

State of New York
Office of the State Comptroller
Division of Management Audit

STATE EDUCATION DEPARTMENT

**PROFESSIONAL LICENSING
OPERATIONS**

REPORT 95-S-42



H. Carl McCall
Comptroller



State of New York Office of the State Comptroller

Division of Management Audit

Report 95-S-42

Mr. Carl T. Hayden
Chancellor, Board of Regents
The University of the State of New York
State Education Department
Albany, NY 12234

Dear Mr. Hayden:

The following is our report on the State Education Department's professional licensing operations.

Our audit was performed pursuant to the State Comptroller's authority as set forth in Section 1, Article V of the State Constitution and Section 8, Article 2 of the State Finance Law. Major contributors to the report are listed in Appendix A.

*Office of the State Comptroller
Division of Management Audit*

Executive Summary

State Education Department Professional Licensing Operations

Scope of Audit

The State Education Department's Office of the Professions (Office) licenses more than 500,000 individuals in 38 professions including physicians, nurses, engineers, architects and accountants. After receiving their license, most individuals must register with the Office every three years. Office expenses, which totaled about \$28 million in the year ended March 31, 1994, are financed entirely by license and registration fees and disciplinary fines. Office officials have asked the State Legislature for a 40 percent increase in license and registration fees, which range between \$45 and \$500 per individual and were last raised in 1989. The purpose of the fee increase, among other things, is to cover a projected deficit in Office funding (\$8.3 million by 1996) and improve other operations by replacing staff who were lost in past cost-cutting measures.

Our audit addressed the following questions about licensing and registration operations:

- ! Should license and registration fees be increased?
- ! Would additional staff enable the Office to process licenses and registrations more efficiently?
- ! Was the revenue collected by the Office used solely to finance Office operations?

Audit Observations and Conclusions

We conclude that the deterioration in services to licensed professionals and the public requires the attention of policymakers. It appears that additional resources and new technology investments are needed to support Office operations, and to improve efficiency and effectiveness. We believe that licensing and registration operations should first be re-engineered to determine the required level of permanent resources and the related fees to support operations. Other temporary types of financing, such as a special appropriation, loan or a one-time fee surcharge should be used to fund the re-engineering, before a permanent fee increase is adopted. While the increase has been requested largely to fund additional staff, some operations could be made more efficient without staffing increases. In particular, routine clerical licensing and registration operations could be automated to a much greater extent. We also determined that Office revenue was used solely to finance its operations.

According to Office management, staffing reductions have led to problems such as long delays in processing licenses and registrations. The Office plans to address these problems by hiring additional staff. However, we found that management did not adequately analyze applicable workload and staffing or potential work process re-engineering to support their request for additional

staff. As a result, management has no assurance that the problems will be solved cost-effectively by adding more staff. For example, it takes several months to process license applications and registration forms. However, we found that most of the time taken to process license applications results from delays caused by the applicants, who often submit incomplete information or fill out forms incorrectly. We question how these delays can be reduced by additional staff. We also found that registration processing time is likely to be reduced by a procedural improvement (month-of-birth registration) already implemented by the Office. We believe the effects of the improvement should be analyzed before determining how many new staff are needed. (pp. 7-13)

We further found that the license and registration processes are already labor intensive. Rather than adding more staff, the Office should improve its processes to take advantage of new technology like optical scanning and computer imaging, as well as advances in telecommunications. Such improvements would eliminate cumbersome and time-consuming manual procedures. While additional costs would be incurred in automating operations, these costs would be incurred only once and therefore should not be funded by a permanent fee increase. (pp. 14-16)

We examined how the revenue collected was used and found that it was used solely to finance Office operations, as is required by law. Therefore, the Office's projected deficit is not caused by a diversion of its revenue. We did note, however, that in 1989, the Office began to make payments to the Education Department and State Treasury for certain administrative services provided to the Office. These payments, which have exceeded \$4 million a year, have contributed significantly to the deteriorating financial condition. However, we determined that the methods used to calculate these payments were appropriate and the calculations themselves were accurate. (pp. 23-24)

In reviewing Office revenue, we noted that the Office incurs about \$900,000 a year in costs to process registration fees that are transmitted to the Department of Health. We recommended that the Office propose legislation allowing it to retain a portion of these fees. We also recommended that management consider proposing legislation to increase penalties for non-registration. (pp. 24-26)

Comments of Department Officials

Department officials agree that re-engineering and a new computer system are needed, and that securing necessary funding is the place to begin. Department officials, however, disagree with many of our other recommendations, but in most cases, maintain they have taken actions consistent with them. Their comments have been considered in preparing this report.

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Appendix A	Major Contributors to This Report
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The comments of Agency Officials are not available in an electronic format. Please contact our Office if you would like us to mail you a copy of the report that contains

Introduction

Background

The State Education Department's (Department) Office of the Professions (Office) is responsible for licensing and registering over 500,000 professionals in 38 professions (see Exhibit A). The Office is also responsible for promoting and upholding standards of practice and coordinating with the 25 State boards for the professions. The Office has authority to investigate and prosecute misconduct in 35 professions. (The Department of Health oversees physicians, physician assistants and specialist assistants.) The Department's authority is established in Title VIII of the Education Law.

Office functions are divided into three areas. The Professional Credentialing Unit (Licensing Unit) is responsible for licensing and registering professionals. The Professional Responsibility Unit is responsible for regulating and disciplining professionals. The Professional Governance Unit oversees the State boards for the professions. The 25 State boards are responsible for aiding the Office in selecting and developing professional examinations, reviewing applications for licensure, and conducting disciplinary hearings. The State boards also advise on issues of policy and practice.

The following chart shows the expenses incurred by each unit for the 1993-94 fiscal year and the number of staff at the time of our audit.

UNIT	EXPENSES (IN MILLIONS)	STAFF
Professional Credentialing	\$10.3	151 *
Professional Responsibility	\$11.7	136
Professional Governance	\$ 6.1	44

* Includes 20 positions from Higher and Professional Education who are engaged in professions-related activities. These positions are funded by the Office, but are not part of the Office.¹

License and registration fees as well as disciplinary fines are used to finance Office operations through a Special Revenue Fund (Fund) established by the State Legislature in 1987. Depending on the profession, individuals are

See Endnote ¹

charged between \$45 and \$500 for their initial license. However, for the majority of professions, initial license fees range from \$70 to \$135. Thereafter, each professional must register with the Office every three years, (except for physicians, who must register every two years). Registration fees range from \$45 to \$330 and average about \$100. Registration fees account for about two-thirds of the Office's revenue.

License and registration fees are set by the State Legislature. These fees were last raised in 1989. Since that time, Fund revenues have not risen as quickly as Office expenditures. The Department initially predicted that without a fee increase, the Fund would experience a \$4 million deficit by the end of the 1994-95 fiscal year. However, because of actions taken to accelerate registration collection and reduce costs, Department officials believe the deficit will be lower. Since April 1991, Department management has reduced Office staffing levels by about 16 percent in response to these financial difficulties. Department officials report that, because of these reductions, up to six months are needed to process licenses and registrations, there is a four-week backlog in opening mail, and each month at least 100,000 phone calls on customer service lines are unanswered. They also report problems in other areas including, delays in investigating and resolving disciplinary issues and delays in responding to professionals and professional associations relating to standards of practice.

The Department has proposed a 40 percent fee increase to address the projected Fund deficit. Management plans to use the additional revenue to increase staffing and re-engineer operations. They feel that these changes will result in more efficient and improved operations.

Audit Scope, Objectives and Methodology

At the request of the Senate Higher Education Committee, we audited the procedures for recording Fund revenues and expenses as well as procedures for processing licenses and registrations for the period April 1, 1991 through December 31, 1994. We also audited the actions taken by Department management during this period to improve Office operations as well as the actions planned to further improve operations if the proposed fee increase is approved. The primary objectives of our performance audit were to (1) determine whether a fee increase is necessary, (2) evaluate the efficiency of license and registration processing, and (3) determine whether Fund revenue was used solely to finance activities conducted by the Office. To accomplish these objectives, we reviewed the operating systems in place in the various units, interviewed Office managers and staff, interviewed officials from the Legislature and the Division of the Budget, and reviewed Office records and documentation. Our audit focused on the activities of the Professional Credentialing Unit and did not include in-depth analysis of the staffing levels or operating efficiency of the Professional Responsibility Unit or the Professional Governance Unit.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those Office procedures and operations included within the audit scope. Further, these standards require that we understand the Office's internal control structure and compliance with those laws, rules and regulations that are relevant to the Office's procedures and operations which are included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments and decisions made by management. We believe our audit provides a reasonable basis for our findings, conclusions and recommendations.

We use a risk-based approach when selecting activities to be audited. This approach focuses our audit efforts on those procedures and operations that have been identified through a preliminary survey as having the greatest probability for needing improvement. Consequently, by design, finite audit resources are used to identify where and how improvements can be made. Thus, little audit effort is devoted to reviewing procedures and operations that may be relatively efficient or effective. As a result, our audit reports are prepared on an "exception basis." This report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

Response of Department Officials

Draft copies of this report were provided to Department officials for their review and comment. Their comments have been considered in preparing this report and are included in Appendix B. The Department's response included a number of exhibits and attachments which are available for review at the State Comptroller's Office and have not been included in Appendix B.

Subsequent to receiving the detailed response to this report from Department officials, we provided a copy of the report to the recently appointed Commissioner for his review and comment. The Commissioner agreed with the need for re-engineering and a new computer system, and stated that securing necessary funding is the place to begin.

Department officials disagree with many of the report's recommendations, including certain substantive findings and conclusions. Officials believe that the audit attempts to draw its conclusions about the entire Office based on an examination of the Division of Professional Licensing Services. Officials maintain that additional staff is currently needed, while re-engineering operations should be done later.

As detailed in this report, we conclude that licensing and registration operations need to be re-engineered before a permanent fee increase is considered, and before additional permanent staff are funded. Department officials were well aware that our audit was planned and was initiated to focus solely on the Office's licensing and registration operations. We have not

attempted to draw conclusions about the offices of Professional Governance and Responsibility. The report provides several alternatives and possible new approaches to funding re-engineering efforts and improve the efficiency and effectiveness of licensing and registration activities.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Commissioner of Education shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

Need for Fee Increase

The following chart relates the Fund balance to the Department's reported Fund revenues and expenses over the three fiscal years ended March 31, 1994 and the revenues and expenses projected by Department officials for the two fiscal years ending March 31, 1996.

DATE	REVENUES	EXPENSES	FUND BALANCE
	(in millions)		
4/1/91			\$ 6.2
4/1/91 - 3/31/92	\$21.3	\$27.9	
4/1/92 - 3/31/93	31.9	28.5	
4/1/93 - 3/31/94	<u>27.7</u>	<u>28.2</u>	
Three-Year Reported Totals	<u>80.9</u>	<u>84.6</u>	(\$ 3.7)
4/1/94			\$ 2.5
4/1/94 - 3/31/95	\$22.5	\$27.7	
4/1/95 - 3/31/96	<u>23.6</u>	<u>29.2</u>	
Two-Year Projected Totals	<u>\$46.1</u>	<u>\$56.9</u>	(\$10.8)
4/1/96			<u>(\$ 8.3)</u>

As is described later in this report, we found that Fund revenue was used solely to finance Office activities. We also believe that the projected revenues and expenses are reasonable. Therefore, considering the size of the projected Fund deficit, we believe that prompt actions of some sort are warranted. In addition, the Department has reported that some important services related to Professional Credentialing, Regulation and Governance, are not being provided to the professions.

The Department's proposed fee increase was largely to fund additional staff. However, based on our review of Professional Credentialing, we found indications that some operations could be made more efficient without staffing increases.² For example, we noted that licensing and registration operations could be improved through re-engineering work processes and increased reliance on new technology.

See Endnote ²

Additional costs would be incurred in re-engineering Licensing Unit operations. However, because these costs would be incurred only once, they should not be funded by a permanent fee increase. Rather, some other type of financing could be used for these start-up costs, such as a special appropriation, loan or a one-time fee surcharge. The Office could even consider private sector financing through a partnership such as the lock box operation we suggest later in the report for processing registration revenue. Once Office operations have been made more efficient, the need for a permanent fee increase should be considered.

Even with changes in work processes and automation, Department officials state that additional staff is needed. They also stated the workload for Professional Regulation and Governance has significantly increased and they are now not able to provide all necessary services without additional resources. Although it appears that additional resources are needed, we believe that using re-engineering to define future operations is necessary to determine the level of permanent resources required and the related fees to support those operations.

Over the past two years, the Department has taken steps to enhance Office operations by proposing a streamlined disciplinary process and evaluating how to improve services provided to the professions. Accordingly, the results of any re-engineering should be integrated with other Office operations.

In February of 1995, in his proposed budget to the Legislature, the Governor recommended that Office costs be reduced so that the Fund deficit could be eliminated without an increase in fees.

Efficiency Of Licensing Services

The Professional Credentialing Unit's Division of Professional Licensing Services consists of four sections. The Prelicensure Section is responsible for processing license applications and ensuring that applicants meet minimum qualifications for entry into a profession. The Registration and Customer Service Section collects and processes all revenue for licenses and registration. This section also processes requests for documentation about licensed individuals and answers all telephone calls. The Systems and Procedures Section analyzes proposed legislation affecting licensing and designs plans to implement new statutes. The Committee on the Professions helps in the evaluation of unusual licensure cases.

Department management stated that a fee increase would allow them to hire additional staff to process licenses and registrations more timely and to address workload increases resulting from the addition of seven new professions and other mandates. They project that, with the additional staff, the Licensing Unit could process licenses and registrations in four to eight weeks. According to Office officials, this processing now takes up to six months.

Our review of the license and registration processes shows that additional staff would not necessarily result in quicker processing times, because processing delays are often caused by license applicants as well as by inefficiencies in procedures.³ We believe these problems may be able to be addressed, and processing times reduced, without an increase in staff.

License Processing

A total of 39 staff process applications for professional licenses. In addition, staff from other Office units perform functions supporting license processing. In order to receive a license, an applicant must meet certain minimum qualifications. In addition, in most professions, the applicant must also pass an examination. Prelicensure staff review the application to ensure that the applicant meets the minimum qualifications for the profession. If these qualifications are met, the application is approved, and the applicant is either awarded a license or declared eligible to take the required examination. If an examination is required, the license is not awarded until the examination is passed.

We analyzed application processing time in order to determine the extent to which the time is spent awaiting action by Licensing Unit staff and the extent to which the time is spent awaiting action by the applicants. For example, if an applicant incorrectly completes a form or fails to submit all the required

See Endnote ³

information, the processing of the application is delayed until the applicant correctly completes the form or submits the required information. Similarly, the issuance of the license will be delayed if the applicant does not promptly pass the required examination. If a significant portion of the processing time is spent awaiting action by Office staff, processing time might be reduced by increasing the number of staff. However, if most of the processing time is spent awaiting action by the applicant, processing time is not likely to be significantly reduced by increasing the number of staff.

One issue to be considered is whether the application forms and instructions can be improved to allow better compliance by applicants in submitting these documents. Management stated that the forms are continually being reviewed and revised.

To conduct our analysis, we selected a judgmental sample of 198 applications. For most of the applications, we determined the total processing time from the day the application was received to the day the license was issued. Due to a lack of records, for some applications we could only determine the processing time from the day the application was received to the day the applicant was approved to take the required examination. We further analyzed these processing times by determining the extent to which each application was delayed by the applicant. To complete our analysis, we averaged the processing times for each of the 14 professions that were included in our sample. The results of our analysis follow:

AVERAGE PROCESSING TIME IN MONTHS⁴

PROFESSION	NUMBER OF APPLICATIONS RE- VIEWED	TOTAL TIME	APPLICANT TIME	OFFICE TIME
Engineering*	20	32.0	30.0	2.0
Social Work	10	1.0	.6	.4
Architecture*	10	4.2	2.6	1.6
Ophthalmic Dispensing	10	15.5	11.0	4.5
Medicine	30	10.0	9.0	1.0
Acupuncture	4	33.0	32.0	1.0
Speech Pathology	2	8.8	7.8	1.0
Physical Therapy	3	3.8	2.7	1.1
CPA	30	62.0	60.0	2.0
Dentistry	10	6.6	4.5	2.1
Occupational Therapy	5	8.4	7.9	.5
Psychology	10	5.7	4.3	1.4
Massage Therapy	5	5.0	4.8	.2
Registered Nursing	49	9.6	8.6	1.0

* Processing times for these applications are from day of receipt to day of approval to take the required examination.

Our analysis shows that most of the time taken to process license applications results from delays caused by the applicants. For example, we reviewed 20 applications for engineering licenses. On average, it took over 32 months from the date the application was received until the date the applicant was approved to take the examination. However, delays attributable to the applicants averaged about 30 months while the Office's processing time averaged about 2 months. For 12 of the 14 professions included in our sample, the Office's average processing time was two months or less. Therefore, we question whether the hiring of additional staff would substantially reduce processing times.

See Endnote ⁴

Department officials say that our analysis does not take into account the extent to which Office processing delays are concurrent with delays caused by the applicants. Officials believe that delays in processing interim license application documents, even if concurrent with other applicant delays, contribute to delaying final license determinations. We acknowledge that some Office delays may be concurrent with applicant delays. However, regardless of the extent to which the delays are concurrent, increasing the number of staff will not reduce the delays caused by the applicants. Therefore, our overall conclusion is unaffected. Moreover, the extent to which the delays are concurrent cannot be determined by the Office's management information system. Management stated that they have analyzed processing times and that the backlogs result from manual processing under the current system.

Recommendations

1. Gather and analyze data on application processing times. Use this data to identify the causes of processing delays and determine on a cost-benefit basis whether additional staff or other measures would improve processing time for license applications.

(Department officials disagree with this recommendation in that it has already been done. They stated that a re-engineered computer staff with additional staff can do the job effectively. Officials added that the audit report did not consider mail containing a document to be backlogged unless it contained the last document needed for licensure.)

Auditors' Comment - The extent to which delays are caused by applicants, the current process, other Office units or third party verifications has not been determined by management. Therefore, while we agree that re-engineering is needed, management has not established the extent to which additional staff would reduce processing times.

Recommendations (con't)

2. Identify the reasons why applicants incorrectly complete forms and fail to submit all required information with their license applications. Determine whether improvements in application instructions are needed.

(Department officials disagree with this recommendation in that it has already been done. Officials added that they are developing a customer survey to discover areas of the application which need improvement.)

Auditors' Comment - During our review of license applications, we noted that many delays were caused by errors in completing applications, or the failure to submit complete information. Management needs to take steps to reduce these occurrences.

Registration Processing

A total of 16 staff are responsible for collecting all Office revenue and handling the entire registration process.⁵ Over every three fiscal years, these staff must process a registration for each licensed professional. Following are the number of registrations processed during the three years ended March 31, 1994:

<u>Fiscal Year</u>	<u>Registrations Processed</u>
1991-92	64,062
1992-93	328,588
1993-94	112,357

The number of registrations processed varied greatly each year because all registrations in a profession expired during the same month of the three-year registration cycle. Since some professions have far more members than other professions, the registration processing workload was far higher in some months than in others. In order to equalize this workload, in September 1992, the Office began implementing a month-of-birth system for registrations. Once the Office fully implements this system, licensed professionals will register for three-year periods that expire during their month-of-birth.

See Endnote ⁵

Office officials say that additional staff are needed to reduce registration processing time, which they report as taking up to six months to complete. However, once peak workloads have been reduced by the month-of-birth registration system, processing times may also be reduced. We believe the effects of this new system should continue to be analyzed before staff are added to registration processing.

Professionals receive registration notices four or five months before the registrations expire. When registrations are returned, staff process the registration form and prepare the accompanying check for deposit. To maximize interest income, reduce the risk of lost checks, and provide good service to the registrants, registration checks should be deposited promptly. However, on October 27 and November 1, 1994, we observed undeposited checks on hand dating back to September 26, 1994. We counted several bins of undeposited registration checks and estimated that more than \$9 million in registration checks were on hand at that time. Such delays in depositing checks can result in lost interest income and missing checks, and increases the Licensing Unit's workload when registrants make telephone inquiries to customer service staff.

Checks remain on hand for so long because staff process registrations for professions that have the closest expiration date, rather than processing registrations in the order of receipt.⁶ For example, registrations for land surveyors and engineers expired on October 31, 1994. Registrations for doctors, pharmacists and physical therapists expired on December 31, 1994. At the time of our observations, staff were processing the registrations of surveyors and engineers, and setting aside the registrations received from doctors, pharmacists and physical therapists until after October 31, 1994. Management stated that this occurrence was not normal and that the month-of-birth registration system will allow more registrations to be handled on a first-in, first-out basis.

Office management stated that additional staff are needed to address registration processing backlogs. However, we believe registration backlogs are not a significant problem because staff have been able to process all registrations, except for nurses, before they expire. Therefore, unprocessed registrations are not indicative of work backlogs. Rather, registrations sit unprocessed because they are received well in advance of the expiration date and are not processed sequentially. In addition, full implementation of the month-of-birth registration system will equalize the monthly workload and may reduce or eliminate delays in registration processing.

We also noted that a considerable amount of overtime is incurred to process registrations by their expiration dates. For example, in the 1993-94 fiscal year,

See Endnote ⁶

more than 3,900 overtime hours were incurred in processing registrations. This is the equivalent of two additional staff. Since overtime is paid at 1.5 times the normal salary rate, the Office could convert these overtime expenditures into additional staff (such as part-time or temporary staff) and obtain 50 percent more staffing resources for the same level of expenditures. Moreover, when peak workloads are reduced by the fully implemented month-of-birth registration system, there should be less need for overtime.

Recommendations

3. Analyze the effects that the month-of-birth registration system will have on eliminating peak workloads. On the basis of this analysis, reassess the need for additional staff to process registrations.

(Department officials disagree with this recommendation and state that this analysis has been done. Officials added that while the system should continue to be analyzed, the licensing and registration workload continues to increase resulting in the need for additional staff.)

Auditors' Comment - While management believes that additional staff is currently needed, this may not be the case if operations were re-engineered while the month-of-birth system becomes fully implemented.

4. Revise the registration processing system to ensure that checks are deposited as soon as they are received.
5. If additional staff are necessary to address peak periods, convert overtime expenditures to hire part-time or temporary staff.

Technology Needs

Office officials say that additional staff are needed to reduce license and registration processing time. However, the Licensing Unit's methods for processing licenses and registrations are labor intensive. Both license and registration processing staff must key data from various documents into computer terminals. In addition, because the Office's computer system is over 20 years old, it cannot adequately serve all the other units within the Office that need access to this data. As a result, various paper documents are maintained in a folder for each applicant. Staff must transfer, file and retrieve these folders many times when processing a license, and both license and registration documents are eventually micro-filmed. There is more than a year backlog in micro-filming license documents.

We believe an improved computer system and the use of current technology could result in more efficient license and registration processing. For example, scanning technology could allow license application documents to be scanned, digitized and stored on optical media, while imaging technology could increase the electronic access to the many documents that support license applications. Imaging also would eliminate the time-consuming process of micro-filming license and registration documents. In addition, this technology could be integrated with the revenue process by encoding license and registration applications to account for and record applicable fees paid.

Another way to streamline licensing functions is to allow for the electronic transfer of data. Individuals could be allowed to submit license applications electronically via computer disks. This would reduce the need to key in data and could decrease license processing time. Colleges could also be allowed to submit electronic student transcripts rather than the paper copies that are currently submitted. Submission of college transcripts often adds to delays in the license process.

The use of a bank lock box operation could help to solve registration delays. Bank staff could open mail as it is received and electronically scan data from registration forms. The bank could encode and deposit the checks and electronically provide all data to registration staff. As a result, funds would be deposited timely, and staff would not need to micro-film registration forms.⁷ In addition, this could reduce the number of telephone inquiries from registrants concerned about uncashed checks. Management stated they are exploring a "lock box" arrangement to expedite check deposits. In addition, the problem of uncashed checks should be partially alleviated when the month-of-birth system is fully implemented.

Better technology also could help solve the problem of unanswered telephone calls on customer service lines. (Office officials estimate that about 100,000 calls per month do not get answered.) Access to certain data bases would allow insurance companies and employers to view selected information concerning licensed professionals. This would reduce reliance on the Office's automated telephone system, which is used to handle these requests. Management stated they have attempted to address the problem of unanswered phone calls, and believe that additional resources are needed to expand the automated phone system to better serve customers.

Department management acknowledges that the Office needs to develop a new computer system and re-engineer its work processes to take advantage new technologies. In late 1993, the Office requested proposals from three consultants to re-engineer its license and registration processes. The goals of the re-engineering were to reduce the steps in these processes, shorten the time it takes to obtain and review the required information for licensure, improve

See Endnote ⁷

communications with applicants, develop a computer system that provides necessary management information and take advantage of current technology for license review, registration and communication. Based on proposals received, management concluded that between \$150,000 and \$200,000 would be required to complete an initial evaluation and develop specifications for hardware and software needs. However, due to the lack of available funds, management has not pursued this initiative.

We realize that additional costs would be incurred in automating Office operations. However, because these costs would be incurred only once, they should not be funded by a permanent fee increase. Rather, some other type of financing could be used for these start-up costs, such as a special appropriation or a one-time fee surcharge. The Office could even consider private sector financing through a partnership such as a lock box operation for processing registration revenue. Management stated that the Office has been frugal and resourceful, but has been unable to secure funding for re-engineering. They also stated that it is unrealistic to expect General Fund monies for this purpose.

Recommendations

6. Determine how the use of technology such as scanning and imaging can speed up and simplify the licensing and registration processes.

(Department officials stated this recommendation is consistent with the Division's goal. They added that the problem is how to finance this initiative, and that the Department's proposed fee increase would include funding for such re-engineering.)

7. Develop a greater ability to electronically accept and transfer licensing and registration data.

8. Identify alternative sources of financing for the start-up costs that would be incurred in automating Office operations.

(Department officials disagree with this recommendation because they believe financing of re-engineering cannot be accomplished through donations or a General Fund appropriation.)

Auditors' Comment - Alternative sources of financing could also include loans, public/private partnerships, certificates of participation (COPs), or a one-time fee surcharge.

Management Initiatives

In response to the Department's request for a fee increase, the State Legislature raised concerns about the Office's operations. Specifically, they questioned whether management had adequate plans to use a fee increase to improve operations. In addition, legislative staff questioned whether past management initiatives have been effective.

We found that Office management has successfully implemented initiatives over the past few years that addressed certain operating problems. Management has also developed general plans for improving operations. However, management needs to develop more specific plans for increasing the efficiency of operations. Management believes it would not be appropriate to initiate a comprehensive planning effort that they have neither the funds or staff to complete.

Operating Improvements

We identified three initiatives that were successfully implemented by Office management. These initiatives related to professional examinations, customer telephone calls and the month-of-birth registration system.

The Education Law establishes the fees for administering professional examinations. The Office determined that these fees were not sufficient to cover the cost of examination administration and materials. The Office also found that vendors were unwilling to provide facilities for the examinations, because past rental payments for the facilities had been delayed. In addition, the Office found it difficult to provide enough staff at the examination sites. Because of these difficulties, in 1993 management decided to contract for professional examination administration. According to management this change will save the Office about \$1.4 million a year and result in better services to the candidates. In effect, the candidates are charged a higher fee by the contractor, and examination administration costs are passed directly to candidates.

The Office has a toll free telephone number that can be called to determine whether a person is licensed. An analysis done for the Office by a consultant determined that hundreds of thousands of calls to this line received busy signals each month. It was estimated that 42 operators would be needed to answer all the calls. In response to this problem, management purchased a telephone system in which an electronic voice provides information to callers from the Office's computer files. As a result, the Office can handle three times as many calls. However, because an estimated 100,000 calls a month are still unable to be answered, the implementation of the automated telephone system may not have been a complete success. Management acknowledges that the

system's capacity can be expanded, but due to fiscal restraint, funds have not been available to purchase the required computer components.

As previously described, in the past the number of registrations per month varied greatly because all the registrations for a profession expired in the same month. In response to this problem, management implemented a month-of-birth registration system to eliminate the peak workloads that resulted from the prior system. The new system has the potential to reduce both processing time and the overtime costs associated with the peak workloads of the prior system.

Recommendation

9. Review the performance of the automated telephone system and determine whether the system's capacity for answering calls can be increased.

(Department officials disagree with this recommendation in that it has already been done, and that system review is on-going. They added that additional funding would be needed to increase the system's capacity to handle more calls.)

Auditors' Comment - Since management estimates that 100,000 calls monthly are still unanswered, increasing system capacity needs to be pursued.

Staffing Initiatives

If the proposed fee increase is granted, Department management plans to improve operations by hiring additional staff. We attempted to review data developed by management to support the requested Licensing Unit staff increases. However, we found that management based its request for additional Licensing Unit staff, in part, on perceptions that they could not process workloads in a timely manner with current staffing levels. Management does not have adequate analysis of workload or staffing to support their contention that they need a specific number of additional staff. As described in this report, we found indications that additional staff may not prove to be the most cost effective way to address the true causes of all the existing licensing and registration problems, and some of these problems would be addressed more efficiently by applying new technology.

To facilitate an analysis of staffing needs in terms of workload, Department management could develop performance standards. Such standards would identify the expected time frames for the completion of required tasks. For example, a performance standard for the licensing process would indicate the number of days that normally should elapse between the day an application is

received and the day the application is approved. While the Licensing Unit has developed some performance standards, these standards are not adequate because they do not indicate expected time frames. For example, standards require that 16,000 registrations be processed each month, 33,000 licenses be issued each year and all applications received by the deadline be reviewed before the next scheduled exam. These requirements reflect the current level of production, which is not necessarily the same as the level that can be attained through a more efficient use of resources. Management added that the current computer system does not capture sufficient data to establish time frames on all required tasks.

Recommendations

10. Establish adequate performance standards for the license and registration processes. Ensure that these standards address expected time frames for the completion of required tasks.

(Department officials disagree and state the quantitative performance standards are in place. They added that backlog data is maintained.)

Auditors' Comment - Management's standards are overall past production figures relating to total licenses and registrations issued. We believe that such standards need to be refined to include expected time frames for work completion. Such standards should aid management in determining workload, staffing and productivity.

11. Consider performance standards, workloads and staffing levels when assessing staffing needs.

(Department officials disagree with this recommendation in that it has already been done. Officials added they will continue to consider performance standards, workload and staffing levels as they have in the past.)

Auditors' Comment - As previously reported, existing standards need to be more specific to ensure appropriate use by management.

Re-Engineering and Computer System Development Plans

As previously discussed, in 1993 the Office requested proposals from consultants to re-engineer its license and registration processes and develop a new computer system. As a result, management has an outline for what it wishes to accomplish in these areas. However, they have not developed

specific plans describing how they will re-engineer processes or what the proposed new computer system will provide. They also have not quantified the expected costs of these initiatives, except for an estimate of \$150,000 to \$200,000 to complete an initial evaluation and develop specifications for equipment needs. Therefore, we could not assess whether these planned improvements will in fact improve the efficiency of licensing and registration operations, and what impact this will have on costs.

In addition, concerns have been raised by legislative officials, executive officials and customers about Office activities other than license and registration processing. Department officials acknowledge that the Office has not been able to perform all its duties in these areas. Accordingly, re-engineering efforts should be integrated with these other areas, and these efforts should be coordinated with the interested parties.

Recommendation

12. Develop specific plans for re-engineering operations and developing a new computer system. Ensure that these plans are cost-efficient.



Expenses and Revenues

Office operations are funded solely by revenue from license and registration fees and disciplinary fines. The Legislature has raised concern that the projected Fund deficit may result in part from the Department using Office revenue to fund Department activities.

We reviewed Fund expenses and revenues and determined that the projected deficit does not result from inappropriate charges to the Fund. However, the State's ability to allocate indirect costs has improved and we noted that since the 1989 fee increase, the Department has charged the Office for overhead and fully charged the Office for EDP services. These charges appear appropriate, but have contributed significantly to the Fund's deteriorating financial condition.

Fund Expenses

Before the 1989 fee increase, the Office was not charged for indirect costs or rent for office space across the State. The Office's indirect costs comprise (1) the central administrative costs incurred by the Department in overseeing and supporting Office operations and (2) the costs incurred by New York State's central support agencies (such as the Department of Civil Service and the Office of General Services) in supporting Office operations. We examined the calculations of these costs during the three years ended March 31, 1994 and found that the methods used to calculate the costs were appropriate and the calculations themselves were accurate. During this period, these costs ranged between \$2.6 million and \$2.5 million a year. In addition, during this period, the Office's rent for office space ranged between \$1.3 million and \$1.2 million a year.

Before the 1989 fee increase, the Office was not fully charged for the EDP services provided by the Department. To fully allocate the costs incurred in providing EDP services, the Department developed a system for capturing EDP costs and distributing them to various State and Federal programs. The U.S. Department of Education has reviewed this methodology and found it to be fair. We analyzed the disbursements from the Fund for EDP costs during the three years ended March 31, 1994 and found the disbursements to be accurate and supported by appropriate documentation. During this period, these disbursements ranged between \$800,924 and \$624,930 annually.

Indirect costs, rent for office space, and EDP charges account for a significant portion of the Office's total expenses: 17 percent (\$4.7 million) in 1991-92, 16 percent (\$4.4 million) in 1992-93 and 15 percent (\$4.2 million) in 1993-94. In fact, the 1989 fee increase of 15 percent has essentially been used to cover these expenses, most of which were not charged to the Office before 1989.

Registration Revenue

Office operations are supposed to be financed by license and registration fees and disciplinary fines. However, the Education Law does not allow the Office to keep any portion of the registration fees from physicians, physician assistants and specialist assistants. Rather, the Office must transmit the proceeds from these fees to the Department of Health. Office management estimates that the cost of processing these registrations totaled about \$861,000 in the 1992-93 fiscal year and will total about \$957,000 in the 1994-95 fiscal year. Based on these calculations, management estimates that, if the Office is to cover registration-related processing costs, it needs to keep 5.5 percent of the physician registration fees and 10 percent of the physician assistant and special assistant fees.

Registration fees account for the largest portion of the Office's revenue. Annually, 65 to 73 percent of all Fund revenue is from registrations. During each registration period, some professionals fail to register. Some of these individuals inform staff that they are no longer practicing their professions. However, others never make contact to report their status.

If the Office is to ensure that all due registration fees have been collected, it needs adequate procedures for following up with unregistered professionals to determine whether they are still practicing their professions in the State. The Office, however, does not have adequate follow-up procedures. Since professionals can only be fined \$10 for each month they practice without a valid registration, from a fiscal perspective it is not cost-effective to pursue non-registrants.

In response to our audit, Office management conducted an analysis to determine whether it is cost-effective to pursue non-registrants. They selected a sample of 266 unregistered professionals and determined that 31 (12 percent) were still practicing their professions. They followed up with these individuals and found that the cost of collecting the unpaid registration fees and related penalties significantly exceeded the amounts collected. In light of this analysis, we believe consideration should be given to increasing the penalties for non-registration and developing more cost-effective methods for following up on non-registrants. Management believe it is not cost-effective to track licensees who are not registered. Instead, management is considering proposed legislation to require a perpetual registration.

Besides the fiscal penalties for not registering, practicing a profession while willfully failing to register or notify the Department of a name or address change constitutes professional misconduct. Statutory penalties for such misconduct include license suspension, limitation or revocation, a monetary fine, additional education or training and/or performance of up to one hundred hours of public service.

To ensure that Fund revenue is adequately accounted for, management should periodically reconcile the fee revenue deposited in the Fund to the number and

type of applications received. However, management performs no such reconciliation. As a result, management does not have adequate assurance that all collected revenue has been deposited in the Fund. We tried to perform such a reconciliation ourselves for a one-year period. However, because of weaknesses in recordkeeping practices, we were unable to perform the reconciliation. Management stated that all such revenue is traceable through clerical review by its unique cash number, and that all individual questions of payment can be traced to ensure propriety. However, we believe that periodic reconciliations are still needed to provide adequate assurance that all revenue has been accounted for.

Recommendations

13. Propose legislation that would allow the Office to keep a portion of medical registration fees.
14. Consider proposing legislation increasing the penalties for non-registration and consider developing more cost-effective methods for following up on unregistered professionals.

(Department officials disagree with this recommendation, and disagree with the auditors' conclusion that most unregistered professionals are assumed to be inactive or have left the State. Officials added that it would be expensive to track the less than one percent of licensees who might be practicing without current registration. Officials stated that one possibility is the perpetual registration concept which requires professionals' registration regardless of their activity.)

Auditors' Comment - Currently, there is no meaningful penalty for professionals who fail to register. Irrespective of possible perpetual registration in the future, the Department needs to ensure that adequate and cost-effective follow-up on unregistered professionals is implemented.

15. Periodically reconcile the number and type of applications received to the revenue collected to ensure that all revenue is accounted for.

(Department officials disagreed with this recommendation in that it suggests an absence of accountability which is certainly not the case. Officials added that until funds are available to create an automated reconciliation, it is not cost-effective to manually reconcile revenues.)



ENDNOTES

- Note 1. Department officials state that the staff numbers are incorrect as shown. They feel that the 20 staff assigned to the Professional Education Program Review and the Career Opportunity Program should not be included as Professional Credentialing staff. The footnote to the chart clearly points out that these individuals are engaged in professions-related activities, are funded by the Office, but are not part of the Office.
- Note 2. Department officials feel that this conclusion is faulty. They indicate that staffing increases are needed to bolster the activities of the whole Office of Professions, not simply license and registration operations. Our comments specifically address the license and registration process. The report does not comment on staffing needs of the other Office functions.
- Note 3. Department officials disagree with this statement because they feel that data in the draft report did not consider mail containing a document to be backlogged unless it contained the last document needed for an applicant's licensure. We acknowledged in the report that some Office delays may be concurrent with applicant delays. However, regardless of the extent to which delays are concurrent, increasing the number of staff will not reduce delays caused by factors outside of the Office's control.
- Note 4. Department officials state that the data in the chart are not realistic. They feel the report oversimplifies the license application process by concluding that delays in the process are primarily the fault of applicants. Please refer to Note 3.
- Note 5. Department officials state that this is incorrect. However, their response supports the information we reported. They point out that at the time of the audit, 6.5 staff dealt with fee collection, 4.5 staff were assigned to process registration mail and fees, 2 were assigned to process incoming applications and fees and the remaining staff were assigned to handle delayed registrations, generate replacement registration applications, etc. Therefore, all 16 staff worked on revenue collection and registration functions as we reported.
- Note 6. Department officials disagreed with our conclusion that Fee Unit staff process registrations for professions that have the closest expiration date rather than in the order of receipt. However, our observations during the audit revealed that Office staff were not processing registrations in the order of receipt. In addition, we noted that the Department's response indicated that as the month-of-birth registration system affects a greater proportion of the registered population, registration mail will increasingly be handled on a first-in, first-out basis.
- Note 7. Department officials disagree with this statement and indicated that the maintenance of a record, whether a microfilmed record or an image record, is essential to the functions of the Office of Professional Responsibility. Our report does not imply that registration records do not need to be maintained. A lock box operation could also include an imaging process which could eliminate the need to micro-film registration documents.
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PROFESSIONS LICENSED BY THE STATE EDUCATION DEPARTMENT

PROFESSION	NUMBER REGISTERED (as of 3/30/93)
Acupuncture	316
Architecture	12,609
Athletic Training*	0
Audiology	950
Certified Public Accountancy	31,877
Certified Shorthand Reporting	374
Chiropractic	4,734
Dental Assistant*	0
Dental Hygiene	8,676
Dentistry	17,626
Dietetics/Nutrition*	0
Interior Design*	0
Land Surveying	1,591
Landscape Architecture	809
Licensed Practical Nursing	78,398
Massage Therapy	3,883
Medicine	63,190
Midwifery*	0
Occupational Therapy	4,668
Occupational Therapy Assistant	1,750
Ophthalmic Dispensing	3,775
Optometry	2,479
Pharmacy	17,243
Physical Therapy	8,856
Physical Therapy Assistant	1,663
Physician Assistant	2,772
Podiatry	2,254
Professional Engineer	23,207
Psychology	8,211
Public Accountancy	908
Registered Professional Nursing	230,678
Respiratory Therapy*	0
Respiratory Therapy Technician*	0
Social Work	29,463
Specialist Assistant	24
Speech-Language Pathology	5,639
Veterinary Medicine	3,444
Veterinary Technology	<u>1,483</u>
Total	<u>573,550</u>

* These seven professions did not begin to be licensed until after March 30, 1993.

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Response of Department Officials

Pages B-2 and B-3 present the response of the recently appointed Commissioner of Education. Pages B-4 through B-43 present the more detailed response of Department officials prior to the new Commissioner's appointment.

The comments of Agency Officials are not available in an electronic format. Please contact our Office if you would like us to mail you a copy of the report that contains their comments.