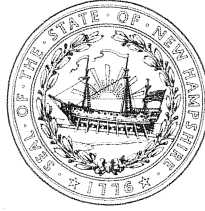


**STATE OF NEW HAMPSHIRE
JOINT BOARD OF LICENSURE
AND CERTIFICATION**

**INTERNAL CONTROL OVER REVENUE
JUNE 2012**



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To The Fiscal Committee Of The General Court:

This report presents the results of our assessment of the internal controls in place over the receipt, deposit, and recording of revenues, and other revenue-related activities at the Joint Board of Licensure and Certification (Joint Board) during the six months ended December 31, 2011.

We conducted our work in accordance with auditing standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (GAGAS). 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 the evidence obtained provides a reasonable basis for our findings.

The work performed was for the purpose of meeting the audit objectives described on page four of the report and did not constitute an audit of financial statements in accordance with GAGAS. The work performed also was not designed for the purpose of expressing an opinion on the effectiveness of the Joint Board's internal controls. Accordingly, we do not express an opinion on the effectiveness of the Joint Board's internal controls.

The Joint Board's response is included with each finding in this report. We did not audit the Joint Board's responses.

Office of Legislative Budget Assistant
Office Of Legislative Budget Assistant

June 2012

STATE OF NEW HAMPSHIRE
JOINT BOARD OF LICENSURE AND CERTIFICATION

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This report can be accessed in its entirety on-line at:
www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx

* Comment suggests legislative action may be required.

**STATE OF NEW HAMPSHIRE
JOINT BOARD OF LICENSURE AND CERTIFICATION**

EXECUTIVE SUMMARY

Agency management is responsible for establishing and maintaining effective internal controls, including controls over financial reporting, and controls over compliance with the laws, administrative rules, regulations, contracts, and grant agreements applicable to the agency's activities. The Department of Administrative Services (Department) has developed an *Internal Control Guide* to help State agency personnel understand the concepts of internal control. It explains the purpose of internal control and also explains its five components: control environment, risk assessment, control activities, information and communication, and monitoring. In addition, the Department also maintains a *Manual of Procedures* (Manual), approved by the Governor and Council, for use by all State agencies. The Manual contains guidance in a number of areas, including the use of the State's central accounting system, known as NHFirst.

The objective of this audit was to evaluate whether the Joint Board of Licensure and Certification (Joint Board) has established and implemented adequate accountability and other internal controls over its receipt, deposit, and recording of revenues, and other revenue-related activities. The objective of this audit was not to render an opinion on the Joint Board's financial statement, internal control, or compliance.

Our audit was performed using auditing standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (GAGAS) and criteria in State statute, administrative rule, and policies and procedures including the *Internal Control Guide*, the Manual, and accepted State business practice. The audit methodology is described in the Objectives, Scope, and Methodology section that follows.

SUMMARY OF RESULTS

We found internal controls over the receipt, deposit, and recording of revenues are suitably designed and implemented to provide reasonable assurance that the specified internal control objectives would be achieved. However, the efficiency and effectiveness of controls in the Joint Board's revenue-related processes would benefit from: establishing detailed policies and procedures for fee setting; expanding online licensing options to all professions under its purview; designing the new licensing system to allow an effective reconciliation of licensing activity to actual revenue collected; reviewing service organization controls; strengthening licensee-monitoring controls; and documenting a performed control process.

The Joint Board was in substantial compliance with laws, rules, and policies and procedures related to the audit objectives and had adequate segregation of duties. The Joint Board reasonably safeguarded cash, check, and credit card receipts and made timely receipt, deposit, and recording of same.

BACKGROUND

RSA 310-A:1 established the Joint Board of Licensure and Certification for professional engineers, architects, land surveyors, foresters, professional geologists, natural scientists, landscape architects, court reporters, home inspectors, accountants, manufactured housing installers, real estate appraisers, and the Board of Manufactured Housing. The Joint Board consists of the board members of each of the thirteen named boards and employs eight full-time employees to carry out the administrative functions associated with the twelve named licensing boards and the Board of Manufactured Housing, an adjudicative board. In accordance with RSA 5:13, the Joint Board functions within the Department of State as a separate organizational entity. The Joint Board is located at 57 Regional Drive in Concord, New Hampshire.

Chapter 224:99, Laws of 2011, effective July 1, 2011, increased the number of boards of the Joint Board from nine to thirteen with the addition of the Board of Accountancy, Board of Manufactured Housing Installers, Real Estate Appraiser Board, and Board of Manufactured Housing.

The Joint Board's stated mission is to safeguard the public health, safety, welfare, environment, and the public trust by regulating the professions of its associated boards. The administrative arm of the Joint Board is managed by the Executive Director. In accordance with RSA 310-A:1-a, the Executive Director is responsible for:

- I. The performance of the administrative, clerical, and business processing responsibilities of the boards.
- II. Employment of personnel needed to carry out the functions of the boards.
- III. Issuance of a license or certification to any applicant who has met the requirements for licensure and denying a license or certification to applicants who do not meet the minimum qualifications for licensure.
- IV. Maintenance of the official record of all applicants and licensees.

During the six months ended December 31, 2011, the Joint Board reported the following revenue activity in the State's accounting system. Reported revenues are licensing-related fees.

Revenues By Board For The Six Months Ended December 31, 2011 (Unaudited)

Accountancy	\$ 392,269
Professional Engineers	351,585
Real Estate Appraisers	147,485
Architects	119,267
Professional Geologists	32,790
Land Surveyors	26,720
Foresters	21,277
Home Inspectors	15,900
Natural Scientists	11,856
Court Reporters	7,690
Landscape Architects	6,729
Manufactured Housing Installers	4,460
Total	<u>\$ 1,138,028</u>

Source: NHFirst reports - Revenue Source Summaries of Unrestricted and Restricted Revenues Recognized vs. Budgets, For Budget Fiscal Year 2012, as of 12/31/2011

The following table shows the number of active and lapsed individual and firm licenses at December 31, 2011 as reported by the Joint Board. Lapsed licenses are tracked by the Joint Board. Licensees frequently reinstate lapsed licenses when a licensee secures work in New Hampshire.

Number Of Licenses By Board At December 31, 2011 (Unaudited)

Board	Current Licenses	Lapsed Licenses
Professional Engineers	12,330	8,020
Accountancy	4,184	3,460
Architects	2,419	2,255
Land Surveyors	1,025	777
Real Estate Appraisers	880	1,898
Professional Geologists	652	163
Natural Scientists	304	107
Foresters	281	156
Home Inspectors	225	14
Manufactured Housing Installers	101	35
Landscape Architects	82	11
Court Reporters	74	5
Total	22,557	16,901

Source: Joint Board of Licensure and Certification

The Joint Board receives various licensing-related fees including fees for original and renewal licenses, examinations, license verifications, and license reinstatements. The table below presents the renewal fees at December 31, 2011 for an active individual licensee for each of the 12 licensing boards administered by the Joint Board.

License Renewal Fees By Board At December 31, 2011

Board	Fee	Period	Administrative Rule
Accountancy	\$275	3 years	Ac 301.14 (c) (1); Ac 301.14 (c) (2)
Architects	\$150	2 years	Arch 305.02 (f)
Court Reporters	\$200	2 years	Rep 301.04 (b)
Engineers	\$150	2 years	Eng 302.04 (h)
Foresters	\$120	2 years	Fors 301.04 (e)
Geologists	\$150	2 years	Geo 305.02 (e)
Home Inspectors	\$200	2 years	Home 301.04 (c)
Manufactured Housing Installers	\$50	3 years	Inst 301.07 (b); Inst 301.10 (a)
Land Surveyors	\$150	2 years	Lan 304.04
Landscape Architects	\$150	2 years	Lsa 301.03 (f)
Natural Scientists	\$120	2 years	Soil 301.04 (j)
Real Estate Appraisers	\$400	2 years	Rab 306.01 (a) (3); Rab 306.01 (a) (4)

OBJECTIVES, SCOPE, AND METHODOLOGY

Audit Objectives

1. Assess the control environment, including management's policies and procedures for establishment and maintenance of an effective control system, relating to the receipt, deposit, and recording of revenue amounts, and other revenue-related activities.
2. Assess the adequacy of the design of internal controls over the receipt, deposit, and recording of revenue amounts and other revenue-related activities, including:
 - Adequacy of written policies and procedures.
3. Assess establishment of controls as designed.
4. Assess the operation of the controls, including:
 - Functional compliance with written policies and procedures,
 - Adequacy of separation of duties, reporting, reconciliations, and reviews of cash, check, and credit card handling activities,
 - Safeguarding of cash, check, and credit card receipts, and
 - Timely recording and deposit of cash, check, and credit card receipts.

Audit Scope

The scope of our audit of the Joint Board of Licensure and Certification examined the adequacy of the Joint Board's internal controls over the receipt, deposit, and recording of revenues, and other revenue-related activities. The audit period was July 1, 2011 through December 31, 2011.

Audit Methodology

1. Interview auditee personnel.
2. Observe revenue processes.
3. Review auditee documentation, including:
 - Agency policies and procedures, and
 - Agency documentation of receipt, deposit, and recording of revenues.
4. Review State laws, rules, policies and procedures, and records, including:
 - Revised Statutes Annotated,
 - Administrative rules,
 - State policies and procedures, and
 - State accounting system records.

5. Test transactions to determine whether controls over the receipt, deposit, and recording of revenues, and other revenue-related activities, were in place and operating as intended.

PRIOR AUDIT

The most recent prior audit that included, in its scope, the internal controls over the Joint Board's revenue processing was the financial audit of the Department of State and Related Boards and Commissions for the ten months ended April 30, 1996. The appendix to this report on page 21 contains a summary of the current status of the revenue-related observations in that prior report that were related to the Joint Board and its currently associated boards. A copy of the prior audit report can be accessed on-line at:

<http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx>.

FINDINGS AND RECOMMENDATIONS

Observation No. 1: Policies And Procedures For Fee Setting Should Be Further Developed

Observation:

The Joint Board does not have sufficiently detailed criteria and processes for setting fees.

Seven of the twelve licensing boards administered by the Joint Board are statutorily required to establish fees sufficient to produce estimated revenues equal to 125 percent of the direct operating expenses of the board for the previous fiscal year. There is no statutory requirement for the sufficiency of fees for the other five licensing boards.

Joint Board policy states, “It shall be the policy of the Joint Board that the cost of each professional, occupational or business licensing program be fully borne by the candidates, and licensees for each profession, occupation or business...In determining said fees, the agency shall set the fees for each such program at a sufficient level to defray the costs of administering that program by at least 125% of administrative costs.”

The Joint Board has not established detailed policies and procedures to implement its statutory and policy requirements for setting fees beyond a general policy statement upon which the fees are based. There are no detailed policies and procedures for determining costs by profession or program and the accounting system provides no ready way to delineate that information.

The most recent review of fees was performed by one Joint Board employee who reported the results to the boards. The results of the review were not subject to a separate review process to ensure accuracy of the calculations. The Joint Board reported that it did not retain any documentation related to its most recent review of the sufficiency of its fee structures.

An auditor analysis of fees noted the Joint Board forecasted fee revenues for the 2012 – 2013 biennium approximated 198% of the prior biennium’s operating costs and adjusted authorized appropriations; and approximated 165% and 161% of requested appropriations for state fiscal years 2012 and 2013, respectively. The analysis also noted approximately 73% of the forecasted revenue was attributable to boards statutorily required to set fees equal to 125% of the prior period’s direct costs.

For the period of the audit, the Joint Board could not provide documentation to support a need for fees in excess of the 125% criteria.

Recommendation:

The Joint Board should further develop its policies and procedures, including a system of internal controls, over fee setting to provide reasonable assurance that fees are determined in accordance with statutory and policy requirements. Policies and procedures should specifically address the timing of reviews and the categorization and delineation of costs by board.

The Joint Board's periodic review of the adequacy of fees should be fully documented and subject to a reasonable administrative review process.

Auditee Response:

We concur in part.

The Joint Board has an established policy for reviewing fees. The Joint Board is a consolidated licensing agency that has one budget that serves 12 licensing boards and one adjudicative board. The Joint Board has had one budget for multiple boards since its inception in 1981. The boards under the Joint Board have statutory authority to set fees in administrative rules. Fees are set in the administrative rule process based on each board's individual requirements. Joint Board administration has no statutory authority to set fees. The Joint Board's administration makes fee recommendations to the boards based on licensing trends, overhead, consistency and costs assessed to the boards for the administration of national licensing examinations.

Each board under the Joint Board has different professional responsibilities, objectives and statutory requirements. The boards serve different professions, trades or business types and provide varying services. A number of boards have examination fees that are set by national organizations; some boards regulate professions that require extensive investigations and disciplinary actions; a number of boards have complex licensing schemes that require extensive staff training and several boards regulate professions or trades related to real estate and development, which have been negatively affected by the economic downturn. Because of these distinct business objectives and services, each board employs unique costing and fee determination practices.

Joint Board revenues are directly affected by outside factors for example; the number of candidates seeking examination and licensure is fluid and cannot be pre-determined; the number of disciplinary actions that result in administrative fines cannot be predicted; the effect of the economic downturn on the numbers of licensees and professionals regulated by the Joint Board is also a mitigating factor. The Joint Board cannot constitutionally limit the number of candidates seeking licensure or examination in order to limit revenues to 125% of administrative costs.

The boards' fees are set in the administrative rules process which is an expensive, lengthy process. Promulgating administrative rules to continually change fees for 12 licensing boards based on the licensing trends which ebb and flow is not a pragmatic approach. Additionally, the Joint Board has an on-line licensing component that includes programming code that calculates licensing and late fees. It is not a reasonable or cost effective practice to continually change fees in the Joint Board's on-line licensing component to attempt to limit revenues based on changing licensing trends.

The Joint Board's original fiscal years 2012-2013 budget request, prior to proposal of the most recent consolidation of the additional boards into the Joint Board, more accurately reflected 125% of administrative costs. Fiscal years 2012-2013 revenues were forecast by the staff of the 4 boards consolidated into the Joint Board and consideration of the Joint Board's prior biennial revenues. Joint Board administration had no history with the prior fiscal years revenues of the

recently consolidated boards; therefore the Joint Board was required to rely on revenue projections prepared by staff of the boards prior to the consolidation. The Joint Board has not had enough time or experience with the most recently consolidated boards to determine the accuracy of the revenue projections provided by former staff. Because of the 2011 consolidation, the boards are reviewing licensing population trends and fees as part of the administrative rules process. As a case in point, after careful consideration and analysis of the board's revenues, the Board of Accountancy substantially reduced the fee for licensure in administrative rules effective January 1, 2012. The Boards will continue to review fees as part of the process of transition into the Joint Board.

The Joint Board recognizes the requirement for revenues to never fall below 125% of administrative costs so that licensees and not the general public bear the full cost of the licensing programs. The Joint Board has incorporated the philosophy to be "at least" 125% of administrative costs in our current fee setting policy.

The Joint Board is unable to perform complex financial analysis of the board's revenues and cost allocations with its current staffing level. The Joint Board has no dedicated accounting staff. The Joint Board's vacant, frozen Senior Accounting Technician position was eliminated as a budget cutting measure in the fiscal years 2012-2013 budget. As a result of the loss of the accounting position, the Joint Board has had to divide all accounting related functions among the current staff; none of the current staff are accounting related positions. A dedicated accounting staff person is needed to perform the requisite cost allocation and associated functions. The Joint Board will pursue the addition of a high level accounting position during the upcoming budget process.

The Joint Board will work with the Department of Administrative Services to prepare a more comprehensive fee setting policy and will continue to review fees with the collaboration of the boards.

Observation No. 2: Online Licensing Implementation Should Be Expedited

Observation:

The Joint Board has had limited success in using online licensing and taking advantage of the efficiencies available in a well-designed online licensing application.

During fiscal year, 2012, the Joint Board administered 12 boards which licensed and regulated individuals and firms involved in 12 separate professions. During the audit period, the Joint Board offered a broad scope of online licensing services, including payment by credit card, to licensees of two of the 12 boards. These services included online applications for new and renewal individual and firm licenses and registrations for certain certification examinations. The online licensing option was also used by licensees of three other boards to apply and pay for a renewal of an individual's license. No online licensing services were available to the professions regulated by the seven other boards.

The Joint Board instituted a new online licensing application in May 2012 with the assistance of the Department of Information Technology. Initially, the new system supports the licensing activities of one board. The Joint Board reports the licensing activities of other boards will be added to the application going forward.

Increased use of online licensing should result in efficiencies for the Joint Board and for those licensees choosing to use the online licensing services.

Recommendation:

The Joint Board should work with the Department of Information Technology to expedite the implementation of the online licensing option for all of the professions and boards it administers.

Auditee Response:

We concur.

The Joint Board is an advocate of on-line licensing and was the first State agency to offer on-line licensing to professionals in 2002. Between 2002 and 2007 the Joint Board, which consisted of six licensing boards, expanded its on-line offerings to include 10 different application types. In 2005, the vendor that developed and maintained the Joint Board's on-line licensing environment terminated offering on-line licensing services to the State. A contractual agreement between the State and the vendor resulted in the Joint Board's on-line licensing program being transferred to the Department of Information Technology (DoIT) in 2007 for hosting and maintenance. Expansion of the Joint Board's on-line licensing environment was prohibited in the termination of services agreement between the vendor and the State.

In an attempt to expand the Joint Board's on-line licensing program, the Joint Board in conjunction with DoIT, released a request for proposal (RFP) in 2009 for a new on-line licensing application for on-line licensing of architectural firms. The Joint Board received one bid that did not meet the RFP requirements and was prohibitively expensive. The 7 boards that do not have on-line licensing are smaller boards with low licensee populations or recently consolidated boards. After completion of the RFP process it was determined that the costs of creating and maintaining on-line licensing programs for boards with small licensee populations outweighed the benefit.

In 2012, the Joint Board was offered the opportunity to utilize a new on-line application through the DoIT, My License Office (MLO). The Board of Accountancy has a large licensee population and its on-line renewal site created by the prior vendor was out of date and no longer viable; therefore, the need was greatest for the Board of Accountancy to have an updated on-line renewal application. The Board of Accountancy's on-line renewal site was opened for use by licensees in May 2012.

The Joint Board has 28 different types of license, exam and certification applications and 15 renewal applications. All applications are downloadable on-line in PDF or Word format. All downloadable applications are produced and maintained by Joint Board staff. The Joint Board

has grown rapidly since its first on-line licensing application was developed in 2002 from 5 boards to the current 12 licensing boards and one adjudicative board. The expansion of the Joint Board's on-line licensing with the MLO program is being pursued to promote efficiency. The Joint Board in coordination with DoIT plans to transition additional boards to the MLO on-line application provided sufficient funding and resources are available to complete the transition.

Department of Information Technology Response:

The Department of Information Technology (DoIT) concurs with this observation. DoIT is currently working with agency personnel at the Joint Board to implement online license renewals for the Accountancy Board.

DoIT and the Joint Board are also working on plans to implement three additional boards in fiscal year 2013. DoIT will work with the Joint Board on the staffing and budget requirements for this next step. It is critical to note that implementation of online licensing for additional boards is dependent upon DoIT having sufficient shared resources available to perform the implementation.

Observation No. 3: Licensing Database Should Capture Sufficient Data For Control Purposes

Observation:

Limitations in the design of the Joint Board's licensing database hampered the Joint Board's ability to reconcile the licensing activity recorded in the database to the revenue collected by the various boards administratively supported by the Joint Board.

The Joint Board licensing database tracks the status of applicants and licensees of the various professions supported by the Joint Board. The database contains licensee information including license issue and expiration dates, application status, contact and other information. However, limitations in the data captured and the formatting and updating design of the data posted to the database do not readily allow for a determination and accumulation of all licensing revenues that should be associated with the boards' licensing activities. That information would be valuable in reconciling actual revenue collected by the Joint Board to its licensing activities.

The Joint Board reports it plans to implement a new database system which will capture more complete licensing transaction data and will allow an effective revenue reconciliation control.

Recommendation:

The Joint Board, in considering its data design for its new licensing system, should fully consider the data needed for a revenue reconciliation control and ensure required data is captured in the detail and format that will promote its utilization in an effective control process.

In considering the data design, the Joint Board should also establish and document the policies and procedures to support the reconciliations.

Auditee Response:

We concur.

The Joint Board's Microsoft Access database is dated and not easily modified. The Joint Board in conjunction with the Department of Information Technology is converting its current database to a database contained in the My License Office (MLO) program. The MLO database has a financial function that will allow the Joint Board to reconcile revenue to its licensing and business activity. The Board of Accountancy was the first Board to be converted to MLO. The Joint Board will draft new policies to correspond with MLO's ability to reconcile revenues to licensing and business data.

Observation No. 4: Controls In Place At Service Organization Should Be Reviewed

Observation:

The Board of Accountancy and Joint Board have not taken advantage of available control reports to determine whether it has placed appropriate reliance upon a contractor performing certification testing, credentialing, and fee collecting on their behalf.

The Board of Accountancy contracts with CPA Examination Services, a division of the National Association of State Boards of Accountancy, Inc. (NASBA), for certified public accountant application processing, credential evaluation, testing and score reporting, and fee remitting services. Individuals applying to take the CPA examination in order to become certified in the State of New Hampshire pay NASBA a NASBA-determined fee. Each month, NASBA remits a \$75 per candidate examination fee to the Joint Board, pursuant to N.H. Admin. Rule Ac 301.14(b)(2). During the six month audit period, the State accounting system reports NASBA remitted approximately \$203,000 of examination fees to the Board of Accountancy.

While the Joint Board reported it reviewed NASBA's contract and annual audit report prior to the auditor's inquiry, it was not aware that NASBA undergoes control reviews, known as Statement on Standards for Attestation Engagements No. 16 (SSAE 16), *Reporting on Controls at a Service Organization*, on all of its critical systems, including PCI (Payment Card Industry) compliance and an audit of examination operations. During the six months ended December 31, 2011, neither the Board of Accountancy nor the Joint Board had requested or reviewed the NASBA control review reports that related to services relied upon by the Boards.

Recommendation:

The Joint Board should review NASBA controls and the operating effectiveness of those controls over examination remittances and other services provided by NASBA.

The Joint Board should request copies of relevant control review reports. The Joint Board, in coordination with the Board of Accountancy, should review the reports for issues affecting the Board's controls and respond accordingly.

Auditee Response:

We concur.

The Board of Accountancy's contract with CPA Examination Services, a division of the National Association of State Boards of Accountancy (NASBA) was entered into in December 2003, prior to the Board of Accountancy's consolidation into the Joint Board. The Joint Board administration became aware of the contract when the Board of Accountancy physically moved into the Joint Board office in July 2011. Immediately upon the Board of Accountancy's relocation into the Joint Board, the Joint Board's Executive Director reviewed and discussed the contract with the board's legal counsel at the Department of Justice, the board itself, and staff at NASBA to determine that the contract was valid.

Since the consolidation, the Joint Board has consistently received and reviewed monthly reports from NASBA providing supporting data regarding the identity and numbers of exam candidates. The NASBA monthly reports include an accounting of all examination fees collected. The Joint Board administration has reviewed NASBA's financial statement audit contained in NASBA's annual report which is sent to all State boards and is maintained in the Joint Board office. NASBA's financial report audit can also be accessed on-line at: <http://www.nasba.org/media-resources/publications/>.

Since the auditor's inquiry, the Board has also received NASBA's most recent Independent Auditor's Report on CPA Exam Services, Description of a Service Organization's System and the Suitability of the Design and Operating Effectiveness of Controls - January 1, 2011 - January 15, 2012 performed by an independent CPA, and a report of the CPA Examination Review Board audit. The Joint Board, in coordination with the Board of Accountancy, has performed a review of the financial statement in NASBA's annual report during the Board of Accountancy's May 2012 meeting and scrutinized the above-mentioned independent audits for uniformity with the Joint Board's internal controls.

Observation No. 5: Revenue Controls Should Be Improved

Observation:

While the Joint Board has designed its revenue processes to provide for reasonable controls, the Board's revenue recording process could be improved by eliminating controllable weaknesses.

- Accountability for cash receipts is not established upon receipt.
- A performed control process is not documented, limiting the value of the control.
- Accumulated receipts awaiting deposit are not secured in a locked storage device.
- Revenue is not reconciled to licensing and other business activity that generated the revenue.

In its control design, the Joint Board has established an appropriate control environment and certain control and other activities intended to completely and accurately collect, record, deposit, and report revenues. However, as noted above, opportunity exists for controls to be strengthened with limited cost in effort and efficiency.

Recommendation:

The Joint Board should improve revenue controls by:

- Establishing accountability for cash upon receipt.
- Documenting the agreement of the payment amount actually received to the payment amount noted on the application as a control prior to processing an application.
- Securing receipts awaiting deposit.
- Preparing a reconciliation of revenue to the business activity that generated the revenue.

Auditee Response:

We concur.

The Joint Board receives very few cash transactions. Cash payments are processed in the same manner as check or credit card payments. The application is stamped upon receipt with the amount received, the date that it was received, and is entered into the Joint Board income ledger and Lawson financial system. The Joint Board maintains a receipt book for cash payments. During the audit period several individuals who paid cash specifically declined a written receipt, therefore there was no written receipt in the receipt book for those transactions. The Joint Board has modified its policy to require a receipt in the receipt book for all cash transactions. If the payee declines the receipt, the receipt will be filled out and maintained in the receipt book.

Joint Board staff enters all receipts in a Microsoft excel income ledger. Staff now utilizes a stamp on all applications that indicates applications have been “entered into the ledger and the date entered.”

The Joint Board secures all receipts in a locked, fireproof cabinet in the Executive Director’s office. The cabinet is locked at all times except when the Executive Director is physically in her office. Although the risk is low with the Executive Director physically present, the Joint Board now keeps the cabinet locked even when the Executive Director is physically present resolving this observation.

Each and every deposit made is completely reconciled to the deposit amount which is then reconciled to the amount that has been recorded in the State’s Lawson financial system. The Joint Board is converting its database to My License Office (MLO.) The MLO database has a financial function that will allow the Joint Board to reconcile revenue to the licensing and business activity. The modifications listed above strengthen the Joint Board’s control environment and resolve this observation.

Observation No. 6: Process For Monitoring Licensee Compliance Should Be Strengthened

Observation:

Opportunities exist for the Joint Board to improve its controls for monitoring licensee compliance with continuing education (CE) requirements and to make the process more efficient and transparent.

- Database queries used to identify populations of licensees subject to CE audits are not documented or subject to review.
- The current sampling methodology of cutting lists of names into pieces and drawing names for testing is an unnecessarily manual process with inherent increased risks for errors.
- Documentation of earned CE provided by licensees selected for monitoring is not regularly verified.

An improved and more efficient CE monitoring process better ensures the effectiveness of the Joint Board's licensing activities.

Recommendation:

The Joint Board should strengthen its processes for monitoring licensee compliance with CE requirements.

- Database queries used to identify populations of licensees subject to CE audits should be documented to allow for review of the selection process.
- The sampling methodology should be made more efficient through the use of an automated random selection routine that would be efficient and also limit the potential for error or bias in the selection process.
- Policies and procedures should be implemented to provide for a verification of a sample of licensee-submitted CE documentation.

Auditee Response:

We concur in part.

The Joint Board conducts random audits to determine compliance with requirements for continuing education (CE) for license renewal for the boards. An audit consists of a review of documentation of continuing education of a percentage of licensees for each board. A percentage of licensees are required to submit records of CE activities/courses completed in the appropriate accrual period. CE audit is the most commonly utilized process for verification of compliance with continuing education nationally for technical professions. The Joint Board follows national CE guidelines for each profession for greater standardization of continuing education requirements and simplified record keeping processes for the boards and licensees. Standardized national CE auditing processes also ease the burden on professionals licensed in multiple jurisdictions. The Joint Board audits hundreds of licensees per year for CE compliance. The CE audit process is required in order for the Joint Board to offer on-line license renewals. There is

no mechanism for licensees to upload CE certificates to the board when renewing a license online.

The Joint Board retains lists of licensees chosen for random CE audit for at least four years for each profession; however the database queries that are used to run reports are reused, as a practical matter. The Joint Board will retain documentation of the database queries used for the reporting process as recommended in the observation.

The Joint Board requires an outside neutral party perform the random audit selection process for CE verification. As part of the audit process, in past years, the Joint Board retained the services of an outside consultant to run database programs that were designed to result in random selection of licensees for verification of compliance with CE requirements. The random database programs frequently resulted in the same licensees being randomly chosen for audit in multiple years. Hiring outside consultants to run random selection programs proved expensive and inefficient. As more boards have engaged in the CE audit process, the Joint Board has utilized low tech, inexpensive procedures for random selection and have found the low tech approach results in little cost, and a more random and impartial sample. The Joint Board migration to the new My License Office (MLO) database will simplify the random selection process. MLO has an automated CE random selection program incorporated into the database.

The Joint Board Program Specialist II audits hundreds of licensees each year for verification of CE compliance by requiring documentation in the form of certificates of completion, transcripts or a variety of other forms of proof of attendance. Each licensee chosen for random audit is required to produce all CE documentation claimed, required per administrative rules. If verification of course completion submitted by licensees appears to be fake or forged, the Program Specialist contacts the course provider for verification. The Joint Board does not have sufficient staffing levels that would be required to contact course providers to verify the authenticity of certificates of completion that is submitted by a large population of licensees for multiple boards. Many continuing education course providers offer CE to thousands of licensees of varying professions nation wide. It would be a labor intensive endeavor to contact CE providers and expect them to verify CE beyond the certificate of completion that they provide when the course is completed by the licensee. To ensure authenticity of documentation, the Joint Board will require, whenever practical, that original documents and not copies be submitted as verification of continuing education activities.

Observation No. 7: Late Fee Should Be Established For Real Estate Appraisers

Observation:

A late fee has not been incorporated into the Real Estate Appraiser Board (REAB) administrative rules and processes.

- RSA 310-B:13-a, Lapse of License, states:
 - I. If a license is not renewed before the expiration date, then the license is deemed to have expired, and a licensee may renew an expired license up to 6 months after

its expiration date by complying with the requirements of RSA 310-B:13 and by submitting the required late fee.

- RSA 310-B:24 requires the REAB to adopt administrative rules establishing all fees required under Chapter 310-B.

No late fees are established in the REAB administrative rules relative to untimely renewals of real estate appraiser licenses or certificates and no late fees for untimely renewals of licenses or certificates are charged by the REAB. The eleven other licensing boards of the Joint Board each have a late fee established in administrative rule.

While the REAB did not identify delinquent renewals as being a concern, a late fee can discourage delinquent renewals should that become a problem.

Recommendation:

The Joint Board in coordination with the REAB should include provisions for a late fee in the REAB administrative rules for the Joint Board's processing of REAB license and certificate renewals.

Auditee Response:

We concur.

Since the Real Estate Appraiser Board's (REAB) consolidation into the Joint Board the Joint Board staff has identified numerous statutory and administrative issues that require correction. Technical corrections to address deficiencies in the REAB's procedures will be addressed with passage of Senate Bill 153 entitled "relative to the regulation of real estate appraisers by the New Hampshire real estate appraiser board." Senate Bill 153 passed the House and the Senate and will become law when it receives the Governor's signature. Senate Bill 153 consists of technical corrections to the REAB's statute. Although the Board has statutory authority for late fees, the Board's current administrative rules which were adopted on November 1, 2007 do not include a fee for late renewal. The Board is drafting an initial proposal of new administrative rules, to be filed upon passage of Senate Bill 153, to address the Board's procedures, including the fee for late renewal. Once new rules are adopted, Joint Board staff will redesign the REAB's renewal forms and modify the board's procedures to make them consistent with the other Boards under the Joint Board including a fee for late renewal.

Observation No. 8: Conflict Between Statute And Operating Budget Should Be Resolved

Observation:

Conflicts exist between statute and the State Operating Budget for the disposition of revenue collected by certain of the boards associated with the Joint Board.

According to the 2012-2013 Operating Budget, Chapter 223, Laws of 2011, revenues collected by the boards associated with the Joint Board are to be deposited as unrestricted General Fund revenue. The following statutes indicate revenues of certain of the boards associated with the Joint Board should be deposited as restricted revenue. In the case of the Board of Accountancy, statutes direct the revenue to be nonlapsing.

1. RSA 310-A:8 states, the revenue received by the Board of Professional Engineers shall be turned over to the State treasurer and the compensation for board employees and the reasonable expenses of the board shall be paid from the funds of the board.
2. RSA 309-B:4, IV states, all moneys collected by the Board of Accountancy shall be deposited in the State treasury to the credit of the board, and shall not lapse.
3. RSA 310-B:21, I states, the revenue received by the Real Estate Appraiser Board shall be turned over to the State treasurer where it will be kept in a separate fund known as the real estate appraisers fund. The RSA states that the fund shall be kept separate and apart from other money in the treasury and shall be disbursed only for the activities of the Real Estate Appraiser Board. RSA 310-B:21, II states the board shall reimburse the general fund for moneys appropriated.
4. RSA 310-A:123 states, the revenue received by the Board of Professional Geologists shall be turned over to the State treasurer and the compensation for board employees and the reasonable expenses of the board shall be paid from the funds of the board.

The conflict between statutory and operating budget provisions for recording revenues has been in place for a number of years. A similar comment was also issued in our prior audit report for revenues of the Boards of Professional Engineers, Accountancy, and Real Estate Appraisers.

Recommendation:

The Joint Board, in coordination with the respective Boards, should work with the Legislature to have statutory conflicts resolved for recording revenue collected by those Boards.

Auditee Response:

We concur.

The Board of Accountancy and Real Estate Appraiser Board were both consolidated into the Joint Board effective July 1, 2011; therefore the Joint Board has no history with their prior audit recommendations. Based on the review of the Joint Board's 1996 audit report, the Board of Architects, a component of the Joint Board has resolved a similar audit observation. The Joint Board in coordination with the Boards of Professional Engineers, Professional Geologists,

Accountancy, and Real Estate Appraisers will pursue legislation through the fiscal year 2014-2015 budget process to amend the statutes to reflect the State's current handling of the Board's revenues.

Observation No. 9: Forms Should Address All Requirements For Licensure And Certification

Observation:

The real estate appraiser license or certificate renewal application form does not address all of the regulatory requirements applicable to real estate appraiser licensure or certification.

N.H. Admin. Rule, Rab 404.02 requires appraisers to comply with the requirements of the Uniform Standards of Professional Appraisal Practice (USPAP) and N.H. Admin. Rule, Rab 501 establishes a code of ethics for licensed or certified real estate appraisers. The application form for renewal of a real estate appraiser license or certificate does not require the applicant to certify compliance with the requirements of N.H. Admin. Rules, Rab 404.02 or 501. Also, the application form does not include disclosure of consequences of applicants making false or misleading statements or omissions of relevant information on a license or certificate renewal application.

The Real Estate Appraisers Board became associated with the Joint Board effective July 1, 2011. The license renewal application forms for the Joint Board's 11 other licensing boards include an applicant's certification of adherence to respective administrative rules and acknowledgment of consequences for providing false information.

Recommendation:

The Joint Board, in its efforts to incorporate the Real Estate Appraisers Board, should review that Board's license and certificate renewal application forms to ensure the forms address all statutory and regulatory requirements for continued licensure or certification and to ensure applicants are clearly aware of consequences for submitting false or misleading information.

Auditee Response:

We concur.

The Real Estate Appraiser Board, (REAB) along with the Board of Accountancy, the Manufactured Housing Installation Standards Board and the Board of Manufactured Housing (Parks) were consolidated into the Joint Board effective July 1, 2011. The boards consolidated into the Joint Board with the exception of the Manufactured Housing Installation Standards Board were stand alone agencies that lacked consistent organizational structure and expertise in administrative procedures. The consolidated boards were physically moved into the Joint Board one board at a time, to allow for the physical move, equipment, communications, information

technology modifications and logistical considerations and to ensure an effective transition. The Real Estate Appraiser Board was the last consolidated board physically moved into the Joint Board office on approximately August 30, 2011.

The Joint Board's analysis of outstanding issues surrounding the relocated boards has resulted in numerous rulemaking proceedings to correct those board's deficiencies. As part of the REAB's transition into the Joint Board, Joint Board staff has identified numerous statutory and administrative issues that require correction including re-design of the REAB's renewal process and forms. The former REAB staff sent 2011 renewal notices to their licensees prior to being relocated into the Joint Board office, resulting in Joint Board staff's inability to adequately scrutinize the renewals for accuracy prior to their distribution. Technical corrections to address organizational deficiencies will be resolved with passage of Senate Bill 153 entitled "relative to the regulation of real estate appraisers by the New Hampshire real estate appraiser board." SB 153 passed the House and the Senate and is awaiting the Governor's signature. SB 153 consists of technical corrections to the REAB's statute including modifying the renewal procedures for consistency with the other licensing boards under the Joint Board. Initial drafting of new administrative rules to address the board's procedures and modifications required per SB 153, including the renewal procedure, are in process. Once new rules are adopted, Joint Board staff will redesign the REAB's renewal forms and procedures to ensure consistency with the other Boards under the Joint Board including an appropriate attestation by the licensee.

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APPENDIX - CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary, as of June 2012, of the current status of observations, contained in the financial audit report of the Department of State and Related Boards and Commissions for the ten months ended April 30, 1996, related to revenue activities of the Joint Board of Licensure and Certification and its currently associated boards. The number of each comment below references the same in the prior audit report. The prior audit report can be accessed on-line at <http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx>.

	<u>Status</u>		
<u>Joint Board of Licensure and Certification</u>			
<i>Internal Control Comments</i>			
<i>Reportable Conditions</i>			
22. Revenue – Segregation Of Duties	●	●	●
23. Untimely Deposit And Recording Of Revenue	●	●	●
24. Controls Over Revenue Processing (See Current Observation No. 5)	●	●	○
<i>State Compliance Comment</i>			
28. Crediting Board Revenue (See Current Observation No. 8)	●	○	○
 <u>Board of Accountancy</u>			
<i>Internal Control Comments</i>			
<i>Reportable Conditions</i>			
29. Untimely Deposit And Recording Of Revenue	●	●	●
32. Segregation Of Duties	●	●	●
<i>State Compliance Comment</i>			
33. Crediting Board Revenue (See Current Observation No. 8)	○	○	○
 <u>Real Estate Appraiser Board</u>			
<i>Internal Control Comments</i>			
<i>Reportable Conditions</i>			
36. Segregation Of Duties	●	●	●
37. Untimely Deposit Of Revenue	●	●	●
<i>State Compliance Comment</i>			
41. Crediting Board Revenue – Real Estate Appraisers Fund (See Current Observation No. 8)	○	○	○

<u>Status Key</u>	●	●	○	<u>Count</u>
Fully Resolved	●	●	●	6
Substantially Resolved	●	●	○	1
Partially Resolved	●	○	○	1
Unresolved	○	○	○	2

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