

OKLAHOMA MERIT PROTECTION COMMISSION

JANUARY 1, 2006 THROUGH
DECEMBER 31, 2007

OPERATIONAL AUDIT



Oklahoma State Auditor
& Inspector

**Audit Report of the
Oklahoma Merit
Protection Commission**

**For the Period
January 1, 2006 through December 31, 2007**

STATE AUDITOR AND INSPECTOR

STEVE BURRAGE, CPA
State Auditor

MICHELLE R. DAY, ESQ.
Chief Deputy



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September 29, 2008

TO THE OKLAHOMA MERIT PROTECTION COMMISSION

Pursuant to 62 O.S. § 212, transmitted herewith is the audit report for the Oklahoma Merit Protection Commission for the period January 1, 2006 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 "Steve Burrage".

STEVE BURRAGE, CPA
STATE AUDITOR & INSPECTOR

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

MICHELLE R. DAY, ESQ.
DEPUTY STATE AUDITOR & INSPECTOR

Mission Statement

The mission of the Oklahoma Merit Protection Commission is to design, implement, and enforce a State Employment Dispute Resolution System.

Board Members

Jerry D. Rackley	Chair
Gene Moses	Vice-Chair
Jo Ann Bartlett.....	Member
Robin Eubank	Member
Jacque Fincher	Member
Jerry Jensen	Member
Marianne Miller	Member
John Nicks	Member
L. Don Smitherman	Member

Key Staff

Susan Bussey	Executive Director
Austin Gilley	Deputy Director
Chengbin Y. Tang.....	Accountant

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TO THE OKLAHOMA MERIT PROTECTION COMMISSION

We have audited the Oklahoma Merit Protection Commission for the period January 1, 2006 through December 31, 2007. The objectives of this audit were to determine if:

- The Commission's internal controls provide reasonable assurance that revenues, expenditures, and inventory were accurately reported in the accounting records, and financial operations complied with applicable finance-related laws and regulations;
- The Commission complied with certain laws and regulations;
- 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.


STEVE BURRAGE, CPA
STATE AUDITOR & INSPECTOR


MICHELLE R. DAY, ESQ.
DEPUTY STATE AUDITOR & INSPECTOR

July 16, 2008

Background

The Oklahoma Merit Protection Commission implements provisions of the Oklahoma Personnel Act and other Oklahoma Statutes. The Commission's principal purpose is to provide a state employment dispute resolution system, including investigative and administrative court functions. The Commission appoints an Executive Director who serves as the appointing authority and who selects the Commission's staff, Administrative Law Judges, and Facilitators. Members of the staff investigate employment appeals from state employees and applicants for state employment. The Executive Director may dismiss appeals, set them for hearing before an Administrative Law Judge, or schedule them for mediation or other alternative dispute resolution processes before a Facilitator. The staff provides consultation and training in a variety of human resources subjects, including managing internal agency grievances and discipline. The Commission's operations are governed by 74 O.S. § 840 as well as Title 455 Chapter 10 of the Oklahoma Administrative Code. Oversight is provided by a nine-member commission comprised of two members appointed by the President Pro Tempore of the Senate, two members appointed by the Speaker of the House of Representatives, and five members appointed by the Governor. No more than four of the Governor's appointments may be from the same political party.

Table 1 summarizes the Commission'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

Sources:	2006	2007
State Appropriations	\$565,680	\$611,428
Grants, Refunds, & Reimbursements	15,824	6,265
Sales and Service	<u>0</u>	<u>12,534</u>
Total Sources	<u>\$581,504</u>	<u>\$630,227</u>
Uses:		
Personnel Services	\$411,399	\$489,571
Travel	16,644	31,897
Administrative Expense	82,843	69,043
Property , Furniture, Equipment & Related Debt	39,767	18,435
General Assistance, Awards, etc.	15	0
Transfers & Other Disbursements	<u>644</u>	<u>1,042</u>
Total Uses	<u>\$551,312</u>	<u>\$609,988</u>

Source: Oklahoma CORE Accounting System.

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

Conclusion

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

Methodology

To accomplish our objective, we performed the following:

- Reviewed 62 O.S. § 7.1 - depositing requirements for agency clearing accounts and agency special accounts;
- Documented internal controls related to the revenue, expenditure, and inventory processes;
- Tested controls which included:
 - Determining if checks were endorsed immediately upon receipt;
 - Determining if receipts were stored in a secure location prior to deposit;
 - Determining if the person who prepared the deposit was independent of the receipting process;
 - Reviewing 25 deposits selected from an OSF CORE deposit report from the period to ensure the deposit slips were reviewed by a person independent of the preparer, were supported by receipts or with an appropriate receipt log, and receipts were deposited in accordance with 62 O.S. § 7.1.C;
 - Reviewing 25 deposits selected from an OSF CORE deposit report from the period to ensure the monies were deposited within one day of receipt;
 - Reviewing 25 deposits selected from an OSF CORE deposit report from the period to ensure the deposits were correctly posted into CORE within one day of being deposited at the bank;
 - Reviewing a CORE deposit report for the period to ensure funds were being transferred from the Commission's clearing account to the revolving fund at least once per month;
 - Determining the Commission's clearing account was reconciled on a monthly basis;
 - Reviewing six OSF-Form 11 reconciliations to ensure the reconciliation was reviewed by someone other than the preparer, the reconciliations were mathematically accurate, traced and agreed to OST Monthly Agency Statements, and reconciling items appeared reasonable;
 - Reviewing 25 expenditure claims to ensure they were properly authorized. This included ensuring the invoice supported the payment, the invoice was mathematically accurate, the correct account code was used, and the expenditure was reasonable for the Commission's mission;
 - Reviewing 25 expenditure claims to ensure the packing slip or other receiving documentation was signed and dated to indicate the condition and quantity of the item(s) was verified;
 - Reviewing 15 assets from inventory records to ensure the assets existed and were identified as property of the State of Oklahoma with an affixed tag number;
 - Reviewing 15 assets from inventory records to ensure the identification number listed on the inventory records agreed with the identification tag number affixed to the asset;
 - Reviewing 15 assets from the Commission's floor to ensure the assets were included on the inventory records;
 - Reviewing 15 assets from the Commission's floor to ensure the assets were identified as property of the State of Oklahoma with an affixed tag number and the identification tag number agreed with the identification number recorded on the inventory records;
 - Determining the Commission performed a physical inventory of assets each year and the physical inventory was approved by someone independent of the inventory process;

- Determining the number of assets removed from inventory records during the audit period and ensuring the assets were included on a completed DCS Form 001 “Surplus Property Transfer” form and the form was approved as required.

Observations

Deposit Control Activities are not Adequately Segregated

An effective internal control system includes the adequate segregation of duties to prevent or detect errors, improprieties, or fraud.

The reconciliation of funds deposited to the receipt book is performed by the person preparing the deposit. Also, during the accountant’s absence the customer service representative is responsible for receiving payments and preparing the deposit.

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

Recommendation: We recommend the Commission segregate the duties for preparing the deposit and reconciling funds deposited to the receipt book. Also, we recommend the Commission segregate the duties for receiving payments and preparing the deposit during the accountant’s absence.

View of Responsible Officials: During Ms. Tang’s absence, we do not have anyone other than Ms. Cummings who can prepare the deposits.

Auditor Response: A component objective of a sound internal control system is to provide segregation of duties. The accountant is responsible for certain deposit and reconciliation functions. The limited number of office personnel within the agency prevents a proper segregation of accounting functions which is necessary to assure sound internal control. 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. As a result, we recommend additional reviews and approvals by the Executive Director be put in place. This may include, but not be limited to, the Executive Director thoroughly reviewing and approving all reconciliations. This may also include the Executive Director performing the reconciliations at various times throughout the year to help strengthen the mitigating detection control.

Deposits Lack Support Documentation to Determine Compliance with 62 O.S. § 7.1.C

An effective internal control system provides for the adequate maintenance of supporting documentation.

62 O.S. § 7.1 C states in part, “All such monies collected pursuant to this section shall be deposited as follows 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. 2. Receipts of less than One Hundred Dollars (\$100.00) may be held until accumulated receipts equal One Hundred Dollars (\$100.00) or for five (5) business days, whichever occurs first, and shall then be deposited no later than the next business day...”

Sixty-four of the eighty-one receipts that support the twenty-five deposits tested did not include documentation to support when the monies were collected.

If monies collected are not deposited in accordance with 62 O.S. § 7.1.C, the monies could be susceptible to theft or loss.

Recommendation: We recommend management ensure deposit support documentation includes the date all monies were received.

Views of Responsible Officials: The Merit Protection Commission will create a mail log sheet that will document when checks are received in the mail. We already have a receipt book that documents when cash or checks are received.

Auditor Response: A component objective of a sound internal control system is the safeguarding of assets. Safeguarding of assets includes reducing the susceptibility of agency funds from theft or loss. Ensuring compliance with 62 O.S. § 7.1.C helps to reduce the susceptibility of agency funds from theft or loss. We believe the creation of the mail log is important. However, in addition to the creation of the mail log, procedures should be implemented within the agency to ensure monies collected are deposited in accordance with 62 O.S. § 7.1.C. This may include, but not be limited to, a comparison between the deposit date and the date recorded in the mail log and/or receipt book be performed on a regular basis.

Disbursement Control Activities are not Adequately Segregated

An effective internal control system includes the adequate segregation of duties to prevent or detect errors, improprieties, or fraud.

The accountant is responsible for preparing and approving purchase orders, receiving purchased items, preparing and approving vouchers, recording and reconciling disbursements to OSF records, and mailing warrants.

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

Recommendation: We recommend the Commission segregate the duties for approving purchases, approving vouchers, reconciling disbursements, and mailing warrants.

View of Responsible Officials: The Executive Director will initial purchase orders before they are processed.

Auditor Response: A component objective of a sound internal control system is to provide segregation of duties. The accountant is responsible for all disbursement functions. The limited number of office personnel within the agency prevents a proper segregation of accounting functions which is necessary to assure sound internal control. 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. As a result, we recommend additional reviews and approvals by the Executive Director be put in place. This may include, but not be limited to, the Executive Director thoroughly reviewing and approving all purchase orders as well as disbursement reconciliations. Additionally, it appears that someone independent of the disbursement function could be assigned the duty of receiving purchased items as this task should not cause a significant increase in workload for any person.

Account Code Not Consistent with the Nature of the Disbursement

An effective internal control system provides for accurate and reliable accounting records as well as proper review of expenditures.

Four of the twenty-five claims tested did not contain the correct account code. The account code recorded was not consistent with the nature of the disbursement.

Incorrect account codes could cause inaccurate financial reporting.

Recommendation: We recommend the Commission review claims prior to approving vouchers for payment to ensure account codes are consistent with the nature of the disbursement.

View of Responsible Officials: While we do not condone errors, it is not feasible in an agency as small as MPC to have more than one person checking the account codes. Given the account code error, it looks like the codes were an honest mistake.

Inventory Control Activities are not Adequately Segregated

An effective internal control system includes the adequate segregation of duties to prevent or deter the theft or loss of assets.

The accountant is responsible for preparing and approving purchase orders, receiving purchased items, maintaining the inventory listing, and performing the annual physical inventory.

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

Recommendation: We recommend the Commission segregate the duties for purchasing assets, maintaining inventory records and performing physical inventories. We also recommend inventory items under \$500 that are highly susceptible to theft or loss (laptops, digital cameras, DVD's or other similar items) be included on the inventory listing.

View of Responsible Officials: MPC will inventory items that could be susceptible to theft that are valued under \$500.00, like cameras.

Auditor Response: A component objective of a sound internal control system is to provide segregation of duties. The accountant is responsible for all inventory functions. The limited number of office personnel within the agency prevents a proper segregation of accounting functions which is necessary to assure sound internal control. 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. As a result, we recommend additional reviews and approvals by the Executive Director be put in place. This may include, but not be limited to, the Executive Director thoroughly reviewing and approving all purchase orders as well as the annual physical inventory. Additionally, it appears that someone independent of the disbursement function could be assigned the duty of receiving purchased items as this task should not cause a significant increase in workload for any person.

Physical Inventory Records Not Signed For Approval

An effective internal control system provides for the adequate review and approval of supporting documentation.

Oklahoma Merit Protection Commission's procedures for inventory include performing an annual formal physical inventory and a review and approval of the physical inventory by someone other than the individual/s performing the physical count or maintaining the inventory records.

The SFY 2006 and SFY 2007 inventory records do not document the review and approval of the inventory records.

Without an adequate review and approval process, errors and improprieties could occur and may not be detected in a timely manner.

Recommendation: We recommend management ensure all physical inventory records are signed and dated by the reviewer to indicate approval.

Views of Responsible Officials: Since 2008, the Director has been signing off on the Physical Inventory Form.

Objective 2 – Determine if the agency complied with O.S.L. 318, SB 101.

Conclusion

Based on procedures performed, it appears the agency is in compliance with 2005 O.S.L. 318, SB 101; 2006 O.S.L. 318, SB 101 and 2007 O.S.L. 318, SB 101.

Methodology

To accomplish our objective, we performed the following:

- Reviewed the 2005 O.S.L. 318, SB 101; 2006 O.S.L. 318, SB 101 and 2007 O.S.L. 318, SB 101 and performed procedures to determine if the executive director's salary was in compliance with the law.

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

Conclusion

Based on review of the prior engagement report issued by the State Auditor's Office on September 11, 2006, there were four findings reported. Corrective actions on all four of the findings have been implemented.

Methodology

See objective 1.



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