

OPERATIONAL AUDIT

OKLAHOMA ETHICS COMMISSION

For the period July 1, 2009 through November 30, 2012



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

**Audit Report of the
Oklahoma Ethics Commission**

**For the Period
July 1, 2009 through November 30, 2012**



Oklahoma State Auditor & Inspector

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June 11, 2013

TO GOVERNOR MARY FALLIN:

This is the audit report of the Oklahoma Ethics Commission for the period July 1, 2009 through November 30, 2012. 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.

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones".

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

Oklahoma Ethics Commission Operational Audit

Background

The Oklahoma Ethics Commission (Agency) is the repository for state and county campaign registrations, reports and personal financial disclosure statements, as well as state lobbying registrations and reports. Oversight is provided by a five-member Commission (the Commission) appointed by the Governor, President Pro Tempore of the Senate, the Speaker of the House of Representatives, the Chief Justice of the Supreme Court and the Attorney General.

Commission members include:

Jo Pettigrew Chair
 Cathy Stocker..... Vice Chair
 M. Robert McKinney. Member
 Tom Walker Member
 Karen Long Member

Table 1 summarizes the Agency’s sources and uses of funds for fiscal years 2011 and 2012 (July 1, 2010 through June 30, 2012).

Table 1 - Sources and Uses of Funds for FY 2012 and FY 2011

	2012	2011
Sources:		
State Appropriations	\$ 523,129	\$ 545,880
Other Licenses Permits and Fees	63,498	57,392
Late Payment Fines and Penalties	9,228	43,435
Federal Grants In-Aid	361	-
Copies of Other Documents	369	701
Printing Including Sale of Publications	-	-
Total Sources	\$ 596,585	\$ 647,408
Uses:		
Personnel Services	\$ 627,109	\$ 589,524
Professional Services	11,661	23,727
Travel	6,722	7,425
Miscellaneous Administrative	9,275	9,335
Rent Expense	4,183	4,765
Maintenance and Repair Expense	1,032	1,127
General Operating Expense	1,803	2,537
Other	292	490
Total Uses	\$ 662,077	\$ 638,930

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

**Oklahoma Ethics Commission
Operational Audit**

**Purpose, Scope,
And Sample
Methodology**

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

The audit period covered was July 1, 2009 through November 30, 2012.

Sample methodologies can vary and are selected based on the audit objective and whether the total population of data was available. Random sampling is the preferred method; however, we may also use haphazard sampling (a methodology that produces a representative selection for non-statistical sampling), or judgmental selection when data limitation prevents the use of the other two methods. We selected our samples in such a way that whenever possible, the samples are representative of the populations and provide sufficient evidential matter. We identified specific attributes for testing each of the samples. When appropriate, we projected our results to that population.

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. 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.

Objective - Determine whether the Agency’s internal controls provide reasonable assurance that revenues and expenditures (including payroll) were accurately reported in the accounting records and financial operations complied with 74 O.S. 4256 and Article 29 § 4.A. of the Oklahoma Constitution.

Conclusion

The Agency’s internal controls:

- generally provide reasonable assurance that payroll expenditures were accurately reported in the accounting records; however, one area could be strengthened.
- do not provide reasonable assurance that revenues (manually receipted) or miscellaneous expenditures were accurately reported in the accounting records.

Financial operations complied with 74 O.S. 4256¹ and Article 29 § 4.A. of the Oklahoma Constitution², which require the transfer of certain fees to the state’s general revenue fund. Please note that as discussed on page 3 and 4 of this report, the lack of proper segregation of duties in the revenue process may impact transfers conducted. Our testwork reflected only that applicable funds *coded by management as late fees or fines* were deposited and transferred to the state’s general revenue fund.

Methodology

To accomplish our objective, we performed the following:

- Obtained an understanding of internal controls related to the revenue, expenditure, and payroll processes through discussions with Agency personnel, observation, and review of documents.
- Tested internal controls by reviewing payroll documentation from 16 randomly selected months to ensure it was reviewed and approved by the executive director, corresponding weekly employee timesheets were approved and agreed to the employees’ monthly PeopleSoft leave statements, and all 6 payroll changes were approved and properly reflected in payroll records.

Observation

Inadequate Safeguards Related to Revenues - Repeat Observation

To protect against possible errors or irregularities in an entity’s financial records, an effective internal control system should provide reasonable assurance that funds received are adequately safeguarded and ultimately deposited.

The Agency manually processes payments received for registration fees³, assessed late fees, and copy fees. The principal assistant is responsible for the following:

- Receipting funds;

¹ 74 O.S. § 4256 D. states in part, “...The first Twenty-five Thousand Dollars (\$25,000.00) per calendar year derived from fees collected pursuant to the provisions of this section shall be deposited with the State Treasurer to the credit of the Ethics Commission Fund and any amount in excess of Twenty-five Thousand Dollars (\$25,000.00) per calendar year shall be deposited in the General Revenue Fund.

² Article 29 § 4.A. of the Oklahoma Constitution states in part, “ ...Fines paid shall be deposited in the general revenue fund of the State.

³ Management states that lobbyists’ registration fees are received by credit card only. However, they could not provide a detailed accounting of the amounts associated with these fees as lobbyists’ registration fees and political action committee fees are considered one in the PeopleSoft accounting system.

Oklahoma Ethics Commission Operational Audit

- Entering applicable information into the Oklahoma Campaign Reporting System (OCRS);
- Preparing deposits;
- Formally initiating late fees requests; and
- Performing the account reconciliation.

Additionally, funds are not deposited in accordance with 62 O.S. § 34.57.C.1⁴ and are placed in a locking file cabinet which multiple employees can access.

Management has no assurance that all manually receipted funds are ultimately deposited.

Recommendation We recommend management consider the following:

- If the principal assistant's duties remain as they currently are, management should implement procedures to agree registrants in the OCRS system to the corresponding deposit receipt. An employee independent of the receipting and deposit preparation process should perform this procedure;
- Management should ensure the employee responsible for initiating and monitoring the receipt of late fees is independent of the receipting and deposit preparation process; and
- Funds should be secured and deposited in accordance with 62 O.S. § 34.57.C.1.

Views of Responsible Officials

Management provided the following responses to our recommendations:

- Unless disapproved by the Commission [see Rule 257:1-1-8(b)], allow the first 20 pages of documents to be copied free of charge (with a limit of one such request per month per person); limit payment of copy fees to checks (so no cash would be handled).
- Receptionist receives copying fees and registration fees for political action committees and lobbyists and enters information into Oklahoma Campaign Reporting System. (Note: Most fees

⁴ 62 O.S. § 34.57.C.1 includes the following language: "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."

are paid on-line by credit card.) Deputy Director compares record of receipts with deposits at random intervals, but no fewer than four times a year.

- Executive Assistant (*referred to as the principal assistant in the observation*) prepares and distributes notice of late filing fee assessments to candidates and committees and records each notice on a spreadsheet which is printed and provided to the General Counsel. General Counsel receives late filing fees and manually records receipt on the spreadsheet.
- All checks are maintained in a cabinet to which only the General Counsel and Deputy Director have a key and which is routinely locked except when the General Counsel is present and using it. Executive Assistant prepares and makes daily deposits at 3 p.m., regardless of the amount received, unless there are no receipts for that day.
- In the absence of the Receptionist, the General Counsel or the Executive Assistant, the Deputy Director performs the function assigned to that staff member, and the Executive Director performs the function assigned to the Deputy Director. In the case of multiple absences, the Deputy Director or Executive Director assigns functions.

Observation

Inadequate Controls over Expenditures - Repeat Observation

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*⁵ states in part, "Key duties and responsibilities need to be...segregated among different people to reduce the risk of error or fraud....No one individual should control all key aspects of a transaction..."

The Agency's principal assistant is responsible for:

- Purchasing items for the Agency;

⁵ Even though this publication addressed controls in the federal government, this criterion can be treated as best practices. The theory of controls applies uniformly to federal or state government.

- Posting disbursements into the PeopleSoft accounting system;
- Receiving warrants from the State Treasurer’s Office; and
- Mailing warrants to the vendors.

Misappropriation of assets could occur and not be detected by management in a timely manner.

Recommendation Management should implement procedures to reduce the risk associated with these conflicting duties. For example, management could review PeopleSoft’s six digit detail expenditure report each month to ensure the expenditures appear reasonable.

**Views of
Responsible
Officials**

Management provided the following responses to our recommendations:

- The agency contracts with Office of Management and Enterprise Services (“OMES”) for all purchasing.
- Purchases are made at the direction of the Deputy Director.
- The Executive Director reviews all purchases on a monthly basis.

Observation

Inadequate Reviews Associated with Payroll

An effective internal control system provides for an appropriate review of payroll records to ensure:

1. Leave taken is accurately reported.
2. Compensatory (comp) time is justified as well as calculated and reported correctly.

All employees record leave taken and comp time earned on timesheets and this information is entered into PeopleSoft. From a random sample of 16 months’ payroll claims, we noted:

- 4 instances where comp time earned was calculated incorrectly.
- 1 instance where comp time was credited to the wrong month.
- 1 instance where leave was entered on the wrong day and another instance where leave was not entered into PeopleSoft.

We also noted employees earning comp time in increments as small as 5 minutes. Furthermore, the Agency did not retain supporting documentation for any of the accruals. Comp time and leave balances may not be accurate.

Recommendation We recommend the Agency:

- Implement procedures to document the need for an employee to earn comp time. The justification should be approved by management prior to the accrual of the time.
- Evaluate certain employees' status as related to the Fair Labor Standards Act (exempt or not exempt), as their comp time accrual is at time and one half.⁶
- Develop a review process to ensure leave and earned comp time was correctly recorded in the PeopleSoft system.

**Views of
Responsible
Officials**

Management provided the following responses to our recommendations:

- Compensatory time must be authorized in advance by the supervisor of a staff member.
- Compensatory time will be calculated on an hour-for-hour basis.
- Compensatory time will be based on no smaller unit of time than 15 minutes.
- Leave time records are maintained by the Executive Secretary and reviewed by the Deputy Director.

⁶ The U. S. Department of Labor's Fact Sheet #7: State and Local Governments Under the Fair Labor Standards Act (FLSA) states in part, "employees of State or local government agencies may receive compensatory time off, at a rate of not less than one and one-half hours for each overtime hour worked, instead of cash overtime pay...For certain employees in the following examples, the calculation of overtime pay **may** differ from the general requirements of the FLSA : employees who meet exemption requirements for Executive, Administrative, Professional...occupations ."



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