OKLAHOMA STATE BOARD OF EXAMINERS FOR LONG TERM CARE ADMINISTRATORS

FOR THE PERIOD
JANUARY 1, 2007 THROUGH
JUNE 30, 2009

OPERATIONAL AUDIT

Oklahoma State Auditor
& Inspector

Audit Report of the Oklahoma State Board of Examiners for Long Term Care Administrators

For the Period
January 1, 2007 through June 30, 2009

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December 23, 2009

TO THE BOARD OF EXAMINERS FOR LONG TERM CARE ADMINISTRATORS

This is the audit report of the Oklahoma State Board of Examiners for Long Term Care Administrators for the period January1, 2007 through June 30, 2009. 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,

STEVE BURRAGE, CPA
STATE AUDITOR & INSPECTOR

Background

The principal duties of the Oklahoma State Board of Examiners for Long Term Care Administrators (Agency) is licensing nursing home administrators and approving continuing education programs.

Oversight is provided by fifteen board members appointed by the governor (excluding the commissioner of health and the director of the Department of Human Services or their designees). Each member serves a term of seven years.

Board members are:

J.T. O'Connor .... Chair
Peggy Wiebener .... Vice-Chair
Jeannie K. Gault .... Secretary/Treasurer
Marlene Asmussen .... Member
Nancy Atkinson. .... Commissioner of Health representative
Susan Barnes .... Member
Stella Church .... Director of the Department of Human Services representative
Marc Edwards .... Member
James Jakubovitz .... Member
Emma Jordan .... Member
Maurice Payne .... Member
Nancy Pfeifer .... Member
Stacie Ware .... Member
Bill Weaver .... Member
Terry Williams .... Member

Table 1 summarizes the Agency's sources and uses of funds for fiscal years 2008 and 2009.

Table 1 - Sources and Uses of Funds for FY 2008 and FY 2009

	2008	2009
Sources:		
Nursing Home Administrator License	$ 269,338	$ 336,266
Intra-Agency Administrative Expense	238,551	100,723
Copies of Other Documents	22,224	-
Registration Fees	58,032	61,812
Other	8,673	3,307
Total Sources	$ 596,818	$ 502,108
Uses:		
Personnel Services	$ 209,135	$ 209,788
Professional Services	40,713	41,153
Travel	8,149	6,017
Miscellaneous Administrative	22,072	16,645
Rent Expense	14,718	10,496
General Operating Expense	16,707	8,100
Office Furniture and Equipment	22,644	24,827
Other	1,769	1,803
Total Uses	$ 335,907	$ 318,829

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

Purpose, Scope, and Sample Methodology

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.

The audit period covered was January 1, 2007 through June 30, 2009.

We selected our samples 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.

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.

Objective 1 - To determine if the Agency's internal controls provide reasonable assurance that revenues, expenditures, and inventory were accurately reported in the accounting records.

Conclusion

The Agency's internal controls do not provide reasonable assurance that revenues, expenditures, and inventory were accurately reported in accounting records.

Methodology

To accomplish our objective, we performed the following:

- Documented internal controls related to the receipting, expenditure, and inventory processes which included discussions with Agency personnel and observation and review of documents.

Observation

<u>Lack of Segregation of Duties Related to the Receipting Process –Repeat Finding</u>

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*[1] 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 executive secretary is responsible for the following:

- Receipting funds;
- Preparing the deposit;

[1] Even though this publication addressed controls in the federal government, this criterion can be treated as best practices. The theory of controls applies uniformly to federal or state government.

- Taking the deposit to the bank; and
- Posting the deposit into the PeopleSoft accounting system.

Prior to the funds being deposited, the deputy director reviews the deposit to ensure the amount agrees with the receipt book. This review does not reduce the risk associated with the deficiency because the deputy director is reviewing only what the executive secretary presents to him.

Management was unaware of the risks created by not ensuring there was adequate segregation of duties. Funds could be received and not deposited.

Recommendation

We recognize segregating incompatible duties in a small agency can be difficult; however, we recommend management consider doing so. In addition, we recommend management design and implement a control to enable them to obtain reasonable assurance that all fees received are deposited. For example, this could include a reconciliation of fees deposited per state treasurer records to licenses issued, training provided, fines issued, etc. This reconciliation should be performed by someone independent of the receipting process.

Views of Responsible Officials

The OSBELTCA will develop and implement process(es) wherein the various revenues, by revenue code (AU, AIT, Examinations, Licensing, etc.), would be cross-checked against expected revenues from that particular item for the time period under review [i.e. the number of persons involved in that activity (enrolled, testing, license issued, etc.) would be multiplied times the fee amount for the particular revenue item in the given time period to arrive at a given amount of income expected] and the values periodically cross-checked by an additional party, such as a Board Member, who is knowledgeable about the particular activity generating the revenue (i.e. knows how many AU students there were, how many licenses were issued, how many tests were given, etc, as well as the fees that should have been charged for the particular activity). With very few employees in this agency (2-3), an actual numeric check will be the only valid way to be certain that all funds received are deposited.

Observation

Lack of Segregation of Duties Related to Expenditures

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* [1] 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 account technician is responsible for:

- Purchasing;
- Entering disbursements into the PeopleSoft accounting system;
- Approving the expenditure for payment;
- Receiving warrants from the Office of State Finance (OSF); and
- Mailing warrants to vendors.

The executive director approves the purchase orders, if applicable, and the deputy director performs random reviews of claims; however, neither of these controls reduces the risks associated with the account technician performing all of these incompatible duties.

Management was unaware of the risks created by not ensuring there was adequate segregation of duties. Misappropriation of assets could occur and not be detected in a timely manner.

Recommendation

We recommend someone other than the employee responsible for entering the disbursement into the accounting system and approving the expenditure receive warrants from OSF and agree them to the invoice and purchase order, if applicable.

Views of Responsible Officials

On September 23, 2009, the Board has entered into an interagency agreement with the Office of State Finance for the processing of all financial transactions within the CORE/PeopleSoft system. This agreement allows for appropriate segregation of duties among OSF staff that was not possible when the Board employed the services of its own 'account technician' ('Fiscal Secretary').

Observation

Inadequate Segregation of Duties Related to Inventory
Inaccurate Inventory Records

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* [1] 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…".

An effective internal control system provides accurate and reliable records.

The deputy director is responsible for the following duties:

- Initiating surplus transactions;
- Adding and deleting items from the inventory listing; and
- Conducting the inventory count (evidence of the count was not retained).

In addition to the segregation of duties deficiency, initial conversations with management noted three laptop computers were purchased during the audit period. These computers were not identified on the initial inventory report provided to us[2]. Once brought to management's attention, they were added to the inventory report.

Management was unaware of the risks created by not ensuring there was adequate segregation of duties. Misappropriation of assets could occur and not be detected in a timely manner.

Recommendation

We recommend:

- An employee without the ability to update inventory records be responsible for completing the DCS Form 001(surplus property transfer form);
- The physical inventory count be conducted by an employee not responsible for purchasing/surplusing goods. If discrepancies are noted, management or designee, other than the personnel involved in the physical count, should investigate and resolve. The Agency should also retain documentation to support who performed the actual count, when the count was performed, and any discrepancies noted during the count; and

[2] Further procedures related to these laptops were performed in the "additional procedures performed" section of this report.

- Access to the inventory listing be restricted to applicable personnel only and not include the employees responsible for purchasing/surplusing goods or conducting the inventory count.

Views of Responsible Officials

Since the office staff is so small (2-3 full-time employees), all applicable personnel must have access to the inventory/asset form and therefore it is impossible that the employee responsible for purchasing/surplusing not be allowed access. Applicable staff will request that a Board Member knowledgeable in the task to be performed periodically validate the accuracy of the inventory records, maintain records of the person performing the inventory-related functions and record any discrepancies found.

Observation

Agency Should Develop Policy Related to Ethical Behavior

An effective internal control system has in place policies and procedures that reduce the risk of errors, fraud, and professional misconduct within an organization. A key factor in this system is the environment established by management. Management's ethics, integrity, attitude, and operating style become the foundation of all other internal control components.

The Agency has not developed and implemented an official written policy addressing ethical behavior in the workplace as they did not believe a policy was necessary. Without a written policy and procedure in place, employees may not be aware of management's expectations regarding ethical behavior thus affecting the Agency's control environment risks.

Recommendation

We recommend the Agency develop a written policy regarding ethical behavior in an effort to reduce the possibility of unethical behavior occurring. Once developed, the policy should be distributed to all current employees and procedures should be implemented to provide the policy to all new employees.

Views of Responsible Officials

In keeping with this recommendation, the Board has drafted a written policy regarding ethical behavior by staff and is in the process of implementing the same.

Objective 2 – Determine whether the Agency complied with 62 O.S. § 211 and 74 O.S. § 3601.2.

Conclusion

Due to the deficiency identified related to revenue, we are unable to conclude on 62 O.S. § 211 (10% transfer of all gross fees charged, collected and received to the state general revenue fund). We were unable to obtain reasonable assurance that all fees received were deposited.

With respect to the months tested, the Agency complied with 74 O.S. § 3601.2 (limitations on the executive director's salary).

Methodology

To accomplish our objective, we performed the following:

- Reviewed 74 O.S. § 3601.2;
- Randomly selected six months and determined if the executive director's salary in those months exceeded the statutory limit.

Additional Procedures Performed

Methodology

As a result of the control deficiencies identified under objective 1 of this report, the following procedures were performed:

- Reviewed the expenditure population with special focus on unusual[3] vendors and payments made to the account technician. Two claims were identified. No exceptions were noted;
- Isolated expenditures with account code 41XX (furniture and equipment), selected claims thought to include high appeal items and verified the existence of the assets. Three claims were reviewed and the existence of four assets was verified. No exceptions were noted; and
- Scanned the expenditure population for payments thought to include equipment and furniture. Two claims were identified and each had a high appeal item. The existence of the assets was verified. No exceptions were noted.

[3] Unusual was defined as a vendor name that was unfamiliar to the auditor or strange given the mission of the Agency.

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