

OPERATIONAL AUDIT

OKLAHOMA STATE BOARD OF PHARMACY

For the period July 1, 2011 through June 30, 2013



*Independently serving the citizens of
Oklahoma by promoting the
accountability and fiscal integrity of
governmental funds.*



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

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

**For the Period
July 1, 2011 through June 30, 2013**



Oklahoma State Auditor & Inspector

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February 28, 2014

TO THE OKLAHOMA STATE BOARD OF PHARMACY

This is the audit report of the Oklahoma State Board of Pharmacy for the period July 1, 2011 through June 30, 2013. 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.

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.

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones". The signature is fluid and cursive, with the first name "Gary" being the most prominent.

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

Oklahoma State Board of Pharmacy Operational Audit

Background

The Oklahoma State Board of Pharmacy (Agency) was authorized by the Oklahoma Constitution under Article V, Section 39 and implemented by acts of the Oklahoma Legislature. The board 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 board functions is to conduct examinations for the granting of licenses to pharmacists. The board is responsible for licensing and inspection of premises where prescription drugs are dispensed, sold, or stored.

Oversight is provided by six members appointed by the governor: five (5) pharmacists and one (1) public (lay) member. Pharmacist members serve for a period of five years. The public member serves a term which is coterminous with the Governor. Board members as of December 2013 are:

| | |
|----------------------------|----------------|
| Steven Dudley | President |
| Greg Adams, D.Ph..... | Vice-President |
| John Lassiter, D.Ph..... | Member |
| Dorothy Gourley, D.Ph..... | Member |
| James O. Spoon, D.Ph..... | Member |
| Justin Wilson, D.Ph..... | Member |

The following charts illustrate the Agency's primary funding sources, and where those funds are expended.¹

¹ This information was obtained from Oklahoma PeopleSoft accounting system. It is for informational purposes only and has not been audited.

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Chart 1 - Revenues by Category (July 1, 2011 through June 30, 2013)

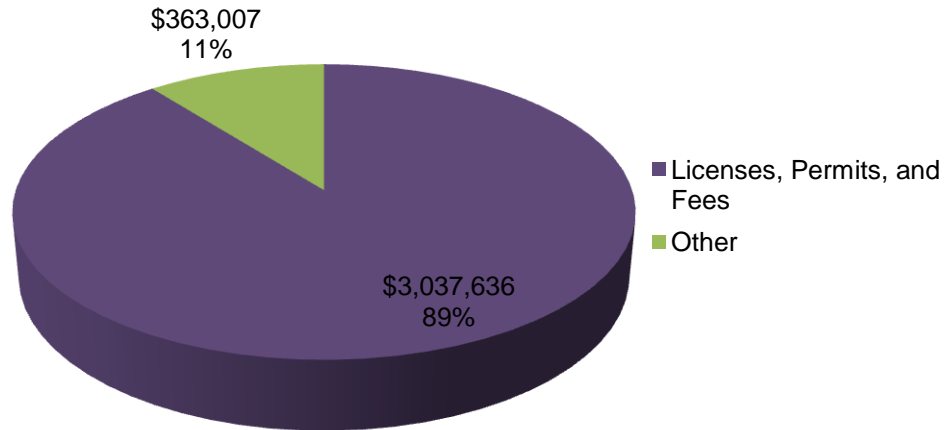
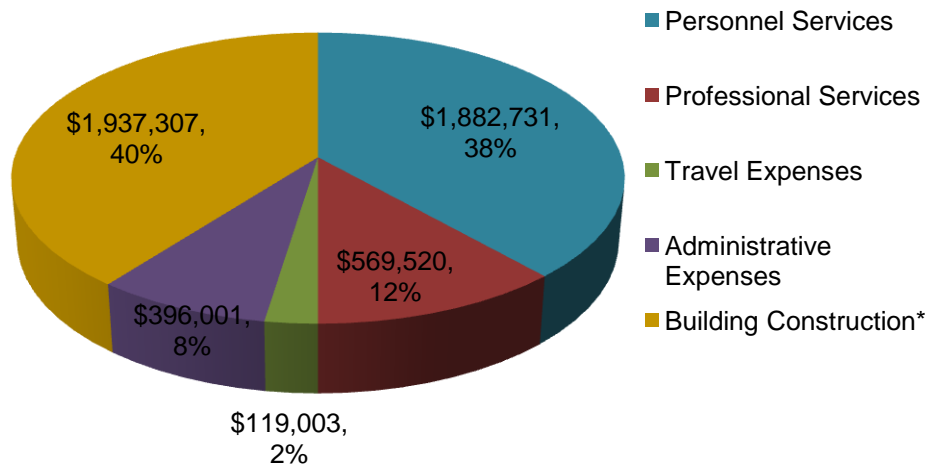


Chart 2 - Expenditures by Category (July 1, 2011 through June 30, 2013)



*This amount is composed of one time expenditures incurred for the construction of the Agency's new office building.

Scope and Methodology

Our 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 duties it is to collect, disburse, or manage funds of the state.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that

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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.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessment of materiality and risk for the period July 1, 2011 through June 30, 2013. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Oklahoma State Board of Pharmacy's operations. We also tested a sample of transactions to achieve our objectives. To ensure the samples were representative of the population and provided sufficient, appropriate evidence, the random sample methodology was used. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

OBJECTIVE

Determine whether the Agency's internal controls provide reasonable assurance that revenue and expenditures (including payroll) were accurately reported in the accounting records, and financial operations complied with significant laws and regulations.

Conclusion

The Agency's internal controls:

- generally provide reasonable assurance that payroll expenditures were accurately reported in the accounting records. However, one area could be strengthened.
- do not provide reasonable assurance that revenues or miscellaneous expenditures were accurately reported in the accounting records.

Financial operations complied with 62 O.S. § 211 which requires a transfer of 10% of all gross fees charged, collected, and received to the state general revenue fund. However, the revenue internal control

weakness discussed on pages 4 and 5 of this report may impact the completeness of 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 10% of the fees *deposited* were transferred appropriately.

FINDINGS AND RECOMMENDATIONS

Inadequate Safeguards Related to Revenues

To protect against possible errors or irregularities in an entity's financial records, an effective internal control system should provide reasonable assurance that funds received are adequately safeguarded and ultimately deposited.

The Agency has four employees that manually process licenses, receipt fees, and prepare and record deposits. One of these employees also performs the account reconciliation, which provides no assurance that fees received were deposited, as it only compares a manually prepared deposit log to the deposits recorded in CORE.

Additionally, funds are not deposited in accordance with 62 O.S. § 34.57.C.1² and are placed in a locking safe to which multiple employees have access.

Having multiple employees with access to funds and the ability to process receipts, in the absence of a mechanism in place to ensure that all funds receipted are deposited, opens the Agency to fraud risk.

Recommendation

We recommend management consider the following:

- Implement procedures to agree licenses issued and fees posted to corresponding deposits. An employee independent of the receipting and deposit preparation process should perform this procedure.
- Funds should be secured and deposited in accordance with 62 O.S. § 34.57.C.1.

² 62 O.S. § 34.57.C.1 includes the following language: "All such monies collected pursuant to this section shall be deposited as follows in the agency clearing account or agency special account established therefore: 1. Receipts of One Hundred Dollars (\$100.00) or more shall be deposited on the same banking day as received."

Views of Responsible Officials

The Board is working with IT programmer to provide a monthly report of receipts issued from agency custom licensing programs. This report will be used to assure no one has processed receipts and then deleted the receipt lists and not deposited the funds.

The Director initials review of income reconciliations for control because the reconciler completes a small number of deposits. The Board will strive to reduce the number of deposits made by the reconciler, but with the size of the agency this control must remain, since deposits cannot be reduced to zero due to vacations and absent staff.

In addition, the Board will establish a daily receipting and deposit process.

Auditor's Response

Allowing the same individual to prepare deposits and and perform the reconciliation of the licensing systems outputs to the funds deposited leaves the agency open to fraud risk. We recommend that the individual that performs this reconciliation not handle funds collected.

Inadequate Controls over Expenditures

The United States Government Accountability Office's *Standards for Internal Control in the Federal Government*³ 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 Agency's business manager is responsible for preparing and posting claims, while the Agency's director is responsible for signing claim jacket vouchers, denoting his approval, and for reviewing the physical checks written to vendors.

However, the director reviews and approves claims on an individual basis as they are presented by the business manager. Although the director reviews checks, the business manager has the opportunity to withhold checks from the director, as the business manager sometimes signs for their delivery. In order to mitigate the risk of the conflicting duties, the director reviews the monthly CORE expenditure detail

³ 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.

reports. However, the director's review is not consistently documented each month. Because we could only determine that the director is reviewing claim jacket vouchers, there is no assurance that all expenditures have been reviewed.

Recommendation

We recommend that the Agency director implement procedures to review detailed monthly expenditure data from CORE. This data should contain claim information including, at a minimum, claim number, journal date, vendor name, and amount.

Views of Responsible Officials

The Director reviews the CORE Six Digit Expenditure Report (OCAP0312) each month which lists the claim number, date, vendor name and amount. He will document his review by initialing it each month.

The Director will document his review of checks received from the treasurer's office. He will compare the "Office of the State Treasurer, Miscellaneous Issues, Check Warrant Register Report" (ARGR0010) against the checks received from the treasurer's office by initialing the report before they are presented to staff to mail. Less than 3% of payments are checks while 97% are EFT's or wire transfers.

Other Items Noted

**No Detailed
Review of
Monthly
Payroll
Documentation**

An effective internal control system provides for an appropriate review of payroll records to ensure compensation rates are accurate.

We noted that the director's review of payroll records does not ensure that compensation rates are accurately reflected.

Errors in processing monthly compensation may not be detected in a timely manner.

Recommendation

We recommend the director include procedures in his review process to ensure that proper compensation rates are reflected each month.

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Views of Responsible Officials

The Director will check each payroll payment against approved pay rate each month.



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