OKLAHOMA BOARD OF EXAMINERS IN OPTOMETRY

FOR THE PERIOD JANUARY 1, 2007 THROUGH DECEMBER 31, 2008

OPERATIONAL AUDIT

Oklahoma State Auditor
& Inspector

Audit Report of the Oklahoma Board of Examiners in Optometry

For the Period January 1, 2007 through December 31, 2008

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July 23, 2009

TO THE OKLAHOMA BOARD OF EXAMINERS IN OPTOMETRY

Following is the audit report of the Oklahoma Board of Examiners in Optometry for the period January 1, 2007 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,

STEVE BURRAGE, CPA
STATE AUDITOR & INSPECTOR

Mission Statement

The mission of the Oklahoma Board of Examiners in Optometry is to protect the public by regulating the practice of optometry in the state of Oklahoma through education and licensing, and to ensure that optometrists practice within the provisions of the law.

Board Members

Clay McLaughlin, O.D. .... President
Steve Smith, O.D. .... Vice-President
Gary Ford, O.D. .... Secretary-Treasurer
David Cockrell, O.D. .... Member
Robert Edward Jones .... Member
Russell Laverty O.D. .... Executive Director

Key Staff

Russell Laverty, O.D. .... Executive Director
Mary Walker .... Secretary
Traci Walker .... Secretary

Background

The practice of optometry is defined to be the science and art of examining the human eye. The Board of Examiners in Optometry (Agency) is the regulatory body for this profession.

The Agency's operations are governed by 59 O.S. §§ 581 through 606 and Oklahoma Administrative Code Title 505.

Oversight is provided by a five-member Board of Directors (Board), four of whom shall possess sufficient knowledge of theoretical and practical optics to practice optometry, be duly licensed as optometrists, and who shall have been residents of this state actually engaged in the practice of optometry for at least five years. The term of each licensed optometrist member of the Board, one being appointed each year, shall be five years, or until a qualified successor is appointed. The lay member of the Board shall serve until the governor's term expires.

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

	2007	2008
Sources:		
Optometry Examination Licenses/Fees	$ 113,782	$ 160,285
Total Sources	$ 113,782	$ 160,285
Uses:		
Personnel Services	$ 104,656	$ 123,066
Travel	10,593	10,535
Miscellaneous Administrative	6,903	6,307
Rent	4,388	5,690
Professional Services	11,570	12,813
Other	5,754	3,153
Total Uses	$ 143,864	$ 161,564

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

Authority, 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 and 59 O.S. § 587 which requires an audit of the Agency's revolving fund.

The audit period covered was January 1, 2007 through December 31, 2008.

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 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, 62 O.S. § 211, and 59 O.S. § 587 .

Conclusion

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

Financial operations complied with the following statues:

- 62 O.S. § 7.1.C.2.a - adequate safeguarding of receipts awaiting deposit;
- 62 O.S. § 7.1.E - monthly transfers from the clearing account;
- 59 O.S. § 587- the secretary-treasurer shall receive $200 per month.

Due 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.

Methodology

To accomplish our objective, we performed the following:

- Documented internal controls related to the receipting and expenditure processes;
- Discussed with personnel and observed location where funds are retained prior to deposit to ensure they are adequately safeguarded as required by 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;
- Recalculated the amount transferred to the state's general revenue fund to determine if 10% of all fees posted to the PeopleSoft accounting system were transferred as required by 62 O.S. § 211;
- Reviewed a judgmental sample of six payroll registers to ensure the secretary-treasurer's monthly salary was $200 as required by 59 O.S. § 587.

Observation

Lack of Segregation of Duties Related to Receipts - Repeat Finding

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…".

[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.

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. Management's ability to analyze risks and monitor activities within the Agency are vital in this process as well.

At certain points during the year, secretary #1 is responsible for:

- Receipting funds for the Agency;
- Preparing the deposit for the Agency;
- Entering information into the PeopleSoft accounting system:
- Issuing the license;
- Preparing the reconciliation.

The Agency attempted to address this concern during the peak season by having secretary #2 receipt the funds and prepare the deposit while secretary #1 enters the data into PeopleSoft and performs the reconciliation. Either secretary can issue the license. The issue with this scenario is that secretary #1 is secretary #2's mother. The situation is further complicated due to the lack of monitoring of the Agency's inputs (fees) to outputs (licenses/renewals) issued and the executive director's partial absence[2] in the daily operations of the Agency.

The Agency's limited size and staffing resources has made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner. Funds could be received and not deposited.

Recommendation If management wishes to continue using a second employee to mitigate the segregation of duties risk, these employees should not be related. If the Board and the executive director choose not to implement this portion of the recommendation, the executive director should monitor licenses/renewals issued to funds deposited per state treasurer records. If the recommendation is implemented, monitoring of licenses/renewals issued to funds deposited could occur more on a periodic basis.

Views of Responsible Officials There are no laws in the Statutes prohibiting the employment of a mother and a daughter in the same Agency.

Auditor's Response We want to reemphasize our recommendation that if management wishes to continue using a second employee to mitigate the segregation of duties risk, these employees should not be related or other mitigating controls should be implemented. This could include the executive director monitoring licenses/renewals issued to funds deposited per state treasurer records.

Observation **Lack of Segregation of Duties Related to Expenditures - Repeat Finding**

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* states in part, "Key duties and responsibilities need to

[2] The executive director is an optometrist. The Agency's office is on the second floor of the executive director's optometry practice office. He sees patients during business hours and is not always present in the Agency's office during office hours. This situation is discussed further later in this report.

be…segregated among different people to reduce the risk of error or fraud….No one individual should control all key aspects of a transaction…”.

Secretary #1 is responsible for the following:

- Purchasing items;
- Entering disbursements into the PeopleSoft accounting system;
- Receiving warrants from OSF;
- Mailing warrants to vendors.

Additionally, she possesses a stamp of the executive director’s signature and has the authority to approve claims for him. The executive director’s approval of expenditures was found to be cursory in nature through review of claims. It should be noted the executive director has attempted to mitigate this risk by reviewing a PeopleSoft expenditures report each month. However, the report is summarized by account code and provides no detail.

The Agency’s limited size and staffing resources has made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner. Misappropriation of assets could occur and not be detected in a timely manner.

Recommendation

We recommend:

- Someone other than secretary #1 receives the warrants from OSF, match them to the appropriate invoice/purchase order, and mail them to the vendors. If another employee is not available, the executive director should perform this duty; and
- The executive director perform a detailed review of expenditure claims. This includes ensuring expenditures are properly supported, mathematically accurate, properly coded, and appear reasonable. Additionally, the executive director should be reviewing a detailed monthly expenditure report.

Views of Responsible Officials

Secretary #2 will begin receiving warrants from OSF and will match them to the appropriate invoice/purchase order, and mail them to the vendors.

The Executive Director will review a detailed monthly expenditure report each month in addition to the detailed review of expenditure claims he reviews at this time.

The signature stamp mentioned in the above Observation has been removed from the Agency.

Observation

Executive Director’s Dual Duties Appear Unusual

State statute[3] allows the Board to create, hire, and establish salaries of officials, attorneys, and other employees deemed necessary to perform the duties of the Agency. The Board has created a full-time executive director position who receives a monthly salary of $3,000 plus benefits.

[3] 59 O.S. § 603 states, “The Board of Examiners in Optometry shall create positions, make the appointment, and…shall fix the salary of officials, attorneys and other employees necessary to perform the duties imposed upon the Board of Examiners in Optometry…”

The executive director is also a practicing optometrist with office hours from 8:00 to 5:00 (Monday-Thursday) and 7:00 to 3:00 (Friday). His practice is located on the first floor of the building; the Agency's offices are located on the second floor of the same building.

Oklahoma Administrative Code (OAC) 530: 10-15-11 states in part, "(a) Annual leave is intended to be used for vacations, personal business, and other time off work…(b)(9) Annual leave shall be charged against an employee's annual leave balance based on the amount of time an employee is absent from work…"

We reviewed payroll records from the Office of Personnel Management (OPM) and noted the executive director is receiving salary and benefits based on working 100% of the month's available hours. In addition, OPM leave records show annual and sick leave is accrued but does not indicate annual leave is used while the executive director is seeing patients[4].

The executive director is being paid as a full-time employee with salary and benefits (retirement, leave, insurance, etc.) while also working for his private practice during these same business hours. His annual and sick leave balances continue to grow, increasing the Agency's financial liability. The Agency is responsible for paying him for any unused annual leave should he resign from state service.

Recommendation

We recommend the governing Board consult with the Agency's attorney general liaison to determine the appropriate course of action regarding the executive director being paid a salary, benefits, and accruing leave but not using the leave when conducting personal business.

Views of Responsible Officials

The Board of Examiners in Optometry hired the Executive Director in November 2006 in a part-time capacity according to OS 59, Section 602 and 603. The required documentation supporting the part-time status of the Executive Director was sent to OPM. OPM did not reflect the part-time status in their set up of our Executive Director's annual and sick leave; therefore, it was no fault of our Agency that the leave accrual rate was incorrect. This has been corrected.

In addition, while the optometric office maintains the hours of 8:00 to 5:00 (Monday-Thursday) and 7:00 to 3:00 (Friday), our Executive Director does not work all of these hours, as he is also part-time in the clinic.

Auditor's Response

During our audit, OPM staff confirmed to us the executive director was considered a full-time employee both in the accrual of leave and in payment of salary. We want to reemphasize our recommendation that the Board consult with the Agency's attorney general liaison as well as OPM to determine the appropriate course of action.

Additional Procedures Performed

Methodology

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

- Attempted to select applications from the period, agree them to licenses issued and state treasurer's deposit records. Due to the applications covering the period

[4] We reviewed a random sample of 14 months' leave records and noted that no annual or sick leave was used.

January 2007 through June 2008 being destroyed, our selection was limited to 20 haphazardly selected applications covering the period July 2008 through December 2008. No exceptions were noted for the applications reviewed for the period of July 2008 to December 2008; and

- Reviewed a selection of 35 judgmentally selected expenditure claims to ensure they were adequately supported and reasonable given the mission of the Agency. There were no exceptions noted.

Observation **Inadequate Deposit Records**

21 O.S. § 590A states in part,

> Every state governmental entity shall, for a period of two (2) years, maintain accurate and complete records… reflecting all financial and business transactions, which records shall include support documentation for each transaction. No such records shall be disposed of for three (3) years thereafter…

To ensure funds were deposited for licenses/renewals issued, we attempted to select applications from the audit period and agree them to licenses issued and the state treasurer's deposit records. However, the Agency had destroyed all applications covering the period January 2007 through June 2008. As a result, there is not a method to determine funds were deposited for licenses/renewals issued.

Management was unaware of the state law requiring transaction documentation be retained for five years.

Recommendation We recommend the Agency maintain accurate and complete records that reflect all financial and business transactions as required by 21 O.S. § 590A.

Views of Responsible Officials Management was not unaware of the state law requiring transaction documentation be retained for five years. The Agency maintains 5 years of all deposit records through carbon copies of the receipts for the license renewals in addition to the deposit records. Every license that is renewed will be reflected in the deposit record the Agency maintains. If there is no renewal information received, there will be no license renewal issued, and no receipt and deposit recorded. Therefore, we feel that this mandate has been met. Additionally, the Agency maintains a record of all licenses that have been renewed.

Secretary #1 requested that the "temporary" employee shred the application for license renewals for the 2007-2008 license renewal periods due to the SSN listed on these applications and the lack of the ability to safeguard these numbers.

The application is not a financial or business transaction, therefore we respectfully disagree that it is necessary to retain applications for renewal containing the sensitive information contained within the application. The application for renewal is only used within our office to reflect eligibility for license renewal and for our optometrists to update information for their records in our database. This eligibility is maintained within our database and our files are available for your review at any time.

Auditor's Response As stated in the methodology section, these procedures were performed as a result of the receipting segregation of duties deficiency identified under objective 1 of this report.

Because of this deficiency, we were unable to rely on the deposit information management discussed above.

Because the application is the primary supporting documentation to the deposit, we believe it is a “record” as defined by 67 O.S. § 203. Therefore, we believe 21 O.S. § 590A does apply. We reemphasize our recommendation the Agency maintain accurate and complete records that reflect all financial and business transactions. Regarding management’s concern over safeguarding the sensitive information, procedures could be implemented where the sensitive information is “blacked out” once the form has been processed.

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