



Agreed-Upon Procedures Report

Ethics Commission

July 1, 2005 through December 31, 2006



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

Oklahoma Ethics Commission
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

May 21, 2007

TO THE OKLAHOMA ETHICS COMMISSION

Transmitted herewith is the agreed-upon procedures report for the Oklahoma Ethics Commission. 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,



JEFF A. McMAHAN
State Auditor and Inspector

Mission Statement

To promote public confidence in and the general betterment of state government by promulgating rules of ethical conduct for candidates of state elections or issue campaigns; to provide assistance in the monitoring and disclosure of campaign financing, official conduct, political activity, and personal financial disclosure of public officials' and employees' lobbying activity

Commission Members

James W. Loy	Chairman
Don Bingham.....	Member
Ken Elliott	Member
John W. Raley	Member
Bernice Shedrick.....	Member

Key Staff

Marilyn Hughes	Executive Director
Rebecca Adams	General Counsel
Patti Bryant.....	Principal Assistant



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Jeff A. McMahan
State Auditor and Inspector

**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 Ethics Commission solely to assist you in evaluating your internal controls over the receipt and disbursement process, and in determining whether selected receipts and disbursements are supported by underlying records for the period July 1, 2005 to 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. The Ethics Commission has as its mission the promotion of public confidence in and the general betterment of state government. This mission is accomplished by promulgating rules of ethical conduct for candidates of state elections or issue campaigns and providing assistance in monitoring and disclosure of campaign financing, official conduct, political activity, and personal financial disclosure of public officials' and employees' lobbying activity. As a result, the Commission has certain oversight responsibilities for the Office of the State Auditor and Inspector. However, by statute, the Office of the State Auditor and Inspector is charged with the responsibility of examining the books and accounts of all state officers.

1. We compared the Ethics Commission's internal controls over receipts and disbursements 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;
 - Receipts were issued for cash and/or checks received;
 - Incoming checks were restrictively endorsed upon receipt;
 - Receipts not deposited daily were safeguarded;
 - Voided receipts were retained;
 - The statutorily required revenues were deposited to the State's General Revenue Fund;
 - 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.

A component of sound internal control is to provide segregation of duties. Generally, a single employee should not collect and have custody of the revenues, prepare the deposit, record the transaction, and reconcile deposits. In the claims payment process, the duties of authorizing the claim, paying the claim, having custody of the

voucher, recording the transaction, and reconciling transactions should be segregated. Without segregation of duties, errors and improprieties could occur and not be detected in a timely manner.

At the Ethics Commission, we noted a single employee is responsible for endorsing and safeguarding the checks/revenues, approving correctness of receipt amounts, preparing and making deposits to OST, entering the deposits into CORE, and monthly reconciling of deposits to CORE. The same employee also pays the claims, enters the transactions into CORE, and performs reconciliation of claims to CORE.

While the number of personnel may prevent duties from being segregated, mitigating controls can be put in place to alleviate the risk caused by the lack of segregation. Certain mitigating controls, including authorization of individual claims by the Executive Director, and approval of claims by the Board are already in place. We recommend additional mitigating controls including independent verification/authorization of revenues received and deposits made to OST, and approval of all monthly reconciliations by the Executive Director.

Management Response: Recently, we have implemented a policy where our Administrative Technician, who opens all the mail and greets visitors at the front of the office, endorses all checks immediately upon receipt prior to giving them to the Principal Assistant for safekeeping until they are deposited. We will work on implementing a procedure where the Executive Director approves all monthly reconciliations.

A component of effective internal control includes issuing pre-numbered receipts, maintaining a complete log for all cash and/or checks received or maintaining copies of all checks received. This helps ensure all revenues exist, revenue transactions are complete and for the accurate amount, and revenues are properly posted in the accounting records. Lack of consistent issuance of pre-numbered receipts or maintenance of a complete revenue log or check copies increases the possibility that errors or improprieties will occur and not be detected in a timely manner.

During our testwork at the Ethics Commission, we noted the Commission has three different processes for handling receipts:

- For photocopies, a log is maintained which details the amount of the cash/check received, the date of the transaction, and a cash/check indicator. The requesting party then signs the log. Upon occasion, the Administrative Technician or the Principal Assistant will record an entry in the log when checks are received by mail.
- For materials ordered by municipalities and school districts, a computer-generated receipt (not pre-numbered) is enclosed with the packet of ordered materials if payment is received by the Ethics Commission at the time of the order. However, if the entity does not include payment with its order, then the municipality or school district is invoiced. When the invoice is paid, a receipt is not sent to the municipality or school district; however, a copy of the check is filed in the applicant's file but not retained with the deposit.
- For other types of transactions, both checks and cash are received. When checks are received, a copy is made and filed in the applicant's file. However, a copy of the checks is not retained with the deposit. When cash is received, a receipt is not issued unless requested by the payor.

In order to ensure revenue received is safeguarded and accounted for correctly, we recommend the Ethics Commission implement a policy of issuing receipts for all cash received, excluding cash received for photocopies since a log is maintained. Also, we recommend any receipts issued be pre-numbered, including computer-generated receipts.

In addition, we recommend a copy of all checks with a "received" date stamp be attached to the deposit slip. By performing this procedure, the composition of the deposit is easily determined and an adequate audit trail is maintained.

Management Response: We have already implemented a policy to issue receipts for all cash received, excluding cash received for photocopies since a log is maintained. These receipts are pre-numbered. Next fall when we issue receipts for school board and municipal orders that are paid with the order, we will issue pre-numbered receipts.

We have also implemented a policy to copy all checks received, date stamp the copy and attach it to the deposit.

A component of effective internal control includes proper safeguarding of assets. Immediate restrictive endorsement of checks upon receipt to the agency is one method of safeguarding assets. According to 62 O.S., § 7.1 “All checks received must be restrictively endorsed immediately upon receipt.” During our walk-through of controls, we noted checks are not restrictively endorsed immediately upon receipt. The Administrative Technician is the employee who opens the mail, and is stationed at the reception desk. When he receives a check, either through the mail or by walk-in, he immediately gives the check to the Principal Assistant who restrictively endorses the check. If the Principal Assistant is absent from work or away from her desk, the Administrative Technician places the unendorsed check in the “in-box” on her desk, where it remains until the Principal Assistant returns. Lack of restrictive endorsement by the first person who handles the check results in noncompliance with 62 O.S., § 7.1 and also does not properly safeguard assets.

Another method of safeguarding assets includes securing revenues in a safe or locked cabinet with restricted access to the assets. 62 O.S., § 7.1 also states, “Each state agency that has custody of receipts of less than One Hundred Dollars (\$100.00) shall provide adequate safekeeping of such receipts.” During our walk-through of controls, we noted a spare key to the cabinet where receipts are locked until deposit to OST is kept in a staff area, available to any staff employee. The availability of the spare key to any staff employee increases the risk that improprieties or fraud will occur.

We recommend the Ethics Commission implement a policy in which checks received at the Commission are restrictively endorsed immediately upon receipt by the first person who handles the check and safeguarded overnight in a locked cabinet. We also recommend the spare key be kept in a secure place that is not accessible to the public or to employees who do not require access to the locked file cabinet.

Management Response: As mentioned earlier, we have implemented a policy where our Administrative Technician endorses all checks immediately upon receipt prior to giving them to our Principal Assistant who safeguards them in a locked file cabinet overnight. Rather than keeping the spare key in a staff area, available to any staff employee, the key has been given to our Executive Director. If our Principal Assistant is absent from work on annual or sick leave, the checks will be secured elsewhere until the Principal Assistant returns to work.

A component of sound internal control is the documentation and authorization of employee work time through the use of timesheets. Lack of approved timesheets increases the possibility of errors and misappropriation of assets through the payment of wages for inaccurate and/or unauthorized amounts. The Ethics Commission’s General Counsel monitors her own time, including accrued comp time. Her timesheet is not approved by a supervisor. We recommend all employees, below the level of the Appointing Authority, submit signed timesheets (including documentation of overtime hours) which would then be reviewed and approved by a supervisor.

Management Response: The Executive Director originally asked the Office of the Attorney General about implementing time sheets. She used their form as an example. They advised that everyone in the agency – except the Executive Director and the General Counsel – should fill out time sheets and have them approved by their supervisors. They advised against the General Counsel doing so since, under the Fair Labor Standards Act, it could be used as evidence that the position was not exempt from overtime, etc. The General Counsel does not supervise other employees.

Auditor Response: The question regarding timesheets for FLSA exempt personnel was addressed in an opinion issued April 11, 2005 by the U.S. Department of Labor (DOL). In this opinion, DOL stated, “Employees who are exempt under section 13(a)(1) of the FLSA as a bona fide executive, administrative, and professional employees do not lose their exempt status when they are required by their employer to track their time on an hourly basis.” Since the Commission has elected to provide hour-for-hour compensatory time to exempt personnel, these employees must account for their regular as well as the compensatory time. A timesheet approved by the appointing authority would be the appropriate mechanism to account for this time.

Management Response: The agency will implement timesheets for the General Counsel effective May 14, 2007, and will be approved by the Executive Director.

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

2. We randomly selected 20 deposits and:
 - Compared the Treasurer's deposit date to agency deposit slip date to determine if dates were within one working day.
 - Examined receipts to determine if they were pre-numbered and issued in numerical order.
 - Agreed cash/check composition of deposits to the receipts issued.
 - Agreed the total receipts issued to the deposit slip.
 - 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.
 - Inspected agency receipts to determine whether receipts were safeguarded.
 - 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.

As discussed in our comments under procedure #1, the Commission does not maintain copies of checks received with the deposit slip. As a result, we were unable to determine:

- Receipts existed and were for the amount recorded on the deposit slip (15 of 20 deposits).
- The cash/check composition for the receipts agreed to the deposit (14 of 20 deposits).
- Whether receipts of \$100 or more were deposited on the same day as received, or accumulated revenues of less than One Hundred Dollars (\$100.00) were held until accumulated receipts equaled One Hundred Dollars (\$100.00) or for five (5) business days, whichever occurred first, and were deposited no later than the next business day (16 of 20 deposits).

Additionally, for one of the 20 deposits, the check/cash composition of the log (used as supporting documentation for check receipts and cash received) did not agree to the deposit slip. The deposit slip allocated \$1.00 more to checks than is supported by the log. The deposit total did agree to the log. We also noted for two of 20 deposits, receipts of \$100.00 were not deposited on the same banking day as received as required by 62 O.S., § 7.1C.

We recommend a copy of all checks with a "received" date stamp should be attached to the deposit slip. By performing this procedure, the composition of the deposit is easily determined and an adequate audit trail is maintained. We also recommend the Ethics Commission implement procedures to ensure compliance with 62 O.S., § 7.1C by ensuring receipts of \$100.00 are deposited on the same banking day as received and revenues totaling \$100.00 or more are accumulated for no more than five business days before being deposited.

Management Response: As mentioned earlier, we have already implemented a policy to photocopy all checks immediately upon receipt, date stamp the copies and attach them to the deposits.

Our Administrative Technician is retiring on June 1, 2007. We have asked the Legislature in our budget request for additional funds in order to upgrade this position to an Administrative Assistant. If the funding is provided, we will upgrade this position and the Administrative Assistant will be trained to assist the Principal Assistant with her many duties, including making deposits. Since we receive checks for various fees daily, usually totally \$100 or more, this should help alleviate the problem of not having the time to do daily deposits.

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

3. We recalculated the required amount to be deposited to the State's General Revenue Fund and agreed it to the amount transferred to the General Revenue Fund.

There were no findings as a result of applying the procedures.

4. 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.

There were no findings as a result of applying the procedures.

5. We selected the employee who appeared on the December 2006 payroll but not on the July 2005 payroll and observed the initial "Request for Personnel Action" (OPM-14) or equivalent form to determine it was signed by the appointing authority.

There were no findings as a result of applying the procedures.

6. We selected the employee who appeared on the July 2005 payroll but not on the December 2006 payroll and:
 - Observed the final "Request for Personnel Action" (OPM-14) or equivalent form to determine it was signed by the appointing authority.
 - Observed the main payroll funding sheet for the month subsequent to termination to determine the employee no longer appeared.

There were no findings as a result of applying the procedures.

7. We randomly selected one employee from the December 2006 payroll and agreed the amount paid to the "Request for Personnel Action" (OPM-14) or equivalent form that was in effect for December 2006.

There were no findings as a result of applying the procedures.

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 cash, 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 Ethics Commission 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.



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State Auditor and Inspector

May 15, 2007

Protecting Your Tax Dollars



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