



OKLAHOMA BOARD OF VETERINARY MEDICAL EXAMINERS

Operational Audit

For the Period July 1, 2015 through June 30, 2020

Cindy Byrd, CPA
State Auditor & Inspector

**Audit Report of the
Oklahoma Board of Veterinary Medical Examiners**

**For the Period
July 1, 2015 through June 30, 2020**

December 15, 2020

TO THE OKLAHOMA BOARD OF VETERINARY MEDICAL EXAMINERS

We present the audit report of the Oklahoma Board of Veterinary Medical Examiners for the period of July 1, 2015 through June 30, 2020. 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,



CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR



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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 November 9, 2020 are:

Larry McTague	President
Keith Fuchs.	Vice-President
Christine Kunzweiler	Secretary/Treasurer
Gary Lenaburg	Member
Clint Gardner.....	Member
Alan Jett.....	Member

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The following table summarizes the Agency's sources and uses of funds for fiscal years 2019 and 2020 (July 1, 2019 through June 30, 2020).

Sources and Uses of Funds for FY 2019 and FY 2020

	2019	2020
Sources:		
Licenses, Permits, Fees	\$ 507,781	\$ 501,326
Total Sources	\$ 507,781	\$ 501,326
Uses:		
Personnel Services	\$ 281,921	\$ 278,061
Professional Services	97,876	106,219
Travel	20,674	10,642
Administrative Expenses	50,708	52,077
Assistance, Payments to Local Govn'ts	872	12,000
Property, Furniture, Equipment	190	5,548
Total Uses	\$ 452,241	\$ 464,547

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

**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 July 1, 2015 through June 30, 2020. 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.

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.

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 I

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

Conclusion

The control activities in place at the Agency are operating effectively to reasonably ensure funds received are deposited, in line with GAO Standards for Internal Control and previous audit recommendations.

Following recommendations in previous audit reports, management has taken steps to improve the Agency's internal controls over deposits to the extent possible given their current staff size. The director provides effective oversight of Agency staff and functions performed by Office of Management and Enterprise Services, Agency Business Services (ABS).

Due to the Agency's small size, the director by necessity serves as back-up for all positions and can make edits in the licensing system in order to fix errors. While this presents an inherent risk that someone in this position could misappropriate a check and conceal it in the records, the risk is difficult to avoid and complex to resolve. In addition, approximately 30% of the Agency's revenues are received electronically and therefore not exposed.

Any further monitoring would need to be implemented at the Board level. We will provide further information to the Board to ensure they understand this conclusion, and suggest they assess any risk to the Agency and develop monitoring activities as they see fit.

Scope and Methodology

To accomplish our objective, we performed the following:

- Documented our understanding of the receipting and licensing processes. Evaluated those processes and identified significant internal controls related to revenues.
- Compared those processes to governmental internal control standards outlined in the *GAO Standards for Internal Control*.
- Reviewed a random sample of 25 monthly Deposit Worksheets from a population of 60 (42%) to ensure they were approved by the Director.

Other than the considerations discussed above, no findings were identified as a result of these procedures.

OBJECTIVE II Determine whether one or more board members regularly reviews a line-item detailed listing of expenditures, in line with *GAO Standards for Internal Control* and previous audit recommendations.

Conclusion The Board does not perform a detailed review of expenditures, as previously recommended in line with *GAO Standards for Internal Control*. See further discussion and our recommendation below.

Scope and Methodology To accomplish our objective, we performed the following:

- Documented our understanding of the Board’s process for reviewing a line-item detailed listing of non-payroll expenditures. Evaluated processes and identified significant internal controls related to non-payroll expenditures.
- Compared the Agency’s process to governmental internal control standards outlined in the *GAO Standards for Internal Control* and developed recommendations, keeping in mind related recommendations in our prior audit.

FINDINGS AND RECOMMENDATIONS

Independent, Detailed Expenditure Review Would Provide Efficient Assurance The Director approves the Agency’s invoices and the Principal Assistant sends the expenditures to ABS for payment. While the Director provides the Board with a budget summary, this document lacks a line-item detailed listing of expenditures and does not satisfy the Agency’s Internal Purchasing Policies and Procedures requirement to provide a report of purchases made to the Board.

Although no evidence of inappropriate expenditures came to our attention, without a reliable, documented review of expenditures the Agency could be at risk for unauthorized expenditures. It appears the Director or Principal Assistant could initiate an inappropriate expenditure, or ABS could make an error, without detection. The Agency’s very small staff size necessitates the Board’s monitoring and involvement in the Agency’s financial reviews as crucial to address these risks.

According to *GAO Standards for Internal Control*, “Management may design a variety of transaction control activities for operational processes, which may include verifications, reconciliations, authorizations and approvals, physical control activities, and supervisory control activities.” The Standards also state 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”.

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

Recommendation

While small staff sizes can sometimes complicate the design of internal controls, an independent expenditure review is a straightforward and efficient solution. We reiterate our previous audit recommendation below:

- An independent party (most likely a Board member) should perform a line item detailed review of all expenditures. Documentation of this review should be retained for audit purposes. We will provide the Board with additional guidance outside this report to ensure they understand the risk and how to obtain the report from the State-Wide Accounting System that is needed for this review. The report will also provide the Board with the review of purchases that is required in the Internal Purchasing Policies and Procedures.
- The Director should also review the line-item detailed expenditure report to ensure the payments are correct and to anticipate any questions the board might have.

To ensure an overall effective internal control system, Agency management and the Board should routinely monitor key duties and responsibilities and analyze for control deficiencies and remediate those deficiencies in a timely manner.

Views of Responsible Officials

We will have the Board President and Director review the 6-Digit Expenditure Report for monthly expenditures as recommended. This review will be instituted immediately.

APPENDIX A: Detailed Methodology

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

- Reviewed revenue, expenditure, and asset-related data from the State-Wide Accounting System and gathered information from Agency personnel to assess the related financial processes and trends for any notable risks.
- Reviewed the Agency's transfers made to the state's general revenue fund as required by 59 O.S. § 46.20 and confirmed they materially reflected 10% of Agency deposits.
- Reviewed the Agency's HR All Actions Report from the State-Wide Accounting System to assess the changes that had a financial impact during the audit period.

We documented our understanding of the agency-wide components and underlying principles of internal controls significant to our objectives, as outlined further in Appendix B. In doing so, we obtained an internal control self-assessment completed by management and assessed the results, along with further discussions and review of documentation to verify and confirm as necessary. We analyzed the design and operating effectiveness of the significant principles and determined there is room for improvement relating to control activities, as addressed in our finding in the previous section.

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?	Significant to Audit Objective II	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.	✓	Yes	✓	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.	✓	Yes	✓	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.	✓	Yes	✓	No
17. Management should remediate identified internal control deficiencies on a timely basis.	✓	Yes	✓	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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