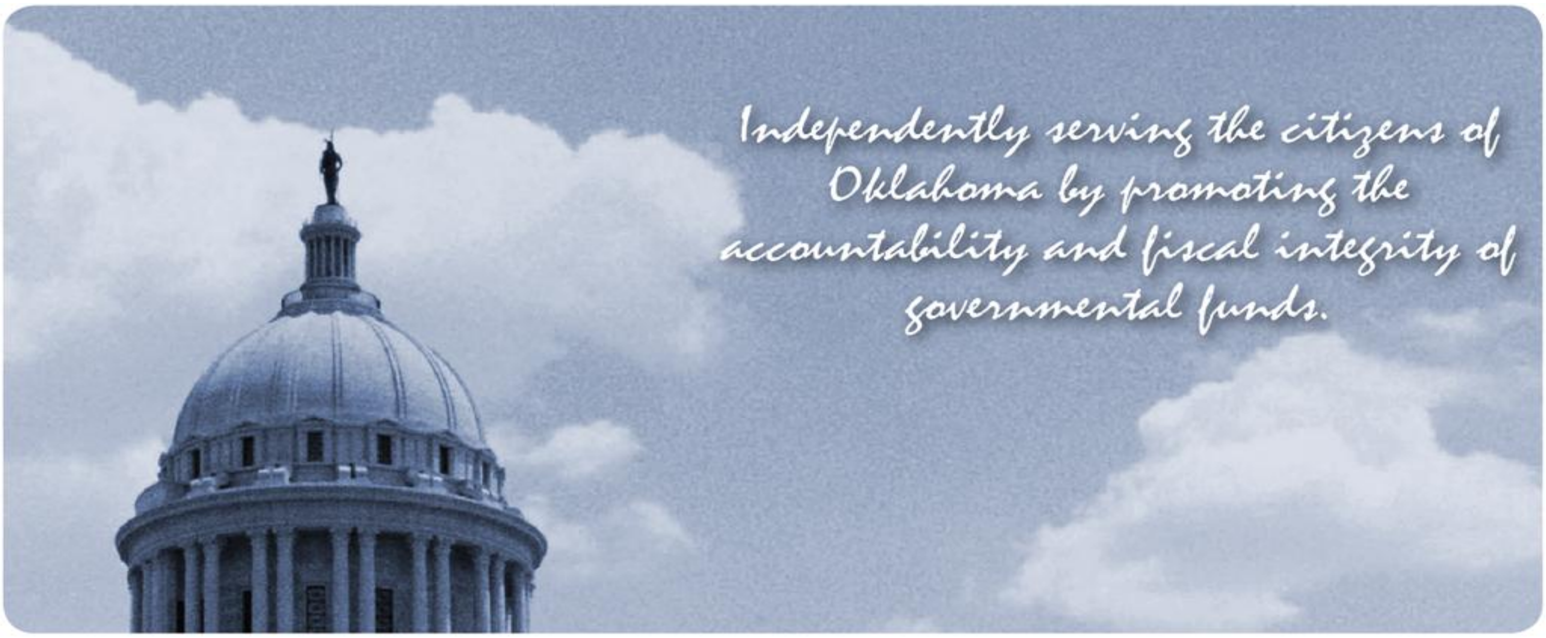
OPERATIONAL AUDIT

Oklahoma Board of Osteopathic Examiners

For the period July 1, 2011 through December 31, 2013



Oklahoma State
Auditor & Inspector
Gary A. Jones, CPA, CFE

Audit Report of the Oklahoma Board of Osteopathic Examiners

For the Period
July 1, 2011 through December 31, 2013

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Oklahoma State Auditor & Inspector

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September 16, 2014

TO THE OKLAHOMA BOARD OF OSTEOPATHIC EXAMINERS:

This is the audit report of the Oklahoma Board of Osteopathic Examiners for the period July 1, 2011 through December 31, 2013. 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,

GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

Background

Established by the Legislature in 1921, the Oklahoma Board of Osteopathic Examiners' (the Agency) principle duty is licensing of applicants for the practice of osteopathic medicine and adoption of rules and regulations governing enforcement of laws relating to the profession.

This mission of the Agency is to protect the public by regulating the practice of osteopathic medicine in the State of Oklahoma through education and licensing requirements and to ensure that each licensee practices osteopathic medicine within the provisions of the Osteopathic Medicine Act.

Board members as of July 2014 are:

Carl B. Pettigrew .... President

Jay D. Cunningham .... Vice - President

LeRoy E. Young .... Secretary/Treasurer

Gordon P. Laird .... Member

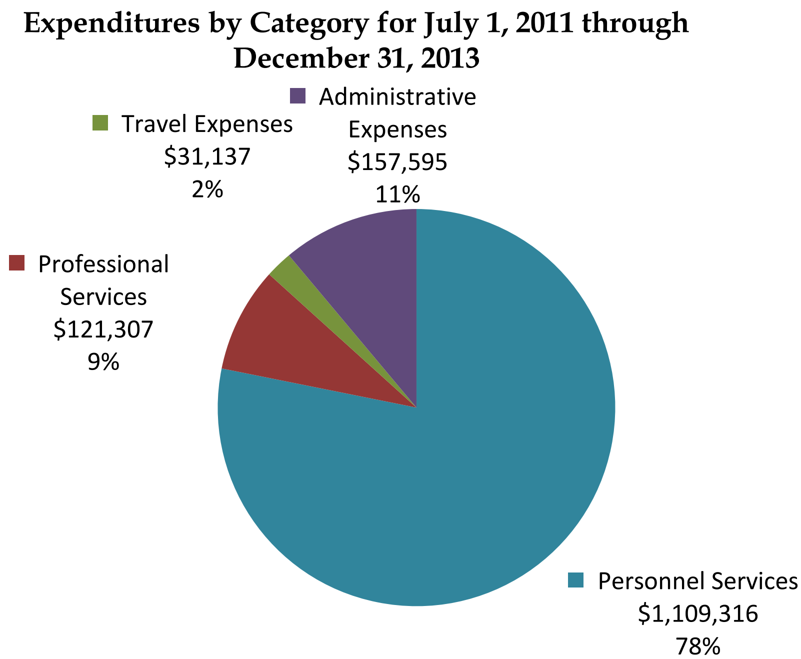
Catherine C. Taylor .... Member

C. Michael Ogle .... Member

Dennis J. Carter .... Member

Katie Templeton........ Member

During the period July 1, 2011 through December 31, 2013, the Agency received $1,811,104 in total revenues, all of which consisted of fees. The following chart illustrates the Agency's expenditures during the same period.[1]



Scope and Methodology

Our audit was conducted in response to **74 O.S. § 212 B.1.**, 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 operational 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 objective.

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, 2011 through December 31, 2013. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Agency's operations.

[1] This information was obtained from Oklahoma PeopleSoft accounting system. It is for informational purposes only and has not been audited.

We also tested a sample of transactions to achieve our objectives. To ensure the samples were representative of the population and provided sufficient, appropriate evidence, the random sample methodology was used. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

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.

OBJECTIVE

Determine whether the Agency's internal controls provide reasonable assurance that revenues and expenditures, to include payroll, were accurately reported in the accounting records, and financial operations complied with significant laws and regulations.

Conclusion

The Agency's internal controls provide reasonable assurance that payroll was reported accurately in the accounting records. However, the Agency's internal controls do not provide reasonable assurance that revenues received and non-personnel expenditures were accurately reported in the accounting records.

Compliance procedures were performed with regards to the following statutes:

- Financial operations complied with **74 O.S. 56 §3601.2**, which limits the Executive Director's salary.
- Financial operations did not comply with **62 O.S. 1 §34.57 C**. See "Funds Receipted Not Deposited in Timely Manner" on page 6.
- Financial operations did not comply with **62 O.S. 1 §211**. See "Inadequate Transfer to State General Revenue Fund" on pages 8 and 9.
- Financial operations did not comply with **62 O.S. 1 §34.57 E.1**. See "Inadequate Transfer to State General Revenue Fund" on pages 8 and 9.

FINDINGS AND RECOMMENDATION

Observation **<u>Inadequate Segregation of Duties Relating to Revenues – *Repeat Observation*</u>**

The United States Government Accountability Office's *Standards for Internal Control in the Federal Government*[2] states in part, "Key duties and responsibilities need to be . . . segregated among different people to reduce the risk of error or fraud . . . . No one individual should control all key aspects of a transaction."

The Administrative Programs Officer is responsible for a variety of duties, including the following:

- Receipting payments into PeopleSoft CORE;
- Preparing deposits; and
- Preparing the monthly form 11 clearing account reconciliation.

The lack of segregation of receipting licensing payments into CORE, preparing deposits, and preparing reconciliation may be mitigated by the review of someone independent of the receipting process, such as the Executive Director. According to the Executive Director, a comparison is performed of funds receipted to the Agency's internal document of Summary of Receipts and Disbursements and the Agency's Physician Directory, which lists licensed Osteopathic Physicians, but no documentation is retained which indicates this review. Additionally, the Summary of Receipts and Disbursements report, which is presented to the Board for review, is created by the Administrative Programs Officer from internal documents.

Having the same employee perform reconciliations, prepare deposits, and receipt licensing payments into CORE increases the risk for possible errors or irregularities. While the risk may be mitigated with proper review, without documentation of the reconciliation review, assurance cannot be made that the risk of possible errors or irregularities is properly reduced.

In the absence of a mechanism in place to ensure that all funds receipted are deposited, the Agency is open to the risk of fraud.

Recommendation The Agency should implement the following:

- Segregate duties related to the receipting process by ensuring the employee with posting responsibilities does not handle funds.

[2] Although this publication addresses controls in the federal government, this criterion can be treated as best practices. The theory of controls applies uniformly to federal or state government.

This would include having an independent employee prepare the bank deposit.

- Someone other than the preparer of bank reconciliations should review, sign and date to reflect an indication of review.
- The Executive Director should perform an independent review of revenues reported on the internal Summary of Receipts and Disbursements report. This review could be achieved by comparing the internal document to CORE generated reports.

Views of Responsible Officials

On August 1, 2014, a part-time secretary was promoted to a full time Administrative Technician. In the future fifty per-cent of her time will be devoted to financial operations and assisting the APO II. With her help, all these recommendations will easily be adopted.

Observation

Inadequate Segregation of Duties Relating to Expenditures – *Repeat Observation*

The United States Government Accountability Office's *Standards for Internal Control in the Federal Government*[3] states in part, "Key duties and responsibilities need to be . . . segregated among different people to reduce the risk of error or fraud . . . . No one individual should control all key aspects of a transaction."

The Administrative Programs Officers is responsible for preparing and posting claims, while the Executive Director is responsible for signing claim jacket vouchers, denoting her approval. The Administrative Programs Office forwards the approved claim to the Office of Management and Enterprise Services (OMES). The Office of the State Treasurer (OST) generates and mails the warrants to the Agency and the Executive Secretary typically signs for the delivery.

Although the Executive Director may review checks, the Administrative Programs Officer has the opportunity to withhold checks from the director, as the Administrative Programs Officer sometimes signs for deliveries. In order to mitigate the risk of the conflicting duties, the Board reviews expenditures via the Summary of Receipts and Disbursements. However, the Administrative Programs Office creates the Summary of Receipts and Disbursements. Therefore, there is no assurance that all expenditures have been reviewed.

[3] Although this publication addresses controls in the federal government, this criterion can be treated as best practices. The theory of controls applies uniformly to federal or state government.

Recommendation

We recommend the following:

- The Executive Director should initial documents to indicate review of detailed monthly expenditure data from CORE. This data should contain claim information including, at a minimum, claim number, journal date, vendor name, and amount; and
- The Executive Director should compare the internal Summary of Receipts and Disbursements report to the CORE Six-Digit Expenditure Detail Report to ensure accuracy before submitting to the Board.

Views of Responsible Officials

The Executive Director currently reviews CORE expenditure data. The other recommendation will be followed in the future.

Observation

Funds Receipted Not Deposited in Timely Manner

62 O.S. 1 §34.57 C states "receipts of One Hundred Dollars ($100.00) or more shall be deposited on the same banking day as received" and "receipts of less than One Hundred Dollars ($100.00) may be held until accumulated receipts equal One Hundred Dollars ($100.00) or for five (5) business days, whichever occurs first, and shall then be deposited no later than the next business day."

An effective internal control system should provide reasonable assurance funds are deposited in a timely manner.

In a random sample of nineteen deposits throughout the audit period, 15 of the deposits did not comply with the statute. Three of the deposits contained check(s) that were collectively less than $100 but were deposited more than five business days after receipt. Fourteen of the deposits contained check(s) of $100 or more and were not deposited the same business day.

Not depositing funds in a timely manner increases risk of possible loss or misuse of funds.

Recommendation

We recommend funds be deposited in accordance with **62 O.S. § 34.57C**.

Views of Responsible Officials

The Agency openly disclosed this omission and noted that it had already been corrected.

Observation

No Documented Comparison of Funds Receipted to Licenses Issued

To protect against possible errors or irregularities in an entity's financial records, an effective internal control system should provide reasonable assurance that all licenses issued are properly paid.

According to the Executive Director, an annual comparison of all licenses issued is performed and a quarterly comparison of all new licenses issued. However, no documentation is maintained.

Without documentation of licenses issued with funds receipted, assurance cannot be made that the comparison was made accurately.

Recommendation

We recommend an employee independent of the receipting process, such as the Executive Director, clearly document a comparison of all licenses issued with funds receipted.

Views of Responsible Officials

Notably, future comparisons will be documented. However, the Agency receipts few funds during the licensure renewal process. 95% of all funds are received by OK.Gov. Often the reports from OK.Gov and the State Treasurer do not match.

Observation

No Verification Online Fees are Deposited into Clearing Account

An effective internal control system ensures a third-party responsible for receipt of agency payments properly transfers payments into the Agency's account.

Current licensees can renew licenses online, with the great majority of payments received through OK.Gov, operated by OMES. OMES transfers fee payments to the Agency clearing account. However, based on conversations with the Administrative Programs Officer, the Agency performs no verification that all fees are properly deposited into the clearing account.

Errors during the transfer to the clearing account are possible and without verification, the Agency may not always receive all online licensing fees.

Recommendation

We recommend the Agency download the OK.Gov Receipt Detail Report each day during the licensing period, import the report into an agency document and total the day's transactions. As part of the monthly reconciliation, the Agency should then compare the Receipt Detail Reports for each day to the Treasurer's Activity Statement to ensure that the amounts collected on-line for licenses matches the amount deposited into the clearing account.

Views of Responsible Officials

As aforementioned, the OK.gov Receipt Detail Report rarely matches anything. The Agency finds it infinitely more efficient to do this comparison monthly when the Treasurers Report is received. A monthly comparison is sufficient to verify if all online fees have been received. This issue only arises between May 10th and June 30th during the height of the renewal process. All other months are routine in-house transfers that we control and no inconsistencies occurred.

Observation

Inadequate Transfer to State General Revenue Fund – *Repeat Observation*

62 O.S. 1 §211 states in part:

> "Unless otherwise provided by law, all self-sustaining boards created by statute to regulated and prescribe standards, practices, and procedures in any profession, occupation or vocations, shall…. pay into the General Revenue Fund of the State ten percent (10%) of the gross fees so charged, collected and received by such board" (emphasis added).

Based on review of Bank of America reports, OST reports, and internal documents, it appears the Agency excludes convenience fees from the calculation of the 10% transfers for online and in-house deposits to the State General Revenue Fund, which, based on correspondence with the State Comptroller, is permitted. For in-house deposits, the Agency, as determined in the State Auditor's previous audit, improperly excludes copy fees and administrative recovery fees from the calculation.

We tested transfers for online deposits and found the May and July 2013 online transfer amounts were overstated by $34.30 and $6.30, respectively, and the May and June 2012 calculation of the transfer amounts could not be determined by either the State Auditor's Office or the Administrative Programs Officer. The July 2012 transfer was calculated correctly, but the 10% transfer made in CORE was understated by $0.20.

Furthermore, the calculations for transfers of online deposits did not apply a consistent method for exempting convenience fees for online deposits that it collects from May through August. To determine convenience fees for the four months of the renewal period in 2012 and August 2013, the Agency utilized the OK.Gov reports, which apparently includes payments for online license renewal amounts and convenience fees received in-house. When an online payment is in the form of a check, it is received at the Agency to be processed. The Agency appears to include payments for online fees received in-house in the in-house transfer to the State General Revenue Fund. In effect, it appears utilizing the stated amount of convenience fees from the OK.Gov report and excluding convenience fees for payments received in-house double counts renewal licenses received in-house.

The Agency must also make transfers on a monthly basis. **62 O.S. 1 §34.57 E.1** states in part:

> "….at least once a month each state agency transfer monies deposited in its agency clearing account to the various funds or accounts, subdivisions of the state, or functions as may be provided by statute and no money will ever be disbursed from the agency clearing account for any other purpose, except in refund of erroneous or excessive collections and credits" (emphasis added).

An effective internal control system should provide reasonable assurance funds are transferred in a regular, timely manner.

The Agency appears to have made every month's transfers to the clearing account; however, transfers were not performed timely for the months of July 2012, September 2012, October 2012, January 2013, August 2013, and December 2013.

Not transferring funds in a regular, timely manner increases risk of possible loss or misuse of funds.

Recommendation

We recommend the following:

- The Agency no longer exclude copy fees and administrative recovery fees from the calculation of the 10% transfer to the State General Revenue Fund; or request a statute change that allows the exclusion of copy fees and administrative fees if the Agency is to exclude such fees;
- The Agency apply a consistent, reliable, and clear method in calculating the transfer for online deposits;
- An independent review of the 10% calculation be performed to minimize the risk of mathematical errors.
- Funds be transferred in accordance with **62 O.S. § 34.57E.1.**

Views of Responsible Officials

Several prior Oklahoma Attorney General Opinions have limited the application of 62 O.S. 1 §211 to include only "gross fees" as set forth in statutory language, and not ten percent (10%) of all fees received by a Board from any source for any purpose, to-wit:

"The Oklahoma Real Estate Commission is not required to pay ten per percent (10%) of gross fees it collects to the State's General Revenue

Fund, as specified in Title 62, §211, but must only pay ten percent (10%) of its license fees to the State's General Revenue Fund, pursuant to Title 59, § 858-207." OP Atty. Gen. No. 03-19 (May 7, 2003)

"The Board of Public Accountancy is not required to transfer ten percent (10%) of its gross fees to the General Revenue Fund to the State annuallyas specified by statute but must only transfer ten percent (10%) of its registration fees to General Revenue Fund annually presented to statute governing disbursement of fees and monies." OP Atty. Gen. No. 90-19 (May 6, 1991).

It is the opinion of the Agency General Counsel that disparate treatment of state agencies is not permitted. The Osteopathic Board must be treated the same as the Real Estate Commission and the Board of Public Accountancy. Nevertheless, the Agency plans to seek a statutory change so that this recurring issue can be resolved.

With respect to the remaining findings under this topic, the Agency openly disclosed a failure to transfer monies monthly. That failure has occurred only once and has not been repeated.

Observation

Inadequate Review of Certain Expenditure Claims

An effective internal controls system provides adequate review of expenditure claims.

We reviewed 25 claims totaling $5,387.51. We noted one claim in the amount of $269.36 was reimbursement to the executive director. However, the executive director was the approving official for this claim. It should be noted the board meeting minutes indicate the Agency's governing board is presented with the agency-made Summary of Receipts and Disbursements. However, the internal Summary of Receipts and Disbursements does not include sufficient detail to review specific expenditure claims.

Lack of detailed review could allow for error or irregularities to occur and not be detected in a timely manner.

Recommendation

We recommend a member of the Board review and approve any reimbursements to the executive director prior to payment.

Views of Responsible Officials

We will certainly comply with this recommendation. However, no member of the Board will have any way of knowing if what the Executive Director purchased was actually received by the Agency without asking an employee of the Agency. Alternatively, we suggest having any reimbursements to the Executive Director for supplies be counter-signed by the Chief Investigator for the Agency. This would be similar to the approval by the Chief Investigator for the Agency. This would be similar to the approval of the Executive Director's travel claims by the APO II.

Auditor Response

We consider board members to be the appropriate personnel to provide oversight of the Executive Director purchasing. Before approval, the Executive Director should provide documentation of the items purchased and receipts to the board members.

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