

OPERATIONAL AUDIT

MERIT PROTECTION COMMISSION

For the period April 1, 2011 through December 31, 2015



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

**Audit Report of the
Merit Protection Commission**

**For the Period
April 1, 2011 through December 31, 2015**



Oklahoma State Auditor & Inspector

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March 17, 2016

TO THE MERIT PROTECTION COMMISSION

This is the audit report of the Merit Protection Commission for the period April 1, 2011 through December 31, 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,

A handwritten signature in blue ink that reads "Gary A. Jones". The signature is fluid and cursive, with the first name "Gary" being the most prominent.

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

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Background

Created in July 1982, the Merit Protection Commission has essentially three functions: (1) to investigate allegations of violations of the Oklahoma Personnel Act and employment discrimination in state service; (2) to serve as an administrative appeal agency for state employees having disputes with their agency; and (3) to enforce the provisions of the Oklahoma Personnel Act. In addition to its original functions, this agency is now responsible for providing specific training on grievance resolutions in state employment and training for its administrative law judges. Agency functions also include a component designed to assist agencies in voluntarily complying with the Oklahoma Personnel Act.

Oversight is provided by nine commission members (Commission) who are appointed for three year terms. Two members are appointed by the President Pro Tempore of the Senate; two members are appointed by the Speaker of the House of Representatives; and five members are appointed by the Governor.

Board members as of December 31, 2015 are:

| | |
|----------------------|----------|
| Gene Moses | Chairman |
| Eric Blakeney | Member |
| Charles Burton..... | Member |
| James Farris..... | Member |
| Mautra Jones..... | Member |
| DeWade Langley..... | Member |
| Scott Maule. | Member |
| Marianne Miller..... | Member |
| Kim Neese | Member |

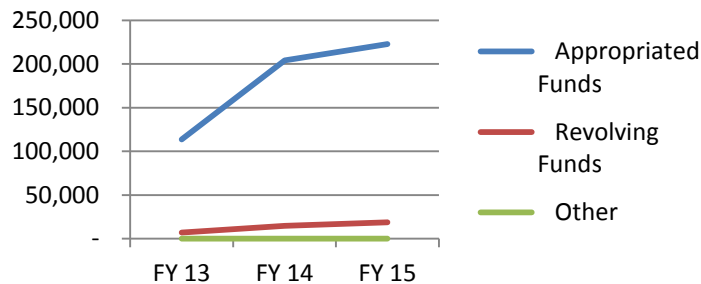
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The following information illustrates the Agency's budgeted-to-actual revenues and expenditures and year-end cash balances.¹

| BUDGET TO ACTUAL COMPARISON | | | | | | |
|-------------------------------------------------------------------------|----------------|----------------|-----------------|----------------|-----------------|------------------|
| | FY 2014 | | | FY 2015 | | |
| | Budgeted | Actual | Variance | Budgeted | Actual | Variance |
| REVENUES | | | | | | |
| General Appropriations (Excluding Carryover Funds) | 490,967 | 490,967 | - | 463,398 | 463,398 | - |
| Grants, Refunds and Reimbursements | - | 7,807 | 7,807 | - | 3,998 | 3,998 |
| Sales and Services | - | 4 | 4 | - | 17 | 17 |
| Total Revenues | 490,967 | 498,778 | 7,811 | 463,398 | 467,413 | 4,015 |
| EXPENDITURES | | | | | | |
| Personnel Services | 280,695 | 285,112 | 4,417 | 345,548 | 304,213 | (41,335) |
| Professional Services | 48,562 | 44,442 | (4,120) | 41,828 | 55,467 | 13,639 |
| Travel Expenses | 13,265 | 6,976 | (6,289) | 9,680 | 9,624 | (56) |
| Administrative Expenses | 53,633 | 51,897 | (1,736) | 248,252 | 64,097 | (184,155) |
| Property, Furniture, Equipment, and Related Debt | | 11,606 | 11,606 | 17,184 | 11,399 | (5,785) |
| General Assistance, Awards, Grants, and Other Program-Directed Payments | | | - | 500 | | (500) |
| Transfers and Other Disbursements | 500 | 349 | (151) | | | - |
| Total Expenses | 396,655 | 400,382 | 3,727 | 662,992 | 444,800 | (218,192) |
| Expenditures Over (Under) Revenues | | | (98,396) | | (22,613) | |

| Year-End Cash Balances: FY 13 - FY 15 | | | |
|---------------------------------------|----------------|----------------|----------------|
| | FY 13 | FY 14 | FY 15 |
| Appropriated Funds | 113,533 | 204,268 | 222,867 |
| Revolving Funds | 7,179 | 14,840 | 18,854 |
| Other | 87 | - | - |
| Total Available Cash | 120,798 | 219,108 | 241,721 |

Year-End Cash Balances Trend



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 3 of this report.

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Summary of agency responses to budgeted-to-actual variances

This information is a summary of responses obtained from the Merit Protection Commission. It is for informational purposes only and has not been audited. See budgeted-to-actual analysis on page 2 of this report.

Expenditures

- Professional Services – The variance for FY 15 is the result of not including funds budgeted for GALT Temporary Services under Professional Services.
- Administrative Expenses – The variance for FY 15 is the result of allocating the entire carryover amount from FY14 into one account code.

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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 April 1, 2011 through December 31, 2015. Detailed audit procedures focused on the period of July 1, 2013 through December 31, 2015, addressing the most current financial processes and providing the most relevant and timely recommendations for management.

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Merit Protection Commission's 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 Agency's internal controls provide reasonable assurance that miscellaneous expenditures, payroll expenditures, and inventory were accurately reported in the accounting records.

Conclusion

The Agency's internal controls provide reasonable assurance that miscellaneous expenditures and payroll expenditures were accurately reported in the accounting records. However, the Agency's internal controls do not provide reasonable assurance that inventory was accurately reported in the accounting records.

FINDING AND RECOMMENDATION

Insufficient Segregation of Duties and Documentation of Annual Inventory Counts

The United States Government Accountability Office's *Standards for Internal Control in the Federal Government*² (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 Standards also state that in order to safeguard vulnerable assets, "Such assets should be periodically counted and compared to control records."

During our testwork, we noted that the agency does not have proper segregation of duties related to inventory. The administrative programs officer has the responsibility for purchasing, receiving ordered goods in many cases, maintaining internal inventory records, and performing inventory counts. We also noted that the agency did not document annual inventory counts during our audit period. Both of these internal control deficiencies create the risk and opportunity for the administrative programs officer to misappropriate ordered items without detection.

Recommendation

We recommend management segregate duties to ensure that no one individual can make purchases, receive goods ordered, maintain internal inventory records, and perform inventory counts. We also recommend management ensure that a comprehensive annual physical inventory count is performed and documented by someone independent from purchasing assets, maintaining inventory items and inventory records, and disposing of surplus assets.

Views of Responsible Officials

The Merit Protection Commission's management and staff fully intend to comply with the recommendation to segregate duties as it relates to inventory counts. The recommendation indicates that management should ensure that no one individual can make purchases. Currently, when supplies are ordered through companies such as Staples, Staples

² Although this publication addresses controls in the federal government, this criterion can be treated as best practices. The theory of controls applies uniformly to federal or state government.

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automatically generates an email to management for approval of purchases. All other purchases are generally done with Purchase Orders, which are signed and approved by management. In order to meet the recommendations, management plans to assign additional staff to assist the programs officer with receiving goods ordered, maintaining inventory records and performing inventory counts. In addition, management will ensure that comprehensive annual inventory counts are performed and documented by someone independently.



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