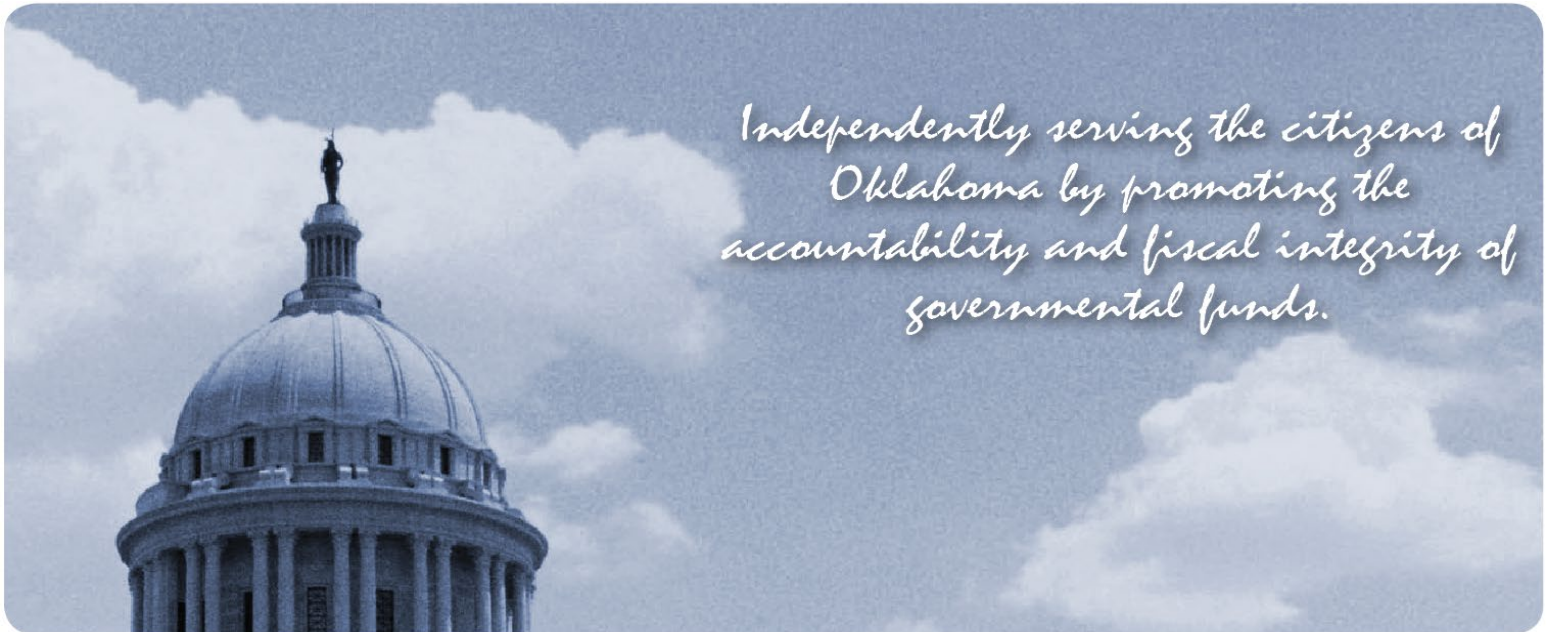


OPERATIONAL AUDIT

# OKLAHOMA MILITARY DEPARTMENT

For the period July 1, 2015 through August 31, 2017



*Independently serving the citizens of  
Oklahoma by promoting the  
accountability and fiscal integrity of  
governmental funds.*



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

**Audit Report of the  
Oklahoma Military Department**

**For the Period  
July 1, 2015 through August 31, 2017**



# Oklahoma State Auditor & Inspector

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

October 22, 2018

## TO GOVERNOR MARY FALLIN AND THE OKLAHOMA MILITARY DEPARTMENT

We present the audit report of the Oklahoma Military Department for the period July 1, 2015 through August 31, 2017. 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 written in a cursive style with a long, sweeping underline.

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

# Oklahoma Military Department Operational Audit

## Background

The Oklahoma Military Department (Agency) was established in 1951 and serves as the administrative agency for all matters concerning the Oklahoma National Guard and other military organizations. The governor, as commander-in-chief of the National Guard, appoints the adjutant general, the executive and administrative officer.

Key personnel as of August 31, 2017 were:

Maj. Gen Robbie L. Asher ..... Adjutant General (2/2015 – 8/2017)  
 Maj. Gen. Michael C. Thompson ..... Adjutant General (11/2017 – Current)  
 Sgt. Maj. Tony F. Riggs.....Command Sergeant Major  
 Ronald Teague.....Command Chief Master Sergeant Major  
 Brig. Gen. Jon M. Harrison ..... Director Joint Staff  
 Brig. Gen. Louis W. Wilham..... Asst. Adj. General  
 Brig. Gen. Steve D. Elliot..... Asst. Adj. General - Army  
 Brig. Gen. Thomas W. Ryan ..... Asst. Adj. General - Air  
 Brig. Gen. David B. Burgy. .... Chief of Staff - Air  
 Christopher A. Rau.....Command Chief Warrant Officer

The following table summarizes the Agency’s sources and uses of funds for fiscal years 2016 and 2017 (July 1, 2015 through June 30, 2017).

### Sources and Uses of Funds for FY 2016 and FY 2017

	2016	2017
<b>Sources:</b>		
Appropriations	\$ 10,351,258	\$ 10,287,252
Tag Remittance	\$ 8,520	\$ 9,780
Fines, Forfeits, Penalties	\$ -	\$ 35
Income from Money and Property	\$ 144,786	\$ 118,529
Grants, Refunds, Reimbursements	\$ 38,716,431	\$ 51,227,514
Sales and Services	\$ 430,186	\$ 448,719
Non-Revenue Receipts	\$ 90,885	\$ 130,123
<b>Total Sources</b>	<b>\$ 49,742,066</b>	<b>\$ 62,221,952</b>
<b>Uses:</b>		
Personnel Services	\$21,332,582	\$21,347,139
Professional Services	\$3,737,431	\$7,125,595
Travel	\$294,852	\$275,501
Administrative Expenses	\$9,839,559	\$10,036,461
Property, Furniture, Equipment	\$14,385,739	\$23,019,680
Assistance, Payments to Local Govn'ts	\$878,537	\$317,930
Loans, Taxes, Other Disbursements	\$10	\$10
<b>Total Uses</b>	<b>\$50,468,710</b>	<b>\$62,122,316</b>

*Source: Oklahoma Statewide Accounting System (unaudited, for informational purposes only)*

# Oklahoma Military Department Operational Audit

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## Scope and Methodology

Our audit was conducted in response to Governor Fallin's request in accordance with 74 O.S. § 212.C and 213.2.B.

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, 2015 through August 31, 2017.

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Oklahoma Military Department operations. Further details regarding our methodology are included under each conclusion.

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 I** Determine whether the Agency’s internal controls provide reasonable assurance that expenditures (both miscellaneous and payroll) and inventory were accurately reported in the accounting records.

**Conclusion** The Agency’s internal controls do not provide reasonable assurance that expenditures (both miscellaneous and payroll) and inventory were accurately reported in the accounting records.

Financial operations complied with the following statutes and administrative code:

- 44 O.S. § 27 – establishment of the salary of the adjutant and assistant adjutant generals.
- 74 O.S. § 110.1 - Inventory
- 74 O.S. § 110.2 – Inventory Records
- OAC 260 110-3-1 -Inventory Report

**Objective Methodology**

To accomplish our objective, we performed the following:

- Documented significant internal controls related to miscellaneous expenditures and tested those controls, see results in related finding.
- Documented significant internal controls related to payroll expenditures and tested those controls, see results in related finding.
- Documented significant internal controls and process factors related to inventory; see results in related finding.

**FINDINGS AND RECOMMENDATIONS**

**The agency does not have proper segregation of duties over miscellaneous expenditures**

The United States Government Accountability Office’s *Standards for Internal Control in the Federal Government (2014 Revision)*<sup>1</sup> 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.”

<sup>1</sup> 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.

Warrants are not received by someone independent of the expenditure approval and posting process, as the accounts payable accountants receive warrants and post payments. We are unable to rely on the comptroller's review and approval of claim vouchers due to the existence and lack of control over multiple signature stamps that are used by various personnel throughout the expenditure process. These issues create the risk that funds could be misappropriated without detection. Further, the agency's certified procurement officers (CPOs) prepare and approve purchase orders in the statewide accounting system, and also have the ability to receive items ordered. This creates the risk that they could make unauthorized purchases and misappropriate assets without detection. There is no review of all agency expenditures on the standard PeopleSoft 6-digit Detailed Expenditure Report to help mitigate this control deficiency.

**Recommendation**

We recommend that the agency work to segregate key duties and responsibilities related to the expenditure process. If the workload of the department's financial section makes segregation of duties difficult, a mitigating control would be a properly detailed and documented review of expenditure transactions. For this to be effective, someone independent of the expenditures process, such as the executive director, should perform a line-item detailed review of all expenditures (federal and state) and document this review. This could be accomplished by reviewing, signing, and dating the PeopleSoft 6-digit Detailed Expenditure Report.

**Views of Responsible Officials**

The OMD concurs. The Comptroller immediately implemented the recommendation to segregate duties by having the Accounting Supervisor and Comptroller as the only authorized individuals to receive warrants processed by the accounts payable accountants. The OMD concurs that under current procedures, CPOs might have the ability to ship items to a separate location without knowledge of the agency. The Comptroller has incorporated checks and balances into the purchasing process which require one CPO to process a request for goods in PeopleSoft and another CPO to approve it. The 6-digit Detailed Expenditures Report is reviewed and reconciled with the Federal Government on all expenditures paid in whole or in part with federal funds. However, expenditures paid with 100% state funds were not reviewed, therefore, the following procedural changes have since been made to ensure OMD funds and assets are properly accounted for.

- All invoices and vouchers processed by accounts payable will be reconciled daily by the Accounting Supervisor.

- The Comptroller will review and electronically date and sign the 6-digit Detailed Expenditure Report of 100% state funded expenditures on a monthly basis.

**The agency does not have proper segregation of duties over payroll expenditures**

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."

The agency has not adequately segregated key duties related to payroll processes. The Human Resources Programs Manager currently has the following abilities and duties:

- Access to make payroll changes in PeopleSoft HCM
- Access to process and approve payroll
- Responsibility for detailed review of payroll reports

The lack of adequate internal controls provides the opportunity for payroll to be misstated or unauthorized payroll and personnel changes to be made without detection.

**Recommendation**

We recommend management segregate duties to ensure that employees responsible for reviewing and approving payroll claims do not have the ability to make changes to payroll or personnel data in PeopleSoft. We also recommend that agency management, other than the Human Resources Programs Manager, periodically independently review payroll claims and supporting documentation to provide assurance that only authorized payroll changes are made.

**Views of Responsible Officials**

The OMD concurs and will implement an additional approval process to assure that only authorized payroll changes are made. A PeopleSoft query will be signed by either the Comptroller or Executive Director/ Assistant Adjutant General. While OMD will implement this action, the agency feels confident that proper safeguards have been in place for any payroll or personnel changes which have occurred. The HR Programs Manager only processed payrolls on an emergency basis when the Payroll Manager was unavailable due to personal or medical issues, and to ensure OMD met OMES deadlines for processing payrolls. These are rare occasions. In these rare occasions, an HR Management Specialist reviewed the changes and the payroll claim was approved and signed by



**The agency does not have proper segregation of duties over inventory**

the Accounting Supervisor. The agency will continue to cross-train HR Management Specialists to process payrolls in the absence of the Payroll Manager.

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." The *Standards* also state that in order to safeguard vulnerable assets, "Such assets should be periodically counted and compared to control records."

The following conditions were identified regarding inventory controls:

- The agency does not have proper segregation of duties related to inventory. Employees with the responsibilities to receive inventory items and perform inventory counts have access to modify inventory records.
- The agency did not perform annual physical inventory counts during our audit period.
- The inventory counts are not signed off by the Director of Logistics documenting their independent review and approval of the counts performed.

The above control deficiencies also create the risk that inventory reports submitted to the Office of Management and Enterprise Services (OMES) as required by Oklahoma Administrative Code 260:110-3-1 and 74 O.S. § 110.1 A and 74 O.S. § 110.2 are inaccurate or incomplete.

**Recommendation**

We recommend management:

- Segregate duties to ensure that employees responsible for receiving inventory or performing inventory counts do not have access to modify inventory records
- 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
- Maintain a documented review of the annual inventory count results performed by someone independent of the count process
- Limit the ability to edit electronic inventory records to as few employees as possible, based upon their inventory-related duties

**Views of Responsible Officials**

The OMD concurs with the recommendation to segregate duties to ensure employees receiving and inventorying do not have access to modify records. We will make every effort to limit the ability to edit electronic inventory records to as few employees as possible based upon their inventory related duties. Due to the manpower shortages during the audit period – July 1, 2015 to August 31, 2017, adequate physical inventory counts of State property were not conducted. This finding has already been remedied and we will ensure comprehensive inventory counts are accurately performed and documented as we go forward. OMD will maintain a documented review of inventories performed by someone independent of the count process.

**OBJECTIVE II** Analyze the department’s administrative expenditures and determine whether they appear reasonable given the statutory responsibilities and mission of the agency.

**Conclusion** It appears that the Oklahoma Military Department’s administrative expenditures are reasonable given the statutory responsibility and authority of the agency.

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

- Reviewed the Department’s administrative expenditures to ensure they were reasonable given the statutory responsibility and authority of the agency, which included
  - Reviewing all administrative expenditures for the Department based on OMES administrative account codes
  - Performing analytical procedures to:
    - Identify top expenditure categories based on the amount expended
    - Identify top vendors based on the amount expended
  - Selecting and reviewing a random sample of 12 expenditure claims (0.03%) from a population of 44,648

No findings were noted as a result of our procedures.



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

[WWW.SAI.OK.GOV](http://WWW.SAI.OK.GOV)