



**STATE OF OKLAHOMA**  
**OFFICE OF THE STATE AUDITOR & INSPECTOR**

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**OKLAHOMA STATE  
BANKING DEPARTMENT**

*REPORT ON AGREED-UPON PROCEDURES*

*JULY 1, 2004 THROUGH DECEMBER 31, 2005*



**JEFF A. McMAHAN, CFE**  
**OKLAHOMA STATE AUDITOR & INSPECTOR**

**OKLAHOMA STATE BANKING DEPARTMENT**

**Agreed-upon Procedures Report**

**For the Period  
JULY 1, 2004 - DECEMBER 31, 2005**



STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN  
State Auditor and Inspector

August 30, 2006

**TO THE STATE BANKING DEPARTMENT**

Transmitted herewith is the agreed-upon procedures report for the Oklahoma State Banking Department. The procedures we performed were conducted pursuant to 74 O.S., §212.

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 "Jeff A. McMahan".

JEFF A. McMAHAN  
State Auditor and Inspector

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## **Mission Statement**

As authorized by statute, the Oklahoma State Banking Department (the Department) operates as an administrative regulatory agency under the executive branch of government of the State of Oklahoma. The Department is responsible for supervising commercial banks, credit unions, savings and loan associations, and trust companies. It also regulates and licenses money order companies and trust funds maintained by for-profit cemeteries. The department helps ensure the safety of depositors' funds through appointed advisory boards that are charged with promulgating rules to govern the financial industry in the State.

The Department performs statutorily prescribed examinations of all financial institutions under its supervision through the allocation of its human and technological resources. It also convenes public hearings on matters of new charter applications, and it processes various administrative applications from regulated financial institutions that are seeking new or additional corporate powers and activities, and/or changes in their certificates of incorporation.

The primary focus of the Department is effective and efficient supervision and the preservation of the dual banking system and the protection of financial institution depositors and shareholders.

## **Board Members**

Mick Thompson .....	Chair
Cheri Cartwright .....	Member
Chris Conn .....	Member
John Goad .....	Member
Gordon Greer .....	Member
Gary Huckaby .....	Member
Bob Newcomb.....	Member

## **Key Staff**

Mick Thompson .....	Commissioner
Charles Griffith .....	Deputy Commissioner
Sherbie Kiffin.....	Assistant Deputy Commissioner
Tony Reel.....	Assistant Deputy Commissioner
O. Dudley Gilbert .....	Legal Counsel
Rhonda Bruno .....	Budget Director/Comptroller



STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN  
State Auditor and Inspector

**INDEPENDENT ACCOUNTANT'S REPORT  
ON APPLYING AGREED-UPON PROCEDURES**

We have performed the procedures enumerated below, which were agreed to by management of the Oklahoma State Banking Department, solely to assist you in evaluating your internal controls over the receipt and disbursement process, and in determining whether selected receipts and disbursements are supported by underlying records for the period July 1, 2004 through December 31, 2005. This agreed-upon procedures engagement was conducted in accordance with standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We compared the Oklahoma State Banking Department internal controls over receipts and disbursements with the following criteria:
  - Accounting duties were segregated by functions into those who initiate or authorize transactions; those who execute transactions; and those who have responsibility for the asset, liability, expenditure, or revenue resulting from the transaction;
  - Incoming checks were restrictively endorsed upon receipt;
  - Receipts not deposited daily were safeguarded;
  - Receipts were deposited to the State's General Revenue Fund;
  - Receipts and disbursements were reconciled to Office of State Treasurer and Office of State Finance records;
  - Disbursements were supported by an original invoice;

The budget director has access and an incompatible role within the CORE PeopleSoft system. When there is a lack of segregation of duties, errors, irregularities, and fraud could occur and not be detected in a timely manner. We recommend that management review the access rights/PeoplesSoft roles to ensure that personnel are performing only those duties stipulated for their respective jobs/positions and incompatible roles have not been assigned.

**Management Response:**

Because we are a small agency, duties can not be segregated like a large agency. We believe we have internal controls in place to detect errors, irregularities or fraud.

**Auditor Response:**

Management should be aware of this condition and realize that concentration of duties and responsibilities in a limited number of individuals is not desired from a control point of view. The most effective controls lie in management's knowledge of office operations and a periodic review of operations.

With respect to the other procedures applied, there were no findings.

2. We randomly selected 20 deposits and:
  - Compared the Treasurer's deposit date to the agency deposit slip date to determine if dates were within one working day.
  - Agreed cash/check composition of deposits to the documentation.
  - Inspected agency receipts to determine whether receipts of \$100 or more were deposited on the same banking day as received.
  - Inspected agency receipts to determine whether receipts of less than \$100 were deposited on the next business day when accumulated receipts equaled \$100 or after five business days, whichever occurred first.
  - Inspected agency receipts to determine whether receipts were safeguarded.
  - Compared the fund type to which the deposit was posted in CORE to the CAFR fund type listing for consistency;
  - Compared the nature of the deposit to the account code description to determine consistency.

There were no findings as a result of applying the procedures.

3. We recalculated the required percentage/amount to be deposited to the State's General Revenue Fund and agreed it to the amount transferred to the General Revenue Fund.

There was a difference of \$200.29 between the required percentage/amount of \$907,830.15 deposited into the State's General Fund and the recalculated amount of \$908,030.44. Per 6 O.S. §211 twenty percent (20%) of all assessments collected from state-chartered banks existing as of December 31 of the previous year is to be deposited into the State's General Fund.

**Management Response:**

Usually, credit unions send one check for their assessments. Because we had one credit union send two checks, the department deducted the \$1,000 annual fee twice from their assessment. As a result, the revenue code for annual fees was overstated by \$1,000 and the General Revenue Fund was shorted 20% or \$200. Should the department receive any split payments in the future, they will be reviewed for proper coding. This finding would be considered immaterial in a financial audit.

**Auditor Response:**

The concept of materiality does not apply to findings reported in an agreed-upon procedures engagement unless the definition of materiality is agreed to by the specified parties. Because no materiality limits were established, we are required to report all findings from application of the agreed-upon procedures.

4. We randomly selected 60 vouchers and:
  - Compared the voucher amount and payee to the invoice amount and payee;
  - Compared the voucher amount and payee to the CORE system;
  - Compared the fund type to which the disbursement was charged in CORE to the CAFR fund type listing for consistency;
  - Compared the nature of the purchase to the account code description to determine consistency.

During our inspection of 60 vouchers totaling \$48,793.38, we noted seven recorded account code descriptions not consistent to the nature of the purchase totaling \$1,766.84. Account code 531110 (freight) was used instead of 531130 (telephone).

**Management Response:**

A purchase order was coded with the wrong 4-digit object code, 3111. This was never detected in previous audits because we budget and report expenditures by the 2-digit code, 31. The purchase order has been corrected. This finding would be considered immaterial in a financial audit.

**Auditor Response:**

The concept of materiality does not apply to findings reported in an agreed-upon procedures engagement unless the definition of materiality is agreed to by the specified parties. Because no materiality limits were established, we are required to report all findings from application of the agreed-upon procedures.

With respect to the other procedures applied, there were no findings.

5. We compared salaries set by statute, if any, to the actual salary paid to determine the statutory limit was not exceeded.

There were no findings as a result of applying the procedures.

6. We randomly selected 10% of the employees who appeared on the June 2005 payroll but not on the June 2004 payroll and observed the initial "Request for Personnel Action" (OPM-14) or equivalent form to determine it was signed by the appointing authority.

There were no findings as a result of applying the procedures.

7. We randomly selected 10% of the employees who appeared on the June 2004 payroll but not on the June 2005 payroll and:
  - Observed the final "Request for Personnel Action" (OPM-14) or equivalent form to determine it was signed by the appointing authority.
  - Observed the main payroll funding sheet for the month subsequent to termination to determine the employee no longer appeared.

There were no findings as a result of applying the procedures.

8. We randomly selected 10% of the employees whose gross salary at June 2005 had increased since June 2004 (excluding legislative pay raises) and observed the "Request for Personnel Action" (OPM-14) or equivalent form to determine it was signed by the appointing authority.

There were no findings as a result of applying the procedures.

9. We randomly selected 10% (but no more than 20) of the employees from the June 2005 payroll and agreed the amount paid to the "Request for Personnel Action" (OPM-14) or equivalent form that was in effect for June 2005.

There were no findings as a result of applying the procedures.

10. We compared the Oklahoma State Banking Department internal controls over purchase cards with the following criteria:
  - Purchase card policies and procedures were incorporated into the Oklahoma State Bank Department policies and procedures;
  - Purchase card Administrator, designated back-up Administrator, and Approving Official were established;
  - Purchase card Administrator, designated back-up Administrator, Approving Official(s), and purchase cardholders completed the training prescribed by the State Purchasing Director and signed the State of Oklahoma Purchase Card Employee Agreement form;



- Cardholders submitted monthly transaction logs with supporting documentation which were reviewed and approved by the appropriate personnel;
- Mandatory categories of controls and limits were established for each purchase card, i.e. credit limit, single purchase limit, and Merchant Category Code Group;
- Controls were established to ensure that purchase cards are not used for prohibited purchases, i.e. travel, cash advances, motor fuel, etc....;
- Duties, control responsibilities, and the appropriate channels of communication were established and communicated to purchase cardholders to report suspected improprieties regarding purchase card usage.

There were no findings as a result of applying the procedures.

11. We identified employees that are purchase card holders and determined the Oklahoma State Banking Department retained the original employee signed copy of the State of Oklahoma Purchase Card Employee Agreement.

There were no findings as a result of applying the procedures.

12. We examined all purchase card transactions to determine;
  - A credit limit (dollar amount per cycle) was established for each cardholder;
  - The dollar amount of each transaction did not exceed the single purchase limit of \$2,500;
  - Each purchase card was assigned an approved Merchant Category Code Group;
  - We compared purchases from the same vendor on the same date to determine whether the purchase was for the same item and whether in the aggregate, the card purchase limit was exceeded (i.e. split purchasing).

There were no findings as a result of applying the procedures.

13. We randomly selected 31 of the Oklahoma State Banking Department purchase card transactions and:
  - Determined transactions were **not** for prohibited purchases.
    - Travel including, but not limited to, transportation, entertainment, food and beverages, travel agencies, and lodging.
    - Cash, cash advances, automatic teller machines (ATM).
    - Any transaction or series of transactions, which exceed the limits established on the individual purchase card.
    - Motor fuel or fluids.
    - Gift certificates.
  - Inspected transaction logs to determine they were supported by receipts and/or other supporting documentation and the cardholder and approving official reconciled the supporting documentation to the monthly memo statement;
  - Reviewed transaction receipts to determine if the use of the purchase card was limited to the employee whose name is embossed on the card;
  - Examined transaction logs to determine the log was reviewed and approved (signed) by the cardholder and the approving official;
  - Reviewed receipts and/or other supporting documentation to determine they were annotated "Received", signed, and dated by the receiving employee;
  - Examined the receipt and/or supporting documentation to determine state sales tax was **not** charged during the transaction;
  - Verified with the Department of Central Service that the Purchase card Administrators, back-up Administrators, Authorized Signers, Approving Officials, and Cardholders have successfully completed the Purchase Card Training conducted by the Department of Central Services prior to being issued purchase cards;
  - Inspected transactions to determine if merchant preference was used by the Oklahoma State Banking Department for certain merchants or types of contracts, i.e. statewide contracts;
  - Determined documents were retained in accordance with the Oklahoma State Banking Department procedures;

- Compared the nature of the purchase to the commission's mission for consistency.

During our inspection of thirty-one transactions, we noted the following:

- *State of Oklahoma Purchase Card Procedures 6.7.1 states, the receipt for purchase can also serve as the receiving document. The receiving document should be annotated "Received" and signed and dated by the receiving employee.*

Two receipts totaling \$106.24 were not signed.

- *State of Oklahoma Purchase Card Procedures 6.2.5.3 states, state entities shall make purchases from mandatory statewide contracts regardless of the purchase price unless the State Purchasing Director has issued a waiver to the entity.*

Merchant preference not used for nine purchases.

#### **Management Response:**

Two receipts were not signed:

8-18-05 – Pike pass bill for \$8.65 – Budget Director signed the invoice "pd card 8-16-05" and forgot to write received and sign her name.

11-11-05 – Galt Foundation – The receptionist did sign the ticket, but failed to write the word "received".

Merchant preference not used for 9 purchases:

Three purchases of the nine purchases were a result of the vendor sending the wrong item. We returned the item and then repurchased it. The department relied on the vendor's website and contract info instead of checking the state contract website. In the future the department will rely on the state contract website for information regarding current contracts. All of these purchases were the same vendor. This finding would be considered immaterial in a financial audit.

#### **Auditor Response:**

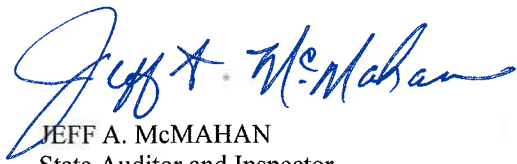
The concept of materiality does not apply to findings reported in an agreed-upon procedures engagement unless the definition of materiality is agreed to by the specified parties. Because no materiality limits were established, we are required to report all findings from application of the agreed-upon procedures.

With respect to the other procedures applied, there were no findings.

We were not engaged to, and did not, conduct an examination or a review, the objective of which would be the expression of an opinion or limited assurance on the cash, receipts, and disbursements for the agency. Accordingly, we do not express such an opinion or limited assurance. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We have also compiled a Schedule of Receipts, Disbursements and Changes in Cash from information obtained from the statewide CORE accounting system, which is presented in the "Other Information" section. The schedule, compiled for fiscal year 2005 in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants, has been included for informational purposes only. A compilation is limited to presenting financial information that is the representation of management. We have not audited or reviewed the accompanying Schedule of Receipts, Disbursements and Changes in Cash, and accordingly, do not express an opinion or any other form of assurance on it.

This report is intended solely for the information and use of management of the board members and should not be used for any other purpose. This report is also 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.

A handwritten signature in blue ink that reads "Jeff A. McMahon". The signature is fluid and cursive, with the first name "Jeff" being particularly prominent.

JEFF A. McMAHAN  
State Auditor and Inspector  
August 10, 2006

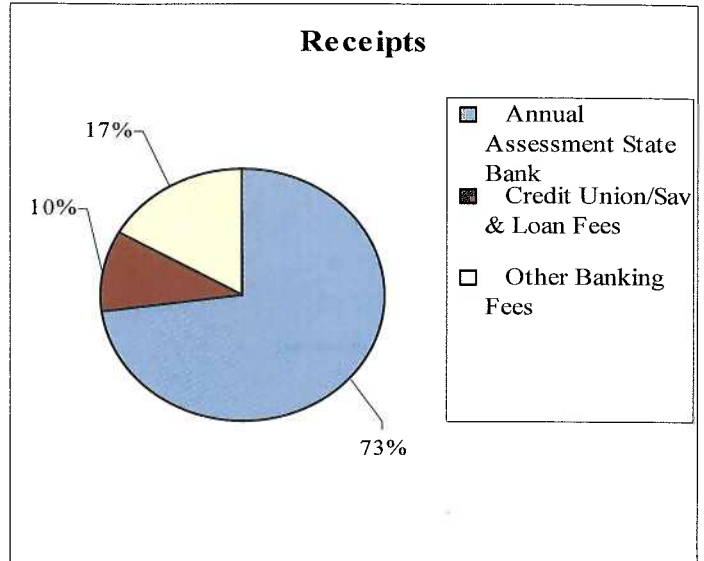
## **Other Information**

**Oklahoma State Banking Department  
 Schedule of Receipts, Disbursements, and Changes in Cash  
 For the Fiscal Year Ending June 30, 2005  
 UNAUDITED**

**RECEIPTS:**

Annual Assessment State Bank	\$ 3,257,091
Credit Union/Sav & Loan Fees	449,241
Other Banking Fees	760,913
Exam & Charter Application Fees	

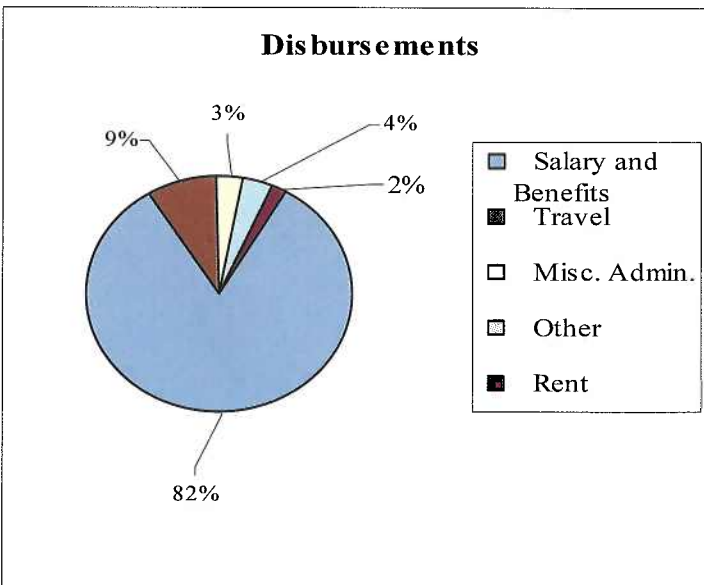
Total Receipts	4,467,245
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**DISBURSEMENTS:**

Salary and Benefits	3,020,214
Professional Services	28,492
Travel	317,878
Misc. Admin.	116,588
Rent	56,467
General Operating	24,471
Furniture and Equipment	57,150
Other	27,829

Total Disbursements	3,649,089
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RECEIPTS OVER (UNDER) DISBURSEMENTS	818,156
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CASH--Beginning of Year	3,371,705
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CASH--End of Year	\$ 4,189,861
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Solely for the information and use by the management of the Oklahoma State Banking Department and not intended to be and should not be used by any other party.

See Accountant's Report.



## Office of the State Auditor and Inspector

2300 North Lincoln Boulevard, Room 100  
Oklahoma City, Oklahoma 73105-4896  
(405) 521-3495

[www.sai.state.ok.us](http://www.sai.state.ok.us)