



OKLAHOMA STATE BOARD OF OSTEOPATHIC EXAMINERS

Operational Audit

For the Period January 1, 2014 through June 30, 2019

Cindy Byrd, CPA
State Auditor & Inspector

**Audit Report of the
Oklahoma State Board of Osteopathic Examiners**

**For the Period
Jan 1, 2014 through June 30, 2019**



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February 8, 2021

TO THE OKLAHOMA COUNCIL ON JUDICIAL COMPLAINTS

We present the audit report of the Oklahoma State Board of Osteopathic Examiners for the period of Jan 1, 2014 through June 30, 2019. 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 "Cindy Byrd". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR



Oklahoma State Board of Osteopathic Examiners

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Background

The Oklahoma State Board of Osteopathic Examiners (the Agency) was established by the Legislature in 1921 to license applicants for the practice of osteopathic medicine and adoption of rules and regulations governing enforcement of laws relating to the profession.

The mission of the Agency is to protect the public by regulating the practice of osteopathic medicine in Oklahoma through education and licensing requirements as well as ensure that each licensee practices osteopathic medicine within the provisions of the Osteopathic Medicine Act.

The State Board of Osteopathic Examiners (the board) shall consist of eight (8) examiners appointed by the Governor, two of whom shall be lay persons. The remaining examiners shall be regularly licensed osteopathic physicians in good standing in this state who have been so engaged for a period of at least five (5) years immediately prior to their appointment. All appointments made to the Board shall be for terms of seven (7) years.

Board members as of February 2021 are:

Katie Templeton, J.D.	President
Bret Langerman, D.O.....	Vice-President
Catherine C. Taylor, J.D.	Secretary/Treasurer
Carl B. Pettigrew, D.O.	Member
Dale Derby, D.O.	Member
Duane Koehler, D.O.	Member
Leroy Young, D.O.	Member
Jay D. Cunningham, D.O.	Member

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The following table summarizes the Agency's sources and uses of funds for fiscal years 2018 and 2019 (July 1, 2017 through June 30, 2019).

Sources and Uses of Funds for FY 2018 and FY 2019

	2018	2019
Sources:		
Osteopathy Board-License/Fee	793,830	799,826
Total Sources	<u>\$ 793,830</u>	<u>\$ 799,826</u>
Uses:		
Personnel Services	\$ 489,204	\$ 595,795
Professional Services	\$ 65,004	\$ 62,974
Travel	\$ 11,282	\$ 18,245
Administrative Expenses	\$ 66,751	\$ 75,594
Property, Furniture, Equipment	\$ 1,354	\$ 128
Assistance, Payments to Local Govn'ts	\$ -	\$ -
Transfers and Other Disbursements	\$ 100	\$ -
Total Uses	<u>\$ 633,695</u>	<u>\$ 752,736</u>

Source: Oklahoma PeopleSoft accounting system (unaudited, for informational purposes only)

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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, 2014 through June 30, 2019. Detailed audit procedures focused on the period of July 1, 2017 through June 30, 2019, addressing the most current financial processes and providing the most relevant and timely recommendations for management.

Our audit procedures included inquiries of appropriate personnel, research and analysis, and inspections of documents and records. Further details regarding our methodology are included in Appendix A.

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.

Internal Control Considerations

The Government Accountability Office (GAO) emphasizes the importance of internal controls at all levels of government entities. Their *Standards for Internal Control*¹ outline the five overarching components of internal control: the control environment, risk assessment, information and communication, monitoring, and detailed control activities. Each of these components, listed in Appendix B for your reference, includes a subset of principles that are expected to be operating at government entities.

The *Standards for Internal Control* underscore that an internal control system is effective only when the five components of internal control are effectively designed, implemented, and operating together in an

¹ *Standards for Internal Control in the Federal Government*, or the "Green Book," sets standards and the overall framework for an effective internal control system in federal agencies and is treated as best practices for other levels of government. Last update 2014, accessible online at <https://www.gao.gov/products/GAO-14-704G>.

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integrated manner. As required by *Government Auditing Standards*², we have identified the aspects of internal control significant to each audit objective in this engagement and our assessments are detailed in Appendix B.

² *Government Auditing Standards*, or the “Yellow Book,” also promulgated by the GAO, guides our performance and operational audits. Last version 2018, accessible online at <https://www.gao.gov/products/GAO-18-568G>.

OBJECTIVE

Determine whether effective internal control activities are in place to ensure all funds physically received by the agency are deposited, in Line with *GAO Standards for Internal Control* and previous audit recommendations.

Conclusion

The Agency's internal controls activities are not designed properly and therefore, not operating effectively to ensure that all funds physically received by the agency are being deposited as defined by *GAO Standards for Internal Control*

Our methodology is detailed in Appendix A.

FINDINGS AND RECOMMENDATIONS

Revenue controls should be strengthened to prevent misappropriation

Oklahoma's Statewide Accounting Manual³ emphasizes the importance of segregation of duties to ensure no individual is in a position to initiate, approve, undertake, and review the same action (such as receipting funds). The *GAO Standards for Internal Control* also note that if segregation of duties is not practical within an operational process because of limited personnel or other factors, management designs alternative control activities to address the risk of fraud, waste, or abuse in the operational process.

The *GAO Standards for Internal Control* further emphasize that management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.

Due to the Agency's small staff size, the business manager is responsible for posting payments in the agency's database, preparing and recording deposits and preparing the monthly reconciliation, without independent oversight of these activities.

Although the Director is reviewing the monthly reconciliation, his review is not documented. In addition, the supporting documentation used in the reconciliation process, does not include a comparison of payments deposited to licenses issued. The comparison of payments deposited to licenses issued, should be prepared by someone independent to the receipting and depositing duties. Without such a mitigating control, the business manager has the potential ability to misappropriate a payment and edit the database in such a manner the action could go undetected. While we did not identify evidence that this is occurring, we have developed recommendations to help remove this opportunity for payments that are not made electronically.

³ Developed by the Office of Management and Enterprise Services and accessible online at <https://omes.ok.gov/services/accounting-reporting>

We also noted that checks received in the office are locked in a filing cabinet prior to deposit with all employees having access.

Internal controls are not operating effectively because further effort is needed from management to:

- design control activities to achieve objectives and respond to risks.
- ensure quality information is available to perform those activities and implement control activities through policies.
- establish and operate internal controls for monitoring activities, and evaluate the results and remediate identified internal control deficiencies on a timely basis.

Recommendation

Ideally, a party independent from receipting, processing, and deposit preparation should compare licensing activity to the bank deposit receipts to ensure the deposits made were complete. Further, someone other than the bank preparer themselves should be the reviewer of the deposits. We recommend an independent party, such as the director, perform a reconciliation using a reliable list of licensing activity to deposits made in order to ensure that all funds received by the Agency are deposited. This reconciliation can be made on a regular basis such as monthly, or on a random basis, and should be documented. The independent party should ensure that it is able to obtain complete and reliable records of licensing activity. We also recommend that access to the locked filing cabinet, which holds checks prior to deposit, be limited to as few employees as possible.

Views of Responsible Officials

OSBOE has put new processes in place to follow these recommendations. The Executive Director will independently review and sign off on all monthly licensure receipting, deposits, and reconciliations. Additionally, a locked drop box has been ordered to replace the filing cabinet where checks were previously stored. Keys to this drop box will be limited to the Executive Director and Business Manager.

APPENDIX A: Detailed Methodology

In gaining an understanding of the agency and developing our detailed objectives, in addition to routine discussions, surveys, analysis, research, and prior audit follow-up, we performed the following:

- Documented significant agency-wide controls by sending the Agency an internal self-assessment, and by interviewing key employees to gather an understanding of the Agency.
- Reviewed expenditure data from the statewide accounting system and gathered information from Agency personnel to assess the related financial processes and trends for any notable risks.
 - In reviewing expenditures, we noted that that approximately 78% of the agency's expenditures are for payroll services. Audit period payroll expenditures amounted to \$3,227,208. We reviewed the HR All Actions report from the Statewide Accounting System and noted a total of six personnel transactions with a financial impact for the audit period.
 - Non-Payroll expenditures for the audit period were approximately 22%. Non-payroll expenditures amounted to \$892,389. We also reviewed the 6-digit expenditure detail report, scanning for unusual expenditures in miscellaneous expenditures, travel reimbursements or any recurring vendors that are unrelated to the objectives of the Agency.
 - No significant concerns arose from those procedures.
- Reviewed the Agency's inventory listing for FY18 and FY19 and noted the Agency had a reasonable number of computers and iPad for the size of the agency and board members. Total inventory for FY18 and FY19 amounted to \$22,653; no significant concerns or risks were identified.
- In addition, we reviewed the previous SAI audit workpapers and report completed in State Fiscal Year 2014

To accomplish our objective discussed in the previous section, we documented significant internal controls and process factors related to revenues, compared the process to relevant standards and state policy as outlined in our objective language, and developed appropriate recommendations.

APPENDIX B: Internal Control Components and Principles

The table below outlines the components and principles of internal control, identifies those considered significant to our specific objectives in this engagement, and notes whether those principles were found to be operating effectively. For those *not* operating effectively, further discussion and related recommendations are included in the report.

As recommended by *Government Auditing Standards* section 9.32, the full outline of the fundamental components of internal control and their underlying principles is included for your reference.

Internal Control Component/Principle	Significant to Audit Objective I	Operating Effectively?
Control Environment Component – Foundation that provides processes and structure to help an entity set expectations and achieve its objectives.		
1. The oversight body and management should demonstrate a commitment to integrity and ethical values.		
2. The oversight body should oversee the entity's internal control system.		
3. Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.		
4. Management should demonstrate a commitment to recruit, develop, and retain competent individuals.		
5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.		
Risk Assessment Component – Dynamic process of identifying, analyzing, and managing risks facing the entity.		
6. Management should define objectives clearly to enable the identification of risks and define risk tolerances.		
7. Management should identify, analyze, and respond to risks related to achieving the defined objectives.		
8. Management should consider the potential for fraud when identifying, analyzing, and responding to risks.		
9. Management should identify, analyze, and respond to significant changes that could impact the internal control system.		

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Control Activities Component – Actions management establishes through policies and procedures to protect against risks.		
10. Management should design control activities to achieve objectives and respond to risks.	✓	No
11. Management should design the entity's information system and related control activities to achieve objectives & respond to risks.		
12. Management should implement control activities through policies.	✓	No
Information and Communication Component – Quality information communicated and used to support the internal control system.		
13. Management should use quality information to achieve the entity's objectives.		
14. Management should internally communicate the necessary quality information to achieve the entity's objectives.		
15. Management should externally communicate the necessary quality information to achieve the entity's objectives.		
Monitoring Component – Activities to assess the quality of performance and promptly correct any deficiencies.		
16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.	✓	No
17. Management should remediate identified internal control deficiencies on a timely basis.	✓	No

The GAO emphasizes that each of the five components of internal control must be effectively designed, implemented, and operating. For an internal control system to be effective, the components must operate together in an integrated manner. They further stress that documentation is a necessary part of an effective internal control system. The level and nature of documentation vary based on the size of the entity and the complexity of the operational processes the entity performs. Documentation is required to demonstrate the design, implementation, and operating effectiveness of an entity's internal control system.



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