

TURNOVER AUDIT

# OKLAHOMA DEPARTMENT OF LABOR

For the period of January 1, 2015 through December 31, 2015



*Independently serving the citizens of  
Oklahoma by promoting the  
accountability and fiscal integrity of  
governmental funds.*



Oklahoma State  
Auditor & Inspector  
Gary A. Jones, CPA, CFE

**Turnover Procedures Report of the  
Oklahoma Department of Labor**

**For the period  
January 1, 2015 through December 31, 2015**



# Oklahoma State Auditor & Inspector

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January 23, 2017

The Honorable Melissa McLawhorn Houston  
Labor Commissioner  
Oklahoma Department of Labor  
3017 North Stiles, Suite 100  
Oklahoma City, OK 73105

Dear Commissioner McLawhorn Houston:

Per your request, we have performed the turnover procedures listed below for the period of January 1, 2015 through December 31, 2015.

The procedures for this turnover report included the following:

1. We selected three months of deposits and determined if revenues were transferred into the proper funds.

## **SCOPE AND METHODOLOGY**

We discussed the revenue process with relevant personnel and then randomly selected three months from the audit period and determined if revenues deposited by the agency were transferred into the appropriate funds.

## **FINDINGS AND RECOMMENDATIONS**

No findings were noted as a result of the procedures performed.

2. We analyzed labor expenditures for anomalies and subsequently selected a sample of 45 (25 were randomly selected, and 20 were judgmentally selected) expenditure claims from the audit period. We reviewed these 45 claims to ensure they were adequately supported, mathematically accurate, properly approved, and reasonable given the Department of Labor's (Department) mission.

## **SCOPE AND METHODOLOGY**

We discussed the expenditure process with relevant personnel, and then obtained a listing of all of the Department's expenditures from the statewide accounting system (PeopleSoft). We sorted the expenditures by vendor and scanned for payments made to

vendors that appeared to be unusual given the mission of the Department. During our review, we noted several instances where monthly payments appeared to double from the norm. We also reviewed all employee non-travel reimbursements for reasonableness.

For the 20 claims judgmentally selected for testing, we extracted all expenditures with a dollar value over \$20,000 (6 claims) and all personnel travel expenditures for individuals that received travel payments averaging \$400 per claim or more (6 individuals with 14 claims).

For the 25 claims randomly selected, we excluded from the sample population all personnel expenditures, P-Card expenditures, and OMES expenditures. From the remaining population of 782 claims totaling \$1,060,852.56, we randomly selected 25 claims for testwork. We obtained the supporting documentation for each of the claims and reviewed them to ensure the above criteria were met.

## **FINDINGS AND RECOMMENDATIONS**

During these procedures, we noted that two invoices were paid twice (one for \$2,097.30 and one for \$227.84). These overpayments appeared to be due to payments not arriving in time at the vendor to be credited on the next invoice. After reviewing additional documentation, it appears the claim for \$2,097.30 was credited back to the agency four months after the overpayment occurred. However, the \$227.84 overpayment was not corrected.

We also noted the lack of segregation of duties with respect to warrants. The accountant creates vouchers and mails warrants (repeat finding from the two previous audits).

We recommend that:

- Invoices are paid promptly upon receipt and that current invoices are reconciled against prior invoices to ensure that expenses from prior invoices are not inadvertently paid twice; and
- Someone not involved in the expenditure process should receive the warrants from Treasury and mail them out.

## **VIEW OF RESPONSIBLE OFFICIALS**

As suggested in the accounts payable recommendations, we will ensure invoices are paid promptly and reconciled against prior invoices to avoid overpayments beginning immediately. The Department of Labor has already segregated the duties of mailing warrants to agency staff who are not involved in the expenditure process. We will continue to examine our accounts payable processes to ensure best practices are being utilized.

3. We reviewed documentation of payroll changes that occurred during the audit period to ensure they were documented, properly approved, and that a process exists to confirm that only approved payroll changes are accurately entered into payroll.



## **SCOPE AND METHODOLOGY**

We discussed payroll changes with personnel to determine how they are documented and approved. We discussed the payroll process with accounting personnel to determine if a review is occurring to ensure that only approved payroll changes are accurately entered into payroll. We reviewed all personnel actions resulting in a financial payroll change between September 2, 2015 and November 23, 2015 (this was the time period that the Interim Executive Director was in charge). We also reviewed all payroll records from three randomly selected months within the audit period to verify that a review process exists to ensure that only approved payroll changes are accurately entered into payroll.

## **FINDINGS AND RECOMMENDATIONS**

During these procedures we noted that the process to ensure that only approved payroll changes are entered into payroll was not operating (repeat finding from previous audit).

We recommend that:

- A PeopleSoft HR All Actions report is run for each pay period. The report should be reviewed by an individual independent of the payroll process to ensure that only approved changes have been entered into PeopleSoft and that the effective date and salary in the HR All Actions report matches the amount/date approved on the HCM-92/Form 14.

## **VIEW OF RESPONSIBLE OFFICIALS**

The Department of Labor has adopted immediately the recommendation that agency staff independent of the payroll process will compare the HCM-92/Form 14 with the PeopleSoft HR All Actions report to ensure that only approved changes have been entered into PeopleSoft.

4. We selected a sample of three monthly clearing account reconciliations to ensure they were mathematically accurate and reviewed by someone independent of the receipting process.

## **SCOPE AND METHODOLOGY**

We discussed the reconciliation process with relevant personnel, and randomly selected three of the monthly reconciliations within the audit period. We obtained the reconciliation forms and supporting documentation for the selected months to ensure the above criteria were met.

## **FINDINGS AND RECOMMENDATIONS**

No findings were noted as a result of the procedures performed.

5. We selected samples of purchases and inventoried items to ensure the items existed and were properly recorded in inventory records. We also physically selected items present in the agency to ensure they were properly recorded in inventory records.

## SCOPE AND METHODOLOGY

We discussed the inventory process with relevant personnel, and obtained inventory reports of the Department's IT and non-IT assets. Using PeopleSoft expenditure data we identified 14 office furniture and equipment purchases that occurred during the audit period. We then compared the data on the invoices associated with the 14 purchases against inventory records in order to confirm that the items had been entered into inventory and that the data on the invoices matched the data in inventory records. We then randomly selected 35 items (25 of 230 IT items and 10 of 54 non-IT items) from inventory records and physically observed each item and confirmed the items' information (tag number and serial number, where applicable) against the inventory records. Finally, we haphazardly selected ten items from the agency floor, confirmed that each item was tagged, and that each items' information matched the information in inventory records.

## FINDINGS AND RECOMMENDATIONS

During these procedures we noted the following:

- Inventory duties are not properly segregated;
- Inventory counts are not properly conducted and documented;
- Purchase Order to Inventory Records Testwork (14 items);
  - One item identified as having been purchased in 2015, a Silverado pickup truck with a purchase price of \$31,864.00 was not in the Access inventory database (the vehicle had been entered into Office of Management and Enterprise Services (OMES) vehicle inventory records);
  - One item identified as having been purchased in 2015 was not initially found in the calendar year 2015 purchases database provided by the agency because the purchase date was inadvertently entered as 2051; and
  - Four items identified as having been purchased in 2015 had discrepancies between the information in the inventory records and the associated invoices.

- List-to-floor testwork (35 items);

Six items had been marked as "surplused" in inventory records. Five of the six items were marked as being "surplused" because they could not be located during the Department's inventory count on November 1, 2015. There was no follow-up action taken such as a police report or a letter to management listing the missing items. For the one item that was surplus, there was no documentation authorizing the item to be surplus or documentation verifying that the item was delivered to/picked up by surplus;

- Two vehicles had incorrect VIN numbers listed in the inventory records; and
- One item was disposed of by OMES during a server replacement but not removed from inventory records.

- Floor-to-list testwork (10 items)
  - Four items serial number's did not agree to inventory records; and
  - One item did not have a serial number listed in inventory records.

We recommend that:

- A written agency inventory policy be established;
- Inventory duties be appropriately segregated;
- A complete inventory count be conducted to ensure all information in the inventory database is accurate and reliable for future inventory counts;
- Annual inventory counts be conducted by someone independent of maintaining inventory records and surplus approvals, along with someone from each division of the Department. The results should be signed and dated by both individuals;
- The results of the annual inventory count be conveyed in a letter to management; and
- Proper documentation is retained for all items removed from inventory and appropriate follow-up and proper documentation be maintained when items can't be located.

## **VIEW OF RESPONSIBLE OFFICIALS**

The Department of Labor has taken steps toward improving the inventory process based on recommendations from a previous audit and will continue making progress as needed. As recommended in the inventory review, the Department of Labor will develop and establish a comprehensive inventory policy for the agency. This will include properly segregating inventory duties; working to ensure database information is accurate and reliable; implementing a two person, annual inventory count system, with agency staff who are independent from maintaining inventory records and surplus approvals; requiring an annual inventory count letter to management; and retaining proper documentation for items removed from inventory and developing an appropriate process for follow-up when items cannot be located. As a new administration still sorting through the turnover process, we appreciate the recommendations on how to improve our inventory system.

Because the procedures performed do not constitute an audit conducted in accordance with generally accepted auditing standards, we do not express an opinion on the account balances or financial statements of the Department for the period of January 1, 2015 through December 31, 2015. This report relates only to the selected items specified above. Further, due to the test nature and other inherent limitations of a turnover engagement, together with the inherent limitations of any internal control structure, there is an unavoidable risk that some material misstatements may remain undetected.

This report is intended for the information and use of management of the Department. However, this report is a matter of public record and its distribution is not limited.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during the course of our engagement. 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.

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones". The signature is fluid and cursive, with the first name "Gary" being the most prominent.

Gary A. Jones, CPA, CFE  
Oklahoma State Auditor and Inspector



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