---

DOJ Management Response:

The DOJ concurs that the General Assembly should consider the above referenced recommendations.

Thank you for the opportunity to provide a response to your draft report. We appreciate the constructive professional work your office provides to DOJ and the citizens of North Carolina.

Sincerely,

A handwritten signature in black ink, appearing to read "Nels Roseland". The signature is fluid and cursive, with the first name "Nels" written in a larger, more prominent script than the last name "Roseland".

Nels Roseland, Deputy Chief of Staff and Director of Internal Audit

C: Roy Cooper  
Kristi Hyman Grayson  
Kelley Terry Wright  
Becky Luce Ciark

# APPENDIX F DEPARTMENT RESPONSES

---



## STATE OF NORTH CAROLINA OFFICE OF STATE BUDGET AND MANAGEMENT

PAT MCCRORY  
GOVERNOR

ART POPE  
STATE BUDGET DIRECTOR

August 14, 2014

The Honorable Beth A. Wood, State Auditor  
Office of the State Auditor  
2 South Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601

Dear State Auditor Wood:

We have reviewed your report presenting the results of your financial related audit of North Carolina Occupational Licensing Boards.

As stated in the Audit Scope and Objectives section, the general objective of this financial related audit is to analyze operational and financial results of occupational licensing boards and commissions (Boards) for the purpose of identifying areas that may warrant further attention or examination from legislators, auditors, state-level entities, and Boards.

The Office of State Budget & Management (OSBM) is in general agreement with your findings and recommendations as related to your general objective. We will present specific responses to the three sections of your report in a later section of this letter.

In addition, you stated that while not the original objective, this audit also analyses state-level oversight of Boards for the purpose of reporting on the current level of oversight activity.

NCGS § 93B-2(b) details the responsibility of OSBM to receive a financial report from each occupational licensing board, as noted in your footnote #3 on page 8.

**§ 93B-2. Annual reports required; contents; open to inspection; sanction for failure to report.**

(b) No later than October 31 of each year, each occupational licensing board shall file with the Secretary of State, the Attorney General, the Office of State Budget and Management, and the Joint Regulatory Reform Committee a financial report that includes the source and amount of all funds credited to the occupational licensing board and the purpose and amount of all funds disbursed by the occupational licensing board during the previous fiscal year.

According to the statutes presented above, the Office of State Budget & Management has specific authority only to receive informational filings and no direct authority for active oversight of occupational licensing boards. With this understanding, our response to your findings and recommendations follows.

Mailing address:  
20320 Mail Service Center  
Raleigh, NC 27699-0320

[www.osbm.state.nc.us](http://www.osbm.state.nc.us)  
919-807-4700 \*\* FAX: 919-733-0640  
An EEO/AA Employer

Office location:  
5200 Administration Building  
116 West Jones Street

# APPENDIX F

## DEPARTMENT RESPONSES

---

### OFFICE OF STATE BUDGET & MANAGEMENT RESPONSES TO AUDIT FINDINGS AND RECOMMENDATIONS

#### 1. **Boards Operate With Ineffective State-Level Oversight**

Office of State Budget & Management Response: We are in agreement with the findings and recommendations regarding ineffective state-level oversight. As you clearly state in the report, "The ineffective oversight exists for two reasons. First, state-level entities report confusion about the authority and responsibility they have to provide active oversight and monitoring of Boards beyond tracking reports received. Second, the General Statutes identifying the state-level entities does not specify the responsibilities of the state-level entities."

#### 2. **Noncompliance With Reporting and Training Requirements**

Office of State Budget & Management Response: We are in agreement with the findings and recommendations regarding noncompliance with reporting and training requirements. State-level entities should be provided clarification on the action to take when Boards do not submit reports by the required deadline or submit incomplete reports.

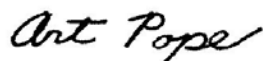
#### 3. **Operational and Financial Analyses of Boards is Needed**

Office of State Budget & Management Response: We are in agreement with the findings and recommendations regarding the need for operational and financial analyses. To avoid confusion, "The General Assembly should consider clarifying the operational and financial reporting elements it wants Boards to report and state-level entities to monitor."

In conclusion, current statutes do not provide the Office of State Budget & Management with active oversight authority and responsibility for occupational licensing boards. The Office of State Budget & Management welcomes action from the General Assembly to clarify additional responsibilities and authorities for governing bodies and to provide resources to carry out any additional responsibilities.

For additional questions or concerns, please contact Tony Gurley at (919) 807-4725. I look forward to working with you on this and all other issues of common concern.

Sincerely,



Art Pope  
State Budget Director

cc: Tony Gurley, Chief Operating Officer for Office of State Budget & Management (OSBM)  
David Brown, Deputy Director for Office of State Budget & Management (OSBM)  
Barbara Baldwin, Assistant State Budget Officer and Internal Audit Director for OSBM

# APPENDIX F DEPARTMENT RESPONSES

---



## *State of North Carolina Department of the Secretary of State*

ELAINE F. MARSHALL  
SECRETARY OF STATE

August 8, 2014

The Honorable Beth A. Wood, State Auditor  
NC Office of the State Auditor  
2 South Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601

Dear Auditor Wood:

Thank you and your team for studying the financial picture of Occupational Licensing Boards and Commissions in North Carolina. More specifically, thank you for the opportunity to review and give comment on the "Occupational Licensing Boards (OLB) and Commissions Financial Related Audit" dated July 2014.

As outlined in footnote 3, page 8 of this audit report – the office of the Secretary of State, among others, is governed by General Statute 93B and is only authorized to serve as a repository to receive and provide publicly annual reports from these boards and commissions. As you know, this activity is a customary role that our office plays in providing access and transparency of reports and data from almost every state and local agency for the public.

In addition, we certainly agree with your core audit finding that the State should look at ways to provide improved oversight of Occupational Licensing Boards and Commissions, and we commend the Auditor for looking at this important matter.

Sincerely,

A handwritten signature in cursive script that reads "Elaine F. Marshall".

Elaine F. Marshall

## ORDERING INFORMATION

---

Copies of this report may be obtained by contacting the:

Office of the State Auditor  
State of North Carolina  
2 South Salisbury Street  
20601 Mail Service Center  
Raleigh, North Carolina 27699-0601

Telephone: 919-807-7500

Facsimile: 919-807-7647

Internet: <http://www.ncauditor.net>

To report alleged incidents of fraud, waste or abuse in state government contact the:

Office of the State Auditor Fraud Hotline: 1-800-730-8477

or download our free app



<https://play.google.com/store/apps/details?id=net.ncauditor.ncauditor>



<https://itunes.apple.com/us/app/nc-state-auditor-hotline/id567315745>

For additional information contact:

Bill Holmes  
Director of External Affairs  
919-807-7513

---

This audit required 1,982 audit hours at a cost of \$150,632.