

# OKLAHOMA STATE BANKING DEPARTMENT

JANUARY 1, 2006 THROUGH  
DECEMBER 31, 2007

# OPERATIONAL AUDIT



Oklahoma State Auditor  
& Inspector

**Audit Report of the  
Oklahoma State Banking Department**

**For the Period  
January 1, 2006 through December 31, 2007**



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

Steve Burrage, CPA  
State Auditor and Inspector

August 1, 2008

**TO THE BOARD OF THE OKLAHOMA STATE BANKING DEPARTMENT**

Pursuant to 74 O.S. § 212, transmitted herewith is the audit report for the Oklahoma State Banking Department for the period January 1, 2006 through December 31, 2007. 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 "Michelle R. Day".

Michelle R. Day, Esq.  
Deputy State Auditor and Inspector

## **Mission Statement**

The Oklahoma State Banking Department's mission is to preserve and promote sound, constructive competition among financial services and to help ensure the security of deposits through the promulgation of rules and regulations governing the banking industry in Oklahoma and by promoting diversity in financial products and services.

## **Oklahoma State Banking Board Members**

Mick Thompson .....	Chairman
Bob Newcomb .....	Vice Chairman
David Burrage.....	Member
Chris Conn ....	Member
Gordon Greer .....	Member
Brad Krieger .....	Member
Bob Weaver.....	Member

## **Oklahoma State Credit Union Board Members**

Mick Thompson .....	Chairman
Floyd Atha ....	Member
Agnes C. Berkenbile .....	Member
Richard Forshee .....	Member
Leslie W. Rector .....	Member

## **Key Staff**

Mick Thompson .....	Bank Commissioner
Charles R. Griffith .....	Deputy Bank Commissioner
O. Dudley Gilbert .....	Legal Counsel
Randall J. Brooks.....	Director of Examinations
Sherbie Kiffin.....	Assistant Deputy Commissioner
Harold A. Reel .....	Assistant Deputy Commissioner
Carter Matthews .....	Supervisory Examiner
Paul Qualls .....	Regional Examiner
Jeff Bagby .....	Regional Examiner
Rhonda Bruno .....	Budget Director
Stacey Tayar .....	Administrative Assistant



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

Steve Burrage, CPA  
State Auditor and Inspector

**TO THE BOARD OF THE OKLAHOMA STATE BANKING DEPARTMENT**

We have audited the Oklahoma State Banking Department for the period January 1, 2006 through December 31, 2007. The objectives of this audit were to determine if:

- The Department's internal controls provide reasonable assurance that revenues, expenditures, and inventory were accurately reported in the accounting records, and financial operations complied with applicable finance-related laws and regulations;
- The Department complied with 6 O.S. §211.A.3;
- The Department implemented recommendations made from prior year's engagements.

As part of our audit we obtained an understanding of internal controls significant to the audit objectives and considered whether the specific controls have been properly designed and placed in operation. We also performed tests of certain controls to obtain evidence regarding the effectiveness of the design and operation of the controls. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We also obtained an understanding of the laws and regulations significant to the audit objectives and assessed the risk that illegal acts, including fraud, violation of contracts, grant agreements, or other legal provisions could occur. Based on this risk assessment, we designed and performed procedures to provide reasonable assurance of detecting significant instances of noncompliance with the laws and regulations. However, providing an opinion on compliance with these laws and regulations was not an objective of our audit and accordingly, we do not express such an opinion.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances.

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.

Michelle R. Day, Esq.  
Deputy State Auditor and Inspector

July 9, 2008

## **Background**

The State Banking Department is charged with regulating all state chartered banks, credit unions, savings and loan associations, trust companies, money order companies, money transmission licensees and for-profit cemeteries in the State of Oklahoma. The total assets regulated by the State Banking Department are approximately \$26.9 Billion.

Table 1 summarizes the Department's sources and uses of funds for fiscal years 2007 and 2006.

**Table 1 – Sources and Uses of Funds for FY 2007 and FY 2006**

	<b><u>2007</u></b>	<b><u>2006</u></b>
Sources:		
Licenses, Permits, and Fees	\$5,483,582	\$5,031,904
Grants, Refunds, & Reimbursement	<u>156</u>	<u>728</u>
Total Sources	<u>\$5,483,738</u>	<u>\$5,032,632</u>
Uses:		
Personal Services	3,802,401	3,416,674
Travel	355,987	383,082
Administrative Expense	199,638	173,284
Property, Furniture, Equipment & Related Debt	7,987	28,686
Gen Assistance, Awards, Program-Directed	1,890	8,952
Transfers & Other Disbursements	<u>33</u>	<u>47</u>
Total Uses	<u>\$4,367,936</u>	<u>\$4,010,567</u>

*Source: Oklahoma CORE Accounting System*

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**Objective 1** – Determine if the Department’s internal controls provide reasonable assurance that revenues, expenditures, and inventory were accurately reported in the accounting records, and financial operations complied with applicable finance-related laws and regulations.

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### **Conclusion**

The Department’s internal controls provide reasonable assurance that revenues, expenditures, and inventory were accurately reported in the accounting records, and financial operations complied with applicable finance-related laws and regulations.

### **Methodology**

To accomplish our objective, we performed the following:

- Documented internal controls relating to the revenue, expenditure, and inventory processes;
- Tested controls which included:
  - Observing the endorsement process to ensure checks were endorsed immediately upon receipt.
  - Observing the process for safeguarding assets to ensure deposits that were held overnight were being properly safeguarded.
  - Reviewing 25 deposits to ensure the deposit into CORE was made timely for the correct amount, account, and period;
  - Reviewing 25 deposits to ensure the deposits were made daily in accordance with 62 O.S. § 7.1.c;
  - Reviewing 3 reconciliations to ensure reconciling items appeared reasonable and were cleared timely;
  - Reviewing 3 reconciliations to ensure they were performed in a timely manner and the preparer and reviewer were independent of each other;
  - Reviewing 25 expenditure claims to ensure invoice amounts were mathematically accurate;
  - Reviewing 25 expenditure claims to ensure vouchers were properly posted into CORE (account/amount/period);
  - Reviewing 25 expenditure claims to ensure claims were authorized by the Commissioner or Deputy Commissioner;
  - Reviewing 25 expenditure claims to ensure the invoice amounts supported the payment amount;
  - Reviewing 2 inventory purchases to determine the Product Request Forms were authorized by the Commissioner;
  - Reviewing 5 inventory purchases to determine the packing slip was signed by the receiver, amounts and quantities on the packing slip matched the amounts and quantities on the invoice, and that the invoice amounts were mathematically correct;
  - Reviewing 5 assets to ensure the asset was entered into CORE with the correct amounts and proper account codes;
  - Reviewing 5 assets to determine they were authorized by the Commissioner and that the invoice supported the payment;
  - Reviewing 15 assets from the inventory listing to verify their existence on the floor, ensuring they were identified as property of the State, and ensuring the inventory tag number on the asset agreed to the listing;
  - Reviewing 15 assets from the floor to verify they were identified on the inventory listing, ensuring they were identified as property of the State, and ensuring the inventory tag number on the asset agreed to the listing;
  - Determining if an annual physical inventory was performed;
  - Reviewing assets surplus during the period, ensuring an approved DCS form 001 supported the removal and determining the assets were removed from the inventory list.

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**Objective 2** – Determine if the Department complied with 6 O.S. § 211A.3.

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**Conclusion**

It appears the Department is in compliance with 6 O.S. § 211A.3, *Fees for Examination of Banks or Trust Companies – Disposition of Fees*.

**Methodology**

To accomplish our objective, we performed the following:

- Reviewed 62 O. S. § 211.A.3 (applicable to the period of January 1, 2006 through December 31, 2006) and performed procedures to determine if the department transferred to the General Revenue Fund twenty percent (20%) of all the state-chartered bank fees collected;
- Reviewed 62 O.S. § 211.A.3 (applicable to the period of January 1, 2007 through December 31, 2007) and performed procedures to determine if the department transferred to the General Revenue Fund ten percent (10%) of all the state-chartered bank fees collected.

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**Objective 3** – Determine if recommendations from prior engagements were implemented.

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**Conclusion**

The Office of the State Auditor’s report issued August 24, 2007, included two findings which were considered significant to this engagement. Corrective action on these two findings has been implemented.

**Methodology**

To accomplish our objective, we performed the following:

- Documented internal controls related to the receipting process and tested those controls to determine if deposits were made daily in accordance with 62 O.S. § 7.1.c (performed under Objective 1);
- Observed the receipting process;
- Reviewed the deposit reports and performed procedures to determine if gaps in the sequential number order of receipts exist.





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