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DEPUTY AUDITOR GENERAL

August 31, 2016

The Honorable John Allen, Chair  
Joint Legislative Audit Committee

The Honorable Judy Burges, Vice Chair  
Joint Legislative Audit Committee

Dear Representative Allen and Senator Burges:

Our Office has recently completed a 30-month followup of the Arizona State Board of Cosmetology regarding the implementation status of the 33 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in September 2013 (Auditor General Report No. 13-09). As the attached grid indicates:

- 12 have been implemented;
- 1 is partially implemented; and
- 20 are in the process of being implemented.

Our Office will conduct a 42-month followup with the Arizona State Board of Cosmetology on the status of those recommendations that have not yet been fully implemented.

Sincerely,

Dale Chapman, Director  
Performance Audit Division

DC:ka  
Attachment

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

Arizona State Board of Cosmetology Members

# Arizona State Board of Cosmetology

## Auditor General Report No. 13-09

### 30-Month Follow-Up Report

#### Recommendation

#### Status/Additional Explanation

#### Licensing and Permitting: Board should take additional steps to ensure applicants meet all requirements for licensure

- |   |   |
|---|---|
| <p>1. The Board should develop and implement policies and procedures that direct its staff to obtain and review all necessary documentation to ensure that applicants meet all statutory and rule requirements prior to issuing a license. Once the policies and procedures are developed and implemented, the Board should ensure all appropriate staff are trained on them.</p>   | <p><b>Implementation in process</b><br/>The Board has developed policies and procedures for all of its licensing types. However, the procedures do not list the steps that board staff should take to review and approve applications. For example, the procedures do not direct the information that board staff should review to verify completeness and what steps to take if an application is incomplete or if the applicant is unqualified. According to the Board, it will improve and revise these policies and procedures by September 2016 and train its staff thereafter.</p>  |
| <p>2. The Board should develop and implement policies and procedures that require its staff to track the Board's compliance with all licensing time frames. These policies and procedures should specify the documentation that board staff should retain to allow the Board to track compliance with its time frames. The Board should also consider using its database to track its compliance with the licensing time frames and request its database vendor to add this functionality. Once the policies and procedures are developed and implemented, the Board should ensure all appropriate staff are trained on them.</p> | <p><b>Implementation in process</b><br/>The Board's policy states that it will comply with licensing time frames and board officials reported that its licensing staff are manually tracking licensing time frames on checklists for each application and are entering this information into the Board's database. However, it has not developed policies and procedures for ensuring the checklists are used and that this information is consistently and accurately entered into the database. Board officials indicated that they would develop and implement these policies and procedures by September 2016, at which time they would also train appropriate staff on these policies and procedures. The Board also indicated that it will work on a report to track licensing application time frames after its database is upgraded to a new version in September 2016.</p>   |
| <p>3. The Board should ensure that the information it reports is sufficiently detailed and supported so it can be used to evaluate the Board's performance and any staffing and resource adjustments it may need.</p>   | <p><b>Implementation in process</b><br/>The Board has taken steps to ensure that the information it reports correctly reflects its workload and performance. Specifically, the Board reports more specific information such as the number of active, delinquent, and inactive licenses as opposed to the total number of licenses and has implemented a new database with reporting capabilities to provide this information. However, the Board is still revising its database report that provides information on the number of licensees and has not yet developed a database report to track its licensing time frames (see explanation for Recommendation 2). Additionally, the Board has not developed policies and procedures for ensuring that information is entered into its database in a timely and accurate manner and indicated that it would develop and implement such policies and procedures by September 2016.</p> |

## Recommendation

## Status/Additional Explanation

4. The Board should work with its stakeholders to develop and propose legislation to:

a. Require licensees to complete continuing education courses in health and safety as a condition of license renewal and consider requiring additional hours of continuing education for instructors; and

b. Change the license renewal frequency to every 2 years.

### **Partially implemented at 30 months**

As indicated in the initial followup, the Board voted to move forward with pursuing legislation for continuing education for licensed instructors but did not vote to require continuing education for other licensees. According to the Board, it discussed continuing education requirements with other states and sought to propose legislation during the 2014 legislative session. However, the Board reported that it was advised by its lobbyist that legislation was unlikely to pass and there may be difficulty finding a sponsor for the legislation because of the burden it would place on licensees. As of June 2016, the Board does not require continuing education for any of its licensees.

### **Implemented at 30 months**

The Legislature enacted Laws 2015, Ch. 99, which modified Arizona Revised Statutes §§32-517 and 32-535 to require license renewal frequency every 2 years.

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## **Inspections: Board's inspection approach and processes have weaknesses that do not allow it to fully protect the public**

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1. To ensure that the Board conducts initial inspections as required by statute, and to shift inspections of existing facilities to more of a risk-based approach, the Board should:

a. Establish factors it will use to assess individual salon risk. Potential risk factors could include prior health and safety violations, substantiated public complaints, whether the salon recently opened or was delinquent in renewing its license, and types of services performed;

### **Implementation in process**

The Board has made some changes to its inspection processes in an effort to implement a risk-based inspection approach. Specifically, the Board has identified some salon risk factors, such as health and safety violations or unlicensed individuals working at a salon, that it uses to determine if a licensed salon requires an immediate follow-up inspection after a routine inspection has been performed. The Board assigns a higher priority to these follow-up inspections than its routine inspections, which it continues to perform in the same manner as it did during the audit. Additionally, although the Board can enter some information into its database, such as the dates of the routine and follow-up inspections, and can generate a database report to show salons that received the immediate follow-up inspection, it is not using its database to help determine inspection priorities and ensure initial inspections are completed as required. Further, the Board has established some policies and procedures that guide its routine and follow-up inspections, but board management stated that they will develop additional guidance for prioritizing routine

## Recommendation

## Status/Additional Explanation

inspections of existing salons based on their risk. Auditors will review any additional changes the Board makes to its inspection processes during the 42-month followup.

- b. Use its database to generate inspection reports that provide inspection history information for each licensed salon to ensure initial inspections are completed as required. These inspection reports can also be used to help the Board prioritize salons for subsequent inspections based on the salons' identified risks;
- c. Work with its database contractor to ensure that all required information, such as inspection dates and salon risk factors, can be entered into the database, and develop management reports that will help board management assign inspection priorities based on historical inspection information and a salon's risk; and
- d. Develop and implement policies and procedures to govern its risk-based inspection approach and to guide its staff in performing initial inspections as required and regular inspections based on a salon's risk.

### Implementation in process

See explanation for Recommendation 1a.

### Implementation in process

See explanation for Recommendation 1a.

### Implementation in process

See explanation for Recommendation 1a.

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2. To help ensure inspections are adequately performed and to assess salon compliance with all statutory and rule requirements, the Board should:

- a. Update its inspection checklist to include all statute and rule-compliance requirements, remove any outdated requirements, and clarify any vague requirements; and
- b. Update and, where necessary, develop and implement new policies and procedures that direct the performance of inspections. The revised policies and procedures should include specific steps for performing inspections, including how board inspectors should use the checklist.

**Implemented at 30 months**

**Implemented at 12 months**

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3. The Board should develop and implement an inspector training on the inspection rights outlined in statute and ensure that inspectors comply with them.

**Implemented at 12 months**

**Recommendation****Status/Additional Explanation****Complaint resolution: Complaint investigation and adjudication processes need strengthening**

1. The Board should develop and implement written policies and procedures that:

a. Direct its staff on the steps they need to perform to conduct adequate complaint investigations and appropriately document these investigations;

**Implementation in process**

As of June 2016, the Board is using the investigations policies and procedures that it developed in March 2014. Although these policies and procedures provide a high-level overview of investigators' responsibilities, some investigative activities, and some information about what to include in the investigation report, they do not address all steps for investigating complaints and documenting these investigations. For example, the policies and procedures do not specify what steps an investigator should take to investigate an injury complaint or how to determine when a case has been adequately investigated. In addition, they do not provide examples of the information necessary for the investigation report. The Board reported that it will improve and further revise these policies and procedures by August 2016.

b. Specify the investigative activities that should be conducted, such as contacting and interviewing both the complainant and licensee, obtaining all relevant documentation, scheduling an appointment with a potentially unlicensed operator, and performing an inspection if necessary;

**Implementation in process**

See explanation for Recommendation 1a.

c. Provide direction on how to thoroughly document complaint investigations and prepare investigation reports, including the information that should be included in the report; and

**Implementation in process**

See explanation for Recommendation 1a.

d. Require a supervisory review process and outline the steps the investigative supervisors should take to review complaint investigations.

**Implementation in process**

The Board has developed additional supervisory review policies and procedures. However, because the Board has not fully developed investigation policies and procedures that provide clear steps for conducting investigations, as indicated in recommendations 1a through 1c, it cannot fully implement the recommended supervisory reviews or outline the steps that the compliance manager should take to review complaint investigations.

2. Once these policies and procedures have been developed and implemented, all applicable staff should be trained on the complaint investigation policies and procedures.

**Implementation in process**

The Board has provided some training on its complaint resolution policies and procedures. However, as noted in the explanations for recommendations 1a through 1d, the Board has not fully developed these policies and procedures. Therefore, the Board cannot fully train its staff until it has finalized and implemented the policies and procedures, which it reported that it plans to do by August 2016.

## Recommendation

## Status/Additional Explanation

3. The Board should review its guidance document to include the verbal guidance given to staff to help ensure that board staff and supervisors provide consistent disciplinary recommendations to the Board.

### Implementation in process

According to the Board, it updated its disciplinary guidance in May 2014 and modified the discipline for inactive licenses. However, the Board has not updated its disciplinary guidance to include all of the verbal guidance provided to board staff. For example, it lacks guidance regarding discipline for some repeat offenses, such as delinquent licenses.

4. To improve its procedures for reviewing and adjudicating complaints, the Board should:

- a. Develop and implement written policies and procedures to ensure that a licensee's disciplinary history is not provided, either on the investigation reports or by e-mail, to board members prior to determining that a licensee has violated statutes and rules and that this information is instead provided to the Board after it makes this determination;
- b. Develop and implement written policies and procedures that require its staff to provide board members with investigation reports for all complaints to ensure board members receive enough information to take appropriate action; and

### Implemented at 12 months

- c. First determine whether each complaint allegation constitutes a violation, and then take appropriate adjudicative action.

### Implementation in process

The Board has developed and implemented written policies and procedures that require its staff to provide investigation reports to board members for all complaints. However, a comparison of complaints listed in the board meeting agenda against board member packets for March and April 2016 found that the staff did not provide board members with investigation reports for all cases listed on the board meeting agenda. Auditors will follow up at 42 months to determine if staff are following these policies and procedures.

### Implemented at 12 months

5. To ensure timely resolution of complaints, the Board should:

- a. Develop and implement written policies and procedures for monitoring the complaint resolution process, including policies and procedures that identify the steps board staff should take when licensees do not attend the informal interview and the time frames for completing these steps; and

### Implementation in process

The Board has revised its policies and procedures for monitoring complaints through the complaint resolution process. For example, the revised policies and procedures state that the compliance manager will date all documents within a complaint file and that a notice should be sent to licensees at least 10 days prior to the board meeting when the complaint will be heard. However, the policies and procedures still do not establish the time frames for completing the various steps for investigating and adjudicating complaints.

## Recommendation

## Status/Additional Explanation

- b. Use its database to monitor complaints as they proceed through the complaint resolution process by developing and implementing a report that provides information to both board management and members regarding the timeliness of its complaint resolution to help identify and address factors in the process that may impact timeliness.

### Implementation in process

According to the Board, it has continued to work with its database provider to implement a report to monitor complaints through the complaint resolution process. However, this project is on hold until the Board upgrades its database, which is expected to be completed in September 2016.

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## Public information: Board should improve its provision of public information

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1. To help ensure that the Board provides timely and complete complaint and disciplinary action information to the public, it should:
  - a. Develop and implement written policies and procedures to ensure that designated staff can provide complete and accurate information over the phone during business hours, and if a message is left after hours, that board staff can return the message requesting information in a timely manner; and
  - b. Train appropriate staff on the new policies and procedures.

### Implementation in process

The Board has developed some policies and procedures to help direct staff on providing information to the public. However, these policies and procedures do not state which staff members should provide information, what information should be provided to the public, or where to find the information that should be provided.

### Implementation in process

The Board provided some training to its staff on the policies and procedures for providing information to the public. However, until the policies and procedures are fully developed and implemented (see Recommendation 1a), it cannot implement the recommendation to train its staff.

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2. The Board should consult with its online database contractor to provide complaint and disciplinary-history information on its Web site.

**Implemented at 30 months**

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3. The Board should comply with A.R.S. §32-4404(C) by posting notice on its Web site stating that the public may contact the Board to request any licensee's public records, including dismissed complaints, nondisciplinary actions, and board orders.

**Implemented at 12 months**

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## Sunset Factor #2: The extent to which the Board has met its statutory objective and purpose and the efficiency with which it has operated.

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1. The Board should discuss the capabilities of its database with its online database contractor and use it to better meet its objective and purpose.

### Implementation in process

The Board has continued to work with its database provider to improve its database capabilities and better meet its objective and purpose. For example, according to the Board, it started emailing renewal notices to licensees in April 2016. The Board also reported that it plans to improve its inspection process by using handheld devices to enter the inspection information and create database reports to track application processing time frames and complaint resolution time frames. According to the Board, it plans to

**Recommendation****Status/Additional Explanation**

implement these changes after it upgrades its database, which it anticipates completing by September 2016.

2. The Board should strengthen controls over payroll processing by separating its personnel and payroll duties, ensuring the same employee cannot update personnel information and process payroll, and maintaining appropriate personnel records to support employee pay rates.

**Implemented at 12 months**

3. The Board should strengthen controls over cash receipts and comply with the *State of Arizona Accounting Manual* by updating and maintaining detailed written cash receipt policies and procedures and appropriately separating cash receipt responsibilities.

**Implementation in process**

The Board has developed some policies and procedures for cash receipts. However, the Board reported it will need to further revise its policies and procedures as implementation of the new state accounting system continues. Additionally, auditors found that the Board deposited some monies nearly two weeks after it was received, which is contrary to *State of Arizona Accounting Manual* requirements.

**Sunset Factor #5: The extent to which the Board has encouraged input from the public before adopting its rules and the extent to which it has informed the public as to its actions and their expected impact on the public.**

1. The Board should fully comply with the State's open meeting law by posting its agendas on its Web site at least 24 hours in advance of its meeting, posting all of its board meeting minutes on its Web site, and by continuing to ensure that its written minutes are more descriptive.

**Implemented at 30 months**

**Sunset Factor #9: The extent to which changes are necessary in the laws of the Board to adequately comply with the factors listed in this sunset law.**

1. The Board should propose legislation to lower the age requirement for licensure to be in line with other state cosmetology and Arizona regulatory boards.

**Implemented at 12 months**

2. The Board should propose legislation to ensure that its process for approving license applicants to take examinations is consistent with statute.

**Implemented at 12 months**