



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Procedural Review

Arizona State Board of Cosmetology

As of March 31, 2013



Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

August 13, 2013

Mr. Gary Begley, Chair
Arizona State Board of Cosmetology

Ms. Donna Aune, Executive Director
Arizona State Board of Cosmetology

We have performed a procedural review of the Arizona State Board of Cosmetology's internal controls in effect as of March 31, 2013. Our review consisted primarily of inquiries, observations, and selected tests of internal control policies and procedures, accounting records, and related documents. The review was more limited than would be necessary to give an opinion on internal controls. Accordingly, we do not express an opinion on the effectiveness of internal controls or ensure that all deficiencies in internal controls are disclosed.

Specifically, we reviewed cash receipts, cash disbursements, payroll, purchasing, journal entries, and transfers.

As a result of our review, we noted certain deficiencies in internal controls that the Board's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate internal controls. Our findings and recommendations concerning these deficiencies are described in the accompanying summary.

The Office of the Auditor General is also conducting a performance audit and sunset review of the Arizona State Board of Cosmetology. The results of that audit will be issued at a future date.

This report is intended solely for the information and use of the Board and is not intended to be and should not be used by anyone other than the specified party. However, this report is a matter of public record, and its distribution is not limited.

Should you have any questions concerning our procedural review, please let us know.

Sincerely,

Jay Zsorey, CPA
Financial Audit Director

TABLE OF CONTENTS



Finding 1: The Board should separate personnel and payroll responsibilities and document employees' wage rates

1

Finding 2: The Board should strengthen its controls over cash receipts

3

Board Response

FINDING 1

The Board should separate personnel and payroll responsibilities and document employees' wage rates

Effective controls over payroll processing require management to adopt sound accounting policies and to establish and maintain internal controls that will help the Board initiate, authorize, record, process, and report accurate payroll transactions. Although the Board used the State of Arizona's automated HRIS payroll system, the Board should establish its own internal controls over the personnel and payroll processes, including separating payroll responsibilities, documenting an employee's pay rate, and maintaining personnel records. Specifically, the individual responsible for processing payroll had the authority to input employee information and change employee pay rates in the HRIS system without another employee's approval. Although the Board followed the State of Arizona's salary range for each position, the Board did not document the amounts paid to employees. For all 10 employees tested, there was no documentation maintained in the employees' personnel files supporting their rates of pay, and auditors were unable to determine if employees were being paid at the appropriate rates.

Recommendation

To help strengthen controls over payroll processing, the Board should separate its personnel and payroll responsibilities and require different employees to update personnel information in the HRIS system and process payroll. In addition, the Board should maintain appropriate personnel records which include payroll authorization forms to support employees' pay rates.

FINDING 2

The Board should strengthen its controls over cash receipts

The Board collected approximately \$2.4 million in cash receipts during the period July 1, 2012 through March 31, 2013. Therefore, it is essential that the Board's internal controls over its cash receipts are documented to ensure all receipts are properly accounted for and recorded in its accounting records and employees' responsibilities are adequately separated. However, the Board did not have current cash receipts policies and procedures describing its processes of collecting, recording, and depositing cash receipts as required by the State of Arizona Accounting Manual. The Board's cash receipts policies and procedures were last updated in 2002. As a result, there were inconsistencies in how various receipts were collected and recorded by the Board. Specifically, fines, forfeitures, and penalties receipts were collected, recorded, deposited, and reconciled by the same employee without supervisory review of the deposits or reconciliations. Further, the Board did not prepare daily reconciliations of internal records to online credit card payments. Finally, although the Board prepared certain daily reconciliations, the Board did not reconcile its internal accounting system to bank deposits and the State's accounting system monthly. Auditors prepared a reconciliation for the period audited and noted that cash receipts were materially accounted for.

Recommendations

To help strengthen controls over cash receipts, help ensure that all receipts are properly recorded and deposited, and to comply with the State of Arizona's Accounting Manual, the Board should:

1. Update and maintain detailed written cash receipts policies and procedures and distribute them to all employees who are responsible for handling cash.
2. Separate cash receipts responsibilities for receipts from fines, forfeitures, and penalties so that the same person is not responsible for collecting, recording, depositing, and reconciling cash receipts.

3. Reconcile online credit card payments to its internal accounting system and deposits. The reconciliation should be reviewed and approved by an employee who is not responsible for cash receipts.
4. Prepare complete monthly reconciliations between the Board's internal accounting system, bank records, and the State's accounting system. The reconciliation should be reviewed and approved by an employee who is not responsible for cash receipts. Make all necessary corrections for reconciling items.

BOARD RESPONSE



Arizona State
Board of Cosmetology

Donna Aune, Executive Director

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August 8, 2013

Mr. Jay Zsorey, CPA
Office of the Auditor General
2910 North 44th Str., #410
Phoenix, AZ 85018

Dear Mr Zsorey:

Enclosed are the responses to the procedural review of the Arizona State Board of Cosmetology. Please know that the Board's management will fulfill its responsibility, of implementing the recommendations noted over the payroll and cash receipts processes.

If you have any questions concerning the responses, please feel free to contact me at 480-784-6963.

Sincerely,
Donna Aune,
CBA Executive Director

DA/bgr

Encs.

Finding #1

The Board should separate personnel and payroll responsibilities and document employees' wage rates.

The Board agrees with the finding and the audit recommendation has been implemented. The duties between Human Resources and Payroll are now separated with one individual inputting the *personnel information and another payroll.*

The Board will ensure that each employee complete personnel records including a signed "Payroll Authorization Form" in their personnel file.

Finding #2

The Board should strengthen its controls over cash receipts

The Board agrees with the finding and is taking the following steps to implement the recommendations.

1. Updating detailed written cash receipts policies and procedures has been initiated and the policies and procedures will be distributed to employees responsible for handing cash.
2. Cash receipts fines, forfeitures and penalties have been separated with different employees having the responsibilities for collecting, recording, depositing, and reconciling cash receipts.
3. A more detailed reconciliation of online credit card payments to our internal accounting system has been implemented and will continue to be approved and reviewed by an employee who is not responsible for cash receipts.
4. A more detailed preparation of monthly reconciliations between the Board's internal accounting system, bank records, and the State's accounting system be reviewed and documented according to recommendations. It will continue to be reviewed and approved by an employee who is not responsible for cash receipts.

Donna Aune, Executive Director
Cosmetology Board of Arizona

