OPERATIONAL AUDIT

Office of Lieutenant Governor

For the period July 1, 2013 through June 30, 2015

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

Audit Report of the Office of Lieutenant Governor

For the Period July 1, 2013 through June 30, 2015

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Oklahoma State Auditor & Inspector

2300 N. Lincoln Blvd. • State Capitol, Room 100 • Oklahoma City, OK 73105 • Phone: 405.521.3495 • Fax: 405.521.3426

August 11, 2016

TO LIEUTENANT GOVERNOR TODD LAMB

This is the audit report of the Lieutenant Governor's Office for the period July 1, 2013 through June 30, 2015. 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,

GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

Background

The Office of Lieutenant Governor (the Office) was created by Article 6, Sec. 1 of the Oklahoma Constitution. While the Office of Lieutenant Governor is similar in function to that of the Vice President of the United States, Oklahoma voters cast a separate ballot for Governor and Lieutenant Governor. In Oklahoma and about half of the 50 states, the Lieutenant Governor serves in place of the Governor when the chief executive officer leaves the state, becomes incapacitated, or resigns.

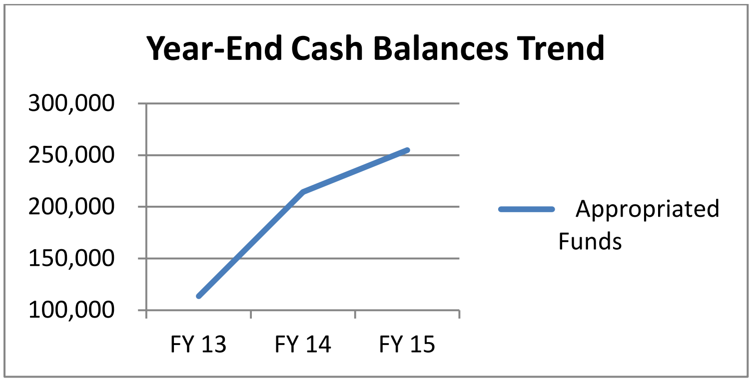
Oklahoma's Lieutenant Governor Todd Lamb also serves as the President of the Oklahoma State Senate, casting a vote in the event of a tie and presiding over joint sessions of the State Legislature. Constitutionally, or by state law, Lieutenant Governor Lamb presides over, appoints a designee, or is a member of 10 state boards and commissions. The Lieutenant Governor's Office currently consists of four employees who support these activities.

The following information illustrates the Office's budgeted-to-actual revenues and expenditures and year-end cash balances.[1]

BUDGET TO ACTUAL COMPARISON						
	FY 2014			FY 2015		
REVENUES	**Budgeted**	**Actual**	**Variance**	**Budgeted**	**Actual**	**Variance**
Gen. Appropriations (Excluding Carryover Funds)	506,591	506,591	-	478,145	478,145	-
Total Revenues	**506,591**	**506,591**	**-**	**478,145**	**478,145**	**-**
EXPENDITURES						
Personnel Services	273,015	383,159	110,144	396,884	396,096	(788)
Professional Services	12,000	10,752	(1,248)	8,799	16,309	7,510
Travel Expenses	2,900	119	(2,781)	957	957	(0)
Administrative Expenses	108,308	9,944	(98,364)	19,580	15,570	(4,010)
Property, Furniture, Equipment, Related Debt	7,248	163	(7,085)	12,004	8,560	(3,444)
Transfers and Other Disbursements	-	1,636	1,636	-	277	277
Total Expenses	**403,471**	**405,773**	**2,302**	**438,224**	**437,769**	**(455)**
Expenditures Over (Under) Revenues		**(100,818)**			**(40,376)**	

Year-End Cash Balances: FY 13 - FY 15			
	FY 13	**FY 14**	**FY 15**
Appropriated Funds	113,486	214,304	254,680
Total Available Cash	113,486	214,304	254,680

[1] This information was obtained from the Oklahoma PeopleSoft accounting system. It is for informational purposes only and has not been audited. See summary of management's explanation of variances on page 2 of this report.



Summary of management responses to budgeted-to-actual variances

This information is a summary of responses obtained from the Lieutenant Governor's Office. It is for informational purposes only and has not been audited. See budgeted-to-actual analysis on page 1 of this report.

Expenditures

- The difference in the salary variance is attributable to budgeting changes related to the use of carryover funds, and management reported that no staffing changes actually took place.
- The administrative budget difference was related to office equipment, carpet, and furniture that went unpaid during the year. The carpet in particular needed repair that did not occur in a timely manner.

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 duties 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, 2013 through June 30, 2015.

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of Office operations. We utilized sampling of transactions to achieve our objectives. To ensure the samples were representative of the population and provided sufficient, appropriate evidence, the random sample methodology was used. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

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.

OBJECTIVE

Determine whether the Office's internal controls provide reasonable assurance that expenditures (both miscellaneous and payroll) were accurately reported in the accounting records.

Conclusion

The Office's internal controls do not provide reasonable assurance that miscellaneous expenditures and payroll expenditures were accurately reported in the accounting records.

FINDINGS AND RECOMMENDATIONS

Inadequate Segregation of Miscellaneous Expenditure Duties

The United States Government Accountability Office's *Standards for Internal Control in the Federal Government* (2014 Revision) states, "Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event."

The chief of staff is responsible for approving purchases and invoices. While the office contracts with the Agency Business Services (ABS) division of the Office of Management Enterprise Services to post all aspects of this process to the state's accounting system (PeopleSoft), ABS does not appear to be in a position to review and question the chief of staff's approvals or instructions. In addition, no independent review of detailed expenditures is performed after the payments are made. Therefore, it appears the chief of staff has the ability to initiate and approve inappropriate expenditures without detection.

It appears management believed their process was appropriate because the majority of processing is handled by ABS. However, the responsibility for ensuring all payments are authorized and appropriate ultimately lies with management.

Recommendation

Someone independent of the expenditure process, such as the Lieutenant Governor, should perform and document a line-item detailed review of all expenditures on a random basis; for example by reviewing, signing, and dating the PeopleSoft 6-digit detailed expenditure report for a chosen month.

Views of Responsible Officials

We concur with the finding and the Lt. Governor's office will reassess its controls related to the finding.

Inadequate Segregation of Payroll Duties, Documentation Not Retained

The GAO *Standards* state, "Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event."

An effective internal control system also provides for accurate and reliable records. The Oklahoma Archives and Records Commission Consolidated Records Disposal Schedule requires expenditure and payroll documentation be retained in office for certain lengths of time, ranging from after audit completion to permanently for some personnel documents.

The chief of staff is currently responsible for reviewing and approving payroll documents and serving as the Office's only point of contact with the Office of Management and Enterprise Services – Human Capital Management (OMES-HCM) for payroll processing. This includes submitting payroll changes (such as hires, terminations, and pay raises) for data entry. Although the Lieutenant Governor reportedly signs off on payroll changes, the Office was unable to provide adequate signed documentation to confirm this process.

As a result of the lack of documented independent review of payroll activities, the chief of staff is in a position to make unauthorized payroll changes without detection.

Of the thirteen payroll changes with financial impact that occurred during the audit period for which we requested documentation, only one signed, formal payroll change document was located by OMES-HCM. Management and OMES-HCM were able to provide informal e-mail documentation of some changes; however, these e-mails also illustrated that the Office is slow to notify OMES-HCM of hires and terminations and to provide related paperwork.

While not unexpected given the Office's small size and the fact that it has not been audited in the recent past, it appears management was not aware of the risks created by this arrangement of duties, and may have experienced some confusion about what review and documentation responsibilities belong to the Office versus OMES-HCM. It is ultimately management's responsibility to ensure expenditures are accurate, appropriate, and properly documented. Furthermore, failure to properly retain documentation increases the likelihood that deficiencies will not be detected, impedes the ability of independent parties such as SAI or interested citizens to review the Office's activity, and places the Office out of compliance with Archives and Records Commission retention requirements.

Recommendation

We recommend the Lieutenant Governor, as an independent reviewer, periodically review payroll claims and payroll change documentation with supporting documentation to ensure only authorized payroll changes are made and payroll expenditures appear accurate. This review could be performed on a random basis, and should be documented (such as with a signature and date on the corresponding documentation) and retained.

We also recommend appropriate documentation be filed with OMES-HCM on a timely basis when payroll actions occur, and documentation of all payroll transactions (including signed and supporting documents for monthly payroll expenditures and payroll changes) be retained by the Office in accordance with the Oklahoma Archives and Records Commission Consolidated Records Disposal Schedule.

Views of Responsible Officials

We concur with the finding and the Lt. Governor's office will reassess its controls related to the finding.

OFFICE OF THE STATE AUDITOR & INSPECTOR
2300 N. LINCOLN BOULEVARD, ROOM 100
OKLAHOMA CITY, OK 73105-4896

WWW.SAI.OK.GOV