



OKLAHOMA BOARD OF DENTISTRY

Operational Audit

For the period of July 1, 2010 through June 30, 2018

Cindy Byrd, CPA
State Auditor & Inspector

**Audit Report of the
Oklahoma Board of Dentistry**

**For the Period
July 1, 2010 through June 30, 2018**



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2300 N. Lincoln Blvd., Room 123, Oklahoma City, OK 73105 | 405.521.3495 | www.sai.ok.gov

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TO THE OKLAHOMA BOARD OF DENTISTRY

We present the audit report of the Oklahoma Board of Dentistry for the period July 1, 2010 through June 30, 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". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR



Oklahoma Board of Dentistry Operational Audit

Background

The Board of Dentistry was created by Section 39 of Article V of the Oklahoma Constitution to be an agency of the state government.

The mission of the Oklahoma State Board of Dentistry (the Agency) is to promote, protect, and provide public health and safety to the citizens of Oklahoma by regulating the practice of Dentistry, Dental Hygiene, Dental Assisting, and the fabrication of dental appliances in dental laboratories by enforcing laws, rules, and policies. The Board's further mission is to ensure ethical, competent, and moral character of all licensees or permit holders, and to provide all resources to accomplish its goals and objectives.

Oversight is provided by eleven board members (the Board) serving three-year terms. The Board is composed of eight dentists and one dental hygienist elected from all licensees entitled to vote. The two remaining public members are appointed by the governor.

Board members as of October 2018 are:

Michael Howl	President
Audrey Crawford	Member
Erin Roberts	Member
Joseph Darrow	Member
Phil Cotton	Member
Carolyn Hinckle	Member
James Gore	Member
Krista Jones	Member
Lisa Nowlin.....	Member
Lori Roberts	Member
Jeff Lunday.....	Member

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Table 1 summarizes the Agency's sources and uses of funds for state 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:		
Dental Regis, Exam & Other Fee	\$ 1,210,393	\$ 1,088,564
Other Sources	674	10,233
Subtotal Sources	\$ 1,211,067	\$ 1,098,797
Transferred Out per SB 1616*	1,000,000	
Total Sources	\$ 211,067	\$ 1,098,797
Uses:		
Personnel Services	\$ 457,118	\$ 468,262
Misc. Administrative Exp	79,219	92,953
Professional Services	58,643	54,992
Awards, Grants and Other Programs	25,290	21,591
Travel Expenses	16,038	17,846
Office Furniture & Equipment	8,187	9,732
Total Uses	\$ 644,495	\$ 665,376

Source: Oklahoma PeopleSoft accounting system (unaudited, for informational purposes only)

*Note that in SB 1616, which set forth Oklahoma's general appropriations for fiscal year 2017, the state legislature appropriated \$1,000,000 from the Agency's revolving fund as follows in section 87:

There is hereby appropriated to the Oklahoma Health Care Authority from the State Dental Fund (200 Fund) the sum of One Million Dollars (\$1,000,000.00) or so much thereof as may be necessary to provide dental services to Medicaid eligible children by law.

The full amount was transferred out in August 2016. Management noted that these funds were set aside in case of an emergency or potential need to relocate in the future, and that their being reapportioned by the legislature could hinder the Agency should they need those funds at a time of year when emergency appropriations are not available.

Oklahoma Board of Dentistry Operational Audit

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, 2010 through June 30, 2018. Detailed audit procedures focused on the period of July 1, 2016 through June 30, 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 Oklahoma Board of Dentistry's operations. Further details regarding our methodology are included under each conclusion.

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 miscellaneous expenditures were accurately reported in the accounting records, and whether Agency operations complied with 74 O.S. § 3601.2 and 59 O.S. § 328.48.

Conclusion

The Agency's internal controls did not provide reasonable assurance that revenues and miscellaneous expenditures were accurately reported in the accounting records.

Ten percent of deposits were transferred to the state general revenue fund as required by 62 O.S. §211, although due to weaknesses in internal controls over revenues (see discussion beginning on next page), it is unclear whether all revenues received were deposited. Due to inadequate historical records of license payment data (discussed beginning on next page), we were unable to conclude as to whether the Agency complied with 59 O.S. §328.51a, which doubles the fee for late license renewals.

Financial operations complied with 74 O.S. § 3601.2, which sets guidelines for the director's salary.

Financial operations did not comply with 59 O.S. § 328.48, which requires an annual statement of receipts and expenditures be submitted to the Governor.

**Objective
Methodology**

To accomplish our objective, we performed the following:

- Identified significant internal controls and laws and regulations related to receipting and miscellaneous expenditures; see results in related findings.
- 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.
- Evaluated the Agency's processes for charging and collecting annual renewal fees, and attempted to determine compliance with statute 59 O.S. §328.51a by reviewing state-wide accounting reports and related documentation; 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.
- Evaluated the Agency's process related to the annual receipt and expenditure statement to be submitted to the Governor required by statute 59 O.S. § 328.48; see results in related finding.

FINDINGS AND RECOMMENDATIONS

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

The United States Government Accountability Office's *Standards for Internal Control in the Federal Government* (2014 version)¹ states 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 includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls 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."

The secretary and CFO log receipts in an Excel spreadsheet where changes and deletions can be made without detection, thus leaving no audit trail. While the Office of Management and Enterprise Services – Agency Business Services division (OMES-ABS) is responsible for posting the Agency's deposits to the statewide accounting system, the CFO is responsible for preparing the deposit, taking it to the bank, reconciling the revenue log to the bank receipt, providing deposit information to ABS, and reviewing the ABS entry.

This creates an opportunity for the CFO to potentially misappropriate funds received and to conceal the misappropriation by improperly recording receipts. Furthermore, without a reconciliation of licensure records to bank deposit records, the Chief Financial Officer could misappropriate funds received and conceal the misappropriation by improperly recording or modifying the deposit records. In addition, the Director is not reviewing the OMES Form 11 upon approval to ensure the information reconciles to State Wide Accounting Reports.

In order to perform an effective comparison of licensing activity to deposit records, reliable data on licenses issued and renewed would be required. Licensing records are currently maintained in an Excel spreadsheet that notes the status of each licensee but does not include historical information. The Director reported that the Agency paid Oklahoma Management and Enterprise Services to develop a Licensure Access database. However, the project was never completed and

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.

explanation for the unfinished Database was never given. We found record of a payment in the State-Wide Accounting System on November 18, 2014 in the amount of \$5,067 for application development.

Impact on Statutory Compliance

This deficiency also increases the risk that transfers to the state's general revenue fund required by 62 O.S. §211 could be incomplete. While we were able to verify that 10% of fees deposited were paid to the general fund as required by the statute, controls are not in place to ensure all funds received were deposited. Any receipts not included in the deposit would not be subject to the 10% transfer, placing the Agency out of compliance with state statute.

Similarly, due to the lack of historical data in the licensing records, we were unable to determine whether the Agency complied with statute 59 O.S. §328.51a, which requires the Agency to double the fee for late license renewals. We did note that the fee schedule permits fees to be doubled, and staff stated this was their practice. However, due to the nature of the Agency's deposit records and the limited licensing data, we were unable to perform efficient procedures to confirm the fees were consistently and accurately applied.

Recommendation

We recommend that the Agency develop or obtain a reliable licensing database system that can provide complete reports of licensing activity. Management may wish to follow up with OMES on the status of the Access database given that payment for the services has been rendered. A reliable Licensure Database is instrumental for tracking and reconciling licensing activity.

Until a more reliable licensure tracking system is in place to enable the reconciliation of licensing activity to deposits, we recommend management take steps to ensure all funds received are deposited. An example scenario follows: One party who does not perform licensing duties (such as the secretary) open the mail and receipt payments, logging all forms of payment in a revenue log that no other individual has access to. The payments could then be disseminated to the necessary persons for processing licenses, and any of these parties could prepare the deposit documentation. A separate party independent from receipting, processing, and deposit preparation (such as the executive director) should then compare the revenue log to the deposit receipt to ensure the deposit was complete. *The keys to segregation in this scenario are that the party compiling the revenue log and the party comparing that log to the completed deposit are independent of processing licenses.*

Additionally, we recommend that the Director perform a detailed review of the OMES Form 11 utilizing state-wide accounting reports. This should include review of the accuracy and timing of fund transfers.

Views of Responsible Officials and Auditor's Response

Management provided a detailed response letter, included at Appendix A. In the letter, management claims that improving internal controls would be too cumbersome and specifies an intent to accept the risk resulting from the weaknesses described in this finding. During meetings at the Agency, we have discussed multiple options for improving internal controls, and we do not believe they would require additional staff or be prohibitively difficult.

We reiterate our recommendation that, while continuing to actively work toward obtaining an improved licensing database, the Agency develop procedures to ensure all funds received are deposited. We would remind management that trust is not an internal control, and the key to effective control in an Agency with limited staff is attentive oversight.

Unauthorized Payments May Occur Due to an Inadequate Detailed Review of Expenditures

The CFO is responsible for purchasing and receiving, and the director signs off on invoices before they are forwarded to the OMES-ABS division for payment. Agency management does not perform a regular line-item detailed expenditure review after payments have been made.

As a result, an unauthorized or erroneous payment could be forwarded by the CFO or made by ABS, without detection.

As discussed previously, 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 includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event."

Recommendation

We recommend the director or another knowledgeable party independent of the expenditure process review a line-item detailed expenditure report (such as the 6-Digit Detail of Expenditure Report from the State-Wide Accounting System) to ensure all payments are authorized. This review could be performed monthly or on a random, unannounced basis. Evidence of this review should be retained with the date and signature of the reviewer included.

Views of Responsible Officials and Auditor's Response

Management provided a detailed response letter, included at Appendix A. In the letter, management does not agree to review expenditure details or provide an alternative plan to mitigate the segregation of duties issue. We reiterate our recommendation that the director or another independent, knowledgeable party perform a documented review of detailed expenditure after payment, on a regular or random basis.

**Financial
Report Not
Submitted to
Governor's
Office as
Required by
Statute**

The Board of Dentistry and its Agency do not provide a certified, annual statement of receipts and expenditures to the Governor.

The Governor's office is therefore not receiving detailed information on the Agency's financial operations.

Management believes submission of the Agency's annual budget satisfies this requirement. While past financials may be incorporated in some ways in the overall budget process, the annual budget submission does not meet the specific requirements of 59 O.S. § 328.48. The statute states:

"It shall be the duty of the Board of Dentistry, annually, to have prepared a statement showing the total amount of receipts and expenditures of the Board for the preceding twelve (12) months. The statement shall be properly certified under oath by the president and secretary-treasurer of the Board to the Governor of this state."

Recommendation

We recommend the Oklahoma Board of Dentistry comply with 59 O.S. §328.48 by submitting an annual statement showing the total amount of receipts and expenditures of the Board, certified under oath by the president and the secretary-treasurer of the Board, to the Governor.

It is also key that the Agency strive to correct the internal control deficiencies discussed elsewhere in this report, to ensure all funds are deposited, expenditures are authorized, and the reports submitted are therefore complete and accurate.

Views of Responsible Officials and Auditor's Response

Management provided a detailed response letter, included at Appendix A. In the letter, management agrees to submit the signed, annual statement of receipts and expenditures to the Governor's office.

APPENDIX A



STATE OF OKLAHOMA
BOARD OF DENTISTRY

HISTORY AND BACKGROUND INFORMATION FOR AUDIT

At the beginning of 2011, the agency was not on a computer network and the computers in the office all had different versions of Microsoft office. There was no database of licensees, all records were on a card index file and in original licensing folders. Email addresses and phone numbers of the licensees and/or their offices were not included in this information. The continuing education files were on a different computer on an aske II program. In 2011, the Board was short of the budgeted yearly funds due to employee retirements and the payouts for unused leave time etc. The agency began saving money through different means, cutting of legal fees through in-house legal counsel, mail costs, printing costs and various items. In 2013 the agency had saved enough money for new computers and began working with OMES to network the computers and begin an online renewal program. Staff hand-entered information from data cards and license files for approximately 13,000 licensees, with up to 18 data sections each. This information was required to have a base to join the online renewal operated by Oklahoma interactive through the state.

The revenue of the Board is comprised of licensing fees, fines and cost of copies and the Board receives no appropriated dollars. The revenue is primarily collected from October through December of each year. A small percentage of the revenue is collected during the month of June from a limited number of permits and licenses and new licenses and permits throughout the year sporadically. The amount collected from October through June 30th is the revenue to be budgeted and utilized for operations beginning July 1st of the following fiscal year. Historically, all non-appropriated agencies were encouraged if not required to maintain a years funding in a reserve account for emergencies. Because we are a non-appropriated agency, there is not a statutory fiscal mechanism to fund the agency in an emergency when session is out and the budget for the year has been determined. For appropriated agencies, there is a statute that allows the Governor, the Senate pro-tem and the Speaker to temporarily fund an appropriated agency when the legislature is not in session. As a result, our reserve fund is what we have for lawsuits, emergencies and any other unforeseen and non-budgeted events. Since 2011, the Board has taken a lot of steps to be fiscally responsible and efficient and re-establish the required reserve funding account. Unfortunately, a portion of these funds were taken in 2016, (2017 fiscal year) as they were viewed as "extra" funds.

RESPONSES TO FINDINGS BY THE AUDITOR

We disagree with the findings that the Governor does not have adequate access to the Boards funding information. The Oklahoma Board of Dentistry existed before Oklahoma was a state and was previously known as the Territorial Board of Dentistry. The Territorial Board of Dentistry became the Oklahoma Board of Dentistry by the Oklahoma Constitution upon statehood. The statute cited was enacted before the state OMES computer system that includes all of the financial data was available. The Board of Dentistry was one of the first agencies that volunteered to consolidate our financial processing through OMES in late 2012. As a result, since that time, it was our belief and understanding that any report that was to be filed was being filed by OMES, as they process all of our financial documents including all payments, our yearly budget and the preparation of an annual receipt and expenditure statement. We assumed this was being transmitted to the Governor as it is on the State computer online system and all of the funding and reports are directly available and utilized by the Legislature and the Governor. In the future, we will print out a report and specifically entitle it, "Required yearly report to the Governor", have it signed and physically send it to the Governor's office.

The State Auditor cites a failure of segregation of duties regarding the receipt of license and renewal applications at the Board and that the standards for internal controls based on GAO standards are not being met. These failures make us susceptible to the risk of staff having the ability to misappropriate funds. This is a risk we accept as we are a small agency and have a limited staff. As a rule we complete background checks on our employees and we trust our employees to be honest and do the right thing. We believe there is adequate checks and balances within our agency to be able to guard against misappropriations by staff.

According to GAO standards we would be required to have one single person that does nothing but open the mail with someone else watching. Another person that does nothing but input the data from the checks and another person that does the deposit. We are a small agency and since 2011 we have made a dedicated effort to be efficient and effective. Adding extra staff that are limited in their capacities is not efficient or effective. Board staff are cross-trained as sick time and vacation time are utilized on occasion during the renewal seasons as well as all through the year. The Board office does not accept cash, only checks and money orders. Credit card payments are only available through the online system. In the event that a staff member attempted to misappropriate there should be traceable items to prove wrongdoing. Since we began the online system approximately 60% of the licensees pay by credit card which eventually is transferred to the Boards funds through the State Treasurers office. This percentage increases each year. The other portion of licensees pay directly through the board by mail with a check or money order. When a staff member makes a deposit they are required to scan in all of the documents and send a copy of the deposit to the Director which is referred to as the revenue log. After the money is transferred from the Bank to the State Treasurers office, the State Treasurers office sends a copy of the deposit received and

credited to the Boards account to the Director. This information is reviewed by the Director and staff for comparison.

The auditor cites a failure of each regular line item detailed expenditure to be reviewed after payment by the director regularly. That is correct it has been done by the CFO regularly and the Director on a periodic basis. OMES has a policy that all expenditures with the exception of the P-card, are not to be paid until 45 days after it is due. We have a spreadsheet showing when we send invoices to OMES finance and when it is paid as we receive past due bills and collection calls. This is reviewed regularly as it is updated when the payment has been made. Since we submit the bills for payment when they are due, this is the only way we have been able to keep up with what has been paid and has not. Only the Director signs off on all billing and payments with the exception of some items such as travel or reimbursements for the Director that is signed off on by the Board President even though it is not required. Each signed document is scanned in and transferred to OMES to make payments. All individually signed documents are maintained for the next auditing period. An expenditure report and the spreadsheet is reviewed by the Director to ensure the invoice submitted to OMES was paid correctly periodically but not regularly.

The Board agrees with the Auditors office that our state online databased system and the excel sheet currently utilized by the Board is inadequate for our needs. As stated in the report, we paid OMES \$5,067 in 2014 for a developer hired by OMES to develop a Microsoft access based system that we could transfer our data to that includes historical information. To date, this project is incomplete. We have been in discussions with OMES since 2014 to find an adequate licensing program as they are the only authority that is allowed to approve and purchase computer programs.

We would like to thank the State Auditor's office for their courtesy while conducting this audit and their willingness to work around the very busy schedules of our staff for this arduous task.

Susan Rogers, Executive Director and General Counsel

Mike Howl, D.D.S., Board President



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