



STATE OF NORTH CAROLINA

SPECIAL REVIEW

**NORTH CAROLINA STATE BOARD
OF
COSMETIC ART EXAMINERS**

RALEIGH, NORTH CAROLINA

JUNE 1996

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

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LETTER OF TRANSMITTAL

June 24, 1996

The Honorable James B. Hunt, Jr., Governor
Ms. Katherine Pierre, Chairman, North Carolina
State Board of Cosmetic Art Examiners
Members of the North Carolina General Assembly

Ladies and Gentlemen:

Pursuant to General Statute §147-64.6(c)(16), we have completed our special review of the North Carolina State Board of Cosmetic Art Examiners. The results of our review, along with recommendations for corrective actions, are contained in this report. The North Carolina State Board of Cosmetic Art Examiners' written response to the finding and recommendation is contained in Exhibit B on page 10.

General Statute §147-64.6(c)(12) requires the State Auditor to provide the Governor, the Attorney General, and other appropriate officials with written notice of apparent instances of violations of penal statutes or apparent instances of malfeasance, misfeasance, or nonfeasance by an officer or employee. In accordance with that mandate, and our standard operating practice, we are providing copies of this special review to the Governor, the Attorney General, and other appropriate officials, including the North Carolina State Board of Certified Public Accountant Examiners.

Respectfully submitted,

Ralph Campbell, Jr.
State Auditor

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OVERVIEW

The North Carolina State Board of Cosmetic Art Examiners (Board) was established by statute to regulate the practice of cosmetic art in North Carolina. The Board consists of four members appointed by the Governor, one member appointed by the Lieutenant Governor, and one member appointed by the Speaker of the House. Board members are to serve three year terms and can not serve more than two consecutive terms. The Board operates under General Statute §88-1-30. The general statutes dictate that the Board maintain an office in Raleigh, North Carolina, and employ an Executive Secretary who is not a Board member. The Executive Secretary is authorized to perform such duties as prescribed by the Board. The Executive Secretary is authorized to collect fees and fines established by the Board and to deposit the fees and fines with the State Treasurer. All expenses, including salaries, are to be paid by warrants drawn on the State Treasurer.

The North Carolina Board of Cosmetic Art Examiners is totally supported by receipts derived from fees and fines. For the fiscal year ended June 30, 1995, the Board earned \$856,810 in revenue and incurred \$665,800 in expenses. The Board employs approximately nineteen people.

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FINDINGS AND RECOMMENDATIONS

1. THE FORMER ACCOUNTING TECHNICIAN II TOOK \$72,761.93 IN CASH AND DESTROYED \$32,707.52 IN CHECKS BELONGING TO THE NORTH CAROLINA STATE BOARD OF COSMETIC ART EXAMINERS.

During May 1995, the Chairman of the North Carolina Board of Cosmetic Art Examiners (Board) requested the Office of the State Auditor to conduct a financial and performance/operational audit of the Board. The request was prompted by organizational changes and concerns about the Board's fiscal operations. Also, the General Assembly, in its 1995 session, requested the State Auditor to conduct a performance audit of the Board. In prior years, the Board has contracted with private firms to conduct its financial audits in accordance with the practice followed by all occupational licensing boards. We began our financial audit of the fiscal years ending June 30, 1994 and 1995 in March 1996. As part of our audit, we performed tests on the cash receipts cycle. While performing these tests, we determined that some of the daily receipts had not been deposited with the State Treasurer. As a result of these initial discoveries in the fiscal years ending June 30, 1994 and 1995, we expanded our tests to prior years and the subsequent year in order to determine when the problems originated and if they were continuing. The results of our tests revealed the following findings.

- ◆ In the fiscal year ending June 30, 1989, the Board received \$2,227.50 in the form of cash and \$27,580.52 in the form of checks that was never deposited with the State Treasurer.
- ◆ In the fiscal year ending June 30, 1990, the Board received \$7,806.00 in the form of cash that was never deposited with the State Treasurer.
- ◆ In the fiscal year ending June 30, 1991, the Board received \$11,015.50 in the form of cash that was never deposited with the State Treasurer.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

- ◆ In the fiscal year ending June 30, 1992, the Board received \$9,336.58 in the form of cash that was never deposited with the State Treasurer.
- ◆ In the fiscal year ending June 30, 1993, the Board received \$12,305.85 in the form of cash that was never deposited with the State Treasurer.
- ◆ In the fiscal year ending June 30, 1994, the Board received \$10,413.00 in the form of cash and \$348.00 in the form of checks that was never deposited with the State Treasurer.
- ◆ In the fiscal year ending June 30, 1995, the Board received \$12,977.50 in the form of cash that was never deposited with the State Treasurer.
- ◆ For the period July 1, 1995 through April 18, 1996, the Board received \$6,680.00 in the form of cash and \$4,779 in the form of checks that was never deposited with the State Treasurer.

In total, for the time period July 1, 1988 through April 18, 1996, \$72,761.93 in cash and \$32,707.52 in checks was received and recorded but never deposited with the State Treasurer (See Exhibit C for a detailed list by date of all the missing receipts).

As a result of the above findings, we interviewed the Accounting Technician II who was responsible for recording the receipts, preparing and making the deposits, and reconciling the accounts. The Accounting Technician II admitted that she had taken the missing cash and had destroyed the missing checks. She said that she did not know how much cash she had taken, but she would take responsibility for all the missing cash. She said that she had acted alone and that no one at the Board was aware of what she was doing.

According to the Executive Secretary for the Board, after the Accounting Technician II left our interview, she met with him and informed him that she had taken the money and resigned her position.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

The Accounting Technician II was able to perpetrate her activities for such a long period of time without being detected because of the inadequate internal control structure within the Board. In fact, undeposited receipts on hand at the time of our audit were in excess of \$125,000 which included cash, checks, and money orders dating back three years. These receipts were recorded and the deposits (which included some current receipts) totaled \$128,391.37. The financial audit report of the North Carolina Board of Cosmetic Art Examiners for the years ended June 30, 1994 and 1995, details our findings and recommendations that relate to the deficiencies in the internal control structure and compliance with laws and regulations.

This matter has been referred to the North Carolina State Bureau of Investigation and the North Carolina State Board of Certified Public Accountant Examiners for their review.

FINDINGS AND RECOMMENDATIONS (CONCLUDED)

RECOMMENDATION

We recommend that the Board implement controls to improve the receipting process. These controls include: (1) separating the accounting functions from the custody of assets, (2) implementing an automated receipting system to improve accuracy and completeness of summarized information, (3) establishing policies and procedures requiring supervisory review and approval of key accounting reports including the receipts register and deposits, and (4) establishing formal policies and procedures adopted by the Board over the receipting process. The Board should seek technical assistance from the Office of the State Controller to ensure that the policies and procedures implemented appropriately address the proper collection, classification, and financial statement presentation of revenue amounts. In addition, we recommend that the Board consult with its legal counsel as to any legal actions that it may need to take, including the attempt to recover the missing funds.

Statement of Financial Impact

Exhibit A

The following schedule represents a quantification of the items examined during our special review. We cannot completely quantify the tangible benefits or detriment, if any, to the taxpayer resulting from the findings of our review. We are simply noting these areas where the system of internal controls were either circumvented or should be enhanced.

1. Total amount of cash taken by the Former Accounting Technician II.	\$ 72,761.93
2. Total amount of checks not deposited by the Former Accounting Technician II.	<u>32,707.52</u>
Total Missing Receipts	<u><u>\$ 105,496.45</u></u>

Auditor's Note: In addition to the missing receipts, we found undeposited receipts on hand at the time of our audit which exceeded \$125,000. This included cash, checks, and money orders, some of which dated back three years. These receipts were recorded and the deposits (which contained some current receipts) totaled \$128,391.37. The failure to deposit these receipts evidences serious internal control weaknesses. (Further discussion of the weaknesses in internal controls and our recommendation and finding are found in our financial audit report of the Board for the fiscal years including June 30, 1994 and 1995.)

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Exhibit B

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DISTRIBUTION OF AUDIT REPORT

In accordance with G.S. § 147-64.5 and G.S. § 147-64.6(c)(14), copies of this report have been distributed to the public officials and board members listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

EXECUTIVE BRANCH

The Honorable James B. Hunt, Jr.	Governor of North Carolina
The Honorable Dennis A. Wicker	Lieutenant Governor of North Carolina
The Honorable Harlan E. Boyles	State Treasurer
The Honorable Michael F. Easley	Attorney General
Mr. James J. Coman	Director, State Bureau of Investigation
Mr. Marvin K. Dorman, Jr.	State Budget Officer
Mr. Edward Renfrow	State Controller
Ms. Muriel K. Offerman	Secretary, N. C. Department of Revenue

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Senator Ed N. Warren	Representative Carolyn B. Russell

Other Legislative Officials

Representative James B. Black	Minority Leader of the N.C. House of Representatives
Mr. Thomas L. Covington	Director, Fiscal Research Division

North Carolina State Board of Cosmetic Art Examiners

Ms. Katherine Pierre	Chairman of the Board
Mr. Morris Boswell	Board Member
Ms. LaVerne Joyner	Board Member
Ms. Roberta Burchette	Board Member
Ms. Helen Pollard-Frazier	Board Member
Mr. James Smith	Board Member

Public Release Date

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