



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

September 26, 2014

The Honorable John Allen, Chair
Joint Legislative Audit Committee

Dear Representative Allen:

Our Office has recently completed an initial 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:

- 8 have been implemented;
- 23 are in the process of being implemented; and
- 2 have not been implemented.

Our Office will conduct an 18-month followup with the Board on the status of those recommendations that have not yet been fully implemented.

Sincerely,

Dale Chapman, Director
Performance Audit Division

DC:ss
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

Initial Follow-Up Report

Recommendation

Status/Additional Explanation

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

- | | |
|--|--|
| 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. | Implementation in process
The Board has drafted some policies and procedures. However, these policies and procedures cover only licensure by reciprocity and do not address the requirements for the Board's other license types or provide guidance on actions to take if the Board receives incomplete applications or the applicants are unqualified. According to the Board, it plans to develop these policies and procedures by September 30, 2014, and will train its staff thereafter. |
| 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. | Not implemented
The Board has not developed policies and procedures that require its staff to track the Board's compliance with all licensing time frames but reports that it plans to develop these by September 30, 2014. As of January 2014, the Board entered into a contract with a new database provider and reported that it has begun discussions with this database provider regarding using the database to track its time frames. |
| 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. | Implementation in process
According to the Board, it is working with a new database provider and implemented a new database on June 2, 2014. The Board reported that this upgrade will help ensure more accurate reporting. As of August 2014, the Board was still working to ensure that it correctly imported all the information from its prior database. Auditors will review the status of this recommendation at the 18-month followup, after the Board has ensured it has properly imported the data. |

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.

Implementation in process

During its August 15, 2014, board meeting, the Board voted to move forward on pursuing legislation to require continuing education for licensed instructors, but did not vote to require continuing education for other licensees.

Implementation in process

During its August 15, 2014, board meeting, the Board voted to move forward on pursuing legislation to change the license renewal frequency to every 2 years for individual licensees.

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

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;

Not implemented

The Board developed new inspection policies and procedures in August 2013. Although these policies and procedures outline some aspects of its inspection processes, they do not outline specific factors that the Board will use to assess individual salon risk. Instead, the policies and procedures state that if the inspector or inspections supervisor feels the public's health/safety may be in jeopardy, the Board will implement a risk-based approach and reinspect. However, the policies and procedures do not specify factors that would be considered to determine whether the public's health/safety is at risk.

Recommendation

Status/Additional Explanation

- 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

According to the Board, it implemented its new database in June 2014 and can generate inspection reports on salons. However, the Board is working to ensure that it correctly imported all inspection information to the new database, so auditors will review the status of this recommendation at the 18-month followup. In addition, this recommendation cannot be fully implemented until the Board develops salon risk factors (see explanation for recommendation 1a).

Implementation in process

The Board has worked with its new database provider to ensure that required inspection information, such as inspection dates and salon risk factors, can be entered into the database. As of August 2014, according to the Board, it is able to run management reports from its database that include inspection dates and can include the salon risk factors, once they have been established (see explanation for recommendation 1a). However, this recommendation cannot be fully implemented until the Board establishes the salon risk factors.

Implementation in process

The Board developed some policies and procedures in August 2013 to help guide its salon inspections. However, the policies state that an inspector or inspections supervisor can perform a risk-based inspection only if the inspector or inspections supervisor has a concern about the public's health and safety as a result of the findings of a routine inspection or if the Board feels a salon would require a risk-based inspection. Other than that, the Board's policies and procedures do not include details to govern a risk-based inspections approach. In addition, this recommendation cannot be fully implemented until the Board develops factors for assessing salon risks (see explanation for recommendation 1a).

Recommendation**Status/Additional Explanation**

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.

Implementation in process

The Board has taken steps to reflect current statute and rule requirements on its inspection checklist by adding, deleting, and clarifying requirements on the checklist. However, the Board has not clarified the “client protection” inspection requirement. According to the Board, this requirement is important and is clear enough that inspectors know what to check for in salons. However, this inspection requirement pertains to four different rules and lacks the clarity of other similar requirements on the checklist.

Implemented at 12 months

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**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 March 2014, the Board developed and implemented its investigations policies and procedures. According to the Board, staff were trained on the importance of contacting and interviewing both the complainant and licensee and gathering all proper documentation to substantiate the complaint, but the Board has not included these requirements in its policies and procedures. In addition, the policies and procedures do not specify the information that board staff should document in the investigation reports.

Recommendation

Status/Additional Explanation

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

Implementation in process

See explanation for recommendation 1a.

Implementation in process

See explanation for recommendation 1a.

Implementation in process

The Board has developed some supervisory review policies and procedures. However, because the Board has not created policies and procedures that outline the information that investigators should include in the complaint investigation reports (as required by recommendation 1c), it cannot fully implement the recommended supervisory reviews.

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 is still in the process of developing and implementing them. Therefore, the Board cannot fully train its staff until it has finalized and implemented the policies and procedures.

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

The Board has revised its guidance document to include much of the verbal guidance previously given to staff. However, the guidance document does not include all of the verbal guidance it previously provided. Additionally, the Board has not established guidance regarding how it will address some repeat violations.

Recommendation

Status/Additional Explanation

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

Implemented at 12 months

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 minutes against board member packets found that the staff provided board members with eight of the nine investigation reports that auditors reviewed. Auditors will follow up at 18 months to ensure that all investigation reports are provided to the Board.

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
- 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

The Board has developed some written procedures for monitoring the complaint resolution process that include steps board staff should take when licensees do not attend the informal interview. However, the Board has not developed time frames for when these steps should be completed.

Implementation in process

The Board discussed adding a tracking and reporting feature with its database provider to help track the time frames for the complaint resolution process. The Board implemented its new database in June 2014 and is working to ensure all data was correctly imported into the new database. Auditors will review the status of this recommendation at the 18-month followup, after the Board has ensured that it properly imported the data.

Public information: Board should improve its provision of public information

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 procedures for some of its staff regarding the information that it will share with the public. However, the procedures do not yet address the time frame in which board staff should return messages that are left after hours. Auditors placed three anonymous calls to the Board to test whether staff follow the procedures. Auditors were provided with the correct information for two of the three calls. For the third call, auditors left a message, but had not received a return call for more than 13 business days. The Board plans to develop policies and procedures for the remaining staff by September 30, 2014, and auditors will review the status of this recommendation at the 18-month followup.

Implementation in process

The Board has trained its staff on the procedures that have been developed. However, until the Board develops and implements all of the policies and procedures recommended (see explanation for recommendation 1a), this recommendation cannot be fully implemented.

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

Implementation in process

The Board has discussed implementing a way to look up complaint and disciplinary history online with its new database contractor and reported this should be implemented by June 2016.

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

Recommendation**Status/Additional Explanation****Sunset Factor #2: The extent to which the Board has met its statutory objective and purpose and the efficiency with which it has operated.**

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 discussed and is in the process of implementing several projects that will allow it to use its database to better meet its objective and purpose and also better serve the public. For example, the Board's contract with its new database provider includes provisions to send renewal notices to licensees, improve its inspection process by allowing it to input its inspection forms into the database, and include changes that will allow the public to look up disciplinary history for licensees on its Web site. The Board reported that it plans to complete all of these changes by June 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

Although the Board has implemented proper segregation of duties for its cash receipt responsibilities and currently follows the *State of Arizona Accounting Manual* in its practices, the Board does not maintain its own detailed cash receipt policies and procedures.

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.

Implementation in process

The Board has taken steps to comply with open meeting law, including having its meeting minutes available for the public within 3 business days and its board meeting agenda posted on its Web site 24 hours prior to its board meeting. In addition, the Board has also met the requirements of open meeting law by having more descriptive meeting minutes. However, the Board's meeting minutes still do not include the substantiated violations or whether a licensee has a disciplinary history. Therefore, the public is unaware of the basis for the Board's disciplinary decision.

Recommendation**Status/Additional Explanation**

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 |
-