

OPERATIONAL AUDIT

OKLAHOMA MERIT PROTECTION COMMISSION

For the period January 1, 2008 through March 31, 2011



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



Oklahoma State
Auditor & Inspector
Gary Jones, CPA, CFE

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

**For the period
January 1, 2008 through March 31, 2011**



Oklahoma State Auditor & Inspector

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

July 28, 2011

TO THE OKLAHOMA MERIT PROTECTION COMMISSION

This is the audit report of the Oklahoma Merit Protection Commission for the period January 1, 2008 through March 31, 2011. 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 "Gary A. Jones". The signature is fluid and cursive, with a long horizontal stroke at the end.

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

**Oklahoma Merit Protection Commission
Operational Audit**

Background

The Oklahoma Merit Protection Commission (the Agency) 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, the 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 other agencies in voluntarily complying with the Oklahoma Personnel Act.

The Agency was created by 74 O.S. § 840-1.7, and is overseen by a commission of nine members (the Commission), who are appointed for a term of three years. Two members of the Commission are appointed by the president pro tempore of the Senate, two are appointed by the speaker of the House of Representatives, and five are appointed by the governor.

Commission members are:

Jerry D. Rackley Chairman
 Gene Moses Vice-Chairman
 Jo Ann Bartlett Commissioner
 Jacque Fincher Commissioner
 Jerry Jensen Commissioner
 Larry Kelley Commissioner
 Byrona Maule Commissioner
 Marianne Miller Commissioner
 Don Smitherman Commissioner

Table 1 summarizes the Agency’s sources and uses of funds for state fiscal years 2010 and 2009 (July 1, 2008 through June 30, 2010).

Table 1 - Sources and Uses of Funds for SFY 2010 and SFY 2009

	2010	2009
Sources:		
Registration Fees	\$ 19,508	\$ 27,870
Appropriations	568,395	612,943
Total Sources	<u>\$ 587,903</u>	<u>\$ 640,813</u>
Uses:		
Personnel Expenses	\$ 430,718	\$ 512,520
Professional Services	45,927	62,059
Rent Expense	41,056	41,489
Misc. Administrative Expenses	14,552	15,933
Travel	9,099	13,627
Office Furniture and Equipment	1,061	16,421
General Operating Expenses	3,814	8,182
Maintenance & Repair Expenses	5,639	6,270
Other	1,700	672
Total Uses	<u>\$ 553,566</u>	<u>\$ 677,173</u>

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

**Purpose, Scope, and
Sample Methodology**

This 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.

The audit period covered was January 1, 2008 through March 31, 2011.

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 expenditures (including payroll) were accurately reported in the accounting records.

Conclusion

The Agency’s internal controls do not provide reasonable assurance that expenditures (including payroll) were accurately reported in the accounting records.

Methodology

To accomplish our objective, we documented internal controls related to the expenditure and payroll processes, through discussions with Agency personnel, observation, and review of documents.

Observation

Inadequate Segregation of Duties Related to Expenditures

The United States Government Accountability Office’s (GAO) *Standards for Internal Control in the Federal Government*¹ 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 accountant is responsible for:

- Generating purchase orders;
- Entering disbursements into the PeopleSoft accounting system;
- Preparing warrants from the State Treasurer’s Office (OST) to be mailed.

In addition, the warrants are not compared to independent documentation by a third party.

Misappropriation of assets could occur and not be detected in a timely manner. It appears that management was not aware of the risk created by the lack of segregation.

¹ 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.

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Recommendation Management should segregate the duties so one employee does not control all significant aspects of a transaction. If duties cannot be segregated, other mitigating controls should be implemented. For example, the executive director could review the warrants received to the approved claim jacket and supporting documentation.

Views of Responsible Officials The executive director will review monthly cash flow reports in detail by comparing Six Digit Expenditure Detail reports with vouchers.

Observation **Lack of Detailed Review of Monthly Payroll Expenditures**

An effective internal control system provides for adequate management review of payroll expenditures.

The Agency's payroll claim document authorizing payroll expenditures is prepared by the accountant and is approved by the executive director without a detailed review of supporting documentation.

An error or alteration could occur and not be detected in a timely manner. Management was not aware of the risk created by failing to perform a detailed review.

Recommendation The executive director should perform a detailed review of payroll amounts prior to the approval of the payroll claim document.

Views of Responsible Officials The executive director will approve payroll documents with a detailed review of supporting documentation through examination of all employees' salaries and benefits on the Payroll Register reports and Funding Distribution reports.



OFFICE OF THE STATE AUDITOR AND INSPECTOR

2300 N. LINCOLN BOULEVARD, ROOM 100

OKLAHOMA CITY, OK 73105-4896

WWW.SAI.OK.GOV