# OKLAHOMA STATE BOARD OF COSMETOLOGY AND BARBERING

## Operational Audit

For the period January 1, 2015 through June 30, 2019


Cindy Byrd, CPA

State Auditor & Inspector

# Audit Report of the Oklahoma State Board of Cosmetology and Barbering

## For the Period January 1, 2015 through June 30, 2019

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January 22, 2020

**To the Oklahoma State Board of Cosmetology and Barbering**

We present the audit report of the Oklahoma State Board of Cosmetology and Barbering for the period January 1, 2015 through June 30, 2019. 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,

Cindy Byrd

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

**Background**

The State Board of Cosmetology was created by the Oklahoma Legislature in 1935, primarily as a self-sustaining licensing agency. Recreated in 2014 as the Oklahoma State Board of Cosmetology and Barbering (the Agency), the entity licenses and regulates the professions of cosmetology, barbering, esthetics, and manicuring, and the instructors and establishments where these services are performed. It also regulates health and safety issues in schools approved by the Board. Anyone who provides these types of services, including but not limited to haircutting, hairdressing, nail care, skin care, and the application of make-up, must be licensed by the Board.

The Agency's 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, barbering, and massage therapy profession.

The Agency is overseen by an eleven-member board (the Board). Members as of November 2019 are:

Jeffrey Sells........................................ Chair
Machele Callicoat........................................ Vice-Chair
LaFaye Austin........................................ Member
Peggy Avery........................................ Member
Anthony Baldini........................................ Member
Bill Helton........................................ Member
Christie Luther........................................ Member
Christy Mather........................................ Member
Greg Mitchell........................................ Member
Thao Nguyen-Pham........................................ Member
Bruce Waight........................................ Member

The following table summarizes the Agency's sources and uses of funds for fiscal years 2018 and 2019 (July 1, 2017 through June 30, 2019).

**Sources and Uses of Funds for FY 2018 and FY 2019**

| | 2018 | 2019 |
|---|---|---|
| **Sources:** | | |
| Cosmetology License/Fee | $ 1,390,609 | $ 1,464,507 |
| Credit Card Fee, Refunds, Reimbursements | 548 | 11,762 |
| **Total Sources** | $ 1,391,157 | $ 1,476,269 |
| **Uses:** | | |
| Personnel Services | $ 791,401 | $ 995,151 |
| Professional Services | 188,274 | 203,827 |
| Administrative Expenses | 186,517 | 214,705 |
| Travel | 54,164 | 95,294 |
| Property, Furniture, Equipment | 44,459 | 7,127 |
| Assistance, Payments to Local Govn'ts | 2,476 | 4,925 |
| **Total Uses** | $ 1,267,291 | $ 1,521,029 |

*Source: Oklahoma PeopleSoft accounting system (unaudited, for informational purposes only)*

**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, 2015 through June 30, 2019. Detailed audit procedures focused on the period of July 1, 2017 through June 30, 2019, 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 Agency's operations. Further details regarding our methodology are included under each conclusion.

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 miscellaneous expenditures were accurately reported in the accounting records.

**Conclusion**

The Agency's internal controls did not provide reasonable assurance that revenues and miscellaneous expenditures were accurately reported in the accounting records.

In addition, financial operations complied with 59 O.S. § 199.15, to the extent that 10% of relevant funds deposited were transferred to the state's general revenue fund. See further discussion in the first finding below.

**Objective Methodology**

To accomplish our objective, we performed the following:

- Evaluated processes and identified significant internal controls related to receipting and miscellaneous expenditures. Compared the significant controls to governmental internal control standards outlined in the United States Government Accountability Office's *Standards for Internal Control in the Federal Government*, 2014 version (GAO Standards)[1]. See results in related findings.
- Recalculated and reviewed the amounts transferred to the state's general revenue fund for all months during the audit period to determine whether 10% of gross fees and penalties deposited by the agency were transferred as required by 59 O.S. § 199.15.

## FINDINGS AND RECOMMENDATIONS

**Revenue Requires Independent Reconciliation**

As revenues are received, multiple employees enter the information into the licensing database. While the Office of Management and Enterprise Services – Agency Business Services (ABS) is responsible for posting the agency's completed deposits to the statewide accounting system, the principal assistant reconciles the bank receipt and related deposit documentation to the database, provides the deposit information to ABS, and reviews the ABS entry. This position also serves as backup for delivering the deposit to the bank, performs the month-end reconciliation of licensing activity to financial reports, and can request database transaction edits from the Agency's IT specialists.

[1] 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.

This creates the opportunity for the principal assistant to misappropriate funds received and to conceal the misappropriation by improperly recording receipts or licensing activity.

The GAO Standards state that in designing control activities to achieve objectives and respond to risks, "Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling and related assets. No one individual should control all key aspects of a transaction or event." The GAO Standards further require that "Management considers segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, designs alternative control activities to address the risk."

*Related Concerns*

This deficiency increases the risk that transfers to the state's general revenue fund required by 59 O.S. § 199.15 would be incomplete if fees were misappropriated, as the mandated portion of misappropriated fees would not be included in the transfer, placing the Agency out of compliance with state statute.

Due to a minimal staff size and frequent turnover, ongoing cross-training of financial duties has occurred at the Agency since the audit period. This could increase risk related to conflicting duties and further necessitate overall mitigating reviews as recommended below.

**Recommendation**

We recommend that someone independent of receipting funds, recording license activity, and preparing the deposit (such as the executive director or a board member) compare the licensing activity to the deposits made in the statewide accounting system to ensure that all revenue received at the agency is deposited. Alternatively, the principal assistant could continue to perform key reconciliations of financial to licensing activity, while removing himself from the deposit process.

**Views of Responsible Officials**

The Principal Assistant reconciles monthly deposits and verifies entries made by OMES-ABS and will be restricted from receipting funds, preparing the deposit, and delivering deposit to the bank.

**Independent Review of Completed Expenditures Needed**

The principal assistant is responsible for initiating purchases and receiving the related items, as well as forwarding approved purchase orders and invoices to ABS for payment. While the director signature approves purchase orders and invoices before they are submitted, someone in the principal assistant's position could have an unauthorized payment processed by signing the director's name.

This risk could be mitigated by a regular, documented review of a line-item detailed expenditure report after payments have been made. Such a review would further ensure ABS had not made any errors. While the director suggested she is performing such a review electronically, there is no evidence to demonstrate this review is occurring.

As noted previously, GAO Standards state that management should segregate key duties and responsibilities, and when such segregation is not possible, design alternative control activities to address the risk.

**Recommendation**

We recommend the director review a line-item detailed expenditure report (such as the 6-Digit Detail of Expenditure Report from the State-Wide Accounting System) to ensure all payments are authorized. This review could be performed monthly or on a random, unannounced basis. Evidence of this review should be retained with the date and signature of the reviewer included.

**Views of Responsible Officials**

The Agency will develop a cover page each month that lists the various reports and the Executive Director will indicate she has reviewed and approved the various monthly reports.

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