STATE OF OKLAHOMA
OFFICE OF THE STATE AUDITOR & INSPECTOR

STATE BOND ADVISOR
JULY 1, 2003 THROUGH JUNE 30, 2004

JEFF A. McMAHAN, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR
State Bond Advisor
Statutory Examination Report
For the Period July 1, 2003 to June 30, 2004

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May 27, 2005

TO THE MEMBERS OF THE COUNCIL OF BOND OVERSIGHT

Transmitted herewith is the Statutory Examination Report for the State Bond Advisor. The procedures we performed were conducted pursuant to 74 O.S. §212.

The Office of the State Auditor and Inspector is committed to serve 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,

JEFF A. McMAHAN
State Auditor and Inspector
Table of Contents

Background, Council Members and Key Staff................................................................. ii
Report of the State Auditor and Inspector ................................................................. 1
Statement of Receipts, Disbursements and Changes in Cash................................. 2
Findings/Recommendations......................................................................................... 3
Other Information........................................................................................................ 4
Background

The mission of the State Bond Advisor is to protect the interests of the citizens of the State of Oklahoma by ensuring that all borrowings are conducted in a legal, ethical and cost-effective manner. Through the timely preparation and dissemination of financial and economic information, the State Bond Advisor promotes better understanding of the State's credit quality and helps ensure market access for each of its borrowings programs.

Council Members

CLIFF ELLIOT ........................................................................................................................................... CHAIR
SCOTT MEACHAM .................................................................................................................................... MEMBER
ROBERT HOLLAND ................................................................................................................................. MEMBER
DR JOE WILEY ......................................................................................................................................... MEMBER
PAM WILLIAMS ........................................................................................................................................ MEMBER

Key Staff

JAMES C. JOSEPH ................................................................................................................................. STATE BOND ADVISOR
TIM MARTIN ................................................................................................................................. SENIOR BOND ANALYST
LORIE COLLIER................................................................................................................................. ADMINISTRATIVE OFFICER
TO THE MEMBERS OF THE COUNCIL OF BOND OVERSIGHT

For the purpose of complying with 74 O.S. § 212, we have performed the following procedures for the fiscal year 2004:

1. We reviewed internal controls over cash, receipts, and disbursements.

2. We tested a sample of deposits to determine they were properly posted to the financial records and had adequate supporting documentation.

3. We tested a sample of disbursements to determine they were properly posted to the financial records and had adequate supporting documentation.

4. We performed analytical procedures to test the reasonableness of payroll disbursements;

We also prepared a Schedule of Receipts, Disbursements and Changes in Cash from information obtained from the statewide CORE accounting system. This schedule has been included for informational purposes only.

Our procedures were limited to those defined above and were less in scope than would be necessary to express an opinion on any of the items referred to above or to express an opinion on the effectiveness of the State Bond Advisor’s internal control or any part thereof. Accordingly, we do not express such opinions. Alternatively, we have identified the procedures we performed and the findings resulting from those procedures.

Sincerely,

JEFF A. McMAHAN
State Auditor and Inspector

April 11, 2005
Office of the State Bond Advisor

SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH
FOR THE YEAR ENDED JUNE 30, 2004

RECEIPTS:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transfers In</td>
<td>275,860</td>
</tr>
<tr>
<td>State Appropriations</td>
<td>163,000</td>
</tr>
<tr>
<td>Bond Advisor Fees</td>
<td>154,181</td>
</tr>
<tr>
<td>Other</td>
<td>45</td>
</tr>
<tr>
<td><strong>Total Receipts</strong></td>
<td><strong>593,086</strong></td>
</tr>
</tbody>
</table>

DISBURSEMENTS:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel Services</td>
<td>253,285</td>
</tr>
<tr>
<td>Misc. Administrative Expenses</td>
<td>8,578</td>
</tr>
<tr>
<td>Rent Expense</td>
<td>6,465</td>
</tr>
<tr>
<td>Travel</td>
<td>6,439</td>
</tr>
<tr>
<td>General Operating Expenses</td>
<td>1,388</td>
</tr>
<tr>
<td>Inter/Intra Agency Pmts - Admin</td>
<td>1,367</td>
</tr>
<tr>
<td>Inter/Intra Agency Pmts - Prof Serv</td>
<td>880</td>
</tr>
<tr>
<td>Transfers Out</td>
<td>528</td>
</tr>
<tr>
<td>Office Furniture and Equipment</td>
<td>40</td>
</tr>
<tr>
<td><strong>Total Disbursements</strong></td>
<td><strong>278,970</strong></td>
</tr>
</tbody>
</table>

**RECEIPTS OVER (UNDER) DISBURSEMENTS**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>CASH - Beginning of year</td>
<td>0</td>
</tr>
<tr>
<td>CASH - End of year</td>
<td>314,116</td>
</tr>
</tbody>
</table>

**Receivts**

- Bond Advisor Fees/Other: 26%
- State Approp/Transfers: 74%

**Disbursements**

- Misc. Admin: 3%
- Rent: 2%
- General Operating/Other: 2%
- Personnel Services: 91%
Findings/Recommendations

Finding #1

During our test of thirty-one deposits, we noted that sixteen deposits consisted of receipts greater than one hundred dollars, which were not deposited on the same day received. The agency does safeguard funds in a locked cabinet or safe between the time of receipt and the time of deposit. However, according to 62 O.S. § 7.1C1, receipts of One Hundred Dollars ($100.00) or more shall be deposited on the same banking day as received. Therefore, we recommend the agency implement procedures to ensure compliance with 62 O.S. § 7.1C1.

Management’s Response:
During the period examined, the Office was given multiple, and often conflicting, instructions concerning the handling of bank deposits. This was due, in part, to the changing procedures being implemented as a part of the CORE transition, but also due to our status as a new agency. We acknowledge that certain receipts in excess of $100 were not deposited on the same day as they were received. The Office is in the process of developing formal administrative policies that will include same-day deposit of all receipts in excess of $100.

Finding #2

During our review of internal controls over disbursements, we noted the person responsible for preparing claims and performing monthly reconciliations (recordkeeping functions) also has the authority to approve claims (authorization function). We did note there are two other individuals who are also responsible for authorizing claims. If duties are not adequately segregated, errors and irregularities may occur and not be detected in a timely manner. To prevent this from occurring, we recommend the agency only allow the two other individuals to authorize claims.

Management’s Response:
The Office has three full-time employees. As a result, there are times when the two senior staff members are not available to authorize claims. In such cases, the Office Manager (Ms. Coller) has signed off on routine expenditures. We agree that the recommendations of the auditor would strengthen control over the payment of invoices, although it might result in some delays in payment when neither the State Bond Advisor nor the Senior Bond Analyst is available. In the course of our development of formal administrative policies, we will include a policy that provides that the person responsible for preparing claims and performing monthly reconciliations may not authorize claims.
Other Information

According to 62 O.S. § 695.7a, beginning July 1, 2003, the Oklahoma State Bond Advisor ceased to be a position within the Department of Central Services, and became a separate and distinct agency of the state. All unexpended funds, property, records, personnel, and outstanding financial obligations and encumbrances related to the position and Office of the State Bond Advisor within the Department of central Services was transferred to the Office of the State Bond Advisor. The “Transfers In” line item of $275,860 on the Schedule of Receipts, Disbursements and Changes in Cash represents the unexpended funds that were transferred during the fiscal year.
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