



Agreed-Upon Procedures Report

Oklahoma State Bond Advisor

July 1, 2005 Through
December 31, 2006



Office of the Oklahoma State Auditor and Inspector
Jeff A. McMahan, CFE

Oklahoma State Bond Advisor
Agreed-upon Procedures Report
For the Period
July 1, 2005 through December 31, 2006



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Jeff A. McMahan
State Auditor and Inspector

April 16, 2007

TO THE OKLAHOMA STATE BOND ADVISOR

Transmitted herewith is the agreed-upon procedures report for the Oklahoma State Bond Advisor. 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, reading "Jeff A. McMahan".

JEFF A. McMAHAN
State Auditor and Inspector

Mission Statement

To administer the Private Activity Bond Allocation Act, and to serve as staff to the Long-Range Capital Planning Commission and the Council of Bond Oversight.

Council on Bond Oversight Members

Robert Holland, Jr.....	Chair
Dr. Joe Wiley.....	Vice-Chair
Tony Hutchison	Secretary
Cliff Elliott.....	Member
Tom Langdon	Member

Key Staff

James C. Joseph.....	State Bond Advisor
Lorie Collier.....	Administrative Assistant
Tim Martin.....	Senior Bond Analyst



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

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**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 Bond Advisor (Agency), solely to assist you in evaluating your internal controls over the receipt and disbursement process, and personnel services and in determining whether selected receipts and disbursements are supported by underlying records for the period July 1, 2005 through December 31, 2006. 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 Bond Advisor's internal controls over receipts, disbursements, and personnel services 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 and disbursements were reconciled to Office of State Treasurer and Office of State Finance records;
 - Disbursements were supported by an original invoice;
 - Timesheets were prepared by employees and approved by supervisory personnel;

Segregation of duties is a basic control that prevents or detects errors, improprieties, and fraud. Based on inspection of CORE financial and HR system security access settings, we found two employees with incompatible roles within the CORE PeopleSoft system. We recommend the Council of Bond Oversight (Council) be aware of this condition and realize the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in the Council's knowledge and periodic review of operations.

Views of Responsible Officials: It is not clear to me what this comment means. To ensure that our administrative operations function smoothly, it is necessary to have more than one person qualified to perform each function. Because we only have three (3) FTE in the office, there are a limited number of combinations available to us. Lorie Collier has asked the Office of State Finance for their input concerning our handling of these activities.

SAI Response – We do not disagree that in a small agency with a limited number of staff, segregation of duties is difficult to achieve. However, we want to bring to management’s attention that while the agency may not have sufficient staff to segregate duties, mitigating controls, such as a periodic review of operations, may alleviate the risk caused by the lack of segregation.

Effective internal controls provide for adequate safeguarding of funds. We noted the agency secures funds in another state agency’s safe if the need arises to hold funds overnight. While the agency was correct in taking steps to secure the funds overnight, because the checks are placed in custody of another agency and their personnel, unauthorized access to the funds could occur. We recommend the State Bond Advisor secure funds in a locked cabinet or safe which only authorized agency personnel can access.

Views of Responsible Officials: During the period examined, problems with the CORE financial management system resulted in our inability to get checks deposited on the day received. There were also a few times when checks, made out to the "State Bond Advisor's Office" or "Council of Bond Oversight" were received too late in the day to deposit. On those rare occasions, the checks were stored in the Oklahoma Development Finance Authority fire safe (in the same building as our offices). We do not handle cash, so these few checks were the only items stored in this fire safe. Since resolution of the problem we had with the CORE system the only time this fire safe has been used is for overnight storage of checks with a cumulative amount of under \$100. I do not feel this practice justifies the expense of acquiring a fire safe for our own use. However, we will secure funds in a locked file cabinet within the State Bond Advisor’s Office.

Effective internal controls provide for adequate reconciliation of records. We noted there was no indication reconciliations for deposits and disbursements were reviewed and approved by someone other than the preparer. Errors and improprieties could occur and go undetected. Since the reconciliations are submitted to the State Bond Advisor for his informal review, we recommend he add his initials indicating his formal approval.

Views of Responsible Officials: As noted in your draft, an informal review does occur. I agree that it would improve the process to have someone other than the preparer check the reconciliations of deposits and disbursements and initial these documents. This practice has been implemented.

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

2. We randomly selected 20 deposits and:
 - Compared OST’s deposit date to agency deposit slip date to determine if dates were within one working day.
 - Agreed the deposit slip to copies of the supporting checks.
 - 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.
 - 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 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.

Chapter 100- Section A3 of the Office of State Finance's policy and procedures manual states the following:

3111 - FREIGHT EXPENSES

Payment for incoming and outgoing transportation charges that cannot be charged as a part of the original cost of a commodity (e.g., specimens received by laboratories, hire of freight vehicles, United Parcel Service (UPS) shipping charges, etc.).

During testwork of 60 claims, ten of the claims were incorrectly coded with 531110 account code for freight expense. The payments were for the following:

- Five payments for postage fees;
- One payment for printing expenses;
- Three payments for rental of a storage building;
- One payment for copier expenses.

Management made subsequent adjusting entries in CORE to correct the account codes on two of the exceptions noted above after notification from the Office of State Finance. The remaining eight account codes could not be adjusted because the expenditures occurred in fiscal year 2006. We recommend management ensure account codes assigned to expenditures are consistent with the descriptions provided in Chapter 100 - Section A3 of the Office of State Finance's policy and procedures manual.

Views of Responsible Officials: The miscoding referenced was caused by the conversion to the CORE PeopleSoft system. Because this miscoding was called to your attention by Ms. Collier, this fact should be noted in your report. Additionally, the document would be more accurate if you reported that prior to the audit, Ms. Collier had gone back and corrected all of the miscoded items for FY'07. Ms. Collier was told by the Office of State Finance it was too late to do anything about FY'06. All of FY'07 had been corrected and the agency is now in compliance.

SAI Response – As stated in the condition of the finding above, we noted that management made subsequent adjusting entries in CORE to correct the account codes on two of the exceptions noted above after notification from the Office of State Finance. Our testwork only sampled a portion of the total population.

With respect to the other procedures described, 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 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.

This report is intended solely for the information and use of management of the Oklahoma State Bond Advisor 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.



JEFF A. McMAHAN
State Auditor and Inspector

April 10, 2007



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