



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Board of Barber Examiners
July 1, 1995, through June 30, 2000



Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota State government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately fifty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

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- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

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OFFICE OF THE LEGISLATIVE AUDITOR
State of Minnesota • James Nobles, Legislative Auditor

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Robert Nelsen, Chair
Board of Barber Examiners

Maureen Tibbetts, Executive Secretary
Board of Barber Examiners

We have audited the financial activities of the Board of Barber Examiners for the period July 1, 1995, through June 30, 2000. Our audit scope included revenues, payroll, rent, and travel expenditures. The audit objectives and conclusions are highlighted in the individual chapters of this report.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the Board of Barber Examiners complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. The board is responsible for establishing and implementing controls for complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of the Board of Barber Examiners. This restriction is not intended to limit the distribution of this report, which was released as a public document on May 3, 2001.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: March 16, 2001

Report Signed On: April 30, 2001

Board of Barber Examiners

Table of Contents

	Page
Report Summary	1
Chapter 1. Introduction	2
Chapter 2. Revenues	4
Chapter 3. Administrative Expenditures	7
Status of Prior Audit Issues	10
Board of Barber Examiners' Response	11

Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Jim Riebe, CPA	Audit Manager
John Hakes, CPA	Auditor-in-Charge

Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Board of Barber Examiners on April 24, 2001. We also noted other matters involving management controls and compliance with laws and regulations that we reported to the board representative at this meeting.

Maureen Tibbetts	Executive Secretary
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Board of Barber Examiners

Report Summary

Key Finding and Recommendation:

- The Board of Barber Examiners overspent its fiscal year 2000 appropriation by approximately \$7,000 and is experiencing budget difficulties in fiscal year 2001. To remedy this, the board should institute a more formal process to monitor its financial operations. The board's fiscal oversight should include formal approval of the operating budget and specific approval of financial decisions the board considers material to its operations. The board should receive periodic updates on the financial status of the board's financial operations, including comparisons of budgeted and actual revenues and expenditures. Board minutes should document key financial decisions made by the board. (Finding 1, page 8)

Other Key Audit Conclusions:

- The board did not recover its costs for the 1998-99 biennium as required by statute. During this period, costs exceeded revenues by approximately \$50,000. A fee increase that took effect in October 1999 alleviated the cost concern for fiscal year 2000.
- The board collected and deposited the appropriate license and examination fees and fines and penalty receipts. Board expenditures were consistent with the board's purpose. The board's financial activities were properly recorded in the accounting system, and except for the cited finding and conclusion, complied with legal requirements.

Agency Background:

The state Board of Barber Examiners regulates the licensing of barbers and barber schools. The board consists of three registered barbers and one public member appointed by the Governor. The board employs an executive secretary and an inspector. The executive secretary is responsible for all administrative functions of the board.

Duties performed by the board include: examining applicants for original licensure, renewing licenses for registered barbers, apprentices, and instructors in barber schools and colleges, and registering and inspecting barber shops and barber schools. The board finances its operations through General Fund appropriations that ranged from \$128,000 - \$149,300 during the audit period. The board deposits its receipts into the state's General Fund as non-dedicated revenue.

Board of Barber Examiners

Chapter 1. Introduction

The Board of Barber Examiners tests, licenses, and regulates members of the barbering profession in Minnesota. The board is also charged with enforcing sanitation standards to ensure the public has a safe and healthy environment in which to receive barbering services. The board's operations are governed by Minnesota Statutes Chapters 154 and 214, generally, and Minnesota Rules Chapter 2100.

The board consists of three registered barbers and one public member appointed by the Governor. The board employs an executive secretary and an inspector. Maureen Tibbetts serves as the current executive secretary.

As part of its oversight duties, the board administers examinations and issues licenses. The board processes applications for original licensees, as well as renewal fees, for approximately 2300 licensed barbers. Two types of barbering licenses exist: an apprentice license and a registered barber license. To obtain an initial license, a person must pass an exam that is given four times per year. Examination fees are \$50 for an apprentice and \$55 for a registered barber. Renewal fees for these licenses cost \$35 and \$40, respectively. Licenses are active for one year.

Barbershop and barber school inspections help the board fulfill its regulatory role. With more than 1,200 barbershops, the board's goal is to inspect each shop at least once a year. The board is also responsible for inspecting the five barber schools located in Minnesota. A large portion of business at monthly board meetings involves written complaints the board receives about individual practitioners and shops. The board investigates complaints in cooperation with the Office of the Attorney General.

Each year, the board receives a General Fund appropriation for its operations. Table 1-1 presents the board's sources and uses of appropriated funds during fiscal years 1998, 1999, and 2000. Except for fiscal year 2000, we found the board operated within the appropriation limits set by the Legislature.

Board of Barber Examiners

Table 1-1
Sources and Uses of Funds⁽¹⁾
By Fiscal Year

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Sources:			
Appropriation	\$136,000	\$140,000	\$144,000
Less: Cancellation	0	(1,193)	0
Add: Modified Appropriation Amounts ⁽²⁾	<u>0</u>	<u>0</u>	<u>5,301</u>
Net Appropriation	\$136,000	\$138,807	\$149,301
Balance Forwarded In (Out)	<u>(6,019)</u>	<u>6,019</u>	<u>0</u>
Total Sources	<u>\$129,981</u>	<u>\$144,826</u>	<u>\$149,301</u>
Uses:			
Payroll and Benefits	\$ 88,236	\$108,136	\$105,613
Rent Space	12,163	12,348	12,533
Print and Communication	6,041	3,756	6,442
Travel	20,042	19,090	20,892
Other	<u>3,499</u>	<u>1,496</u>	<u>3,821</u>
Total Uses⁽³⁾	<u>\$129,981</u>	<u>\$144,826</u>	<u>\$149,301</u>

(1) For fiscal years 1998, 1999, and 2000, the Board of Barber Examiners collected receipts of \$136,895, \$132,828, and \$188,485, respectively. License receipts, as opposed to fines, penalties, and examinations, made up the majority of the receipts. Receipts are not included as sources of funds since the board deposits receipts in the state's General Fund as non-dedicated revenue.

(2) Modified appropriation amount represents an appropriation shift from the fiscal year 2001 appropriation to the fiscal year 2000 appropriation that the Department of Finance made to address the board's budget shortfall.

(3) Uses in fiscal year 2000 do not include approximately \$1,700 inappropriately coded to the fiscal year 2001 appropriation. See Finding 1 in Chapter 3.

Source: Minnesota Accounting and Procurement System.

Chapter 2. Revenues

Chapter Conclusions

The Board of Barber Examiners properly accounted for license, examination, and penalty receipts. The board set and collected fees as provided in Minnesota statutes and rules, except that it did not recover its operating costs for the 1998-1999 biennium. The board increased fees in October 1999 in order to recover future operating costs.

The Board of Barber Examiners collects fees from examinations and licenses, and assesses fines and penalties. Penalties result from license renewals received after established deadlines, and the board assesses fines for substantiated complaints. The board's fee structure is established in Minn. Rules 2100.9300. The board deposits receipts into the General Fund as non-dedicated revenues.

According to Minn. Stat. Sections 16A.1285 and 214.06, subd. 1, the board must set fees at a level to recover both direct and indirect operating costs. Indirect costs include expenses incurred by the Attorney General's Office for providing assistance to the board in investigating complaints. Other indirect costs include statewide costs incurred to support board operations. As shown in Table 2-1, the board recovered its costs during the audit period except for the 1998-1999 biennium when the board's costs exceeded its revenues by \$49,647.

Board of Barber Examiners

Table 2-1
Revenues, Expenditures, and Indirect Costs
By Fiscal Year

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Revenues ⁽¹⁾			
License Fees	\$124,845	\$119,120	\$174,515
Examination Fees	7,580	8,670	7,530
Total Revenues	<u>\$132,425</u>	<u>\$127,790</u>	<u>\$182,045</u>
Direct Costs:			
Payroll	\$88,236	\$108,136	\$105,613
Other Administrative Costs	<u>41,745</u>	<u>36,691</u>	<u>43,688</u>
Total Direct Costs ⁽²⁾	<u>\$129,981</u>	<u>\$144,827</u>	<u>\$149,301</u>
Indirect Attorney General Costs	\$ 6,588	\$ 14,517	\$ 10,326
Statewide Indirect Costs	<u>8,338</u>	<u>5,611</u>	<u>4,961</u>
Total Indirect Costs ⁽³⁾	<u>\$ 14,926</u>	<u>\$ 20,128</u>	<u>\$ 15,287</u>
Total Direct and Indirect Costs	<u>\$144,907</u>	<u>\$164,955</u>	<u>\$164,588</u>
Excess Revenues Over Costs	<u>(\$12,482)</u>	<u>(\$37,165)</u>	<u>\$ 17,457</u>

- (1) Revenues for this table are equivalent to "departmental earnings," which per Minn. Stat. Section 16A.1285, mean any regulatory, licensure, or other similar charges levied by any state agencies that neither significantly over recover or under recover costs.
- (2) Total direct costs in fiscal year 2000 do not include approximately \$1,700 in costs inappropriately charged to fiscal year 2001. See Finding 1 in Chapter 3.
- (3) Indirect costs for the board are waived; however, the board considers these costs when setting fees. Indirect cost data obtained from the Board of Barber Examiners.

Source: Minnesota Accounting and Procurement System.

The primary reason the board did not recover its costs in the 1998-1999 biennium related to a retroactive pay adjustment of \$11,070 received by board employees in December 1998. The payroll adjustment compensated the board's two employees for delayed step increases dating back to 1995, when the state changed its personnel and payroll systems and procedures. Increased indirect costs for attorney general services and statewide functions, totaling \$20,128 in fiscal year 1999, also contributed to the board's costs exceeding its revenues.

To ensure the board recovers its costs, the board and the Department of Finance review the fee structure on a biennial basis. In a process that took effect in October 1999, the board exercised its rulemaking authority to raise its renewal fees.

Board of Barber Examiners

Audit Objectives and Methodology

We focused our audit of revenues using the following objectives:

- Did the board charge the proper fees for licenses and examinations?
- Were receipts adequately safeguarded, deposited in a timely manner, and properly recorded?
- Did the board set fees to recover its costs during the audit period?

The methodology we used to audit receipts included interviewing staff to determine how the board processed receipts. We tested a sample of receipt transactions to determine whether they were deposited and properly recorded. We also used analytical procedures to estimate the yearly examination and license fee revenues, which we compared to the revenues deposited. Additionally, we analyzed overall revenues and costs for the period.

Conclusions

The board collected, deposited, and recorded the approved amount of examination fees and license revenues. The board operated in accordance with the pertinent Minnesota statutes and rules except that it did not recover its costs for the 1998-1999 biennium as required by Minn. Stat. Sections 16A.1285 and 214.06, subd. 1. Effective October 1999, a revised fee structure remedied the deficiency.

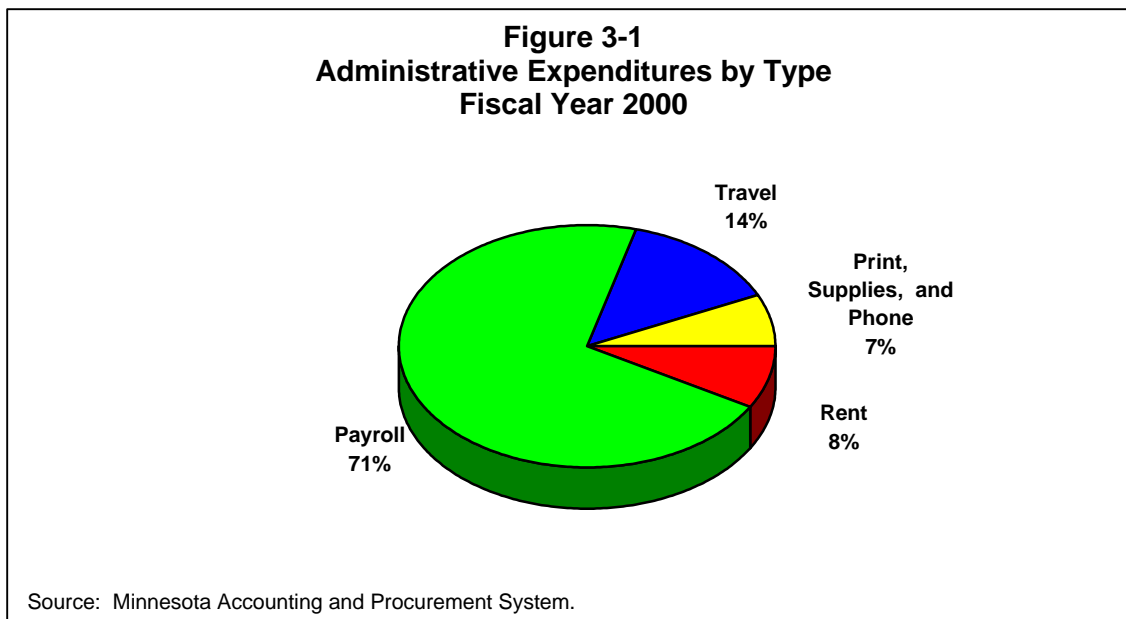
Chapter 3. Administrative Expenditures

Chapter Conclusions

For fiscal year 2000, the board exceeded its appropriation authority by approximately \$7,000, and is experiencing budget difficulties in fiscal year 2001.

We found that other board disbursements we tested were consistent with the board's purpose and accurately recorded in the accounting system. The board paid its employees at the proper amounts in accordance with applicable bargaining unit provisions except for the delays in processing payroll step increases prior to fiscal year 1999 as discussed in Chapter 2.

The board receives an appropriation from the Legislature to fund its operations. During the audit period, the board received appropriations of \$136,000, \$140,000, and \$149,301 respectively for fiscal years 1998, 1999, and 2000. Figure 3-1 shows how the fiscal year 2000 appropriation was expended.



Audit Objectives and Methodology

We focused our audit of administrative expenditures on the following objectives:

Board of Barber Examiners

- Were payroll, travel, and rent disbursements correctly classified and recorded, and were they reasonable in amount?
- Did the board follow applicable laws, agreements, and policies with respect to these program areas?

The methodology we used to audit administrative expenditures included interviewing personnel to gain an understanding of the disbursement process. We performed analytical reviews to evaluate any trends in specific expenditures during the audit period. We tested samples of payroll and disbursement transactions for compliance with applicable legal provisions and board authorization. We used the results of our transaction tests as a basis for concluding on the proper classification and recording of the expenditures in the accounting system.

Conclusions

The board's payroll and other administrative expenditures were properly recorded in the accounting system and were reasonable in amount. For the transactions tested, the board disbursed its funds in accordance with applicable policies and legal provisions except for delays in processing payroll step increases prior to fiscal year 1999 as discussed in Chapter 2. As discussed in Finding 1, however, the board exceeded its appropriation in fiscal year 2000.

1. The board overspent its fiscal year 2000 operating appropriation by approximately \$7,000 and is experiencing budget difficulties in fiscal year 2001.

For fiscal year 2000, the board's expenditures exceeded its appropriation by approximately \$7,000. The Department of Finance transferred \$5,300 of the board's fiscal year 2001 appropriation to pay for the budget deficit in fiscal year 2000. The board also incurred an additional \$1,700 of expenditures in fiscal year 2000 that it inappropriately charged to the fiscal year 2001 appropriation because it was out of funds.

Since the board used \$7,000 of its fiscal year 2001 appropriation to pay for fiscal year 2000 obligations, it is also experiencing budget difficulties in the current fiscal year. In response to the budget problems, it plans to curtail board meetings, and it could not use its electronic licensing system to renew licenses because it did not have the funds to purchase a printer. Instead, board staff had to revert to manually preparing the licenses.

In light of the board's budget concerns, we believe the board needs to improve its fiscal oversight of board operations. During the audit period, the board did receive periodic expenditure reports, but we think the extent of financial information presented to the board should be improved, and board decisions on financial matters should be documented in the board minutes. Furthermore, other than board oversight, the board's executive secretary is the only employee responsible for the financial operations of the board. Therefore, to improve controls over financial operations, the board should specifically approve significant or non-routine financial decisions related to the board's operations.

Board of Barber Examiners

Recommendations

- *The board should institute a more formal process to monitor its financial operations. The process should include formal approval of the board's budget, periodic status reports on budgeted and actual revenues and expenditures, and specific authorization of significant or non-routine financial transactions and decisions. The board's financial decisions should be documented in the board minutes.*
- *The board should use its electronic licensing system to support the board's licensing function and should ensure that the licensing system has adequate controls, including access controls and disaster recovery and backup provisions, to ensure uninterrupted service.*

Board of Barber Examiners

Status of Prior Audit Issues As of March 16, 2001

Most Recent Audit

Legislative Audit Report 95-45, issued in October 1995, covered the four fiscal years ended June 30, 1995. The scope of the audit included receipts, payroll, travel expenditures, and rent. The report did not contain any written findings.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.



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April 25, 2001

Mr. James R Nobles
Legislative Auditor
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Room 140 Centennial Bldg
658 Cedar St
St Paul, MN 55155-1603

Dear Mr. Nobles:

Please accept this letter as my formal written response to the audit report for the Board of Barber Examiners for the period July 1, 1995 to June 30, 2000.

The Board as well as myself are responsible for resolving the issues which were listed in the audit report.

It is the Board's and my intentions to begin immediately to resolve the issues which were brought to our attention in the report and to follow the recommendations made at the exit conference.

To accomplish this, the following procedures will be implemented immediately:

- (1) Upon completion of budget documents, the completed budget will be presented to the Board for it's review and approval.
- (2) In addition to the monthly financial report which the Board now receives, a copy of the Budget vs Expenditures and Estimated vs Actual Receipts reports will be given to the Board on a monthly basis for their review and approval.

- (3) Any significant or non-routine financial transactions will be given to the Board for signature and approval.
- (4) All financial decisions and discussions will be documented in the Board minutes.
- (5) The electronic licensing system which the Board uses for its licensing functions has always been functional in the past with a backup system in place. Unfortunately, during the time of this audit, the printer was broken and because it was so old, parts were not available to fix it. Also, because of budget concerns we could not replace it. At this time, we have a new printer obtained by transfer from another agency. There are some minor adjustments which need to be made so the printing aligns with the form.
- (6) Steps have already been taken to ensure that progression increases are made in a timely manner and it is my intention to work closely with our Executive Budget Officer during the budget process.

Thank you.

Sincerely,

/s/ Maureen Tibbitts

Maureen Tibbetts
Executive Secretary
Board of Barber Examiners