

OKLAHOMA STATE BOARD OF COSMETOLOGY

FOR THE PERIOD
JULY 1, 2007 THROUGH
DECEMBER 31, 2009

OPERATIONAL AUDIT



Oklahoma State Auditor
& Inspector

**Audit Report of the
Oklahoma State Board of Cosmetology**

**For the Period
July 1, 2007 through December 31, 2009**

STATE AUDITOR AND INSPECTOR

STEVE BURRAGE, CPA
State Auditor

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June 30, 2010

TO THE OKLAHOMA STATE BOARD OF COSMETOLOGY

This is the audit report of the Oklahoma State Board of Cosmetology for the period July 1, 2007 through December 31, 2009. The Office of the State Auditor and Inspector is committed to serving the public interest by providing independent oversight and by issuing reports that serve as a management tool to the State. Our goal is to ensure a government that is accountable to the people of the State of Oklahoma.

We wish to take this opportunity to express our appreciation to the agency's staff for the assistance and cooperation extended to our office during the course of our engagement.

Sincerely,

A handwritten signature in blue ink, reading "Steve Burrage".

STEVE BURRAGE, CPA
STATE AUDITOR & INSPECTOR

Oklahoma State Board of Cosmetology Operational Audit

Background

The Oklahoma State Board of Cosmetology (Agency) was established in 1935 and has the following functions:

- To safeguard and protect the health and general welfare of the people;
- To conduct license examinations and issue all cosmetology licenses;
- To register students and apprentices;
- To inspect cosmetology salons and cosmetology schools; and
- To prescribe curriculum for basic, master instructor, manicurist, facial, hair braider, and cosmetician operator courses.

Operations are governed by 59 O.S. §§ 199 through 199.15 and Title 175 of the Oklahoma Administrative Code. Oversight is provided by nine board members appointed by the governor. Each member serves a term of four years.

Board members are:

Gretchen Payne.....	Chair
Loyd Saxon.....	Vice Chair
Freda Poe.....	Member
LaFaye Austin.....	Member
Ken Young.....	Member
Bill Hilton.....	Member
Jerry Kelon Carter II.....	Member
Tuan Nguyen.....	Member
Janet Dale Webb.....	Member

Table 1 summarizes the Agency's sources and uses of funds for fiscal years 2008 and 2009 (July 1, 2007 through June 30, 2009).

Table 1 - Sources and Uses of Funds for FY 2008 and FY 2009

	2008	2009
Sources:		
Cosmetology License Fee	\$ 1,018,000	\$ 1,059,000
Total Sources	<u>\$ 1,018,000</u>	<u>\$ 1,059,000</u>
Uses:		
Personnel Services	\$ 606,343	\$ 564,896
Professional Services	15,832	27,191
Travel Reimbursements	38,515	67,514
Miscellaneous Administrative	50,863	53,972
Rent Expense	37,158	29,253
Maintenance and Repair Expense	19,886	11,748
General Operating Expenses	40,216	41,552
Other	3,556	11,030
Total Uses	<u>\$ 812,369</u>	<u>\$ 807,156</u>

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

Oklahoma State Board of Cosmetology

Operational Audit

Purpose, Scope, and Sample Methodology

This audit was conducted in response to 62 O.S. § 212, which requires the State Auditor's Office to audit the books, records, and accounts of all self-sustaining boards created by statute to regulate and prescribe standards, practices, and procedures in any profession, occupation or vocation.

The audit period covered was July 1, 2007 through December 31, 2009.

We selected our samples in such a way that whenever possible, the samples are representative of the populations and provide sufficient evidential matter. Sample methodologies can vary and are selected based on the audit objective and whether the total population of data was available. Random sampling is the preferred method; however, we may also use haphazard sampling (a methodology that produces a representative selection for non-statistical sampling), or judgmental selection when data limitation prevents the use of the other two methods. We identified specific attributes for testing each of the samples. When appropriate, we projected our results to that population.

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. 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.

Objective 1 - To determine if the Agency's internal controls provide reasonable assurance that revenues and expenditures (including payroll) were accurately reported in the accounting records.

Conclusion

The Agency's internal controls provide reasonable assurance that revenues and expenditures (including payroll) were accurately reported in the accounting records.

Methodology

To accomplish our objective, we performed the following:

- Documented internal controls related to the receipting and expenditure processes which included discussions with Agency personnel, observation, and review of documents;
- Tested controls which included:
 - Discussing with personnel and observing the location where funds are retained prior to deposit to ensure they are adequately safeguarded as required by 62 O.S. § 7.1.C.2.a;
 - Reviewing 60 randomly selected deposits (\$148,737.42) to ensure the deposit slip was supported by the Agency receipting system report, agreed to what was posted in the PeopleSoft accounting system, the administrative assistant's initials were present, the batch numbers were in sequential order from the prior day's deposit to the selected deposit to the following day's deposit;
 - Determining the Agency's clearing account was reconciled on a monthly basis to the Office of the State Treasurer (OST) by someone independent of the cash receipting process;
 - Reviewing a sample of nine (three were randomly selected from the period July 2007 through June 2008 and six haphazardly selected from

the remainder of the audit period) Office of State Finance (OSF) form 011 reconciliations to determine they were reviewed by someone other than the preparer, they were mathematically accurate, the balances traced to supporting documentation and the reconciling items appeared reasonable;

- Reviewing a sample of nine (three were randomly selected from the period July 2007 through June 2008 and six haphazardly selected from the remainder of the audit period) reconciliations between the Agency's deposit records and OSF PeopleSoft deposit records to ensure the Agency's records were correctly posted;
- Reviewing a random sample of 60 expenditure claims (\$43,976.97) from the audit period to ensure the invoice is mathematically accurate, the invoice, packing slip (if applicable), purchase request (if applicable), and purchase order (if applicable) agree, the packing slip was stamped, dated, and signed by the receptionist, the account code was correct, the voucher jacket was signed by the executive director, and the expenditure was reasonable given the mission of the Agency;
- Determining whether the person posting the payments into the PeopleSoft system is independent of the person receiving the warrants from OSF;
- Reviewing a random sample of six payroll claims to ensure they were signed by the executive director, the hours reported on the employees' timesheets agreed to the hours reported on the claim, and the timesheets were signed by the employee and their supervisor;
- Identifying ten employees' salaries¹ which changed during the audit period to ensure the change was approved by the executive director or the Board (applies only to salary changes for the executive director); and
- Identifying six separations² from the audit period and reviewing the payroll warrant register for the two months following their separation date to ensure the registers were signed and dated by the executive director and did not include the separated employee's name.

There were no exceptions noted as a result of these procedures.

Objective 2 - Determine whether financial operations complied with 62 O.S. § 211 and 74 O.S. § 3601.2.

Conclusion Financial operations complied with 74 O.S. § 3601.2 (statutory limitations on the executive director's salary) and generally complied with 62 O.S. § 211 (10% of fees received are transferred to the state's general revenue fund).

Methodology To accomplish our objective, we performed the following:

- Reviewed payroll information in the PeopleSoft accounting system to ensure the executive director's annual salary did not exceed the maximum limit set forth in 74 O.S. § 3601.2 during the audit period;

¹ This represents all changes in the audit period based on review of PeopleSoft's HR actions report.

² This represents all separations in the audit period based on review of PeopleSoft's HR actions report.

- Recalculated the amount transferred to the state's general revenue fund during the audit period to ensure 10% of all the fees charged, collected and received by the Agency were transferred as required by 62 O.S. § 211.

Observation

Deposits Not Posted into PeopleSoft in a Timely Manner –Repeat Finding

An effective internal control system provides for the prompt recording of accounting transactions.

Part of our procedures when testing to ensure the Agency transferred 10% of the fees received to the state's general revenue fund³ (SGF) involved reconciling the Agency's receipting records to PeopleSoft records. If the amounts significantly⁴ agreed, the Agency's total for the audit period was multiplied by 10% to determine the amount that should have been transferred to the SGF. Based on our analysis, the amount transferred was 4.62% more than 10% of the Agency's receipts which significantly complied with the statutory requirement⁵. We attempted to determine the source of the discrepancy by comparing the Agency's records to PeopleSoft records on a transaction by transaction basis; however, this was not possible because the Agency does not always post their deposits into PeopleSoft within one day of deposit. Another concern related to this practice is in the PeopleSoft system, the cash is not available until the journal entry is made and added to the Agency's cash balance. Therefore, the available cash balance on PeopleSoft reports could be misstated.

Recommendation

We recommend the Agency post deposits into PeopleSoft within one day of deposit.

Views of Responsible Officials

Policy and procedure #69 requires the administrative assistant to the director to post the deposit into the CORE system and make the journal entry by 10:00 a.m. each morning. If she is not available, the principle assistant shall perform this process. This was discussed with both employees in November 2009 during the performance evaluation process and I requested they cross train in this area. There are times when the administrative assistant to the director is out of the office for a few days at a time and once trained, the principle assistant can post the deposits in her absence. I designated a specific time of the week for them to cross train. They have been cross training since February 2010. The principle assistant is scheduled for a class on Tuesday, June 29 for the state's required training in this area. Once she completes this class, she will be issued an ID code at the time of completion, and will have access to the system so she will be able to post the deposits. No update to policy and procedure #69 is required at this time.

³ 62 O.S. § 211 states in part, "Unless otherwise provided by law, all self-sustaining boards created by statute to regulate and prescribe standards, practices, and procedures in any profession, occupation or vocation...shall pay into the General Revenue Fund of the State ten percent (10%) of the gross fees so charged, collected and received by such board."

⁴ In the performance audit standards (*Government Auditing Standards* 7.04), the term "significant" is comparable to the term "material" as used in the context of financial audits.

⁵ This determination was based on professional judgment assuming a variance of 5% or less.



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