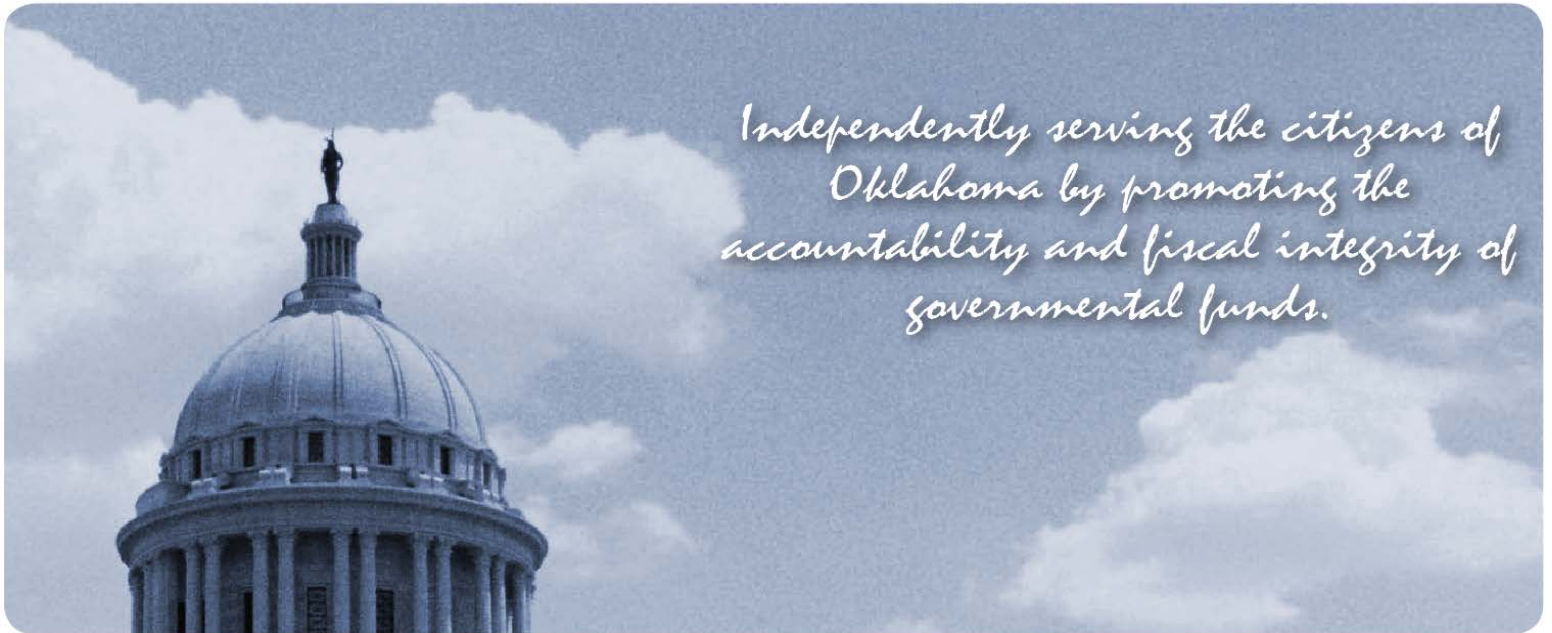


OPERATIONAL AUDIT

OKLAHOMA FUNERAL BOARD

For the period January 1, 2013 through June 30, 2018



*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 Funeral Board**

**For the Period
January 1, 2013 through June 30, 2018**



Oklahoma State Auditor & Inspector

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September 28, 2018

TO THE OKLAHOMA FUNERAL BOARD

We present the audit report of the Oklahoma Funeral Board for the period January 1, 2013 through June 30, 2018. 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 written in a cursive style with a long, sweeping tail on the letter "s".

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 and for the protection of the public with the powers vested in the Board by the State of Oklahoma for the regulation and education of the funeral service 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 as of June 30, 2018 are:

Chad Vice	President
Joe Highberger.	Vice-President
J. Cooper.....	Member
Timothy Heefner.....	Member
Cindy Longanacre.....	Member
Todd Martin.....	Member
Jim Roberts II.....	Member

The following table summarizes the Agency's sources and uses of funds for fiscal years 2017 and 2018 (July 1, 2016 through June 30, 2018).

Sources and Uses of Funds for FY 2017 and FY 2018

	2017	2018
Sources:		
Licenses, Permits, Fees	413,998	433,177
Fines, Forfeits, Penalties	65,607	35,541
Total Sources	479,605	468,718
Uses:		
Personnel Services	243,140	307,263
Professional Services	102,595	115,330
Travel	21,858	17,117
Administrative Expenses	25,107	27,739
Refunds, Indemnities, Restitution	-	12,500
Transfers and Other Disbursements	100	268
Total Uses	392,800	480,217

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

Oklahoma Funeral Board Operational Audit

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 duty 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 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 January 1, 2013 through June 30, 2018. Detailed audit procedures focused on the period of July 1, 2016 through June 30, 2018, addressing the most current financial processes and providing the most relevant and timely recommendations for management.

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Oklahoma Funeral Board's operations. Further details regarding our methodology are included under each conclusion.

We utilized sampling 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, expenditures (miscellaneous and payroll), and inventory were accurately reported in the accounting records.

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 with regards to revenues, miscellaneous expenditures, and inventory.

Financial operations complied with the following statutes:

- 59 O.S. § 396.1C and 62 O.S. § 211 - 10% transfer of all gross fees charged, collected, and received to the state general revenue fund
- 74 O.S. § 3601.2A - Salaries of Executive Officers

**Objective
Methodology**

To accomplish our objective, we performed the following:

- Documented significant internal controls related to receipting and tested those controls; see results in related finding.
- Recalculated the amount transferred to the state's general revenue fund for all months during the audit period and compared to records from the Statewide Accounting System to ensure 10% of all fees charged, collected, and received by the Agency were transferred as required by 59 O.S. § 396.1C and 62 O.S. § 211.
- Documented significant internal controls related to miscellaneous expenditures and tested those controls, see results in related finding.
- Documented significant internal controls related to payroll expenditures, which included:
 - Selecting and testing a random sample of 10 payroll claims (42%) from a population of 24 to ensure they were properly approved and reflected in the payroll reports;
 - Reviewing all payroll changes with a financial impact that appear in the HR All Actions Report to ensure they were properly documented and approved;
 - Pulling and testing all 6 payroll changes (100%) from a population of 6 to ensure they were properly documented and approved.
- Determined Compliance with 74 O.S. §3601.2A - Salaries of Chief Executive Officers, which included:
 - Reviewing all data on the *HR All Actions* report and comparing it to approved salary ranges established by the Office of Management and Enterprise Services.

- Documented significant internal controls and process factors related to inventory; see results in related finding.

FINDINGS AND RECOMMENDATIONS

The agency does not have proper segregation of duties over revenues (repeat finding)

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (2014 Revision)¹ states, "Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event."

The executive director is responsible for receiving and receipting funds, preparing the deposit, and releasing licenses. Because he also has the ability to generate licenses, this creates an opportunity for someone in this position to misappropriate funds received and to conceal the misappropriation by improperly recording or modifying deposit and license records.

A reconciliation of deposit records to licensure records is performed by a member of the Oklahoma Funeral Board; however, this review is not compared to independent deposit records from the statewide accounting system. The internal licensure records used in the reconciliation may not be reliable due to the fact that they are maintained by the executive director. In addition, it appears that the licensing database does not have system controls to ensure a license cannot be issued without a properly recorded payment (for example, issuing a license and then deleting the database record).

Recommendation

We recommend another party not involved in the deposit process, such as a board member, continue to independently reconcile receipts deposited to licenses issued and renewed, to ensure all funds received were deposited. However, the board member performing the reconciliation should ensure the deposit records used for the reconciliation are complete, reliable, and independently obtained from the statewide accounting system. The person reconciling should in no way have the responsibility of receipting funds, preparing the deposit, or preparing or releasing licenses.

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.

Alternatively, the duty of releasing licenses could be segregated from the deposit and receipting duties performed by the executive director and deputy assistant. Licenses could be released by an independent party (such as the agency investigator) while verifying licenses against the bank deposit paperwork. The party releasing licenses in this case should have no ability to receipt or otherwise handle funds and individuals responsible for handling funds should not have access to make changes to the licensing database.

Views of Responsible Officials

To correct this measure, the executive director will have the selected Board member verify that the daily deposits match up with banking deposit records and OMES banking records.

The agency does not have proper segregation of duties over miscellaneous expenditures (repeat finding)

The GAO *Standards* state in part, "Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event."

62 OS §34.57. E.1 states in part, "...no money shall ever be disbursed from the agency clearing account for any other purpose, except in refund of erroneous or excessive collections and credits."

The agency executive director is responsible for approving purchase orders, warrants (both paper warrants prepared in-house and those generated by the Office of Management and Enterprise Services), and invoices. While the agency contracts with the Agency Business Services (ABS) division of the Office of Management and Enterprise Services to post all aspects of this process to the statewide accounting system (PeopleSoft), ABS does not appear to be in a position to review and question the executive director's approvals or instructions. The agency also maintains a supply of paper warrant stock which can be used to pay miscellaneous expenditures. These issues create the risk that the executive director could initiate and approve inappropriate expenditures without detection. In addition, expenditures made with paper warrants prepared in-house during our audit period (we noted only two agency-issued warrants during our audit period) do not appear to have been consistent with what is statutorily allowable to be paid from the agency's clearing account.

The risks identified above could be mitigated with an independent detailed review of expenditure information. While the Board regularly

reviews the 6-digit object of expenditure report from PeopleSoft prior to Board meetings, this report lacks detailed information for individual purchases that could help the Board make informed inquiries over questionable purchases.

It appears management began sending the 6-digit object of expenditure report from PeopleSoft based on our recommendation in our previous audit. However, as stated in the 2013 Audit Report of the Oklahoma Funeral Board, the recommendation was: "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."

Recommendation

Our recommendation from the previous audit stands. 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. In addition, the agency should discontinue the use of agency-issued paper warrants and ensure the proper destruction of all paper warrant stock currently in their possession.

Views of Responsible Officials

To correct this measure, the executive director will contact the State Treasurer's Office and inquire as to the safest way to destroy the paper warrants that the agency has in their possession. Further, the executive director will direct ABS within OMES to send monthly a direct email from ABS to each Board member a copy of the previous month's PeopleSoft 6-Digit Expenditure Detail report. The executive director will continue to send monthly an email to each Board member a copy of the previous months PeopleSoft 6-Digit Object of Expenditure report and revenue breakdown as the executive director has been doing since the last audit in 2013.

The agency does not have proper segregation of duties over inventory

The GAO *Standards* state, "Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event." The Standards also state

that in order to safeguard vulnerable assets, "Such assets should be periodically counted and compared to control records."

The executive director is responsible for approving purchase requisitions, purchase orders, and invoices; maintaining inventory records; reconciling the results of the annual inventory count to the records; and disposing of unwanted inventory items. The deputy administrative assistant is responsible for receiving goods and performing the annual physical inventory count. The conflicting duties create the opportunity for either of these individuals to misappropriate an inventory item and conceal it by misstating what was received or falsifying the inventory records.

In addition, the inventory records are stored on the Agency's shared network drive and are not protected or locked to prevent editing. As a result, any employee with network access has the opportunity to manipulate inventory records in order to conceal misappropriated goods.

The above control deficiencies also create the risk that inventory reports submitted to the Office of Management and Enterprise Services (OMES) as required by Oklahoma Administrative Code 260:110-3-1 and 74 O.S. § 110.1 A and 74 O.S. § 110.2 prior to inventory being on the OMES Assets Management system are inaccurate or incomplete.

Recommendation

We recommend management segregate duties to ensure that no one individual can initiate purchases, authorize transactions, process payments, and modify inventory records. We also recommend that management ensure that a comprehensive annual physical inventory count is performed and documented by someone independent from purchasing assets, maintaining inventory items and inventory records, and disposing of surplus assets. The ability to edit electronic inventory records should be limited to as few employees as possible, based upon their inventory-related duties.

Views of Responsible Officials

To correct this measure, the executive director has instructed the agency investigator to maintain all records regarding all agency purchased inventory. This information will be stored on the agency's shared drive and will be password protected. The agency investigator will perform the annual audits of such inventory.



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