



# OKLAHOMA ETHICS COMMISSION

## Operational Audit

For the period July 1, 2017 through June 30, 2021

**Cindy Byrd, CPA**  
State Auditor & Inspector

**Audit Report of the  
Oklahoma Ethics Commission**

**For the Period  
July 1, 2017 through June 30, 2021**



September 19, 2022

**TO THE OKLAHOMA ETHICS COMMISSION**

We present the audit report of the Oklahoma Ethics Commission for the period July 1, 2017 through June 30, 2021. The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

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

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.

Sincerely,

A handwritten signature in blue ink that reads "Cindy Byrd".

CINDY BYRD, CPA  
OKLAHOMA STATE AUDITOR & INSPECTOR

**Background**

The Oklahoma Ethics Commission (the Agency) is constitutionally required to enact civil laws (called Ethics Rules) of ethical conduct for state officers, state employees, campaigns for elective state office, and campaigns for initiatives and referenda, establishing civil penalties for violations of the Rules. The Commission may offer binding interpretations of its Rules and investigates alleged violations of its Rules which may result in prosecution in District Court or settlement. The Commission has limited jurisdiction over conduct of campaigns and financial disclosure at the political subdivision level.

The Agency is overseen by five Commissioners (the Commission) appointed by the Governor, Attorney General, Speaker of the House, President Pro Tempore of the Senate, and Chief Justice of the Oklahoma Supreme Court. No more than three may be from the same political party, and each member represents a separate congressional district. Members serve staggered five-year terms.

Board members as of June 2022 are:

Gregg Engle ..... Chair  
Charlie Laster ..... Vice-Chair  
Jarred Brejcha..... Member  
Howard Johnson ..... Member  
Cathy Stocker..... Member

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The following table summarizes the Agency's sources and uses of funds for fiscal years 2020 and 2021 (July 1, 2019 through June 30, 2021).

**Sources and Uses of Funds for FY 2020 and FY 2021**

	2020	2021
<b>Sources:</b>		
Appropriations	\$ 716,621	\$ 687,957
Other Net Transfers	(571,982)	12,028
Taxes	206,073	192,913
Licenses, Permits, Fees	8,965	2,705
Fines, Forfeits, Penalties	379	-
Other Revenues	218	205
<b>Total Sources</b>	<b>\$ 360,274</b>	<b>\$ 895,808</b>
<b>Uses:</b>		
Personnel Services	\$ 636,671	\$ 645,454
Administrative Expenses	69,563	99,498
Professional Services	26,267	58,047
Travel	7,098	5,262
Property, Furniture, Equipment	1,682	5,171
<b>Total Uses</b>	<b>\$ 741,281</b>	<b>\$ 813,432</b>

*Source: Oklahoma statewide accounting system (unaudited, for informational purposes only)*

The Other Net Transfers line reflects the following:

- In FY 2020 the legislature removed \$550,000 from the Agency's revolving fund, per 2019 HB 2765 § 117, and other unspent appropriated funds were transferred back to the state.
- In FY 2021 the Agency received CARES reimbursements for COVID-related purchases.

**Scope and  
Methodology**

Our audit was conducted in response to 74 O.S. § 212, which requires the State Auditor and Inspector’s office to audit the books and accounts of all state agencies whose duty it is to collect, disburse, or manage funds of the state.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessment of materiality and risk for the period July 1, 2017 through June 30, 2021. To assess risk and develop our audit objective, we held discussions with management, distributed surveys to Agency personnel, and performed data analysis and prior audit follow-up. These procedures included:

- Reviewing revenue, expenditure, and asset-related data from the statewide accounting system and information gathered from Agency personnel to assess the related financial processes and trends for any notable risk.
- Analyzing top vendors and expenditures by dollar amount and reviewing a selection of miscellaneous expenditures in detail.
- Review of a comprehensive list of personnel actions from the statewide accounting system to assess the changes that had a financial impact during the audit period.

One objective related to revenues was developed, as discussed in the next section. No other significant risks or findings were identified as a result of these procedures.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

**Internal Control Considerations**

The Government Accountability Office (GAO) emphasizes the importance of internal controls at all levels of government entities. Their

*Standards for Internal Control*<sup>1</sup> outline the five overarching components of internal control: the control environment, risk assessment, information and communication, monitoring, and detailed control activities. Any component considered significant to our audit objectives is assessed during our procedures and included as appropriate in this report.

The *Standards for Internal Control* underscore that an internal control system is effective only when the five components of internal control are operating together in an integrated manner. They also stress that documentation is a necessary part of an effective internal control system and is required to demonstrate its design, implementation, and operating effectiveness.

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<sup>1</sup> *Standards for Internal Control in the Federal Government*, or the “Green Book,” sets standards and the overall framework for an effective internal control system in federal agencies and is treated as best practices for other levels of government. Last update 2014, accessible online at <https://www.gao.gov/products/GAO-14-704G>.

**OBJECTIVE** Determine whether effective internal control activities are in place to ensure all funds physically received by the agency are deposited, in line with *GAO Standards for Internal Control*.

**Conclusion** Internal control activities are not in place to ensure all funds physically received are deposited, in line with *GAO Standards for Internal Control*.

**Methodology** To accomplish our objective, we performed the following:

- Documented our understanding of the revenue processes through discussion with staff and review of documentation.
- Evaluated those processes and identified significant internal controls related to our objective.

### FINDINGS AND RECOMMENDATIONS

**Reconciliation of Bank Deposit Receipts to Revenue Log Needed** Payments received by mail or walk-in are opened by the Executive Assistant, who does not log the payments. She attaches copies of the payments to the related paperwork, then gives the payments to Compliance Officer 1 for entry into an Excel spreadsheet and the Agency’s Guardian Database, as well as deposit preparation. Compliance Officer 2 enters the deposits into the statewide accounting system and Compliance Officer 3 takes the deposits to the Treasurer’s Office.

There is no final reconciliation of deposit information to a complete record of receipting activity. Without an independent reconciliation between an initial revenue log and the deposits made to the bank, it appears any of the individuals involved in this receipting process could misappropriate or lose a payment without detection.

According to *GAO Standards for Internal Control*:

- Management may design a variety of transaction control activities for operational processes, which may include verifications, reconciliations, authorizations and approvals, physical control activities, and supervisory control activities.
- If segregation of duties is not practical within an operational process because of limited personnel or other factors, management designs alternative control activities to address the risk of fraud, waste, or abuse in the operational process.
- Management should remediate identified internal control deficiencies on a timely basis.



### **Recommendation**

We recommend the Executive Assistant complete a revenue log of payments received before giving the payments to Compliance Officer 1. In place of check copies, the revenue log should be made available to staff responsible for processing paperwork, so they can ensure the proper payments were received. The revenue log could be put on a shared drive with read-only accessibility. In addition, someone independent from the receipting and deposit processes, such as the Director, should perform a reconciliation of bank deposit receipts to the revenue log. This could be performed on a regular or random basis, and documentation of this review should be retained.

### **Views of Responsible Officials**

Procedures currently utilized were put in place with feedback from State Auditor and Inspector's office and OMES and no losses have occurred as a result of the procedures currently being utilized. The Commission will however revise its procedures to address the concerns of the State Auditor and Inspector's office. Director Kemp met with the auditors to determine revisions to the revenue procedure while accounting for the small staff of the Commission that does inhibit segregation of duties. A revised procedure has been submitted by the Commission to the State Auditor's office for feedback and will be further refined as needed.

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SAI  
STATE AUDITOR & INSPECTOR



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