



OKLAHOMA STATE BOARD OF PHARMACY

Operational Audit

For the period July 1, 2013 through December 31, 2018

Cindy Byrd, CPA
State Auditor & Inspector

**Audit Report of the
Oklahoma State Board of Pharmacy**

**For the Period
July 1, 2013 through December 31, 2018**



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TO THE OKLAHOMA STATE BOARD OF PHARMACY

We present the audit report of the Oklahoma State Board of Pharmacy for the period July 1, 2013 through December 31, 2018. 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,

A handwritten signature in blue ink that reads "Cindy Byrd".

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR



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Background

Authorized by the Oklahoma Constitution, the Oklahoma State Board of Pharmacy (the Agency) is the regulatory agency for the practice of pharmacy and for the sale, storage, and handling of prescription drugs, medicines, chemicals, and poisons. One of the chief board functions is to conduct examinations for the granting of licenses to pharmacists. The board is responsible to promote, preserve and protect public health, safety and welfare by and through the effective control and regulation of the practice of pharmacy.

The Agency is responsible for licensing and regulation of pharmacists, pharmacy interns, and pharmacy technicians. There are approximately 1,484 licensed in-state pharmacies and facilities that are inspected by the Board.

Oversight is provided by six board members (Board) appointed by the governor – five pharmacists and one public member. Pharmacist members serve for a period of five years, while the public member serves a term which is co-terminous with the Governor.

The Board has the power and duty to inspect all places handling drugs, medicine, chemicals and poisons. The Board is charged with the enforcement of federal and state controlled dangerous substance and prescription drug laws. The Board investigates complaints concerning pharmacists, technicians and interns as well as pharmacies, medical gas suppliers and distributors, and prescription drug wholesalers, packagers and manufactures. The Board conducts hearings on all types of registrants and has the authority to reprimand, fine, suspend or revoke licenses and permits.

Board members as of October 2019 are:

Mark St. Cyr, D.Ph.	President
James O. Spoon D.Ph.....	Vice-President
Kyle Whitehead, D.Ph.....	Member
Greg Adams, D.Ph.....	Member
Justin Wilson, D.Ph.....	Member
Jason Willeford.....	Member

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The following table summarizes the Agency's sources and uses of funds for fiscal years 2017 and 2018 (July 1, 2016 through June 30, 2018).

Sources and Uses of Funds for FY 2017 and FY 2018

	2017	2018
Sources:		
Pharmacy Board License & Fee	\$ 1,869,005	\$ 1,838,619
Other Fines, Forfeits, Penalties	542,750	144,900
Reimbursement for Fds Expended	36,383	39,281
Total Sources	\$ 2,448,138	\$ 2,022,800
Uses:		
Personnel Services	\$ 1,157,623	\$ 1,191,542
Professional Services	334,585	348,869
Administrative Expenses	195,238	200,796
Buildings-Purchase, Construction, Renovation	234,938	1,120
Property, Furniture, Equipment	55,318	18,739
Travel	28,404	43,144
Refunds, Indemnities, Restitution	640	-
Scholarships, Tuition, Incentive Payments	-	585
Total Uses	\$ 2,006,746	\$ 1,804,795

Source: Oklahoma State-wide Accounting system (unaudited, for informational purposes only)

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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, 2013 through December 31, 2018. Detailed audit procedures focused on the period of July 1, 2016 through December 31, 2018, addressing the most current financial processes and providing the most relevant and timely recommendations for management.

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Agency's operations. Further details regarding our methodology are included under our conclusion.

We utilized sampling 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 revenue, expenditures (both miscellaneous and payroll), and inventory were accurately reported in the accounting records.

Conclusion

The Agency's internal controls provide reasonable assurance that expenditures, both miscellaneous and payroll, and inventory were accurately reported in the accounting records. However, they do not provide reasonable assurance with regards to revenue.

Financial operations complied with the following statutes:

- 62 O.S. § 211 - 10% transfer of all gross fees charged, collected, and received to the state general revenue fund;
- 74 O.S. § 3601.2 - guidelines for the director's salary.

**Objective
Methodology**

To accomplish our objective, we performed the following:

- Evaluated processes and identified significant internal controls related to expenditures and tested those controls as appropriate, which included:
 - Comparing the significant controls to governmental internal control standards outlined in the United States Government Accountability Office's *Standards for Internal Control in the Federal Government*, 2014 version (GAO Standards).¹
 - Reviewing a sample of 75 OMES expenditure claims from the period (12.6% of the population of 593 claims in the testing period) to determine whether the claim voucher was signature approved by the Executive Director.
 - Reviewing a random sample of 13 months' reconciliations (43% of the 30 months in the testing period population) to ensure the Six Digit Expenditure Report was included in the reconciliation and that the reconciliation was independently reviewed by the Executive Director, as reflected by initial.
- Evaluated processes and identified significant internal controls related to payroll expenditures and tested those controls, which included:
 - Comparing the significant controls to GAO Standards.
 - Randomly selecting five months from each of the fiscal years 2017 and 2018 (FY17 and FY18) and three months

¹ Although this publication (GAO Standards) 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.

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- from fiscal year 2019 (FY19) (13 out of 30 months or 43% of months selected), then haphazardly selecting two employees from an average of 12 each month, to determine whether the employee's time was reviewed and approved as evidenced by initials, and that the leave used corresponded to the employee's leave accrual report.
- Selecting and testing a random sample of 13 payroll claims and supporting documentation from the period (43% of the 30 months in the testing period population) to determine whether the payroll claim was independently reviewed and approved as evidenced by a signature.
 - Selecting and testing 14 (100% from the 30-month testing period) pay rate changes, including hires and terminations, to ensure the change was properly documented and approved.
- Evaluated processes and identified significant internal controls related to inventory and tested those controls significant to weapons, which included:
 - Comparing the significant controls to GAO Standards.
 - Verifying through review of inventory reports and count documentation that no guns were procured, surplused, or otherwise added or removed from the records during the testing period.
 - Reviewing the inventory return documentation for former Executive Director, Chelsea Church, to verify it included her weapon.
 - Evaluated processes and identified significant internal controls and risk factors related to receipting, including comparing the significant controls to GAO Standards. See results in related finding.
 - Reviewed HR Records from the State-Wide Accounting System for all months during the audit period to ensure the director's salary complied with guidance set forth in 74 O.S. § 3601.2.
 - Recalculated and reviewed the amounts transferred to the State's general revenue fund for all months during the audit period to determine whether 10% of all licensure fees charged, collected, and received by the Agency were transferred as required by 62 O.S. §211.

FINDING AND RECOMMENDATION

Revenue at Risk Due to Inadequate Segregation of Duties and Need for Reliable Reconciliation

As revenues are received, multiple employees enter the information in an Excel spreadsheet. While the Office of Management and Enterprise Services (OMES) – Agency Business Services division is responsible for posting the Agency’s deposits to the statewide accounting system, the employees each prepare the bank deposits for the funds they log into the spreadsheet. This creates the opportunity for employees to misappropriate funds received and to conceal the misappropriation by improperly recording receipts. This risk impacts the Agency’s revenues received by mail and walk-in payments, which is approximately half of the revenues received, while the other half of the revenues are received online.

In order to perform an effective comparison of licensing activity to deposit records and mitigate the risk created by this receipting process, reliable data on licenses issued and renewed would be required. The Business Manager reported that the Agency has been in contact with OMES to develop a Licensure Access database. However, the project has yet to be completed due to cost.

The GAO Standards state that in designing control activities to achieve objectives and respond to risks, “Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling and related assets. No one individual should control all key aspects of a transaction or event.” The GAO Standards further require that “Management considers segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, designs alternative control activities to address the risk.”

Related Concerns

This deficiency increases the risk that transfers to the state’s general revenue fund required by 62 O.S. § 211 would be incomplete if fees were misappropriated, as the mandated portion of misappropriated fees would not be included in the transfer, placing the Agency out of compliance with state statute.

In addition, 62 O.S. § 34.57(C) requires that receipts greater than \$100 be deposited on the same banking day as received. We were told by staff that funds for new license applications are held at the Agency for the period of time the license is being processed, which in turn puts the Agency out of compliance with state statute 62 O.S. § 34.57(C). Retaining

funds in the office exposes the Agency to additional risk and impedes the timely reporting of revenues in the state-wide accounting system.

Recommendation

We recommend the Agency consult with an IT expert to develop a report from their licensing database that provides a complete and reliable account of licensing activity (including new licenses issued and renewals), which can then be used to perform an effective reconciliation of licensing activity to deposits. Any updated database should also have this reporting ability; a reliable licensure database is instrumental for tracking and reconciling licensing activity and related receipts.

Until a more reliable licensure tracking system is in place, we recommend management take other steps to ensure all funds received are deposited. One example could be having an employee independent of the deposit process open the mail and log the receipts in a spreadsheet that cannot be edited by other employees. This spreadsheet could then be compared to bank deposit documentation by someone independent of the receipting process to ensure all funds received are deposited.

We also recommend in order to comply with 62 O.S. § 34.57(C), every effort should be made to ensure that receipts of \$100 or more are taken to the bank on the same day as received.

Views of Responsible Officials

We will work with the programmer to generate a report from the licensing and receipting system. We will use these reports to reconcile to the daily postings at least monthly. This should close the circle for complete verification of income received by the agency.

Auditor Response

Regarding our recommendation that they make efforts to timely deposit receipts of \$100 or more, the Agency explained this is an issue they are seeking to address through the development of new licensing software. As software development can be a lengthy process, we reiterate that holding large deposits at length places the Agency out of compliance with state law, and suggest management consider developing alternative recording and refunding processes in the interim.

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