

OPERATIONAL AUDIT

# OKLAHOMA STATE BOARD OF COSMETOLOGY AND BARBERING

For the period January 1, 2010 through December 31, 2014



*Independently serving the citizens of  
Oklahoma by promoting the  
accountability and fiscal integrity of  
governmental funds.*



Oklahoma State  
Auditor & Inspector  
Gary A. Jones, CPA, CFE

**Audit Report of the  
Oklahoma State Board of Cosmetology and Barbering  
For the Period  
January 1, 2010 through December 31, 2014**



# Oklahoma State Auditor & Inspector

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June 24, 2015

## TO THE OKLAHOMA STATE BOARD OF COSMETOLOGY AND BARBERING

This is the audit report of the Oklahoma State Board of Cosmetology and Barbering for the period January 1, 2010 through December 31, 2014. The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during our engagement.

This report is a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones".

GARY A. JONES, CPA, CFE  
OKLAHOMA STATE AUDITOR & INSPECTOR

# Oklahoma State Board of Cosmetology and Barbering Operational Audit

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## Background

The Oklahoma State Board of Cosmetology (Agency) was established in 1935 and Barbering was incorporated into the Agency in November 2013. The Agency's stated mission is to safeguard and protect the health and general welfare of the people of the state of Oklahoma by performing a variety of services from developing curriculum for schools to administering examinations for prospective practitioners of the cosmetology and barbering professions.

Operations are governed by 59 O.S. §§ 199 through 199.17 and Title 175 of the Oklahoma Administrative Code. Oversight is provided by eleven board members (Board) as specified by 59 O.S. §199.2. One member is appointed from each congressional district and the additional members are appointed at large. Six members, at the time of appointment, have at least five years' continuous practical experience in the practice of cosmetology in this state; one member is appointed at large and, at the time of the appointment, has at least five years' continuous practical experience in the practice of barbering in this state; one member is a lay person; one member is an administrator of a licensed private cosmetology school; one member is an administrator of a licensed barber school; and one member is an administrator of a public school licensed to teach cosmetology or barbering. These board members are appointed by the governor for four-year terms.

Board members as of June 2015 are:

Ken Young .....	Chair
Max Thomas. ....	Vice-Chair
LaFaye Austin.....	Member
Anthony Baldini.....	Member
Rick Bennett.....	Member
Dianna L. Fisher .....	Member
Tammy Graham .....	Member
Bill Helton .....	Member
Pamela Martin .....	Member
Gretchen Payne .....	Member
Janet Dale Webb.....	Member

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The following information illustrates the Agency's budgeted-to-actual revenues and expenditures and year-end cash balances.<sup>1</sup>

BUDGET TO ACTUAL COMPARISON						
	FY 2013			FY 2014		
	Budgeted	Actual	Variance	Budgeted	Actual	Variance
<b>REVENUES</b>						
Appropriations	-	-	-	-	79,949	79,949
Cosmetology Licenses & Fees	1,101,064	1,088,080	(12,984)	1,168,656	1,031,414	(137,242)
Other	-	81	81	-	476	476
<b>Total Revenues</b>	<b>1,101,064</b>	<b>1,088,161</b>	<b>(12,903)</b>	<b>1,168,656</b>	<b>1,111,838</b>	<b>(56,818)</b>
<b>EXPENDITURES</b>						
Personnel Expenses	722,376	696,344	(26,032)	743,331	721,694	(21,637)
Professional Services	109,414	90,850	(18,564)	123,694	127,456	3,762
Travel	79,210	79,703	493	94,840	92,067	(2,773)
Administrative Expenditures	107,672	96,946	(10,726)	72,901	82,743	9,842
General Operating Expenses	62,092.00	39,472	(22,620)	114,290	51,546	(62,744)
Other	20,300	5,135	(15,165)	19,600	13,925	(5,675)
<b>Total Expenses</b>	<b>1,101,064</b>	<b>1,008,450</b>	<b>(92,614)</b>	<b>1,168,656</b>	<b>1,089,430</b>	<b>(79,226)</b>
<b>Expenditures Over (Under) Revenues</b>		<b>(79,711)</b>			<b>(22,408)</b>	
Year-End Cash Balances: FY 12 - FY 14						
	FY 12	FY 13	FY 14			
Revolving Fund	857,562	937,273	959,232			
Total Available Cash	857,562	937,273	959,232			

## Summary of agency responses<sup>2</sup> to budgeted-to-actual variances

### Revenues

- The variance in Appropriations for FY 2014 is due to the fact that after absorbing the Board of Barbering, the Agency received the funds remaining in the Barbering revolving account after their outstanding obligations were paid.
- The variance in FY 2014 Cosmetology Licenses & Fees is due to the fact that revenues from barbering licenses (Agency took over the function of licensing barbers in November 2013) did not meet timeliness expectations. Barber licenses expire on June 30 of each year and renewal revenue was projected to be received by the end of June (FY 2014). However, a substantial amount of renewal revenue was not received until July (FY 2015) and revenue received on June 30th may not have been receipted until the following business day, July 1, 2015 (FY2015).

### Expenditures

- The variance in General Operating Expenses in FY 2013/2014 was due to the fact that preparations for incorporating Barbering and the actual cost of administrating Barbering (no additional employees were required) proved to be less costly than anticipated.

<sup>1</sup> This information was obtained from the Oklahoma PeopleSoft accounting system. It is for informational purposes only and has not been audited.

<sup>2</sup> This information is a summary of responses obtained from the Oklahoma State Board of Cosmetology and Barbering. It is for informational purposes only and has not been audited.

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## Scope and Methodology

Our audit was conducted in response to 74 O.S. § 212, which requires the State Auditor and Inspector's office to audit the books and accounts of all state agencies whose duty it is to collect, disburse, or manage funds of the state.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessment of materiality and risk for the period January 1, 2010 through December 31, 2014. Detailed audit procedures focused on the period of July 1, 2012 through December 31, 2014, addressing the most current financial processes and providing the most relevant and timely recommendations for management.

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Oklahoma State Board of Cosmetology and Barbering operations. We utilized sampling of transactions to achieve our objectives. To ensure the samples were representative of the population and provided sufficient, appropriate evidence, the random sample methodology was used. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

## OBJECTIVE

Determine whether the Agency's internal controls provide reasonable assurance that revenue and expenditures, including payroll, were accurately reported in the accounting records.

## Conclusion

The Agency's internal controls provided reasonable assurance that revenues and payroll were accurately reported in the accounting records. However, the Agency's internal controls did not provide reasonable assurance that non-payroll expenditures were accurately reported.

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## FINDINGS AND RECOMMENDATIONS

### **Inadequate Segregation of Duties over Expenditures**

The United States Government Accountability Office's *Standards for Internal Control in the Federal Government (2014 Revision)*<sup>3</sup> states, "Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event."

Duties related to expenditures are not properly segregated. The principal assistant is responsible for submitting purchase orders and invoices to the Office of Management Enterprise Services, Agency Business Services division (ABS) for payment, and for making purchases. Without adequate management review, it appears someone in this position could submit an illegitimate claim for payment.

While the executive director stated that she reviews individual payment vouchers and related support after payment, there was no documentary evidence to corroborate this review. Without this review, an unapproved payment by the principal assistant or ABS could occur without detection.

### **Recommendation**

Management should perform a detailed review of all expenditures and document this review, for example by initialing each voucher or signing and dating a detailed expenditure report.

### **Views of Responsible Officials**

The Principal Assistant receives detailed reports from OMES, Agency Business Services at the beginning of every month which includes the 6 Digit Expenditure Detail Report. These are emailed to the Budget Committee monthly and to the Executive Director. The Executive Director and Principal Assistant review these together each month to ensure claims are paid appropriately and so that Annual Report information can be accurate. Additionally, Agency Policy and Procedure #40 requires that all Interagency Mail go to the Director which includes claims that are paid. The Executive Director reviews these before giving these to the Principal Assistant. The Auditor brought it to our attention that documentation of the review of claims should be made. This documentation could consist of signing or initialing all claims or a monthly review of the 6 Digit Expenditure Report. The Executive

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<sup>3</sup> Although this publication addresses controls in the federal government, this criterion can be treated as best practices. The theory of controls applies uniformly to federal or state government.

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Director has started signing off on the 6 Digit Expenditure Report ; after her review they are kept in the fiscal year records. Also, the staff retroactively pulled the reports from January 2015 to the present for review and signature in order to ensure continued documented compliance.

### Other Items Noted

Although not considered significant to the audit objectives, it was determined the following issue should be communicated to management.

#### **Untimely Transfers Out of Clearing Account**

The Agency is required by 62 O.S. § 34.57.E.1 to transfer deposited funds out of the Agency clearing account at least once per month.

The Agency contracts with ABS to provide certain financial services, including calculation and performance of revenue transfers. According to state financial records, revenues were not transferred from the clearing account to the Agency's revolving fund and the State General Fund in a timely manner (within one month) for revenues received in: July 2012, August 2012, September 2012, August 2013, September 2013, February 2014, and May 2014.

It appears ABS did not make these transfers on a timely basis.

#### **Recommendation**

Management should consider developing a process to verify the timeliness and accuracy of revenue transfers on a monthly basis.

#### **Views of Responsible Officials**

The Agency has been working with OMES, Agency Business Services to ensure the timeliness of the monthly transfers on a regular basis. The agency's reconciliation documents are sent to Agency Business Services immediately after the first of every month so that this task could be performed in a timely manner. These emails are documented. The agency was aware of the lack of timely transfers and has tried to work with Agency Business Services. Phone calls were made to Agency Business Services, however they were not documented. Personnel changes were made at Agency Business Services and this problem appears to be resolved as there have not been any problems since June 2014. The agency will document phone calls and emails and do follow ups if transfers are not made by the 15th of each month if this should become necessary in the future. It is duly noted that the agency's transfers are detailed and complicated to complete and it is essential that personnel at Agency Business Services performing this service are



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familiar with our agency's financial records to complete this process accurately. All transfers were completed accurately.



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