OPERATIONAL AUDIT

Oklahoma Board of Veterinary Medical Examiners

For the period July 1, 2010 through June 30, 2015

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

Audit Report of the Board of Veterinary Medical Examiners

For the Period July 1, 2010 through June 30, 2015

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Oklahoma State Auditor & Inspector

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March 15, 2016

TO THE OKLAHOMA BOARD OF VETERINARY MEDICAL EXAMINERS

This is the audit report of the Oklahoma Board of Veterinary Medical Examiners for the period July 1, 2010 through June 30, 2015. 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,

Gary a Jones

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

Background

The Oklahoma Board of Veterinary Medical Examiners (Agency) was established in 1913 and is the chief regulatory agency for the practice of veterinary medicine. The Agency's regulation of veterinarians, registered veterinary technicians, and certified euthanasia technicians includes responsibility for educational requirements, entry level standards, examination for licensure and certification, continued competency, advertising standards, quality of care, adherence to civil and criminal laws, and professional regulations.

Oversight is provided by six board members (Board) appointed by the governor. Each member serves a term of five years.

Board members as of June 30, 2015 are:

Clint Gardner, DVM .... President

Christine Kunzweiler, DVM .... Vice-President

Lawrence McTague, DVM .... Secretary/Treasurer

Carole Dulisse, Esq. .... Member

Gary Lenaburg, DVM .... Member

Keith Fuchs, DVM .... Member

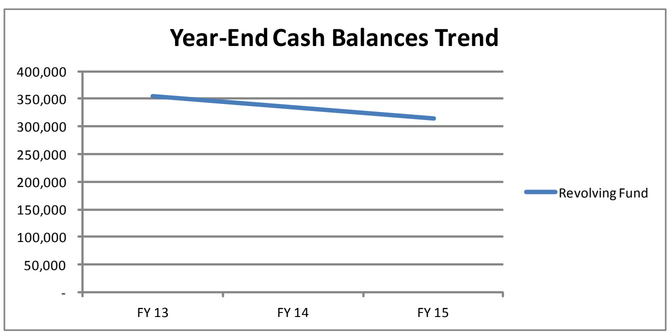
The following information illustrates the Agency's budgeted-to-actual revenues and expenditures and year-end cash balances.[1]

BUDGET TO ACTUAL COMPARISON

	FY 2014			FY 2015		
REVENUES	**Budgeted**	**Actual**	**Variance**	**Budgeted**	**Actual**	**Variance**
Licenses, Permits, and Fees	578,500	503,243	(75,257)	491,000	515,552	24,552
Total Revenues	**578,500**	**503,243**	**(75,257)**	**491,000**	**515,552**	**24,552**
EXPENDITURES						
Personnel Services	371,265	346,881	(24,384)	360,361	358,908	(1,453)
Professional Services	80,408	85,671	5,263	116,936	92,259	(24,677)
Travel Expenses	32,350	15,521	(16,829)	32,350	21,724	(10,626)
Administrative Expenses	76,581	67,321	(9,260)	82,315	59,395	(22,920)
Property, Furniture, Equipment, and Related Debt	7,900	7,706	(194)	4,900	2,582	(2,318)
General Assistance, Awards, Grants, and Other Program-Directed Payments	10,000	150	(9,850)	-	-	-
Transfers and Other Disbursements	-	68	68	-	206	206
Total Expenses	**578,504**	**523,317**	**(55,187)**	**596,862**	**535,074**	**(61,788)**
Expenditures Over (Under) Revenues		**20,074**			**19,522**	

Year-End Cash Balances: FY 13 - FY 15

	FY 13	**FY 14**	**FY 15**
Revolving Fund	354,688	334,764	315,242
Total Available Cash	354,688	334,764	315,242



Summary of agency responses to budgeted-to-actual variances

This information is a summary of responses obtained from the Oklahoma Board of Veterinary Medical Examiners. It is for informational purposes only and has not been audited.

Expenditures

- Variances in travel expenses from FY 2014 to FY 2015 - In 2014 the majority of the board members were not available to travel to the National Veterinary State Board meeting or the Federation of Regulatory Board meeting. Typically the agency will pay for one out-of-state travel for the Director and Board members. In 2015 the Board members took advantage of the one out-of-state travel to the Regulatory meeting, thereby creating an increase in travel expenses.

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

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 operational 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 July 1, 2010 through June 30, 2015. Detailed audit procedures focused on the period of July 1, 2013 through June 30, 2015, 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 Board of Veterinary Medical Examiners operations. 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. The Agency's internal controls do not provide reasonable assurance that revenues, miscellaneous expenditures, or inventory were accurately reported in the accounting records.

FINDINGS AND RECOMMENDATIONS

Inadequate Segregation of Duties over Revenue

The United States Government Accountability Office's *Standards for Internal Control in the Federal Government (2014 Revision)* 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 administrative assistant is responsible for receiving and receipting funds, preparing the deposit, and releasing 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 records. The executive director has the ability to serve as a back-up for the administrative assistant, which may expose this position to the same risks and undermine the independence of the reconciliation described below.

According to management, the executive director performs a reconciliation of deposit records to licensure records. However, due to the inadequate segregation of duties, the internal licensure records maintained by the administrative assistant and used in the reconciliation are not an independent source of information and could be unreliable. In addition, it is unclear whether system controls are in place in the licensing database to ensure a license cannot be issued without a properly recorded payment (for example, issuing a license and then deleting the database record).

It appears management was not aware of the risks created by this arrangement of duties or the lack of appropriate reconciliation controls.

This deficiency also increases the risk that transfers to the state's general revenue fund required by 62 O.S. § 211 could be incomplete, as a result of the mandated portion of potentially misappropriated fees not being included in the transfer. This would place the agency out of compliance with state statute.

Recommendation

We recommend management, or another party not involved in the deposit process, independently reconcile receipts deposited to licenses issued and renewed, to ensure all funds received were deposited. The person reconciling should in no way have the responsibility of receipting funds, preparing the deposit, or releasing licenses. In addition, management should ensure the licensing records used for the reconciliation are complete and reliable.

Alternatively, the duty of releasing licenses could be segregated from the deposit and receipting duties performed by the administrative assistant, and licenses could be released by an independent party (such as the agency director) 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.

Views of Responsible Officials

As explained to the auditor, the executive director does review and verify payments received prior to releasing any licenses and will continue to perform a reconciliation of deposit records to licensure records by documenting with initials and not a check mark on the reconciliation excel work sheet (ledger). We will continue to segregate duties to the best of our abilities with the very limited number of staff we employ.

Auditor Response

Because the internal ledger used in management's reconciliation is maintained and alterable by the administrative assistant who also handles receipts and is capable of releasing licenses, it is not a reliable accounting of licensing activity. Management should ensure a complete listing of licenses issued or renewed is compared to bank deposit documentation in order to verify that all payments receipted have been deposited. The mark made to notate management's review is not significant; the independence and completeness of information used to perform the reconciliation is integral.

Inadequate Segregation of Duties over Miscellaneous Expenditures *(Repeat Finding)*

As noted previously, 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 agency executive director is responsible for approving purchase requisitions, purchase orders, and invoices. While the agency contracts with the Agency Business Services (ABS) division of the Office of Enterprise Services to post all aspects of this process to the state's accounting system (PeopleSoft), ABS does not appear to be in a position to review and question the executive director's approvals or instructions. Therefore, it appears the executive director has the opportunity to initiate and approve inappropriate expenditures without detection.

While the Board regularly reviews a budget summary statement, it is produced by an Access Database maintained by the director. Without independent review of a detailed and independent expenditure report, the Board may not have the opportunity to discover or inquire about questionable purchases.

It appears management contracted with ABS in order to improve segregation of duties in the expenditure process. However, ABS is not necessarily in a position to question the agency's operations.

Recommendation

An independent party, such as a board member, should perform a line-item detailed review of all expenditures and document this review; for example by reviewing, signing, and dating the PeopleSoft 6-digit detailed expenditure report.

Views of Responsible Officials

The executive director does prepare requisitions for ABS to create purchase orders and also approves all invoices for payments. One admin. assistant will purchase an item while the other admin. assistant emails ABS with the invoice and processes the payments. The Board does receive the compiled report of expenditures and they also approve the annual budget by line item. We will go one step further and print a monthly 6-digit detailed expenditure report and have the Board secretary review and initial upon their review.

Inadequate Segregation of Duties over Inventory

As noted previously, 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 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 assistant investigator also receives goods and performs 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 count.

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 OMES as required by OK Admin Code 260:110-3-1 could be incomplete or inaccurate.

It appears management was not aware of the risks created by their arrangement of duties or by storing the inventory records on a shared server.

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

Management has utilized the same inventory system for over twelve years and has never had an instance of mismanagement of assets. We will password protect the inventory on the main network drive and at the year-end inventory count we will have the Board’s investigator review and sign they have reviewed.

Auditor Response

We reiterate that management should ensure duties are arranged and/or independent reviews in place to ensure no employee is capable of misappropriating an inventory item and manipulating inventory records or the inventory count to conceal that action. A regular inventory count should be performed and documented; without such a count, mismanagement of assets may not be identified.

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