



OKLAHOMA ABSTRACTORS BOARD

Operational Audit

For the Period July 1, 2015 through June 30, 2019

Cindy Byrd, CPA
State Auditor & Inspector

**Audit Report of the
Oklahoma Abstractors Board**

**For the Period
July 1, 2015 through June 30, 2019**

November 19, 2020

TO THE OKLAHOMA ABSTRACTORS BOARD

We present the audit report of the Oklahoma Abstractors Board for the period July 1, 2015 through June 30, 2019. The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during our engagement.

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.

Sincerely,



CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR



**Oklahoma Abstractors Board
Operational Audit**

Background

The Oklahoma Abstractors Board (the Board) regulates the abstracting industry and issues abstractor licenses, certificates of authority, and permits to construct abstract plants.

The Board consists of nine members, six of whom are in the abstracting industry, one real estate representative, one banking representative, and one attorney. All members are appointed by the governor and serve staggered four-year terms. The Board is responsible for promulgating rules, setting forth guidelines for agency operations, and governing the professional practices of the licensees.

Board members as of September 30, 2020 are:

Christina Wooten Chairperson
 Randy Coffman Vice-Chairperson
 Jeff Mapes..... Member
 John Bailey Member
 Mark Luttrull Member
 Ken McDowell..... Member
 Robert J. Getchell..... Member/ Attorney
 Scott Ward.....Member/Real Estate
 J Charles ThomasMember/ Bank Officer

The following table summarizes the Agency’s sources and uses of funds for fiscal years 2018 and 2019 (July 1, 2017 through June 30, 2019).

Sources and Uses of Funds for FY 2018 and FY 2019

	2018	2019
Sources:		
Abstractors License & Fee	\$ 287,415	\$ 280,620
Other Fines, Forfeits, Penalties	15,000	4,500
Refunded Money, Prev. Disb-Gds&Svc	9	10
Total Sources	\$ 302,424	\$ 285,130
Uses:		
Personnel Services	\$ 146,931	\$ 149,386
Professional Services	29,620	31,001
Administrative Expenses	14,700	15,432
Travel	8,080	10,983
Transfers and Other Disbursements	-	1,025
Total Uses	\$ 199,331	\$ 207,827

Source: Oklahoma state-wide accounting system (unaudited, for informational purposes only)

**Scope and
Methodology**

Our audit was conducted in response to 74 O.S. § 212, which requires the State Auditor and Inspector’s office to audit the books and accounts of all state agencies whose duty it is to collect, disburse, or manage funds of the state.

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.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessment of materiality and risk for the period July 1, 2015 through June 30, 2019.

Our audit procedures included inquiries of appropriate personnel, research and analysis, and inspections of documents and records. Further details regarding our methodology are included in Appendix A.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Internal Control Considerations

The Government Accountability Office (GAO) emphasizes the importance of internal controls at all levels of government entities. Their *Standards for Internal Control*¹ outline the five overarching components of internal control: the control environment, risk assessment, information and communication, monitoring, and detailed control activities. Each of these components, listed in Appendix B for your reference, includes a subset of principles that are expected to be operating at government entities.

The *Standards for Internal Control* underscore that an internal control system is effective only when the five components of internal control are effectively designed, implemented, and operating together in an integrated manner. As required by *Government Auditing Standards*², we have identified the aspects of internal control significant to each audit objective in this engagement; and our assessments are detailed in Appendix B.

¹ *Standards for Internal Control in the Federal Government*, or the “Green Book,” sets standards and the overall framework for an effective internal control system in federal agencies and is treated as best practices for other levels of government. Last update 2014, accessible online at <https://www.gao.gov/products/GAO-14-704G>.

² *Government Auditing Standards*, or the “Yellow Book,” also promulgated by the GAO, guides our performance and operational audits. Last version 2018, accessible online at <https://www.gao.gov/products/GAO-18-568G>.

OBJECTIVE Determine whether the agency's revenue controls are operating effectively as defined by GAO *Standards for Internal Control*.

Conclusion The Agency's revenue controls are not properly designed, and therefore, are not operating effectively as defined by GAO *Standards for Internal Control*.

Our methodology is detailed in Appendix A.

FINDINGS AND RECOMMENDATIONS

Revenue controls should be strengthened to prevent theft.

Oklahoma's Statewide Accounting Manual³ emphasizes the importance of segregation of duties to ensure no individual is in a position to initiate, approve, undertake, and review the same action (such as receipting funds). The GAO *Standards for Internal Control* also note that if segregation of duties is not practical within an operational process because of limited personnel or other factors, management designs alternative control activities to address the risk of fraud, waste, or abuse in the operational process.

The GAO *Standards for Internal Control* further emphasize that management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.

The administrative assistant receives payments, receipts funds into the Agency's internal receipting system, QuickBooks (QB), and has the ability to delete or void a record from QB. The executive director receives payments after they are entered into QB, prepares and makes the deposit, and also has the ability to delete or void a record from QB.

There is no reconciliation of payments deposited to licenses issued or fines assessed by an independent party with reliable data. Without such a mitigating control, either employee has the potential ability to misappropriate a payment, release a license, and edit the database in such a manner the action would go undetected.

Internal controls are not operating effectively because further effort is needed from management and the Board to:

- design control activities to achieve objectives and respond to risks.
- ensure quality information is available to perform those activities and implement the activities through policies.
- establish and operate internal controls for monitoring activities and evaluate the results and remediate any identified deficiencies on a timely basis.

³ Developed by the Office of Management and Enterprise Services and accessible online at <https://omes.ok.gov/services/accounting-reporting>

Recommendation

Ideally, a party independent from receipting, processing, and deposit preparation should compare licensing activity to the bank deposit receipts to ensure the deposits made were complete. Further, data used for this comparison should be reliably complete and free of undocumented manual alterations after initial recording.

Due to the Agency's small staff size and shared QuickBooks account, this may be difficult to achieve. While improving separation of duties and data quality available for oversight are worthwhile endeavors, the Board also has plans to move to collecting all revenues online. We strongly support prioritizing this move and suggest this would be the most direct way to greatly decrease risk related to revenues.

Board Involvement

In the meantime, as the Board performs risk assessment and monitoring activities, they should consider the risks posed by the small staff's arrangement of duties. It is the Board's responsibility, working with management, to assess the significance of these risks and ensure necessary reviews or other procedures are put in place to mitigate them.

Views of Responsible Officials

We have received the results of the audit performed for the 2015 - 2019 time period. The findings are similar to the results we had with the previous audit in 2015. We had taken steps to add to the information we provide to our financials team with OMES to provide an additional layer of visibility, but that is, apparently, insufficient.

We are a very small agency of 2 people and we have created a separation of duties with regard to the handling of income as best we can. For twelve years, we have been trying to achieve the processing of licenses via online methods, which would take the handling of income almost completely out of the hands of staff, but OMES IT has prevented us from being able to implement such systems. Therefore, since our last added layer of visibility to our OMES Financials team has deemed by your team to be insufficient I will discuss with my Board the implementation of having a third-party review of some kind performed on a regular basis.

Auditor Response

While the Agency's inclusion of their OMES Financials team to review detailed deposit information that included each payee's information and payment amount was a positive step to reduce risk, OMES does not have

access to all of the information necessary to ensure all monies received at the Agency are deposited.

APPENDIX A: Detailed Methodology

In gaining an understanding of the Agency and developing our detailed objectives, in addition to routine discussions, surveys, analysis, research, and prior audit follow-up, we performed the following:

- Documented significant agency-wide controls by sending the Agency an internal self-assessment, and by interviewing key employees to gather an understanding of the Agency.
- Reviewed expenditure data from the statewide accounting system and gathered information from Agency personnel to assess the related financial processes and trends for any notable risks.
 - In reviewing expenditures, we noted that approximately \$253,741 were miscellaneous costs for the entire audit period. We also reviewed the 6-digit expenditure detail report, scanning for unusual expenditures in categories such as food and travel or any recurring vendors that are unrelated to the objectives of the Agency.
 - Audit period payroll expenditures amounted to \$572,744. We reviewed the HR All Actions report from the Statewide Accounting System and noted a total of six personnel transactions with a financial impact for the audit period.
 - No significant concerns arose from these procedures.
- Reviewed the Agency's inventory listing for FY18 and FY19 and noted the Agency only had two computers in inventory; no significant concerns or risks were identified.
- In addition, we reviewed the previous SAI audit workpapers and report completed in State Fiscal Year 2015.

To accomplish our objective discussed in the previous section, we performed the following:

- Evaluated processes and identified significant internal controls related to revenues;
 - Evaluated the design and implementation of the significant revenue controls by comparing the process to relevant standards and state policy as outlined in our objective language and developed appropriate recommendations.

APPENDIX B: Internal Control Components and Principles

The table below outlines the components and principles of internal control, identifies those considered significant to our specific objectives in this engagement, and notes whether those principles were found to be operating effectively. For those *not* operating effectively, further discussion and related recommendations are included in the report.

As recommended by *Government Auditing Standards* section 9.32, the full outline of the fundamental components of internal control and their underlying principles is included for your reference.

Internal Control Component/Principle	Significant to Audit Objective	Operating Effectively?
Control Environment Component – Foundation that provides processes and structure to help an entity set expectations and achieve its objectives.		
1. The oversight body and management should demonstrate a commitment to integrity and ethical values.		
2. The oversight body should oversee the entity’s internal control system.		
3. Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity’s objectives.		
4. Management should demonstrate a commitment to recruit, develop, and retain competent individuals.		
5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.		
Risk Assessment Component – Dynamic process of identifying, analyzing, and managing risks facing the entity.		
6. Management should define objectives clearly to enable the identification of risks and define risk tolerances.		
7. Management should identify, analyze, and respond to risks related to achieving the defined objectives.		
8. Management should consider the potential for fraud when identifying, analyzing, and responding to risks.		
9. Management should identify, analyze, and respond to significant changes that could impact the internal control system.		
Control Activities Component – Actions management establishes through policies and procedures to protect against risks.		
10. Management should design control activities to achieve objectives and respond to risks.	✓	No

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11. Management should design the entity's information system and related control activities to achieve objectives & respond to risks.		
12. Management should implement control activities through policies.	✓	No
Information and Communication Component – Quality information communicated and used to support the internal control system.		
13. Management should use quality information to achieve the entity's objectives.	✓	No
14. Management should internally communicate the necessary quality information to achieve the entity's objectives.		
15. Management should externally communicate the necessary quality information to achieve the entity's objectives.		
Monitoring Component – Activities to assess the quality of performance and promptly correct any deficiencies.		
16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.	✓	No
17. Management should remediate identified internal control deficiencies on a timely basis.	✓	No

The GAO emphasizes that each of the five components of internal control must be effectively designed, implemented, and operating. For an internal control system to be effective, the components must operate together in an integrated manner. They further stress that documentation is a necessary part of an effective internal control system. The level and nature of documentation vary based on the size of the entity and the complexity of the operational processes the entity performs. Documentation is required to demonstrate the design, implementation, and operating effectiveness of an entity's internal control system.

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