



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

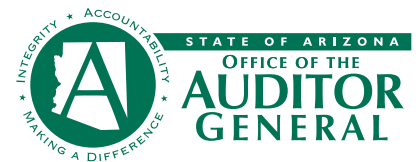
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Procedural Review

# Arizona State Board of Pharmacy

As of March 31, 2013

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**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

Thomas Van Hassel, R.Ph., Board President  
Arizona State Board of Pharmacy

Hal Wand, Executive Director  
Arizona State Board of Pharmacy

We have performed a procedural review of the Arizona State Board of Pharmacy'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, purchasing, payroll, journal entries and transfers, capital assets, financial reporting, and compliance with applicable state laws.

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 Pharmacy. The results of that audit will be issued on a subsequent 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

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# FINDING 1

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## The Board should strengthen internal controls over cash receipts

The Board receives operating revenues from issuing licenses to pharmacists, pharmacy interns, and pharmacy technicians, and from issuing permits to pharmacies and drug manufacturers, wholesalers, and retail distributors. During the period of July 1, 2012 through March 31, 2013, the Board recorded revenues from licenses and permits totaling approximately \$3.1 million. These revenues were received by mail, in person, and through the Board's Web site. As license and permit revenues are significant to the Board, it is imperative that the Board adequately control and safeguard the receipt of these monies. However, auditors identified the following deficiencies in the Board's internal controls over cash receipts:

### Responsibilities not adequately separated, and daily cash receipts not reconciled to issued licenses and permits

The Board used a licensing system to process and issue licenses and permits, the payments for which were recorded in receipt logs by another employee. However, auditors found that these duties were not always separated. The employees who received and recorded the payments in the receipt logs also had the ability to process and issue licenses and permits within the system without an independent review. The Board's management indicated that this access had not been restricted in the system because of the Board's limited number of employees and, in the event that an employee is out of the office, other employees would need to cover his or her responsibilities. In addition, the Board did not reconcile daily cash receipts to the licenses and permits issued and recorded in its licensing system. As a result, the Board did not have adequate internal control procedures for ensuring that all cash receipts from issuing licenses and permits were collected and deposited, resulting in an increased risk for theft and misappropriation.

## Recommendations

To help strengthen controls over cash receipts, mitigate the risk of theft and misappropriation, and to help ensure that license and permit fees are properly recorded and deposited, the Board should:

1. Continue to ensure that an adequate separation of responsibilities exists to the extent possible.
2. Reconcile daily cash receipts to the corresponding licenses and permits issued as recorded on the Board's licensing system. This should be prepared, or at least reviewed, by a person who is independent of collecting cash receipts.

# FINDING 2

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## The Board should improve processes for issuing initial licenses and permits to comply with statute

Arizona Revised Statutes (A.R.S.) §§32-1925 and 32-1931 require that licenses and permits are renewed biennially on or before November 1 of an even- or odd-numbered year, depending on whether the license or permit number ends in an even or odd number. Accordingly, applicants are assigned to one of two renewal groups based on the final digit of their license or permit number when they apply for their initial license or permit. In addition, the Board is required to prorate the fee for a new license or permit for the remaining full calendar months of the respective renewal group to which the applicant is assigned. However, due to limitations with the Board's existing licensing system and process for assigning applicants to renewal groups, the Board did not comply with the statutes. Specifically, the license and permit numbers are system-generated, and therefore, the group that the applicant should be assigned to cannot be determined until the system processes the application. Therefore, under its current process, the Board issues all initial licenses and permits through the end of October of the current calendar year. Once the applicant's first renewal date occurs, the Board determines which group the applicant belongs to based on the license or permit number and places them on the proper renewal schedule, if necessary. However, this results in initial licenses and permits being issued for shorter periods of time than required by statute for applicants not on the proper renewal schedule. Subsequently, this also results in the issuance of 1-year renewals instead of 2-year renewals required by statute.

### Recommendation

To help ensure that it complies with A.R.S. §§32-1925 and 32-1931, the Board should assign first-time applicants to the proper renewal group prior to issuing the license or permit. To facilitate this change, the Board should consider modifying its licensing system to issue even- and odd-numbered licenses and permits based on known criteria, such as the applicant's year of birth or year of application. This change will allow the Board to comply with statute by assigning an applicant to the proper group without having to first generate a license or permit number by processing the applicant through the system.

# BOARD RESPONSE





ARIZONA STATE BOARD OF PHARMACY

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August 5, 2013

Jay Zsorey, CPA  
Financial Audit Director  
Office of the Auditor General  
2910 N. 44<sup>th</sup> St., Suite 410  
Phoenix, AZ 85018

Dear Mr. Zsorey:

The Arizona Board of Pharmacy appreciates the opportunity to respond to the findings of the procedural review performed by your office as of March 31, 2013. We would also like to express our appreciation to your staff for their professionalism while conducting the review.

### **Internal Controls Over Cash Receipts**

**Finding 1:** Cash receipt responsibilities were not adequately separated since the licensing staff were responsible for collecting receipts and the recordkeeping function.

Daily reconciliation of receipts to the data entered into the licensing system not being accomplished.

**The finding of the Auditor General is agreed to and the audit recommendation will be implemented.**

Response: At the time of the audit board staff used pre-numbered receipts for cash and checks, which were reconciled daily to the deposit by the Executive Director. This procedure mitigates somewhat the risk of "shrinkage" in a busy office setting as ours. This procedure was recommended by the state Government Accounting Organization (GAO) after an audit about a year ago. Two deficiencies of the system in place were identified by your staff.

1. One board staff member who receipted cash and or checks was still used, on an infrequent basis, to process new licenses and or permits in our data entry system. This situation does not adequately separate responsibilities and will be eliminated by September 1, 2013. This individual will no longer be tasked with receipting money or processing a permit or license at that time.
2. The individual mentioned above will be tasked with reconciling daily receipts for cash, checks and credit cards to both the daily deposit and to the data entry system.

**Finding 2:** The board should improve its processes for issuing initial licenses and permits to comply with statute.

Response: The board's representative from the attorney general's office has spent considerable time considering the issue presented in the Auditor General Financial Audit Division's Procedural Review.

After discussion with the board's attorney I believe that the board is in compliance with A.R.S. § 32-1925 and 32-1931 when it charges a pro-rated licensing fee and issues a new license for a period of less than twelve months and then because of the license number provision in the statute issues a two year renewal because the individual is on the correct odd/even two year cycle.

The board may not be in compliance with the statute when it charges a pro-rated licensing fee, issues a new license for a period of less than twelve months and then because of the odd/even license number issues a one year renewal on a pro-rated basis to get the individual on the correct two year renewal cycle which is then followed with a two year renewal.

My understanding is that the Auditor General Finance Division is concerned that the board is not statutorily authorized to issue a one year renewal based on the specific language of A.R.S. § 32-1925 and 32-1931.

Further, after discussion with the board's attorney, I believe that the board may correct this problem without resort to any statutory or rule changes. The board may address the problem arising in the second scenario by charging a pro-rated licensing fee and issuing a new license for a period of more than twelve months to bring the license up to the October 31 expiration date in the ensuing even or odd year which will then be followed by a two year renewal in compliance with the statute. Neither the board's attorney nor I am aware of any language in A.R.S. § 32-1925 or 32-1931 which would prohibit the Board from calculating and charging a pro-rated initial licensing fee exceeding twelve months. It should be noted that when a license application is received in person, by mail or internet, it is assigned a number randomly by our database. This number remains the license or permit number associated with this license if it is issued by the board. Because this number is assigned when an application is received and will not change if the license is issued, the board can readily determine which renewal group the license will be in and a proper pro-ration calculation may be done. I believe that by making this adjustment to our processes the board will address the Auditor General's concern and be in compliance with the statute.

The vendor for the board's web portal has been contacted by the board's Information Technology employee to obtain an estimate for the costs and time frames associated with such a change to the software currently being utilized by the board and the state web portal.

The board recognizes the importance of maintaining a strong system of internal controls and will make the necessary improvements to address the deficiencies noted in the report.

Sincerely,

Hal Wand  
Executive Director

cc: Arizona Board of Pharmacy members

