

# OKLAHOMA STATE BOARD OF PHARMACY

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

# OPERATIONAL AUDIT



Oklahoma State Auditor  
& Inspector

**Audit Report of the  
Oklahoma State Board of Pharmacy**

**For the Period  
January 1, 2007 to December 31, 2008**

# STATE AUDITOR AND INSPECTOR

STEVE BURRAGE, CPA  
State Auditor

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April 30, 2009

## TO THE OKLAHOMA STATE BOARD OF PHARMACY

This is the audit report for the Oklahoma State Board of Pharmacy for the period January 1, 2007 to 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 printed name.

STEVE BURRAGE, CPA  
STATE AUDITOR & INSPECTOR

## **Mission Statement**

The mission of the Oklahoma State Board of Pharmacy is to protect the health, safety, and welfare of the citizens of Oklahoma by regulating and enforcing the laws regarding the practice of pharmacy and the manufacturing, sales, distribution and storage of drugs, medicines, chemicals and poisons.

## **Board Members**

|                             |                |
|-----------------------------|----------------|
| Dorothy Gourley, D.Ph. .... | President      |
| James Spoon, D.Ph. ....     | Vice-President |
| Gordon Richards, D.Ph. .... | Member         |
| John Lassiter, D.Ph. ....   | Member         |
| William Osborn, D.Ph. ....  | Member         |
| Diana Hampton.....          | Public Member  |

## **Key Staff**

|                           |                    |
|---------------------------|--------------------|
| John A. Foust, D.Ph. .... | Executive Director |
| Mary Ann Terral .....     | Business Manager   |

# Oklahoma State Board of Pharmacy Operational Audit

## Background

Authorized by the Oklahoma Constitution under Article V, Section 39 and implemented by acts of the Oklahoma Legislature, the Oklahoma State Board of Pharmacy (Agency) is the regulatory agency for the practice of pharmacy and for the sale, storage, and handling of prescription drugs, medicines, chemicals, and poisons. One of the chief agency functions is to conduct examinations for the granting of licenses to pharmacists. The Agency is responsible for licensing and inspection of premises where pharmaceuticals are dispensed, sold, or stored.

The Agency's operations are governed by 59 O.S. §§ 353 through 365 and Oklahoma Administrative Code Title 535.

Oversight is provided by six members appointed by the Governor - five pharmacists and one public (lay) member. Pharmacist members serve for a period of five years. The public member serves until the Governor's term expires. The Agency pays for its operations primarily through license fees.

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 and FY 2008**

| Sources:                      | 2007               | 2008               |
|-------------------------------|--------------------|--------------------|
| Pharmacy Board - License/Fees | \$1,036,770        | \$1,083,855        |
| Other                         | <u>2,580</u>       | <u>5,776</u>       |
| Total Sources                 | <u>\$1,039,350</u> | <u>\$1,089,631</u> |
| Uses:                         |                    |                    |
| Personnel Services            | \$655,436          | \$707,047          |
| Professional Services         | 83,454             | 113,735            |
| Travel                        | 75,097             | 77,705             |
| Miscellaneous Administrative  | 50,771             | 50,016             |
| Rent Expense                  | 38,046             | 38,421             |
| Other                         | <u>29,081</u>      | <u>30,051</u>      |
| Total Uses                    | <u>\$931,885</u>   | <u>\$1,016,975</u> |

*Source: Oklahoma CORE Accounting System (unaudited; for informational purposes only)*

## Authority, Purpose, and Scope

This audit was conducted in response to 62 O.S. § 212, which requires the State Auditor's Office to audit the books, records, and accounts of all self-sustaining boards created by statute to regulate and prescribe standards, practices, and procedures in any profession, occupation or vocation.

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, 2007 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.1, 62 O.S. § 211, 59 O.S. § 353.5.B, and 59 O.S. § 353.5.D.2.**

**Conclusion**

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

Financial operations complied with the following statutes:

- 62 O.S. § 7.1.C.2.a - adequate safekeeping of receipts awaiting deposit;
- 62 O.S. § 7.1.E.1 - monthly transfers from the agency's clearing account;
- 62 O.S. § 211 - 10% transfer of all gross fees charged, collected, and received to the state general revenue fund;
- 59 O.S. § 353.5.B - board member travel reimbursement;
- 59 O.S. § 353.5.D.2 - duties of the executive director.

**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:
  - Determining if the person who prepared the reconciliation was independent of the receipting process;
  - Reviewing a random sample of three months Office of State Finance (OSF) Form 11 reconciliation forms to ensure the reconciliations were mathematically accurate, amounts traced to supporting documentation, and reconciling items appeared to be reasonable;
  - Determining if the person who performed the comparison of licenses issued to funds deposited was independent of the receipting and licensing functions;
  - Reviewing a random sample of 25 deposits from the period to ensure the monies deposited agreed to the amount collected according to the ACCESS licensing report.
- 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;
- Reviewed CORE deposits for the audit period to determine if transfers from the clearing account were occurring at least monthly as required by 62 O.S. § 7.1.E;
- Recalculated the amount transferred to the state's general revenue fund during the audit period to ensure 10% of all the fees charged, collected and received by the Agency were transferred as required by 62 O.S. § 211;
- Reviewed a random sample of 12 claims (payments) to board members for travel reimbursements to determine if compensation was being received as outlined in 59 O.S. § 353.5.B;

- Reviewed a haphazard sample of three months board minutes to determine if financial information was being communicated to board members as outlined in 59 O.S. § 353.5.D.2.

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.

**Observation**

**Inadequate Segregation of Duties related to Expenditures**

To protect against possible misappropriations of assets, the internal control system should provide reasonable assurance assets are adequately safeguarded by properly segregating duties of employees.

The business manager is responsible for:

- posting disbursements to PeopleSoft;
- receiving and mailing warrants from the OSF;

She also has access to a signature stamp of the executive director (approving official of disbursements).

Financial information is provided to the Board during its monthly meetings. However, we determined this did not mitigate the risk associated with the lack of segregation of duties because the business manager prepares the information.

**Recommendation**

We recommend:

- Someone other than the business manager receive the warrants from the OSF and mail the warrants to vendors. This employee should not have the ability to post (create) expenditures in the PeopleSoft accounting system. If another employee is not available, the executive director should receive the warrants, and at a minimum, review the warrants for reasonableness;
- The executive director's signature stamp be secured so that the business manager (or any other employee with the ability to post expenditures) does not have access to it.

**Views of Responsible Officials**

1. Business manager enters claims for payment into the PeopleSoft system.
2. These claims are given to the Executive Director. He reviews, and approves by manually signing the claim prior to submission to OSF for payment. The only exceptions to this process are on time-limited critical claims such as P-Card and in rare instances payroll, and only under the following conditions:



- a) With specific oral approval of the director, the business manager may use the executive director's signature stamp.
  - b) All instances of stamp use, following oral approval, must be retro-actively reviewed and initialed by the director.
3. Warrants are mailed by OSF by interagency mail to the Executive Director, but have been opened by the Business Manager.

The executive director will open the warrants from OSF and randomly check them prior to giving them to the business manager for distribution.

**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. 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**

Strong ethical behavior is demonstrated by director and staff. Employees must meet state laws that deal with misuse of state position and Ethics Commission rules. We requested and the Auditor's office has provided a copy of their ethics policy. The Auditor's office also suggested we contact the Medical Board for a copy of their policy to use as a sample policy. Board staff will look into implementing an agency Ethics Policy.

**Additional Procedures Performed**

**Methodology**

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

- Reviewed 22 claims to ensure they were adequately supported, did not appear to have been signed using the executive director's signature stamp, and appeared reasonable given the Agency's mission. No exceptions were noted as a result of these procedures.





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