OPERATIONAL AUDIT

Oklahoma Abstractors Board

For the period January 1, 2008 through January 31, 2011

Oklahoma State
Auditor & Inspector
Gary Jones, CPA, CFE

Audit Report of the Oklahoma Abstractors Board

For the period January 1, 2008 through January 31, 2011

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Oklahoma State Auditor & Inspector

2300 N. Lincoln Blvd. • State Capitol, Room 100 • Oklahoma City, OK 73105 • Phone: 405.521.3495 • Fax: 405.521.3426

May 18, 2011

TO THE OKLAHOMA ABSTRACTORS BOARD

This is the audit report of the Oklahoma Abstractors Board for the period January 1, 2008 through January 31, 2011. 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,

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

Background

The Oklahoma Abstractors Board (the Agency) regulates the abstracting industry and issues abstractor licenses, certificates of authority, and permits to construct abstract plants.[1] The Agency is responsible for promulgating rules, setting forth guidelines for Agency operations, and governing the professional practices of the licensees. The entity is self-supporting through fees.

Beginning in January 2008, the Agency contracted with the Office of State Finance – Shared Services to perform some accounting functions such as purchasing, claims processing, deposit posting, and transfer procedures.

Operations are governed by 1 O.S. §§ 20 through 43 and Title 5 of the Oklahoma Administrative Code. The Agency is overseen by a board of nine members (the Board), including six holders or employees of holders of abstracting certificates of authority, each from one of six districts throughout the state, and a licensed real estate broker, an attorney, and a bank officer. All members serve a term of four years, and may be appointed for two terms. The real estate broker position is currently vacant.

Board members are:

Linda Carpenter .... Chair (District 1)
Glenda Mittasch .... Vice-Chair (District 4)
Gary Baer .... Secretary (Attorney)
David Riley .... Member (District 2)
Monica A. Wittrock .... Member (District 3)
Mike Harris .... Member (District 5)
J. Herschel Beard .... Member (District 6)
Jerald Stringer .... Member (Bank Officer)

Table 1 summarizes the Agency's sources and uses of funds for state fiscal years 2010 and 2009 (July 1, 2008 through June 30, 2010).

Table 1 - Sources and Uses of Funds for SFY 2010 and SFY 2009

	2010	2009
Sources:		
Abstractors License and Fee	$ 288,666	$ 339,987
Total Sources	$ 288,666	$ 339,987
Uses:		
Personnel Services	$ 188,639	$ 143,012
Professional Services	54,614	27,532
Miscellaneous Administrative	4,144	6,200
General Operating Expenses	3,270	6,892
Travel Expenses	16,547	18,692
Rent Expense	11,229	10,810
Office Furniture and Equipment	166	6,276
Other	1,016	1,996
Total Uses	$ 279,625	$ 221,410

Source: Oklahoma PeopleSoft Accounting System (unaudited, for informational purposes only)

[1] An abstract is a full and complete record of all matters filed of public record that affect ownership rights to a particular piece of real property. An abstract plant is an organized collection – either physical or virtual – of copies or images of instruments affecting real property that are filed for record at the offices of the county clerk and court clerk, with an index that is built independently of the county's index of records.

Purpose, Scope, and Sample Methodology

This 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.

The audit period covered was January 1, 2008 through January 31, 2011.

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 - Determine whether the Agency's internal controls provide reasonable assurance that revenues and expenditures (including payroll) were accurately reported in the accounting records, and whether financial operations complied with 62 O.S. § 211.

Conclusion

The Agency was created in January 2008, the first month of our audit period, and as a new agency, it took time to establish a staff and location and to develop procedures and controls. Through discussion with management and review of appropriate documentation, we have determined that the Agency's current internal control structures related to revenues and payroll expenditures were created by July 2008, and the current internal control structure related to non-payroll expenditures was created by March 2009.

As a result, we were only able to document internal controls for the period of March 2009 through January 2011 for non-payroll expenditures, and July 2008 through January 2011 for revenues and payroll expenditures. Our test of compliance with 62 O.S. § 211 was performed for the full audit period, as transfers to the state's general revenue fund were made throughout that period.

July 2008 through January 2011

The Agency's internal controls do not provide reasonable assurance that revenues or payroll expenditures were accurately reported in the accounting records.

March 2009 through January 2011

The Agency's internal controls provide reasonable assurance that non-payroll expenditures were accurately reported in the accounting records.

January 2008 through January 2011

Financial operations materially[2] complied with 62 O.S. § 211, which requires the transfer of 10% of all gross fees charged, collected, and received to the state's general revenue fund. Please note that as discussed in footnote 3 on page 4 of this report, the lack of

[2] For our purposes, materially was defined as a variance of 1% or less.

proper segregation of duties in the revenue process may impact transfers conducted; our testwork reflected only that 10% of fees deposited were materially transferred as required by 62 O.S. § 211.

Methodology

To accomplish our objective, we performed the following:

- Documented internal controls related to the receipting and expenditure processes which included discussions with Agency personnel, observation, and review of documents;
- Tested controls, which included:
  - Discussing with staff to determine whether duties related to non-payroll expenditures were properly segregated;
  - Reviewing financial reports (prepared by both the Agency and OSF Shared Services) and board meeting minutes from three randomly selected months from the period of March 2009 through January 2011 to ensure they agree and that appropriate expenditure information was properly reviewed by the Board and the executive director;
- Recalculated the amount transferred to the state's general revenue fund to ensure 10% of all the fees charged, collected, and received by the Agency were transferred as required by 62 O.S. § 211.

Observation

<u>Inadequate Segregation of Duties in the Revenue Process</u>

To protect against possible errors or irregularities, an effective internal control system should provide reasonable assurance that assets are adequately safeguarded by properly segregating the duties of employees.

The executive assistant is responsible for receiving payments in the mail, receipting them into the Agency's QuickBooks system, and for issuing and renewing individual licenses, certificates of authority, and permits (collectively referred to as "licenses" for the remainder of this report). If a payment were misappropriated, the license could still be issued or renewed.

The executive director is responsible for preparing the daily deposit, and has the ability to modify the Agency's QuickBooks revenue records. Because copies of the payments received are attached to the licensing information by the executive assistant earlier in the process, any licenses for which the payment was misappropriated at this point would still be issued or renewed.

This lack of segregation, which exists due to the Agency's small staff size, could allow funds to be received and not deposited without being detected in a timely manner.

Recommendation

The executive director's ability to modify revenue records in QuickBooks should be removed. The Agency should then develop procedures to allow the executive director to compare an independent list of licenses issued and renewed to revenues deposited, in order to ensure that all licenses are supported by payments.

If the executive director must have the ability to modify revenue records in QuickBooks, someone independent of the executive assistant and executive director should perform the comparison of licenses issued and renewed to revenues deposited.

Views of Responsible Officials

Due to having so few employees, the executive director must have the ability to modify records in QuickBooks. The OAB will develop procedures to allow a Board member to compare an independent list of licenses issued and renewed to revenues deposited.

Observation **Agency Not Approving Monthly Payroll Expenditures**

An effective internal control system provides for adequate management review of payroll expenditures.

The Agency's payroll claim document authorizing payroll expenditures is prepared and approved by Office of State Finance (OSF) Shared Services staff, without the participation of management.

It appears that management believes that OSF is the proper approval authority for payroll expenditures because the payroll preparation duties have been contracted out to OSF. However, management has the ultimate responsibility for approving expenditures. An error could occur and not be detected on a timely basis.

Recommendation OSF Shared Services should provide the payroll claim document to management with appropriate supporting documentation, and management should review and approve that claim before the payroll process is completed.

Views of Responsible Officials OSF has been notified that the executive director will now approve monthly payroll expenditures effective immediately.

Other Items Noted

Although not considered significant to the audit objective, we feel the following issue should be communicated to management.

Observation **Transfers to State General Revenue Fund Not Performed on a Timely Basis**

62 O.S. § 211 requires that "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 charged, collected and received by such board."

62 O.S. § 34.57.E.1 requires that "at least once each month each state agency shall transfer monies deposited in agency clearing accounts to the various funds or accounts, subdivisions of the state, or functions as may be provided by statute."

The Agency's general fund transfers are conducted by OSF Shared Services. We reviewed each transfer made during the audit period to ensure that the transfers were made in the correct amounts[3] and on a timely basis (within one month) as defined by 62 O.S. § 34.57.E.1.

The amounts of the transfers calculated by the Agency materially agreed to the transfers conducted by OSF Shared Services. However, we determined that the transfers corresponding to the following eight months' revenues were not performed within the subsequent month: February, March, October, and December 2008; May 2009; April, June, and October 2010.

It appears OSF staff did not conduct the transfers on a timely basis and management did not monitor the timing of the transfer procedures. As a result, eight transfers were not in compliance with 62 O.S. § 34.57.E.1.

[3] Please note that the lack of segregation of duties in the revenue process, as discussed in a previous observation, may impact the funds transfer process. If any funds received were not deposited, they also would not have been transferred. Our testwork was designed to determine whether the appropriate percentage of the funds ultimately deposited was transferred.

Recommendation

Management should monitor transfers performed by OSF Shared Services to ensure that their amounts agree to Agency records and that they are performed within the following month as required by statute.

Views of Responsible Officials

The executive director will begin monitoring the transfers performed by OSF Shared Services to ensure that their amounts agree to Agency records and that they are performed on a timely basis.

OFFICE OF THE STATE AUDITOR AND INSPECTOR

2300 N. LINCOLN BOULEVARD, ROOM 100

OKLAHOMA CITY, OK 73105-4896

WWW.SAI.OK.GOV