

# OFFICE OF PERSONNEL MANAGEMENT

FOR THE PERIOD  
JANUARY 1, 2007 THROUGH  
DECEMBER 31, 2008

# OPERATIONAL AUDIT



Oklahoma State Auditor  
& Inspector

**Audit Report of the  
Office of Personnel Management**

**For the Period  
January 1, 2007 through December 31, 2008**

# STATE AUDITOR AND INSPECTOR

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September 3, 2009

**TO THE ADMINSTRATOR  
OF THE OFFICE OF PERSONNEL MANAGMENT**

This is the audit report of the Office of Personnel Management for the period January 1, 2007 through December 31, 2008. 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

**Office of Personnel Management  
Operational Audit**

**Background**

The Office of Personnel Management (Agency) administers a variety of personnel related management systems and services within state government. The Agency is headed by the administrator who is appointed by the governor and confirmed by the senate.

Table 1 summarizes the Agency's sources and uses of funds for fiscal years 2007 and 2008.

**Table 1 - Sources and Uses of Funds for FY 2007 and FY 2008**

	2007	2008
Sources:		
State Appropriations	\$ 4,848,369	\$ 4,891,744
Reimbursement for Personnel Services	114,798	131,606
Reimbursement for Administrative Expenses	80,323	113,457
Other	1,224	330
Total Sources	\$ 5,044,714	\$ 5,137,137
Uses:		
Personnel Services	\$ 4,217,869	\$ 4,147,943
Professional Services	149,770	88,556
Travel	72,911	76,902
Miscellaneous Administration	141,948	119,506
Office Furniture and Equipment	235,951	219,880
Other	192,364	222,018
Total Uses	\$ 5,010,813	\$ 4,874,805

*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 state officers whose duty it is to collect, disburse or manage funds of the state.

The audit period covered was January 1, 2007 through December 31, 2008.

We selected our samples in such a way that whenever possible, the samples are representative of the populations and provide sufficient evidential matter. 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 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 1 - To determine if the Agency's internal controls provide reasonable assurance that revenues, expenditures, and inventory were accurately reported in the accounting records, and financial operations complied with HB 1057 from the 2<sup>nd</sup> Extraordinary 2006 Session.**

**Conclusion**

The Agency's internal controls generally provide reasonable assurance that expenditures and inventory were accurately reported in the accounting records. However, some areas could be strengthened. The internal controls do not provide reasonable assurance revenues were accurately reported in the accounting records.

With respect to items tested, financial operations complied with HB 1057 from the 2<sup>nd</sup> Extraordinary 2006 Session (limitation of administrator's salary).

**Methodology**

To accomplish our objective, we performed the following:

- Documented internal controls related to the receipting, expenditure, and inventory processes which included discussions with Agency personnel, observation, and review of documents;
- Tested controls which included:
  - Reviewing a sample of 67 expenditures (60 were random and seven were judgmental) from the period to determine if the payment was properly approved. This included ensuring the invoice supported the payment, the invoice was mathematically accurate, the correct fund and account code were used and the expenditure appeared reasonable given the Agency's mission;
  - Determining if the person receiving warrants from the Office of State Finance (OSF) was independent of the approving and posting process;
  - Determining if the employee responsible for inventory records was independent of the purchasing and disposal functions;
  - Determining periodic physical inventory counts were conducted;
  - Agreeing a sample of 20 (judgmentally selected) high-appeal assets from the inventory listing to the floor to ensure they exist, were identified as property of the State, and the inventory tag and serial numbers agreed to the listing;
  - Agreeing a sample of 10 (judgmentally selected) high-appeal assets from the floor to the listing.
- We reviewed 74 O.S. § 10.5.1 and HB 1057 from the 2<sup>nd</sup> Extraordinary 2006 Session and selected six haphazardly selected months of payroll information from PeopleSoft accounting system to ensure the administrator's annual salary did not exceed the maximum limit set forth in HB 1057, 2<sup>nd</sup> Extraordinary 2006 Session<sup>1</sup>.

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<sup>1</sup> 74 O.S. § 10.5.1 states the administrator's annual salary can't exceed \$75,000. HB 1057 from the 2<sup>nd</sup> Extraordinary 2006 Session set a new annual salary of \$80,955 effective October 1, 2006.

**Observation**

**Inadequate Segregation of Duties Related to the Receipting Process**

62 O.S. § 7.1 C 2.a states: “Each state agency that has custody of receipts of less than One Hundred Dollars (\$100.00) shall provide adequate safekeeping of such receipts.”

An effective internal control system provides for adequate segregation of duties. The chief accountant is responsible for the following:

- Receipting funds;
- Performing the OSF form 11 reconciliations without a detailed review by a person independent of the receipting process.

Additionally, the training specialist for Certified Public Manager Testing (CPMT) exam receives funds when administering the exam and does not provide a receipt to the payee or secure the funds until the next day. Further, management does not monitor the amount of funds received to the number of exams administered.

Management does not consider the lack of segregation of duties, not securing the CPMT funds, or not monitoring the amount of CPMT funds received to the number of exams administered a risk.

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

**Recommendation**

We recommend:

- The Agency implement procedures to ensure the employee receipting funds is not responsible for preparing the OSF form 11 reconciliation;
- Management develop a method of independently monitoring the number of CPMT exams administered to the amount of funds deposited for those exams. Additionally, if the funds are not deposited on the day of receipt, they should be adequately secured until they are deposited.

**Views of Responsible Officials**

OPM will implement procedures to ensure the employee receipting funds is not responsible for preparing the OSF Form 11 reconciliation.

OPM concurs that changes need to be implemented to strengthen internal controls with regard to CPM test collections. Procedures are now in place to collect monies for CPM tests and evaluations in Financial Management Services instead of HRDS staff to ensure timely deposits. Numbered receipts are issued to customers that either want to take a test or to have a project evaluated. The customer must take the numbered receipt to HRDS as proof of payment before a test is administered. Further, Financial Management Services staff will conduct a reconciliation of all tests delivered during the course of the fiscal year to ensure payments can be traced back to the receipt book.

**Observation**

**Inadequate Segregation of Duties Related to Inventory - Repeat Finding**

An effective internal control system provides for adequate segregation of duties.

The chief accountant is responsible for the following:

- Initiating surplus transactions; and

- Deleting items from the inventory list.

The Agency conducts an annual inventory count which could be considered a mitigating control. However, this count is based on an “active” inventory report which does not include and/or consider items that have been surplusd or transferred since the previous count.

Management does consider the lack of segregation of duties a risk. Deficiencies such as this may lead to misappropriation of assets.

**Recommendation**

We recommend an employee without the authority to update inventory records be responsible for completing the DCS Form 001. Additionally, since the “active” inventory report used in conducting the inventory count only includes what is actually on the floor, the employees participating in the count should consider and/or investigate any additions/deletions that may have occurred since the previous count.

**Views of Responsible Officials**

OPM concurs with this finding and will take appropriate steps to ensure duties are adequately segregated in accordance with the recommendation. OPM does not "delete" items from the inventory listing but does input a code to indicate that the item number has been surplusd, transferred, or otherwise disposed of. In preparation of the annual physical inventory, assets with these codes are filtered out so that a physical inventory listing of items that should be on hand can be prepared. Procedures will be put into place that will provide for a comparison from one year to the next of additions and status change items for improved control.

**Unusual Expenditures Noted**

An effective internal control system provides for an appropriate review of Agency expenditures.

We reviewed 67 expenditure claims totaling \$83,531. We noted seven claims (\$795) were for massages. When asked, management stated the massages were for temporary employees hired to work on a data imaging project. Full time employees were offered the massages at their own expense. The payment for massages to part-time employees does not appear reasonable given the Agency’s mission.

**Recommendation**

We recommend management exercise prudence when approving expenditures claims with state funds.

**Views of Responsible Officials**

OPM recognizes that this expenditure may appear unusual, we believe the expenditure saved state taxpayers money both in terms of worker's compensation costs as well as employee turnover. With few exceptions, we limited the temporaries' workday to 6 hours because the work required them to sit in the same position for 6 hours a day performing sorting and scanning activities. Even with the every other week 15 minute chair massages, back pain was a common and constant complaint from the temporaries. We viewed this benefit a part of a wellness program after speaking to the Employees Benefits Council about the potential benefits and allowed other OPM employees to take advantage of the benefit at their own expense. Many organizations nationwide consider this benefit a "best practice" as a means of reducing worker's compensation claims.

**Observation**

**Agency Should Develop Policy Related to Ethical Behavior**

An effective internal control system has in place policies and procedures that reduce the risk of errors, fraud, and professional misconduct within an organization. A key factor in this system is the environment established by management. Management's ethics, integrity, attitude, and operating style become the foundation of all other internal control components.

As part of our control risk assessment, we surveyed Agency employees based on their relationship to our objective and other employees which were haphazardly selected. We also conducted follow-up interviews. The following was noted:

- The Agency has not developed and implemented an official written policy addressing ethical behavior in the workplace. Without a written policy and procedure in place, employees may not be aware of management's expectations regarding ethical behavior thus affecting the Agency's control environment risks; and
- Communication challenges exist between management and staff as well as between mid and executive management. These challenges could negatively impact any efforts at communicating ethical expectations.

**Recommendation**

We recommend

- The Agency develop a written policy regarding ethical behavior in an effort to reduce the possibility of unethical behavior occurring. Once developed, the policy should be distributed to all current employees and procedures should be implemented to provide the policy to all new employees; and
- Executive management be cognizant of the risks associated with ineffective communication within an entity and work to eliminate any such barriers in an impartial manner. Clear communication channels should flow in both an upstream and downstream direction within the Agency.

**Views of Responsible Officials**

OPM concurs with this recommendation and will work towards that goal in the very near future.

**Additional Procedures Performed**

**Methodology**

As a result of the control deficiencies identified under objective 1 of this report, the following procedures were performed:

- We randomly selected 59 warrants from the PeopleSoft accounting system report "Inter/Intra Agency Transfers" and ensured the check was included in a deposit and the deposit slip agreed to the bank receipt. No exceptions were noted as a result of these procedures; and
- We analyzed the 2006, 2007, and 2008 "active" inventory reports to determine if any high appeal items were noted on the 2006 and 2007 reports but did not appear on the 2007 and 2008 reports. No exceptions were noted as a result of these procedures.



### Other Items Noted


Although not considered significant to the audit objective, we feel the following issue should be communicated to management.

**Vehicle Logs Should be Used**

**Observation**

An effective internal control system provides for adequate documentation of vehicle use.

The Agency leases three vehicles from the Department of Central Services. The vehicles are used by employee assistance counselors who are required to travel to accomplish their duties. Vehicles logs are essential to document appropriate use of the vehicles and support fuel charges; however, those currently used are not sufficient to determine the reason for the trip or the specific destination. An example of a vehicle log is provided below:

		State of Oklahoma Department of Central Services Fleet Management Division	State of Oklahoma Vehicle Log						
Agency # _____		Agency Name _____		Division / Facility / Unit _____					
Travel Record				Vehicle Number			Tag Number		
Date	Driver	Trip Purpose		Location	Depart Time	Odometer	Location	Arrive Time	Odometer
Fuel and Maintenance Record									
Date	Payment Method	Retail or State Facility	Odometer	Fuel Gallons	Fuel Cost	Non Fuel Purchase: Fluid/Service/Repair/Wash			Non Fuel Cost

SOURCE: [www.ok.gov/DCS/Fleet\\_Management](http://www.ok.gov/DCS/Fleet_Management)

**Recommendation**

We recommend the Agency develop and implement policy requiring vehicles logs to be completed and maintained by the driver any time an Agency vehicle is in use. The log should be reconciled monthly by an independent party to:

- The monthly fuel statement;
- The monthly *PIKEPASS* statement;
- The work product generated by the employee assistance counselors. For example, if the log identifies a trip to Tulsa, the results of the trip should be reviewed. Due to nature of the work performed by the employee assistance counselors, we realize certain information related to their trips may be sensitive. In these situations, the counselors’ supervisor could reconcile the work product to the logs.

**Views of Responsible Officials**

OPM will implement a more detailed vehicle log and will maintain more detailed documentation as required. However, the confidentiality of EAP clients will be maintained and restricted to EAP staff. OPM does not receive a monthly fuel statement since DCS pays that bill and the cost is included in our monthly rent. The PikePass was and will continue to be reconciled to the vehicle logs.



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