

OPERATIONAL AUDIT

OKLAHOMA STATE BOARD OF EXAMINERS OF PSYCHOLOGISTS

For the period January 1, 2008 through March 31, 2011



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



Oklahoma State
Auditor & Inspector
Gary Jones, CPA, CFE

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

**For the Period
January 1, 2008 through March 31, 2011**



Oklahoma State Auditor & Inspector

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August 24, 2011

TO THE OKLAHOMA STATE BOARD OF EXAMINERS OF PSYCHOLOGISTS

This is the audit report of the Oklahoma State Board of Examiners of Psychologists for the period January 1, 2008 through March 31, 2011. 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 that reads "Gary A. Jones".

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

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Background

The Oklahoma State Board of Examiners of Psychologists (the Agency) was established under the Psychologists Act of 1965 to be the official licensing agency for the practice of psychology and for the investigation of complaints and enforcement of the laws and rules of the profession.

Oversight is provided by a seven member board (the Board) appointed by the governor. Members serve terms of four years.

Board members are:

Ray Hand, Ph.D. Chair
 Pamela Fischer, Ph.D. Vice-Chair
 Gayle Hobson, Ph.D. Member
 Tom Brian, Ed.D. Member
 Miramar Cohn, Ph.D. Member
 Kyle Dean Public Member
 LeAnn Harmon Public Member

Table 1 summarizes the Agency’s sources and uses of funds for state fiscal years 2010 and 2009 (July 1, 2008 through June 30, 2010).

Table 1 - Sources and Uses of Funds for SFY 2010 and SFY 2009

	2010	2009
Sources:		
Psychologist License Fee	\$ 239,246	\$ 240,448
Total Sources	\$ 239,246	\$ 240,448
Uses:		
Personnel Services	\$ 205,825	\$ 186,171
Professional Services	15,857	22,965
Travel	11,343	13,089
Miscellaneous Administrative	7,897	11,698
Rent Expense	6,207	7,031
Maintenance and Repair Expense	1,394	3,382
General Operating Expenses	1,518	1,168
Production, Safety, Security	187	204
Total Uses	\$ 250,228	\$ 245,708

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

Purpose, Scope, and Sample Methodology

This 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.

The audit period covered was January 1, 2008 through March 31, 2011.

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 selected our samples in such a

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way that whenever possible, the samples are representative of the populations and provide sufficient evidential matter. 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 - Determine whether the Agency's internal controls provide reasonable assurance that revenues and expenditures (including payroll) were accurately reported in the accounting records.

Conclusion The Agency's internal controls did not provide reasonable assurance that revenues and miscellaneous expenditures were accurately reported in the accounting records. However, their internal controls did provide reasonable assurance that payroll expenditures were accurately reported in the accounting records.

Methodology To accomplish our objective, we performed the following:

- Documented internal controls related to the receipting, expenditure and payroll processes through discussions with Agency personnel and the board chair, observation, and review of documents;
- Tested controls which included:
 - Reviewing payroll documentation from a random selection of 10 months to determine whether payroll expenditures were properly approved and payroll changes were properly reflected;
 - Reviewing all five payroll changes from the audit period to ensure changes were properly approved by the Board.

Observation **Inadequate Segregation of Duties in the Revenue and Expenditure Processes – 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...."

The executive officer is responsible for the following:

- Revenue process:
 - Receipting and endorsing payments received through the mail;
 - Preparing the bank deposit;
 - Posting deposits into the PeopleSoft accounting system;
 - Preparing the monthly clearing account reconciliation.
- Expenditure process:
 - Generating and approving purchase orders;
 - Ordering and receiving some items;

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.

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- Preparing and approving expenditure claims for payment;
- Posting disbursements into the PeopleSoft accounting system.

It should be noted that the administrative assistant works three days per week, and on those days she is responsible for each of the above revenue-related duties, which are therefore still not segregated.

This lack of adequate segregation of duties due to the Agency's small size could allow errors and improprieties to occur and not be detected in a timely manner. Payments to the Agency could be misappropriated and licenses could still be issued or renewed, and inappropriate expenditures could occur.

Recommendation

Management should develop a process to compare a complete list of licenses issued and renewed to revenues deposited, to ensure receipt and deposit of payment for all transactions is deposited. This comparison should be performed by a party independent of the receipting and license-issuing processes, such as a board member or the director of professional affairs, and a record of the comparison should be retained. Assuming this recommendation is implemented, a detailed review of the monthly clearing account reconciliation should also be performed by the independent party.

Expenditures should be approved by the board chair as required by statute (see additional discussion on page four of this report). In addition, the Board or board chair should review a report of Agency expenditures such as the "six digit detailed expenditure report" prepared by the Office of State Finance to ensure all expenditures are appropriate. If the Board chooses to seek legislation to remove the requirement that the board chair approve individual expenditures, they should still ensure that expenditure duties are properly segregated or that any weaknesses in the process are mitigated with additional monitoring or review.

Views of Responsible Officials

The administrative assistant is primarily responsible for the following:

- Revenue process:
 - Receipting and endorsing payments received through the mail;
 - Preparing the bank deposit;
 - Posting deposits into the PeopleSoft accounting system;
- Expenditure process:
 - Ordering and receiving some items;
 - Mailing out expenditures

The executive officer is primarily responsible for the following:

- Revenue process:
 - Preparing the monthly clearing account reconciliation.
- Expenditure process:
 - Generating and approving purchase orders;
 - Preparing and approving expenditure claims for payment;
 - Posting disbursements into the PeopleSoft accounting system.

A list of licenses issued will be provided to the director of professional affairs along with verification of payment received. The "six digit detailed expenditure report" prepared by the Office of State Finance is now provided to the chair of the Board along with the monthly reconciliation.

Observation

No Reconciliation of Electronic Revenues

An effective internal control system provides for a sufficient and timely reconciliation of accounting records.

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During the audit period, the Agency received approximately 28% of its revenues electronically via the OK.gov online payment system. There is currently no process in place at the Agency to ensure that online payments have actually been deposited to the Agency's bank account.

It appears management was not aware of the possible risk involved in not verifying online revenues. If a payment were reported by the OK.gov system and not deposited to the Agency's account, it would not be detected in a timely manner, and the related license could still be issued or renewed.

Recommendation

Management should develop a monthly process to reconcile payments reported by the OK.gov system to electronic payments actually received in the Agency's account per State Treasurer's Office records.

Views of Responsible Officials

The administrative assistant will provide a spreadsheet of monthly online transactions to the executive officer, who in turn will balance with the Oklahoma State Treasurer monthly activity statement.

Objective 2 - Determine whether the Agency's financial operations complied with 59 O.S. § 1360, 62 O.S. § 211, and 74 O.S. § 3601.2.A.3.

Conclusion

Financial operations complied with the following statutes:

- 74 O.S. § 3601.2.A.3 – statutory limits on executive salaries;
- 62 O.S. § 211 – 10% transfer of all gross fees charged, collected, and received to the state general revenue fund. (It should be noted that in light of the lack of segregation of duties related to revenues discussed in this report, controls were not in place at the Agency to ensure that all revenues received were deposited. Therefore, our procedures could be designed only to ensure that 10% of revenues receipted and deposited appeared to have been properly transferred.)

However, financial operations did not comply with 59 O.S. § 1360, which requires that the board chair approve all expenditures.

Methodology

To accomplish our objective, we performed the following:

- Documented the receipting and expenditure processes relevant to the significant statutes, through discussions with Agency personnel and the board chair, observation at the Agency, and review of documents;
- Recalculated the amount transferred to the state's general revenue fund to ensure 10% of all the fees receipted and deposited by the Agency were transferred as required by 62 O.S. § 211;
- Reviewed audit period payroll information in the accounting system to ensure the executive officer's annual salary did not exceed the maximum limit set forth in 74 O.S. § 3601.2.A.3.

Observation

Lack of Board Chair Expenditure Approval

Regarding the Psychologists Licensing Fund, 59 O.S. § 1360 states in part: "Monies may be paid out of this fund upon proper voucher approved by the chair of the Board and attested by the secretary of the Board."

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According to management, the Board does approve unusually large and non-routine expenditures. However, during the audit period no process was in place for the board chair to approve all expenditures.

It appears neither management nor the Agency's recent board chairs were aware of this statutory requirement to approve all expenditures. As a result, the Agency is not in compliance with 59 O.S. § 1360, and in concert with the lack of segregation of duties in the expenditure process discussed in this report, it appears inappropriate purchases or payments could be made using Agency funds and not be detected in a timely manner.

Recommendation

The Agency should develop a process to allow the board chair to approve all expenditures in detail, or should seek updates to legislation to have this requirement removed from the Psychologists Licensing Act (Act). Regardless of whether modifications are made to the Act, the Board or board chair should review a monthly expenditure report (e.g. the "six digit detailed expenditure report") prepared by the Office of State Finance to ensure all expenditures made by the Agency are appropriate.

Views of Responsible Officials

The executive officer now provides the "six digit detailed expenditure report" prepared by the Office of State Finance to the chair monthly along with the monthly reconciliation report. The Board will discuss seeking legislation for the modification of 59 O.S. § 1360.



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