

# **Board of Psychology**

## **Financial Audit**

**For the Period July 1, 1994, to December 31, 1996**

**June 1997**

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**Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota**

**97-34**





STATE OF MINNESOTA

**OFFICE OF THE LEGISLATIVE AUDITOR**

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Deanna Wiener, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Harvey Linder, Chair  
Minnesota Board of Psychology

Members of the Minnesota Board of Psychology

Ms. Pauline Walker-Singleton, Executive Director  
Minnesota Board of Psychology

We have audited the Minnesota Board of Psychology for the period July 1, 1994, through December 31, 1996, as further explained in Chapter 1. Our audit scope included license revenue, personnel services, rent, and other administrative expenditures. The Summary on the next page highlights the audit objectives and conclusions. We discuss these issues more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted government auditing standards 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 require that we design the audit to provide reasonable assurance that the board complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the board is responsible for establishing and maintaining the internal control structure and for compliance with applicable laws and regulations.

This report is intended for the information of the Legislative Audit Commission and the management of the board. This restriction is not intended to limit the distribution of this report, which was released as a public document on June 27, 1997.

James R. Nobles  
Legislative Auditor

John Asmussen, CPA  
Deputy Legislative Auditor

End of Fieldwork: April 25, 1997

Report Signed On: June 20, 1997



# SUMMARY

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## Board of Psychology

### Financial Audit

For the Period July 1, 1994 to December 31, 1996

Public Release Date: June 27, 1997

No. 97-34

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### Agency Background

The board operates under *Minn. Stat.* Sections 148.88 - 148.98 and Chapter 214. The board is appointed by the Governor and consists of 11 members. Ms. Pauline Walker-Singleton is the current executive director. The board's operations are financed by the receipts it collects from its operations. For fiscal year 1995 and 1996 the board collected \$424,107 and \$455,865, respectively, in revenue from fees.

### Audit Areas and Conclusions

Our audit scope covered the time period from July 1, 1994, through December 31, 1996, and included a review of license revenue, personnel services, rent, and other administrative services.

We found that the board did not collect sufficient fees to cover its total expenditures. The board's revenue, which was lower than projected, and higher than anticipated Attorney General costs resulted in deficits of \$95,295 and \$215,797 in fiscal years 1995 and 1996, respectively. The board has established a plan that will provide increased license revenue in future fiscal years. In addition, the board office did not have adequate controls to ensure that the approved amount of license fees were collected and deposited.

We also found that the board accurately paid, recorded, and retained documentation for payroll expenditures. Payroll expenditures were in compliance with rules and regulations. Except for the arrangement with a testing service, expenditures for rent and other administrative expenses were properly authorized, accurately recorded, and consistent with the board's purpose.



## **Board of Psychology**

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### **Audit Participation**

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

John Asmussen, CPA	Deputy Legislative Auditor
Warren Bartz, CPA	Audit Manager
Matt Hoffer	Auditor-In-Charge

### **Exit Conference**

We discussed the results of the audit at an exit conference with the following Board of Psychology staff on May 21, 1997:

Pauline Walker-Singleton	Executive Director
Debby Sellin-Beckerleg	Office Manager





# Board of Psychology

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## Chapter 1. Introduction

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The Board of Psychology regulates the licensing of psychologists and psychological practitioners practicing in the state of Minnesota to ensure compliance with the rules of the practice of psychology. In addition, the board processes applications for licensure and issues original licenses and renewal certificates. The board also administers license examinations, approves educational seminars required for relicensure, and processes complaints filed against licensees. It operates under Minn. Stat. Section 148.88 - 148.98 and Chapter 214. The board has 11 members appointed by the Governor who consist of:

- three persons licensed as licensed psychologists;
- two persons licensed as licensed psychologists who have a master's degree in psychology;
- two psychologists, not necessarily licensed, one with a doctoral degree in psychology who represent a doctoral training program in psychology and one who represents a master's degree training program in psychology;
- one person licensed or qualified to be licensed as a psychological practitioner; and
- three public members.

Ms. Pauline Walker-Singleton currently is the executive director of the board.

The board is responsible for receiving and accounting for all fees and maintaining the records of the board. The Attorney General's Office supports the board's legal and investigative services pursuant to Minn. Stat. Section 214.10. The board also employs two investigators. In May 1994, the health boards formed an administrative services unit to provide services such as processing personnel and payroll transactions, encumbering and disbursing appropriations, and recording receipts. The board determines the extent of the administrative services unit's support services. Board expenditures are discussed further in Chapter 3.

The Board of Psychology is authorized to establish fees with the approval of the commissioner of Finance so that total fees collected will approximately equal anticipated expenditures, including attorney and administrative services unit costs during the biennium.

On November 3, 1996, the board raised its fees in order to reverse its present accumulated deficit as discussed in Chapter 2, Finding 1. Table 1-1 shows the financial activity for the board during the audit period. A further discussion of the board's deficit can be found in Chapter 2.

## Board of Psychology

**Table 1-1**  
**Summary of Financial Activity**  
**Fiscal Year 1995-1996**

	Year Ended June 30	
	1995	1996
Revenues from Fees	<u>\$424,107</u>	<u>\$455,865</u>
Expenditures:		
Payroll and Board Per Diems	\$230,043	\$267,194
Rent	17,596	22,482
Other Expenditures	54,763	55,986
Revenue Refund	<u>1,000</u>	<u>0</u>
Expenditures Paid From the Board's Appropriation Account	\$303,402	\$345,662
Statewide Indirect Costs	8,000	0
Attorney General Costs	204,000	317,000
Administrative Services Unit	<u>4,000</u>	<u>9,000</u>
Total Uses	<u>\$519,402</u>	<u>\$671,662</u>
Deficit	<u>(\$95,295)</u>	<u>(\$215,797)</u>

Sources: Agencies Biennial Budget, Statewide Accounting (SWA) System, and Minnesota Accounting and Procurement System (MAPS).

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## Chapter 2. License Revenue

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### *Chapter Conclusions*

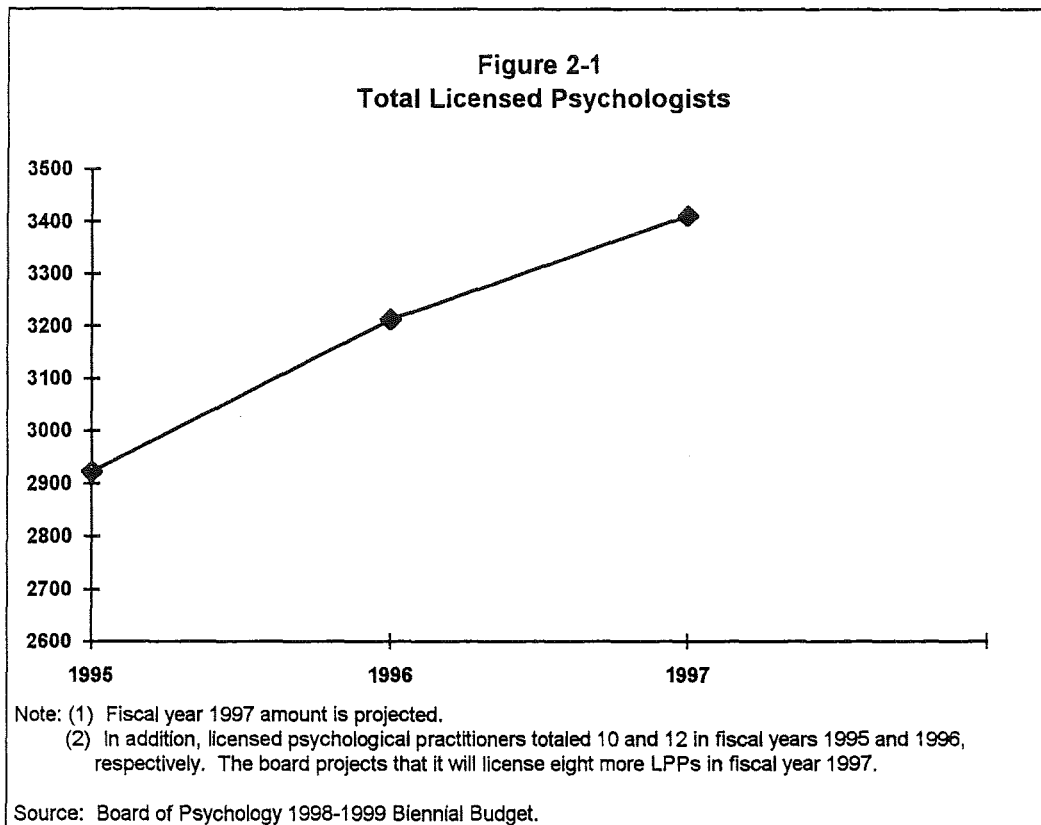
*The board did not collect sufficient fees to cover its total expenditures. Revenues significantly below projection and higher than anticipated Attorney General costs resulted in deficits of \$95,295 and \$215,797 in fiscal years 1995 and 1996, respectively. In response to the deficits, the board has developed a plan to raise license and examination fees. In addition, the board office did not have adequate controls to ensure that the approved amount of license fees were collected and deposited.*

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### **Background**

The board receives license revenue from two types of licensure: the licensed psychologist (LP) and licensed psychological practitioner (LPP). LPs must meet the requirements of Minn. Stat. Section 148.907, while LPPs must meet the requirements of Minn. Stat. Section 148.908 for licensure in the state of Minnesota. The board began licensing LPPs in fiscal year 1994-1995. The main differences between the LP and LPP licenses are that the LPs must attain a doctoral degree with a major in psychology. The minimum educational requirement is a master's degree in psychology. Also, a LP must complete the equivalent of at least two full years of postdoctoral supervised psychological employment. No experience is required prior to licensure for the psychological practitioner because the psychological practitioners practice with supervision while under this license. Figure 2-1 shows the number of licensed psychologists during fiscal years 1995-1997. As of June 30, 1996, the board had issued only 12 licenses to psychological practitioners.

## Board of Psychology



License revenue is generated from application fees for licensure, renewal fees for licensure, and late renewal fees for licensure from LPs and LPPs. These fees comprise 99 percent of the total receipts collected by the board.

### Computing Environment

The board used the License Management System (LMS), a proprietary software package on its Local Area Network. LMS helped the board track licensees and applicants and was also used for issuing licenses.

The Administrative Services Unit (ASU) recorded all of the board's financial activity into the Minnesota Accounting and Procurement System (MAPS). The ASU entered summarized information into MAPS based on reports generated by the board.

### Audit Objectives

We focused our review of license receipts on the following objectives:

- Did the board design and implement internal controls to provide reasonable assurance that the appropriate receipts were collected, adequately safeguarded, and accurately recorded in the SWA System and MAPS?
- Did the board collect receipts in compliance with applicable legal policy provisions?

## Board of Psychology

### Audit Methodology

The methodology used to audit license revenue included interviewing key employees and tracing license receipts to the accounting systems. In addition, we used analytical procedures to determine and compare the amount of licenses issued to receipts collected.

### Conclusions

We found that the board did not collect sufficient license revenue to recover the total of direct and indirect expenditures, as discussed in Finding 1. We also determined that the board did not have adequate controls to ensure that the correct amount of license receipts were collected and deposited, as disclosed in Finding 2. For the transactions tested, the board deposited its receipts in a timely manner.

**1. The board expenditures exceeded revenues by \$95,295 and \$215,797 in fiscal years 1995 and 1996, respectively.**

The board's projected revenues and estimated Attorney General costs differed significantly from its actual experience in both fiscal years 1995 and 1996. Minn. Stat. Section 16A.1285, Subd. 2, states that "Unless otherwise provided by law, specific charges falling within definitions stipulated in subdivision 1 must be set at a level that neither significantly over recovers nor under recovers costs, including overhead costs, involved in providing the services." The board projected revenues of \$550,000 and \$674,000 in fiscal years 1995 and 1996, respectively; however, actual revenues were only \$424,000 and \$456,000. These differences were due mainly to the board's overestimating the number of applications from licensed psychological practitioners in fiscal year 1995 and overestimating the number of applications from licensed psychologists in fiscal year 1996. The rules showing the fee increases also were not approved during fiscal year 1996 as planned, but were approved in fiscal year 1997. In addition, the board projected Attorney General costs at \$226,000 and \$250,000 in fiscal years 1995 and 1996, respectively; however, actual Attorney General costs were \$204,000, and \$317,000.

The board has established a plan with the approval of the commissioner of Finance that will provide the board with increased license revenue in future fiscal years. On November 3, 1996, the board increased these fees in order to eliminate the growing shortfall in revenues (see Table 1-1). The board increased fees for licensure and the licensure renewal from \$250 to \$375 for licensed psychologists and from \$180 to \$250 for the psychological practitioner. License fees continued to be paid on a biennial basis. In addition, the board also increased late renewal fees to \$187.50 for licensed psychologists and to \$125 for psychological practitioners. Furthermore, the board assessed a special assessment fee of \$90 to most licensees in fiscal year 1997.

### *Recommendation*

- *The board should continue with its plan to increase license fees and to monitor expenditures in order to avoid future yearly deficits.*

## Board of Psychology

### **2. PRIOR FINDING NOT RESOLVED: The board did not have adequate controls to ensure that the correct amount of license receipts were collected and deposited.**

The number of licenses issued by the board was not reconciled to receipts recorded on the SWA System or MAPS. In our last audit report, we recommended that the board should periodically conduct a comprehensive reconciliation of license and examination numbers to receipts. The board indicated it had difficulty completing a comprehensive reconciliation. As an alternative, the board could separate critical receipt processing duties. Too many duties were concentrated in one employee without sufficient mitigating controls. One mitigating control would be to have the receptionist complete a deposit listing of receipts.

Many board employees had more LMS clearance than they needed to complete their job responsibilities. LMS runs on the local area network. While this local area network has a security module that could be used to limit access to sensitive computer resources and data, the board did not use the network security module effectively. For example, we found that every network user had clearance to change or delete all of the data underlying LMS. Employees needed to use secured menus within LMS to update, change, or delete data. Giving users clearance to modify or delete data without using the appropriate menus is a security risk and could result in a loss of data integrity.

#### *Recommendations*

- *The board should establish a schedule for reconciling license receipts to licenses issued or review its separation of duties in the collection of receipts. The receptionist could prepare a deposit listing of daily receipts.*
- *The board should limit employees security clearance to only those computer resources and data needed to fulfill their job responsibilities.*

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## Chapter 3. Expenditures

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### *Chapter Conclusions*

*We found that the board accurately paid, recorded, and retained documentation for payroll expenditures. Payroll expenditures were in compliance with rules and regulations. Except for the arrangement with a testing service, expenditures for rent and other administrative expenses were properly authorized, accurately recorded, and consistent with the board's purpose.*

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### Background

Table 3-1 summarizes the board's direct and indirect expenditures for fiscal years 1995 and 1996.

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**Table 3-1**  
**Summary of Expenditures and Costs**  
**Fiscal Years 1995-1996**

	1995	1996
Salaries and benefits	\$230,043	\$267,194
Rent	17,596	22,482
Other direct expenditures	54,763	55,986
Revenue Refund	1,000	0
Total Direct Expenditures From the Board's Appropriation Account	<u>\$303,402</u>	<u>\$345,662</u>
Indirect Expenditures Incurred By Other Agencies:		
Attorney General Costs	204,000	317,000
Statewide Indirect Costs	8,000	0
Administrative Services Unit	4,000	9,000
Total Expenditures And Costs	<u>\$519,402</u>	<u>\$671,662</u>

Sources: Minnesota Accounting and Procurement System, Statewide Accounting, and Board's Biennial Budget.

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The board's largest direct administrative expenditure was payroll. We also reviewed rent and other administrative expenditures. The executive director approves all payroll and other disbursements; however, the business manager also has authority to approve all payroll and other disbursements. The administrative services unit for health-related boards records transactions onto the state's accounting and payroll system.

### Audit Objectives

We focused our review on the following objective for all areas of administrative expenditures we audited:

- Did the board design and implement internal controls to provide reasonable assurance that expenditures were properly authorized and recorded in the state's accounting records?

## **Board of Psychology**

### **Audit Methodology**

The methodology we used to audit the administrative expenditures included interviewing key personnel and testing a sample of payroll and other disbursement transactions. We also performed analytical reviews to evaluate trends in specific account classes throughout the audit period.

### **Personnel Services**

As of December 31, 1996, the board employed five full-time employees and four part-time employees. These employees were covered by three different bargaining agreements: the Managerial Plan, MAPE (Minnesota Association of Professional Employees), and AFSCME (Association of Federal, State, County, and Municipal Employees). These employees reviewed and processed applications for psychology license examinations, reviewed and processed license applications and renewals, monitored continuing professional education requirements, and processed complaints filed against licensees.

We added a specific objective for the area of personnel services:

- Did the board's salaries and benefit expenditures comply with applicable statutory provisions and related bargaining agreements?

In our review of salaries and benefits, we found that the board accurately paid, recorded, and retained documentation for payroll expenditures. The board paid the proper amounts according to their respective bargaining unit agreements. Per diem payments and other reimbursements were also paid in accordance with board policies and statutes and were supported by adequate documentation.

### **Rent**

The board rented office space in buildings located on University Avenue in St. Paul until October 28, 1996, and subsequently relocated to a building in Minneapolis. All other health-related boards rented office space at these locations.

We added a specific objective for the area of rent:

- Did the board's rent expenditures comply with applicable statutory provisions and related lease agreements?

In our review of rent, we found that the proper amount of rent had been paid under the lease agreement and that lease provisions were being followed.

### **Other Administrative Expenditures**

Other administrative expenditures included expenditures for items such as computers and information systems, purchased services, travel, supplies, and equipment. We reviewed the general processing procedures for these expenditures.

For most administrative expenditures reviewed, we found that the board properly paid, accounted for, and documented the expenditures. However, the board entered into a contract with an examining firm that was not properly authorized by the state. This situation is discussed further in Finding 3.



## Board of Psychology

- 3. The board's practice of holding checks payable to a national examining service and using them to pay the service after examinations were given does not conform to legal requirements.**

The Board of Psychology entered into a contract with a private examination service that did not conform to certain legal requirements. The board did not process the contract in the manner required by Minn. Stat. Section 16B.06. The statute provides that "a contract is not valid and the state is not bound by it until the statutory provisions are satisfied." Those statutory provisions include having the contract approved by the commissioner of Administration and the Attorney General. It also requires that the full contractual liability be recorded on the state's accounting system. Also, the board collected payments from applicants that could not be deposited in the state treasury as required by Minn. Stat. Section 16A.275.

The value of the contract was approximately \$130,000 each year. This contract required the service to provide the board with an examination that was approved by the Association of State and Provincial Psychology. Minn. Stat. Section 214.03 required the board to use national standardized tests for the nonpractical portion of any examination given to prospective licenses. The service provided the number of copies requested by the board in return for a fee of \$250 per copy. The board administered the test, but the service scored them. During the year ended June 30, 1996, 715 individuals applied to sit for the examinations.

To pay its obligation to the examination service, the board collected national examination fees from applicants and secured them until the examination date passed. The board rules (Minnesota Rule 7200.3000, subp. 2) require that the money orders and cashiers checks be made payable to the national examining service; however, the board rules do not state that the board must collect the examination fees. The board told us, however, that the examination service was unwilling to collect its checks directly from the examinees. After the examination was administered, the board forwarded the money orders and cashier checks for the examination fees to the national examination service. For those who did not sit for the examination, the board returned their money orders or cashier checks upon return of the admission card. Furthermore, we learned that some of the other health licensing boards and other states follow a similar practice.

### *Recommendations*

- The board should work with the Department of Administration and the Attorney General so that its contract with the national examination service complies with state law.*
- The board should develop another method for processing payments from applicants to avoid the need to hold examination payments for an extended time period.*
- If necessary, the board should seek any changes to state law and board rules to allow it to conduct business with the examination service.*

# MINNESOTA BOARD OF PSYCHOLOGY

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16 June 1997

James Nobles, Legislative Auditor  
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658 Cedar Street  
St. Paul, Minnesota 55155

Dear Mr. Nobles:

This letter is in response to the draft audit report summarizing your office's audit of this agency for the period July 1, 1994, to December 31, 1996. We would like to submit the following response to the findings in order to clarify some issues and explain the Board's plans for corrective action.

**FINDING 1:** The Board did not collect sufficient fees to cover its total expenditures. Revenues significantly below projection and higher than anticipated Attorney General costs resulted in deficits of \$95,295 and \$215,797 in fiscal years 1995 and 1996, respectively. In response to the deficits, the Board has developed a plan to raise license and examination fees.

We believe that it is important to note how the deficit came about and how the Board approached the task of resolving it. As a health Board, we are under legislative mandate to cover the Board's entire budget through fees for services. The majority of the fees collected by health Boards comes from applicants and licensees.

In 1991, revisions to the state's licensing law for psychology were passed that the Board neither sponsored nor supported. The law created one level of licensure which requires a doctorate degree for the independent practice of psychology in Minnesota; this licensure is called a licensed psychologist (LP). Another level of licensure which requires a minimum of a master's degree was created by the law; this level of licensure, licensed psychological practitioner (LPP), does not allow for the independent practice of psychology. Prior to the law change, an individual could become licensed for the independent practice of psychology with a master's or a doctorate degree. The law also made some other changes to the licensing law discussed below.

A \$40 special assessment fee per licensee was planned in 1992, and the fee came due in April of 1993. This assessment was to cover the start up costs of administering the new licensing law, which also required continuing education for the first time. Along with the reduction to one level of licensure for independent practice, that is, licensure as an LP, came a grandparenting law for individuals already preparing for licensure as an LP at the master's level. The grandparenting law is still proving to be an extremely staff-intensive and expensive part of the law to administer. The amount of revenue needed to implement those changes was set to cover certain administrative expenses, including modernizing the Board's phone system (previously one line) and creating a computer system (previously one computer). Also to be covered by the \$40 special assessment was the considerable cost of writing rules to implement the continuing education law, the licensing of psychological practitioners, and some housekeeping matters necessitated by the new provisions.

With the revenue from the special assessment, the Board was able to add one phone line for incoming calls, and a computer network of 286 and 386 computers. This was in 1992, when 486 computers were already being ordered by most businesses. Apparently, the plan for the special assessment was insufficient to cover the purchase of computers with greater usefulness at the time. Ongoing expenses created by the 1991, law change was supposed to be funded by the licensure of psychological practitioners. In actuality, fees were set at that time, at a rate which did not anticipate any unexpected fluctuations in Board expenses.

To compound the problem of revenue projection, the Board could not determine that very many individuals would find licensure as an LPP an attractive option. Therefore, it relied on available input from the bill's supporters to estimate the number of possible applicants for licensure at the LPP level. These projections proved to be greatly inflated. The Board made revenue projections for fiscal years 1993, 1994, and 1995 which anticipated the licensure of about 1100 psychological practitioners. That revenue never materialized, since we have only about two dozen LPP's licensed today. This is the beginning of the missing revenue. Not knowing whether this lack of revenue was a trend, the Board cut spending in the areas of personnel, supplies, equipment, travel, etc. until the next biennial budget period, rather than assessing another special fee at that time.

Simultaneously, the Board was investigating and resolving more complaints and was being involved in an increasing amount of litigation incidental to our investigations. Therefore, it became necessary to use more services of the Office of the Attorney General.

It was all of these factors that worked together to contribute to the increasing shortfall in revenue. As acknowledged by the audit report, the revenue issue has been addressed by fee increases and the Board's budget will balance using the additional revenue.

**FINDING 2:           The Board office did not have adequate controls to ensure that the approved amount of license fees were collected and deposited.**

The Board is currently staffed by five full time and four part time employees. Of those employees, four employees have a specific role in collecting and depositing the fees the Board collects. According to the audit report, the Board's process needs one additional mitigating control. We have modified the suggestion of having the receptionist complete a deposit listing of receipts, because the number of separate items of revenue the Board receives on a daily basis would not lend itself to a listing of each separate item with enough identifying entries. Therefore, after the receptionist enters all of the information she currently records on the correspondence that accompanies each check, she will continue to clip the check(s) to the correspondence and then photocopy the front page of the correspondence. She will then file in category order, copies of each day's revenue correspondence. This revenue correspondence file would then go to the office manager, who would reconcile the copies with the list of receipts generated by the employee who makes out the bank deposit slip. This way, the revenue correspondence file will keep a record of the check number, the payor, the amount of the check, the date of the check, the date we received the check, what the check was intended to cover, without the necessity of anyone having to write out a separate entry to record each of these items. In addition, the amounts received can be reconciled each day.

The report also states that the Board should limit access to sensitive computer resources and data to only those employees who need access in order to complete their job responsibilities. A network security module is in

place, and the Board is now working with a consultant to expand its capabilities or upgrade the software. When the new computer system was initially installed, the Board was in no shape financially to replace the system, therefore, it opted for the temporary solution of only training the employees who had a need to know how to manipulate the system's data. This has worked thus far, however, it was never intended to be a permanent solution. Every since the system was installed, the Board has continued to work with computer consultants to fashion a remedy. As the Board continues to research an upgrade, network security is a top priority, because the integrity of the Board's data is essential to doing business.

**FINDING 3:           The Board's practice of holding checks payable to a national examining service and using them to pay the service after examinations were given does not conform to legal requirements.**

Minn. Stat. § 214.03 requires that a health Board give a national standardized examination for licensure if one is available. The only national standardized examination in psychology available is provided to this Board through its membership in the Association of State and Provincial Psychology Boards. The test is administered by the Professional Examination Service (PES) at the same time on the same two days of every year in all US states and in some US territories and Canadian provinces.

Prior to 1992, the Board placed into its biennial budget a revenue item based on the number of national examinations the Board estimated it would administer each fiscal year. This gave the Board the spending authority to pay for a finite number of examinations to the national testing service each year regardless of the actual number of examinations given by the Board. There arose the problem of the Board being placed in the position of having to write, on several occasions, to the national testing service to beg their indulgence. Although the Board had collected the amount of money the testing service billed, the Board was not able to authorize a payment in the amount of the billing from the testing service, because the Board did not have the spending authority to do so. In other words, the number of tests given was greater than anticipated by the budget figures.

With the psychology licensure climate continually changing in Minnesota, it is still difficult to project the number of individuals who will apply to sit for the national examination. After enduring the experience of having to write such a letter as that referenced above, to the testing service, and because it became evident that to continue with the Board's prior procedures could have negatively impacted the Board's ability to continue to give the national examination, the Board decided to change its rules to allow for a different handling of the matter of applicants paying for their examinations. Minn. Rule 7200.0300 was modified to include the provision requiring that the applicant for the national examination send along with the application, a check for the Board's examination application fee made payable to the Board, and a certified check or money order made payable to the national entity sponsoring the examination. To comply with this rule, the Board does collect and maintain under tight security the applicant's checks made payable to PES. PES does not accept payments sent directly from the applicants to them and it does not accept the checks from the Board until it is billed after the test has been given. In addition, Minnesota statutes do not allow for Board payment for services until the service is completed. If anyone chooses not to sit for the examination, the check is returned when the applicant returns the admission card to the Board. The Minnesota Department of Finance is aware of this process, which is also in use by other Boards. Some Boards that follow the procedure described above (the one that was used by this Board prior to the rule change) are interested in and are being encouraged by the Finance Department to change their Boards' rules to language similar to Psychology Board's current rules, and to remove the examination service revenue item from their budgets, thus taking it off of the state's accounting system.

One of your recommendations was that the Board seek any changes to state law to allow it to conduct business with the examination service, as we currently do. The Board intends to work towards this option along with other health Boards.

The report states that the Board entered into a contract with a private examination service that did not conform to certain legal requirements. "The Board did not process the contract in a manner required by Minn. Stat. Section 16B.06. The statute provides that 'a contract is not valid and the state is not bound by it until the statutory provisions are satisfied.' Those provisions include having the contract approved by the commissioner of Administration and the Attorney General." Representatives from both the Department of Administration and the Attorney General's office have reviewed contracts between the Boards and PES and discussed this matter with health Board representatives on several occasions. When recently contacted about the contracts signed on behalf of the Psychology Board with PES, the Department of Administration representative in charge of state contracts acknowledged that he has read the contracts and states that they are legally binding and that there is no need to complete another State of Minnesota professional contract. He does make the suggestion that a signature block be added to the contract for the Department of Administration and the Attorney General's Office, which will be done in the future.

The information above is submitted to provide background data to accompany the audit report, so that the Board's methods of doing business are clear. We feel that the audit has provided us with a learning experience that gave us an objective look at our processes. We have made changes to reflect the findings and the recommendations. We eagerly await any further suggestions for bettering our procedures.

Sincerely,

A handwritten signature in black ink, appearing to read "Pauline Walker-Singleton", written in a cursive style.

PAULINE WALKER-SINGLETON  
Executive Director