

OKLAHOMA FUNERAL BOARD

FOR THE PERIOD
JANUARY 1, 2006 THROUGH
DECEMBER 31, 2008

OPERATIONAL AUDIT



Oklahoma State Auditor
& Inspector

**Audit Report of the
Oklahoma Funeral Board**

**For the Period
January 1, 2006 through
December 31, 2008**

STATE AUDITOR AND INSPECTOR

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State Auditor

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May 27, 2009

TO THE OKLAHOMA FUNERAL BOARD

Following is the audit report for the Oklahoma Funeral Board for the period January 1, 2006 through December 31, 2008. The Office of the State Auditor and Inspector is committed to serving the public interest by providing independent oversight and by issuing reports that serve as a management tool to the State. Our goal is to ensure a government that is accountable to the people of the State of Oklahoma.

We wish to take this opportunity to express our appreciation to the agency's staff for the assistance and cooperation extended to our office during the course of our engagement.

Sincerely,

A handwritten signature in blue ink, reading "Steve Burrage", is positioned above the typed name.

STEVE BURRAGE, CPA
STATE AUDITOR & INSPECTOR

Mission Statement

The mission of the Oklahoma Funeral Board is to act in the public interest, for the public protection and advancement of the profession within the police powers vested in the Board by the Legislature of the State of Oklahoma, entirely without appropriated funds. The Board shall serve an informational resource on funeral service to the general public and members of the funeral profession.

Board Members

Jim Parks	President
Andy Walding	Vice-President
Richard Dugger II,	Member
Bill Crutcher	Member
Mark Temple	Member
Mike Phenix.....	Member
Tom Pickard	Member

Key Staff

Lloyd Brown.....	Executive Director
Christopher Ferguson	Deputy Director

Oklahoma Funeral Board Operational Audit

Background

The Oklahoma Funeral Board (Agency) determines the qualifications necessary to enable any person to practice as a funeral director or embalmer, and prescribes the requirements for a funeral or commercial embalming establishment. They examine all applicants for licenses to practice as a funeral director or embalmer and issue the proper licenses to applicants who successfully pass the applicable examinations.

The Agency's operations are governed by 59 O.S. §§ 396.1 through 396.3.

Oversight is provided by a seven-member Board of Directors appointed by the governor. At least five of the members shall have been actively engaged in the practice of embalming and funeral directing in this state for not less than seven consecutive years immediately prior to the appointment of the person, shall have an active license as provided by the Funeral Services Licensing Act, shall keep the license effective, and remain a resident of this state during the entire time the person serves on the Board. Two of the members of the Board shall be chosen from the general public, one of whom shall, if possible, be a person licensed and actively engaged in the health care field, and shall not be licensed funeral director or embalmer or have any interest, directly or indirectly, in any funeral establishment or any business dealing in funeral services, supplies or equipment. These two members shall be appointed to serve for five-year terms.

Table 1 summarizes the Agency's sources and uses of funds for fiscal years 2007 and 2008.

Table 1-Sources and Uses of Funds for FY 2007 thru FY 2008

Sources:	2007	2008
Embalmers & Funeral Director/License/Fee	\$ 290,845	\$ 300,797
Other	<u>4,328</u>	<u>9,541</u>
Total Sources	<u>\$ 295,173</u>	<u>\$ 310,338</u>
Uses:		
Personnel Services	\$ 226,496	\$ 238,358
Travel	22,140	21,376
Miscellaneous Administrative	11,145	13,453
Rent Expense	8,391	8,258
Professional Services	20,167	17,231
Other	<u>10,575</u>	<u>4,434</u>
Total Uses	<u>\$ 298,914</u>	<u>\$ 303,110</u>

Source: Oklahoma CORE Accounting System (For informational purposes only - unaudited)

Authority, Purpose, and Scope

This audit was conducted in response to 62 O.S. § 212, which requires the State Auditor and Inspector's Office to audit the books, records and accounts of self-sustaining boards created by statute.

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. 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.

The audit period covered was January 1, 2006 through December 31, 2008.

Objective 1 - To determine if the Agency's internal controls provide reasonable assurance that revenues and expenditures were accurately reported in the accounting records, and financial operations complied with 62 O.S. § 7.1.C.2.a, 62 O.S. § 7.1.E, 74 O.S. § 3601.2, and 62 O.S. § 211.

Key personnel involved in certain processes no longer work for the Agency. This prevented us from obtaining an understanding of the internal control structure in place for the period of January 1, 2006 through July 31, 2008. As a result, two conclusions with separate methodologies are presented related to internal controls. A third conclusion and methodology is presented regarding the four laws which were tested.

**Conclusion -
January 2006 -
July 2008**

We did not conclude on controls for this period. Key personnel involved in certain processes no longer work for the Agency. This prevented us from obtaining an understanding of the internal control structure in place.

**Methodology -
January 2006 -
July 2008**

We attempted to document internal controls related to the receipting and expenditure processes.

**Conclusion -
August 2008 -
December 2008**

The internal controls:

- Generally provide reasonable assurance that revenues were accurately reported in the accounting records; however, two issues were noted which should be strengthened; and
- Provide reasonable assurance that expenditures were accurately reported in the accounting records.

**Methodology -
August 2008 -
December 2008**

To accomplish our objective, we performed the following:

- Documented internal controls related to the receipting and expenditure processes;
- Tested controls which included:
 - Determining if checks were endorsed immediately upon receipt;
 - Reviewing a random sample of 14 deposits to ensure the deposit was posted into the PeopleSoft accounting system within one day of being deposited at the bank and the deposit was supported;
 - Determining the Agency's clearing account was reconciled on a monthly basis to the State Treasurer's Office by a person independent of the cash receipting process;
 - Reviewing a sample of three haphazardly selected Office of State Finance (OSF) - Form 11 reconciliations to ensure the reconciliations were reviewed by someone other than the preparer, the reconciliations were mathematically accurate, agreed to supporting documentation, and the reconciling items appeared reasonable;

Oklahoma Funeral Board Operational Audit

- Determining if the Agency's clearing account records are reconciled to OSF's PeopleSoft accounting records; and
- Testing a random sample of 40 expenditure claims to ensure they were properly authorized. This included ensuring the invoice supported the payment, the invoice was mathematically accurate, the correct account code was used, and the expenditure was reasonable for the Agency's mission.

Conclusion - January 2006 - December 2008

Compliance procedures were performed with regards to four laws:

- The Agency appears to be in compliance with 62 O.S. § 7.1.C.2.a - adequate safekeeping of receipts awaiting deposit;
- The Agency appears to be in compliance with 62 O.S. § 7.1.E - monthly transfers from the agency's clearing account;
- The Agency appears to be in compliance with 74 O.S. § 3601.2 - limitation of executive director's salary; and
- Due to inadequate supporting documentation, we are unable to conclude as to whether the Agency is in compliance with 62 O.S. § 211 - 10% transfer of all gross fees charged, collected and received to the state general revenue fund.

Methodology - January 2006 - December 2008

To accomplish our objective, we performed the following:

- Observed the locking cabinet where funds are stored prior to deposit to ensure compliance with 62 O.S. § 7.1.C.2.a;
- Observed a PeopleSoft deposit report to ensure funds were transferred from the clearing account to the fund at least once per month as required by 62 O.S. § 7.1.E.1;
- Attempted to recalculate the amount transferred to the state's general revenue fund to ensure 10% of all fees charged, collected and received by the agency were transferred as required by 62 O.S. § 211; and
- Haphazardly selected a sample of 16 months' payroll information in the PeopleSoft accounting system to ensure the executive director's annual salary did not exceed the maximum limit set forth in 74 O.S. § 3601.2.

All samples selected were done in such a way that whenever possible, the samples are representative of the populations and provide sufficient evidential matter. Sample methodologies can vary and are selected based on the audit objective and whether the total population of data was available. Random sampling is the preferred method; however, we may also use haphazard sampling (a methodology that produces a representative selection for non-statistical sampling), or judgmental selection when data limitation prevents the use of the other two methods. We identified specific attributes for testing each of the samples. When appropriate, we projected our results to that population.

**Oklahoma Funeral Board
Operational Audit**

Observation	<u>Inadequate Monitoring of Funds Received Versus Licenses/Renewals Issued</u> <u>Inadequate Segregation of Duties</u>
	<p>Effective internal controls provide for adequate segregation of duties.</p> <p>The Agency's deputy director is responsible for:</p> <ul style="list-style-type: none">• Receipting funds;• Preparing the deposit,• Delivering the deposit to the State Treasurer's Office,• Issuing the license. <p>During the period August 2008 through December 2008, this deficiency was somewhat mitigated since the checks are endorsed by the executive director prior to being processed by the deputy director. However, a risk stills exists that funds could be received and not deposited, yet a license could be issued.</p> <p>As stated previously, key personnel involved in the process during the period January 2006 through July 2008 no longer work for the Agency. As a result, we were unable to obtain an understanding of any possible mitigating controls in place to offset the segregation of duties deficiency during this period.</p> <p>Misappropriation of assets could occur and not be detected in a timely manner.</p>
Recommendation	We recommend management implement mitigating controls that would reduce the risks that exist when there are inadequate segregation of duties. For example, the Agency could contact an appropriate information technology vendor and request modifications be made to their licensing system which would allow the executive director to monitor funds receipted/deposited to licenses/renewals and fines processed.
Views of Responsible Officials	Management agrees. We now have an internal plan and program in place that will reconcile receipts written to bank deposits.
Auditor's Response	We want to reemphasize our recommendation is to monitor funds receipted/deposited to licenses/renewals and fines processed.

Observation	<u>Inadequate Documentation Related to Transfers to the State General Fund</u>
	<p>62 O.S. § 211 states in part, "all self-sustaining boards created by statute to regulate and prescribe standards, practices, and procedures in any profession, occupation or vocation...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."</p> <p>From reviewing PeopleSoft accounting records, we determined the Agency did make transfers to the state general revenue fund during the audit period. However, we were unable to reconcile the Agency's receipting records to PeopleSoft. As a result, we cannot determine the amounts posted to PeopleSoft were correct. Therefore, we cannot determine if 10% of the receipts received were transferred. OSF began performing the transfer calculation in August 2008.</p> <p>The Agency may not be in compliance with 62 O.S. § 211.</p>
Recommendation	We recommend the Agency in conjunction with OSF maintain appropriate documentation to support how the amount transferred to the state general revenue fund was calculated. For example, if \$500,000 was received and deposited by the Agency yet \$35,000 was transferred from the Agency to the state general revenue fund,

documentation should be retained to support how the \$35,000 was calculated.

**Views of Responsible
Officials**

Management agrees. We are implementing an internal plan that will convey to OSF a monthly breakdown of receipts by category that can be reconciled to bank deposits.

Additional Procedures Performed

Methodology

Due to the limitations involved with key personnel no longer working for the Agency, the following procedure was performed:

- Reviewed a selection of 68 expenditure claims from the period January 2006 through July 2008 to ensure they were reasonable for the Agency's mission. No exceptions were noted.



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