

# OKLAHOMA EMPLOYEES BENEFITS COUNCIL

JULY 1, 2005 THROUGH  
DECEMBER 31, 2007

# OPERATIONAL AUDIT



Oklahoma State Auditor  
& Inspector

**Audit Report of the  
Employees Benefits Council**

**For the Period  
July 1, 2005 through December 31, 2007**



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

Oklahoma Office of the  
State Auditor and Inspector

June 23, 2008

**TO THE EXECUTIVE DIRECTOR OF THE OKLAHOMA EMPLOYEES BENEFITS COUNCIL**

Pursuant to 62 O.S. § 212, transmitted herewith is the audit report for the Oklahoma Employees Benefits Council for the period July 1, 2005 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 mission of the Employees Benefits Council is to provide state employees flexible benefits designed for choice and cost effectiveness, superior administration, and promotion of healthy lifestyles.

## **Board Members**

|                           |            |
|---------------------------|------------|
| Bryce Fair .....          | Chair      |
| Weldon Davis .....        | Vice-Chair |
| Cliff Peden .....         | Secretary  |
| Oscar B. Jackson, Jr..... | Member     |
| Becky Payton.....         | Member     |

## **Key Staff**

|                      |  |
|----------------------|--|
| Phillip Kraft.....   | Executive Director                               |
| Craig Cates.....     | Executive Manager, Agency and Regulatory Affairs |
| Dan Melton.....      | Deputy Director of Finance and Accounting        |
| Phillip Crowder..... | Finance Manager                                  |



STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

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**TO THE EXECUTIVE DIRECTOR OF THE OKLAHOMA EMPLOYEES BENEFITS COUNCIL**

We have audited the Oklahoma Employees Benefits Council for the period July 1, 2005 through December 31, 2007. The objectives of this audit were to determine if:

- The Council's internal controls provide reasonable assurance that revenues and expenditures were accurately reported in the accounting records, and financial operations complied with applicable finance-related laws and regulations;
- The Council complied with 74 O.S. § 3601.2, 62 O.S. § 211 and the Department of Central Services' Purchase Card Procedures;
- Recommendations included in prior engagements were implemented.

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.

A handwritten signature in blue ink that reads "Michelle R. Day".

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

May 22, 2008

## **Background**

The Employees Benefits Council was created in 1992 with the enactment of SB 591 of the Oklahoma Legislature; the Employees Benefits Council operates under the Oklahoma State Employees Benefits Act. The purpose is to furnish state employees with choices among various employee benefits including health, life, dental, and disability insurance, operational plans, and flexible spending accounts, and to provide for the coordination, design, preparation, communication, and administration of all plans offered to state employees. The Council's operations are governed by 74 O.S. § 1364 and 74 O.S. §1382. Oversight is provided by a five-member Council of professionals as well as a staff of both classified and unclassified personnel.

The council within the Oklahoma State Employees Benefits council is composed of the designated wellness coordinator from every state agency so designating and one representative of the Governor's Council on Physical Fitness and Sports.

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

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

| Source:                                    | 2006               | 2007               |
|--|--------------------|--------------------|
| Intra-Transfer from Agency Special Account | <u>\$4,908,788</u> | <u>\$5,304,007</u> |
| Uses:                                      |                    |                    |
| Personnel Services                         | \$1,887,397        | \$2,119,195        |
| Professional Services                      | 1,793,013          | 1,827,800          |
| Travel                                     | 20,905             | 35,358             |
| Misc. Administrative                       | 229,538            | 297,171            |
| Rent                                       | 100,941            | 132,313            |
| General Operating                          | 46,024             | 60,702             |
| Office Furniture and Equipment             | 211,236            | 302,570            |
| Other                                      | <u>50,695</u>      | <u>126,665</u>     |
| Total Uses                                 | <u>\$4,339,749</u> | <u>\$4,901,774</u> |

*Source: Oklahoma CORE Accounting System.*

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

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## **Conclusion**

Based on the procedures performed, the Council's internal controls related to receipts, expenditures, and capital assets are generally effective; however, several areas, as noted below, need to be strengthened.

## **Methodology**

To accomplish our objective, we performed the following:

- Documented internal controls related to the receipting, expenditure, and capital assets process;
- Tested controls which included:
  - Determining if checks are endorsed upon receipt;
  - Reviewing 20 deposits from the period to ensure the deposit slip was initialed by the reviewer and was supported with the appropriate receipt log;
  - Determining if receipts were pre-numbered and were issued in sequential order;
  - Determining if receipts were stored in a secure location prior to deposit;
  - Reviewing 20 deposits to ensure the bank deposit date was within one day of the deposit slip date;
  - Reviewing 20 deposits to ensure checks and/or cash were deposited in accordance with 62 O.S. § 7.1.c.;
  - Reviewing a CORE deposit report for the period to ensure funds were being transferred from the Council's clearing account to the revolving fund at least once per month in accordance with 62 O.S. § 7.1.e.;
  - Reviewing five transfer fax forms from the period to ensure they were reviewed;
  - Reviewing five OSF-Form 11 reconciliations to ensure the preparer and reviewer are independent of each other and the reconciling items are adequately supported;
  - Reviewing 20 expenditure claims to ensure they were properly authorized. This included ensuring the invoice supported the payment, the invoice was mathematically accurate, and the correct account code was used;
  - Determining if an inventory listing was maintained and contained the item's inventory tag number, description, cost, serial number (if applicable), and date sent to surplus (if applicable);
  - 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 and serial number 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 and serial number agreed to the listing;
  - Determining all items surplused during the period had an approved DCS Form 001 supporting their removal.

## **Observations**

### **Securing Funds Prior to Deposit**

An effective internal control system provides for adequate safeguarding of assets.

We noted that checks are not endorsed immediately upon opening the mail and funds are maintained in a tray on the accountant's desk prior to deposit.

**Effect:** Without properly safeguarding funds, errors or irregularities may occur, and not be detected in a timely manner.

**Recommendation:** We recommend that the checks be endorsed immediately by the person opening the mail, and funds be maintained in a locked safe or locked file cabinet until deposited. Only essential personnel should have access to the safe or locked file cabinet.

**View of Responsible Officials:** We have modified the process to include that the person opening the mail (receptionist) stamp each check with a deposit only stamp that stamps the following: Employees Benefits Council for deposit only including the Council's account number. This is done to all checks at the time of receipt. Checks are stored in a safe until the accountant is ready to begin the deposit process.

### **Inadequate Segregation of Duties**

An effective internal control system provides for adequate segregation of duties.

During our review of internal controls, we noted the accountant is responsible for the following:

- Posting checks to a deposit log (File Maker);
- Preparing the deposit without the review of another employee;
- Delivering the deposit to the bank; and,
- Posting the entry into the CORE system.

**Effect:** Without adequate segregation of duties, errors and improprieties could occur and not be detected in a timely manner.

**Recommendation:** We recommend that the Employees Benefits Council develop procedures to separate the duties of the person posting the checks, preparing the deposit, delivering the deposit to the bank and posting the entry into CORE.

**View of Responsible Officials:** The Accountant will total all receipts prior to beginning deposit process. The accountant will create a summary sheet to contain total receipts and listings of total deposits that agree to total receipts. All receipts will remain with summary page, and then the comptroller will audit daily deposits and sign off on summary sheet prior to deposit being taken to the bank. The Comptroller will retain the summary documents and compare with the deposit receipt from the bank.

### **The Order of Receipts Issued**

An effective internal control system provides for prenumbered receipts and the receipts being issued in numerical order.

We noted four (4) out of the twenty (20) days where receipts were issued out of numerical order.

**Effect:** Without receipts being issued in numerical order, errors or irregularities could occur and not be detected in a timely manner.

**Recommendation:** We recommend that EBC issue receipts in numerical order to avoid the potential for improprieties to occur and not be detected in a timely manner.

**View of Responsible Officials:** Management has reviewed the findings of the audit. We conclude that the issuance of receipts is being performed in numerical sequence. However, we will modify the process as previously described to maintain all receipts in one place, rather than trying to match the receipt to the proper deposit. We find that there may be three separate deposits made on any given day and the checks that are receipted are not sorted by the type of deposit but rather receipted as they come in. Management finds that the receipts are in order, however not easy to trace due to quantity.

This new procedure will be:

The Accountant will total all receipts prior to beginning deposit process. The accountant will create a summary sheet to contain total receipts and listings of total deposits that agree to total receipts. All receipts will remain with summary page, and then the comptroller will audit daily deposits and sign off on summary sheet prior to deposit being taken to the bank. The Comptroller will retain the summary documents and compare with the deposit receipt from the bank.



### **Scheduling of Wire Transfer**

An effective internal control system provides for appropriate segregation of duties.

We note that the Finance Manager enters the information on the OST journal entry template, schedules the wire and approves the wire. **Effect:** Without adequate segregation of duties, errors and improprieties could occur and not be detected in a timely manner.

**Recommendation:** We recommend the EBC segregate the duties of the person entering the payment information on the OST journal entry template, scheduling the payment, and approving the wire payment.

**View of Responsible Officials:** This process has been modified: The Administrative Programs Office will enter the payment information on OST journal entry template, scheduling the payment; then the Comptroller will audit and approve.

### **Incorrect Fund Type for Transfers from the Clearing Account**

62 O.S. § 7.1 E. states in part, “At least once each month each state agency shall transfer monies deposited in agency clearing accounts to the various funds or accounts, subdivisions of the state, or functions as may be provided by statute and no money shall ever be disbursed from the agency clearing account for any other purpose, except in refund of erroneous or excessive collections and credits...”

We scanned the Council’s transfers made from the clearing account, and we noted that the transfers to the Agency Special Account were made to fund type 1000 (General Fund) instead of fund type 7900 - Other Agency Funds.

**Effect:** Without adequate segregation of duties, errors and improprieties could occur and not be detected in a timely manner.

**Recommendation:** We recommend management use fund type 7900 – Other Agency Funds when transferring funds from the clearing account to the Agency Special Account.

**View of Responsible Officials:** This has been corrected upon discovery. The agency will use the fund codes as advised

### **Incomplete Inventory Data**

Oklahoma Administrative Code (OAC) 580:70-3-1...(c) states in part:

**Inventory report contents.** The inventory report shall be signed by the agency inventory control officer and shall include for each tangible asset:

- (1) the agency number;
- (2) the asset tag number;
- (3) the model and serial number, if any;
- (4) the manufacturer;
- (5) the description;
- (6) product name;
- (7) physical location;
- (8) acquisition date and cost...

Two out of thirty (30) items did not have the serial numbers recorded on the inventory listing, one item was not on the inventory list, one item had two Property of Oklahoma tags, two items have the incorrect tag, one item could not be identified as the Property of Oklahoma and one item was listed twice on the inventory list. Without all required identification information being maintained, it may be difficult to determine the identity of a particular asset.

**Effect:** Without proper identification of asset, error or improprieties could occur and not be detected in a timely manner;

**Recommendation:** We recommend that management ensure that all assets are identified with the proper identification number (including the Property of Oklahoma tag), all inventory items are included on the inventory list and the identification numbers on the items agree with the identification on the inventory list.

**View of Responsible Officials:** In the FY'2008 Inventory, which is currently under way these issues will be corrected. For future acquisitions, the Comptroller will review all procurements and determine items that require inventory tags. The Comptroller will be responsible for adding items to inventory and including items 1 through 8 mentioned above.

### **Inadequate Segregation of Duties for Inventory**

An effective internal control system provides for appropriate segregation of duties.

The Procurement Officer is responsible for:

- Receiving the assets;
- Posting the assets to the inventory records; and
- Conducting an annual inventory count. In addition, there is no evidence that the inventory count is reviewed by the appropriate level of management.

**Recommendation:** We recommend that the Employees Benefits Council develop procedures to separate the duties of the person receiving the assets, posting the inventory and conducting the annual inventory count.

**Effect:** Without adequate segregation of duties, errors and improprieties could occur and not be detected in a timely manner;

**View of the Responsible Officials:** For future accessions, the Comptroller will review all procurements and determine items that require inventory tags. The Comptroller will be responsible for adding items to inventory.

The Deputy Director Finance & Accounting will conduct the annual inventory.

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**Objective 2** – Determine if the Board complied with 74 O.S. § 3601.2, and the Department of Central Services' (DCS) Purchase Card Procedures.

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### **Conclusion**

Based on procedures performed, it appears the Council is in compliance with 74 O.S. § 3601.2, *Salaries of Chief Executive Officers* and P-Card Procedures.

### **Methodology**

To accomplish our objective, we performed the following:

- Reviewed 74 O.S. § 3601.2 and performed procedures to determine if the executive director's salary was in compliance with the law; and
- Reviewed DCS' Purchase Card Procedures;

## **Observations**

### **Sales Tax for P-Card Purchases**

Department of Central Service purchase card policies and procedures Section 6.5 states: “State Entity purchases are exempt from the State of Oklahoma sales tax”.

Two (2) of the fifteen (15) items purchased using the P-Card contained sales tax. The Employees Benefits Council was charged a total of \$165.74 for the two items. The total of the two purchases should have been \$153.70. The sales tax resulted in a \$12.04 overpayment.

**Effect:** Employees Benefits Council was overcharged for these purchases by the amount of the sales tax.

**Recommendation:** We recommend the Council follow DCS’s procedure Section 6.5 in reference to P-Card purchases to ensure no sales tax is charged.

**View of the Responsible Officials:** A review sheet has been developed listing all required items for p-card review. This review will be conducted monthly prior to payment by the Comptroller and verified by Deputy Director Finance.

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

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## **Conclusion**

Based on review of the prior engagement report issued by the State Auditor’s Office on January 5, 2007, there were no findings reported. Therefore, there was no need to perform procedures related to this objective.

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## **Other Items Noted**

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### **Council Should Develop Cell Phone Policy**

The Council had three cell phones during our period. There is not a policy in place for the assignment or the use of the cell phone; however, management stated that the employees were clear the cell phones were for business use only.

**Recommendation:** We recommend that policy be developed and implemented which, at a minimum, includes: Personal (Allowable limitations, on frequency and reimbursement rate for personal use);

- Need of a phone based on job duties;
- Size of the plan (minutes, features required)

**View of the Responsible Officials:** The agency currently has three cells phones authorized by the Executive Director. These phones are issued based on job requirements and the need to communicate frequently when out of the office. The employees issued a phone are notified that they will be responsible to reimburse the agency at \$0.25 per minute for any personal use of cell phones. The requirement for an employee to reimburse for personal has no relationship on the total number of minutes used during a month or the total minutes available in a calling plan.



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