

OPERATIONAL AUDIT

OKLAHOMA FUNERAL BOARD

January 1, 2009 through December 31, 2012



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

**Audit Report of the
Oklahoma Funeral Board**

**For the Period
January 1, 2009 through December 31, 2012**



Oklahoma State Auditor & Inspector

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June 7, 2013

TO THE OKLAHOMA FUNERAL BOARD

This is the audit report of the Oklahoma Funeral Board for the period January 1, 2009 through December 31, 2012. 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.

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones". The signature is fluid and cursive, with a long horizontal stroke at the end.

GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

Oklahoma Funeral Board Operational Audit

Background

The mission of the Oklahoma Funeral Board (the Agency) is to act in the public interest, for the public protection and advancement of the profession. The Agency serves as a resource on funeral service to the general public and members of the funeral profession. Originally established in 1905, the Agency provides regulatory oversight for funeral establishments, commercial embalming establishments, crematories, funeral directors, embalmers, apprentices, burial associations, and burial agents. It is self-sustaining by fee collection.

Oversight is provided by a board of seven members (the Board) appointed by the governor. Each member serves a term of five years.

Board members are:

- Mike Phenix President
- Cindy Longanacre..... Vice-President
- J. Cooper..... Member
- Richard Dugger II..... Member
- Tom Pickard..... Member
- Mark Temple Member
- Andy Walding..... Member

Table 1 summarizes the Agency’s sources and uses of funds for state fiscal years 2011 and 2012 (July 1, 2010 through June 30, 2012).

Table 1 - Sources and Uses of Funds for SFY 2012 and SFY 2011

	2012	2011
Sources:		
License Fees	\$ 306,622.48	\$ 299,463.63
Other Fines, Forfeits, Penalties	21,200.74	30,260.00
Total Sources	<u>\$ 327,823.22</u>	<u>\$ 329,723.63</u>
Uses:		
Personnel Services	\$ 253,049.79	\$ 279,798.91
Professional Services	51,911.49	52,113.34
Travel	15,810.32	24,547.33
Misc. Administrative Exp	7,335.74	8,836.49
Rent	10,201.87	9,503.94
General Operating Expenses	2,086.34	4,167.53
Other	121.00	2,813.69
Total Uses	<u>\$ 340,516.55</u>	<u>\$ 381,781.23</u>

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

Oklahoma Funeral Board Operational Audit

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, 2009 through December 31, 2012.

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 selected our samples in such a way that whenever possible, the samples are representative of the populations and provide sufficient evidential matter. 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: Determine whether the Agency's internal controls provide reasonable assurance that revenues and expenditures (both miscellaneous and payroll) were accurately reported in the accounting records, and financial operations complied with 59 § 396.1C, 62 O.S. § 211, and 74 O.S. § 3601.2.A.

Conclusion

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

Financial operations appear to have materially complied with 62 O.S. § 211 and 59 § 396.1C, which require the transfer of 10% of all gross fees charged, collected, and received to the state general revenue fund, and transfer of remaining revenues to the Agency's revolving fund. However, the revenue control weakness discussed on pages 3 and 4 of this report

may impact transfers conducted; as the Agency does not have proper controls in place to obtain assurance that all funds received are deposited, our testwork reflected only that fees *deposited* were transferred appropriately.

Financial operations complied with 74 O.S. § 3601.2.A, which limits the Agency director's salary.

Methodology

To accomplish our objective, we performed the following:

- Obtained an understanding of internal controls related to the receipting and expenditure processes through discussions with Agency personnel, observation, and review of documents.
- Tested controls, which included:
 - Reviewing payroll documentation and timesheets from 12 randomly selected months to determine whether they were properly approved.
 - Reviewing seven payroll changes that took place during the audit period to ensure they were properly approved and accurately reflected in payroll documentation.
- Recalculated the amount transferred to the state's general revenue fund and the Agency's revolving fund to ensure those transfers were conducted as required by 62 O.S. § 211 and 59 § 396.1C.
- Reviewed information in the state's PeopleSoft accounting system to ensure the director's annual salary did not exceed the maximum limit set forth in 74 O.S. § 3601.2 for any individual who served as director during the audit period.

Observation

Inadequate Segregation of Duties in Revenue and Expenditure Processes

The United States Government Accountability Office's *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."

¹ Although this publication 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.

The Agency director is responsible for both receipting payments and preparing the daily deposit. Because he also has the ability to generate licenses, this creates the risk that the director could misappropriate funds received and that misappropriation may not be detected.

The director is also responsible for approving Agency purchases and the resulting expenditures, and for receiving the physical checks written to vendors. This creates the risk that the purchased items or checks to vendors could be misappropriated.

In the absence of the director, the deputy director is responsible for these same conflicting duties and therefore subject to the same risks. These incompatible duties exist due to the Agency's small staff size; because an increase in staff size may be unrealistic, mitigating controls must be developed.

Recommendation In order to address the risks created by management's conflicting duties, we recommend the following:

- A responsible party independent of the revenue and expenditure processes (such as the board chair) should reconcile licenses issued and renewed to deposit documentation to ensure all fees received by the Agency are receipted and deposited.

In order to ensure this procedure is effective and independent, the reviewer should review licenses issued and renewed over specific periods of time (such as a week) on a random and unannounced basis. This could be accomplished by requesting database reports of licenses issued and renewed and tracing the relevant payments to state accounting records to ensure all payments received were deposited. (Such a procedure may require the Agency to develop a report listing licenses renewed over a particular time period.)

However the reviewer chooses to perform this monitoring duty, it is essential that the review be unannounced and that some independent documentation (such as PeopleSoft or State Treasurer's Office records) be used in the reconciliation to ensure supporting documentation has not been manipulated.

- Board members should receive a copy of the PeopleSoft 6-Digit Expenditure Detail Report, prepared in PDF format to limit the potential for report manipulation, as part of their board meeting packets, and should question any unusual or unexpected expenditures.

**Views of
Responsible
Officials**

Management points out that while in agreement with the existence of the noted risks, no evidence of misappropriation or malfeasance was discovered during the audit. Management will consider the recommendation of the first bullet point, along with Board members, to find the best mitigating control to reduce the associated risk. Management accepts the recommendation on the second bullet point and will henceforth include the PeopleSoft 6-Digit Expenditure Detail Report currently prepared by the Office of Management and Enterprise Services Agency Business Services to Board members monthly in a PDF format for review.



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