

**EMPLOYEES BENEFITS COUNCIL
INTERNAL CONTROL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2003**

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STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

October 24, 2003

**TO THE HONORABLE BRAD HENRY
GOVERNOR OF THE STATE OF OKLAHOMA**

Transmitted herewith is the Employees Benefits Council Internal Control Report for the fiscal year ended June 30, 2003. By its nature, this report focuses on exceptions, weaknesses, and problems. This focus should not be understood to mean there are not also various strengths and accomplishments. We appreciate the courtesy and assistance extended to us by the personnel of the Agency during the course of the engagement, and we look forward to a continuing professional relationship.

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

The Office of the State Auditor and Inspector is committed to serve the public interest by providing independent oversight and to issue reports that serve as a management tool to the state to ensure a government which is accountable to the people of the State of Oklahoma.

Sincerely,

A handwritten signature in cursive script that reads "Jeff A. McMahon".

JEFF A. McMAHAN
State Auditor and Inspector

TABLE OF CONTENTS

	PAGE
Council Members	ii
Report of the State Auditor and Inspector	1
Comments and Recommendations	3

**EMPLOYEES BENEFITS COUNCIL
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FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**EMPLOYEES BENEFITS COUNCIL
COUNCIL MEMBERS**

<u>Name</u>	<u>Term Expires</u>
William Bill Goodwin, Secretary	March 12, 2007
Kim Holland, Chairman	January 7, 2007
Oscar B. Jackson, JR. Member	Appointed by Statute
Bryce Fair, Vice Chairman	January 9, 2004
Susan Reed Member	March 12, 2007

**ADMINISTRATIVE
STAFF**

Mitch Parsons,
Executive Director

Goli Dunkle,
Deputy Director Fiscal
and Support Services

Dan Melton,
Comptroller



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

TO THE EMPLOYEES BENEFITS COUNCIL

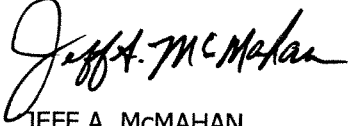
We have applied the procedures enumerated below to certain aspects of internal control for the period July 1, 2002 through April 21, 2003 for Fiscal Year 2003.

1. We reviewed the management internal controls over the cash receipting and depositing of funds.
2. We reviewed the management controls over fixed assets.
3. We reviewed the management controls over the recording of cash receipts, disbursement of funds, and reconciliation of funds.
4. We tested a sample of cash disbursements for propriety, reasonableness, and compliance with State purchasing regulations.
5. We reviewed procedures for remitting required portions of fees to the State of Oklahoma and tested a sample of remittances for adherence to these procedures.
6. We reviewed the Agency's compliance with policies and procedures regarding budgetary matters.
7. We reviewed the Agency's compliance with policies and procedures regarding personnel and payroll issues such as attendance record keeping, compensation increases, and annual evaluations.
8. We reviewed the management internal controls for adequate segregation of duties regarding authorization, recording, and custody.

The purpose of these procedures was to identify, on a limited basis, the adequacy of certain aspects of internal controls in place by the Employees Benefits Council. Our findings resulting from the above procedures are included in the attached comments and recommendations section of this report.

Our procedures were more limited 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 Agency'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. Had we performed additional procedures or had we made an audit of the effectiveness of the Agency's internal control, other matters might have come to our attention that would have been reported to you.

Sincerely,

A handwritten signature in black ink that reads "Jeff A. McMahon". The signature is written in a cursive, flowing style.

JEFF A. McMAHAN
State Auditor and Inspector

April 21, 2003

COMMENTS AND RECOMMENDATIONS

Repeat Comment 2003-815-002

Criteria: Title 74 O.S. 2001, § 110.1 provides:

"The Department of Central Services shall maintain a current inventory of all equipment owned by state departments, boards, commissions, institutions, or agencies of the state . . . the Department of Central Services inventory shall consist of machinery, implements, tools, furniture, livestock, vehicles and other apparatus that may be used repeatedly without material impairment of its physical condition and which has calculable period of service and a value of over Five Hundred dollars (\$500.00)."

Title 74 O.S. 2001, § 110.2 provides:

"The Office of Public Affairs may require inventory records to be maintained at state departments, boards, commissions, institutions or agencies of the state ...".

Condition:

- ◆ The Council does not have a complete listing of all furniture and equipment currently owned.
- ◆ The Council had not performed a physical inventory since 2001.
- ◆ All items did not have metal tags affixed, identifying the items as state property.

Effect:

There is a greater risk that errors and irregularities could occur and not be detected in timely manner. Inadequate controls could allow assets to be misappropriated and financial reports to be misstated.

Recommendation:

We recommend the Council maintain an inventory listing of all furniture and equipment currently owned. The master inventory listing should be updated in a timely manner after a purchase or disposition. A physical inventory should be performed annually. The Council should affix a metal tag to each item so that it can be readily identified as state property.

Management's Corrective Action Plan-

Contact Person: Dan Melton, Comptroller

Anticipated Completion Date: July 1, 2003

Corrective Action Planned: We Concur.

All assets over \$500 (Title 74 O.S. 2001, § 110.2 provides) are tagged and included in the inventory for 6-30-2003. A physical inventory was in process in March & April 2003 and has been concluded. All assets have been accounted. A physical inventory will be repeated each year prior to closing the financial books.

Comment 2003-815-004

Criteria: According to 62 O.S. 2001, § 7.1 C:

"All such monies collected pursuant to this section shall be deposited...in the agency clearing account or agency special account established therefore: 1. Receipts of One Hundred Dollars (\$100.00) or more shall be deposited on the same banking day as received..."

Condition: Based on inquiry and observation we noted the following internal control weakness:

- ◆ The Council did not deposit receipts of One Hundred (\$100.00) or more on the same banking day.

Effect: Errors may not be detected in a timely manner or in the normal course of business. Receipts may be misplaced or lost.

Recommendation:

We recommend that the Council deposit receipts of One Hundred (\$100.00) or more on the same banking day as received.

Management's Corrective Action Plan—

Contact Person: Dan Melton, Comptroller

Anticipated Completion Date: Date not provided by the Council.

Corrective Action Planned: We concur.

EBC's practice is to deposit funds on the day of the receipt. A noted exception is premiums remitted to a non-existent account. Premiums cannot be accepted without the expectation of services rendered (insurance being available). Premiums received from employees with terminated coverage cannot be accepted and must be returned.

Comment 2003-815-006

Criteria: An aspect of effective internal controls is adequate segregation of duties. The same individual should not have the responsibility of maintaining the fixed assets records and also be responsible for conducting the annual fixed asset inventory.

Condition

The same person is responsible for maintaining the fixed asset records, performing the annual physical inventory and investigating any differences.

Effect:

The concentration of duties in one position increases the risk that errors and irregularities may occur and not be detected in a timely manner.

Recommendation:

We recommend the Council develop and implement procedures to properly segregate duties to reduce the risk of errors and irregularities. The critical issue is segregating the maintenance of the fixed asset records from the task of performing the annual physical inventory.

Management's Corrective Action Plan-

Contact Person: Dan Melton, Comptroller

Anticipated Completion Date: July 1, 2003

Corrective Action Planned: We concur.

Per recommendation from SAI, EBC has implemented a system of requiring each employee to inventory their own work area(s) and correspond in writing the condition and location of all assets inventoried. The list from each user then is compared to the master list at the purchasing area and any discrepancies be investigated by the purchasing officer and the personnel officer. This system segregates the task of physical inventory and maintenance of the fixed asset records. This procedure was followed in conducting our physical inventory for FY 2003.