

OFFICE OF STATE FINANCE

FOR THE PERIOD
JANUARY 1, 2007 THROUGH
DECEMBER 31, 2009

OPERATIONAL AUDIT



Oklahoma State Auditor
& Inspector

**Audit Report of the
Office of State Finance**

**For the Period
January 1, 2007 through December 31, 2009**

STATE AUDITOR AND INSPECTOR

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December 8, 2010

**TO THE EXECUTIVE DIRECTOR OF
THE OFFICE OF STATE FINANCE**

This is the audit report of the Office of State Finance for the period January 1, 2007 through December 31, 2009. 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 State Finance
Operational Audit**

Background

The Office of State Finance (Agency) is responsible for producing the governor's executive budget and the comprehensive annual financial report (CAFR), partnering in the implementation of the state of Oklahoma's integrated central financial system (CORE or PeopleSoft), overseeing OneNet (Oklahoma government's largest Internet Service Provider) and managing OK.gov, the state's internet portal.

Table 1 summarizes the Agency's sources and uses of funds for fiscal years 2008 and 2009 (July 1, 2007 through June 30, 2009).¹

Table 1 - Sources and Uses of Funds for FY 2008 and FY 2009

	2008	2009
Sources:		
State Appropriations	\$ 23,081,433	\$ 23,066,836
Gaming Fees	1,001,377	1,001,475
Telecommunications	3,989,868	3,279,915
Network Services	736,210	803,125
Systems Services	1,173,786	1,977,283
Reimbursement for Personnel Services	377,657	404,918
Centralized Processing Fees	3,365,399	3,334,248
Sale of Bonds ²	-	40,149,749
Other	1,225,889	4,106,640
Total Sources	<u>\$ 34,951,619</u>	<u>\$ 78,124,189</u>
Uses:		
Personnel Services	\$ 12,131,607	\$ 13,210,406
Professional Services	4,447,809	11,405,590
Travel	317,807	551,199
Rent	1,163,928	1,816,458
Maintenance and Repair	3,591,582	4,192,284
Office Furniture and Equipment	1,792,922	2,508,976
Lease Purchases	1,883,809	1,027,697
Buildings	2,031	1,873,566
Other	1,687,452	2,427,449
Total Uses	<u>\$ 27,018,947</u>	<u>\$ 39,013,625</u>

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

¹ 69 O.S. § 687.3 authorized the creation of the Emergency and Transportation revolving fund which is managed by the Oklahoma Cooperative Circuit Engineering Districts Board (Board). Because the Board is not a state agency, \$25 million was placed into the Agency's fund 295 in October 2008 on the Board's behalf. The Board requests disbursements from this fund when certain criteria are met. The money is not available for Agency use; therefore, it is not included in the sources and uses table above.

² The sale of bonds was to finance construction of a new building for the Agency.

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, 2009.

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 whether the Agency’s internal controls provide reasonable assurance that revenues, expenditures (including payroll), and inventory were accurately reported in the accounting records.

Conclusion

The Agency’s internal controls:

- Generally provide reasonable assurance that revenues were accurately reported in the accounting records; however, two areas should be strengthened;
- Do not provide reasonable assurance that expenditures (including payroll) and inventory were accurately reported in the accounting records.

Methodology

To accomplish our objective, we performed the following:

- Documented internal controls related to the receipting, expenditure (including payroll), and inventory processes which included discussions with Agency personnel, observation, and review of documents;
- Tested controls which included:
 - Discussing with personnel and observing location where funds are retained prior to deposit to ensure they are adequately safeguarded;
 - Ensuring a gaming clearing account reconciliation³ was completed for every month of the audit period by an employee independent of the receipting process;

³ The Agency has two clearing accounts: miscellaneous receipts and gaming (casinos) receipts. Our procedures focused only on the gaming reconciliations because a greater number of hard-copy checks in larger amounts are deposited into this account.

- Ensuring three randomly selected gaming clearing account reconciliations were accurate and reviewed by an employee independent of the receipting process; and
- Ensuring three randomly selected reconciliations between the PeopleSoft accounting system and the Agency’s “accounts receivable billing (ARB) system” were accurate.

Observation

Access to Checks Should be Limited

An effective internal control system provides adequate security of funds awaiting deposit.

Checks awaiting deposit are stored in a locked filing cabinet in the finance division. All employees in this division have access to the cabinet’s key and ultimately the funds. Due to the nature of the checks received by the Agency, it would not be possible for the employee responsible for receipting the funds to know if a check was initially placed in the cabinet and later removed without authorization.

The Agency did not consider the risks associated with all employees in the finance division having access to the key. Misappropriation of funds could occur and not be detected.

Recommendation

We recommend access to the cabinet’s key be limited to essential personnel only.

Views of Responsible Officials

OSF has a rigorous accounts receivable collection process that would bring to light any receipts that were lost or misappropriated in a timely manner. We will continue to urge agencies to make payments via the electronic payment mechanism in PeopleSoft to avoid receiving paper checks in the office. Additionally, management has implemented steps to restrict access to the key so this will not be a recommendation in the future.

Observation

Reconciliations Not Reviewed on a Timely Basis

An effective internal control system provides for an adequate reconciliation of accounting records with a sufficient and timely review.

In testing our random sample of three gaming clearing account reconciliations, we defined a timely review as being performed within ten days after the end of the month. Of the three reconciliations tested, one (June 2009) was not reviewed within that period. The review performed on the three reconciliations appears to have been completed properly as the reconciliations agreed to supporting documentation and were mathematically accurate.

We reviewed the remaining reconciliations from the audit period and noted nine⁴ additional months where the approval occurred more than ten days past the end of the month. On average, the review on these ten reconciliations occurred 50 days after the end of the month. The state comptroller is responsible for providing this review and stated a variety of issues could have caused the delays.

Delayed reviews could allow errors in Agency or State Treasurer’s Office (OST) records to go unnoticed and uncorrected for extended periods of time, negating the purpose of the reconciliation.

Recommendation

In order for the review of reconciliations to be an effective control, we recommend the review be performed within ten days after the end of the month so that errors can be detected and corrected in a timely manner.

⁴ July 2007, November 2008, February 2009, March 2009, April 2009, May 2009, July 2009, October 2009, and December 2009

Views of Responsible Officials

Back-up personnel will be assigned to perform this task when the designated person is unavailable.

Observation

Inadequate Segregation of Duties Related to Non Payroll Related Expenditures

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...."

Accountant "A" is responsible for entering voucher data into the PeopleSoft accounting system to generate an expenditure claim. Multiple interns and accountants (other than accountant "A") were responsible for receiving printed warrants from the OST, comparing the warrants to the warrant register and claim jacket, and mailing the warrants to vendors. However, three of these accountants and two of the interns had "claim entry" rights in PeopleSoft which could allow them to enter voucher data.

Management did not consider the accountants and interns having claim posting ability and as well as receiving printed warrants from OST, comparing the warrants to the warrant register, and mailing the warrants to vendors a risk. Misappropriation of assets could occur and not be detected in a timely manner.

Recommendation

We recommend management ensure the employees responsible for receiving printed warrants from OST do not have "claim entry"⁶, "super user" or any other incompatible rights in PeopleSoft.

Views of Responsible Officials

New security forms for view access only will be completed for personnel that receive printed warrants in order to avoid incompatible PeopleSoft access. However, due to the small number of people in the office it may be necessary from time to time to require an accountant to mail the warrants, at which time the finance officer will review the OST warrant register and follow-up on any unfamiliar or inappropriate entries.

Observation

Controls Related to Payroll Expenditures Should be Strengthened

An effective internal control system provides for a detailed review of proposed payroll changes (salary increases/decreases) as well as ensuring approved salary changes/separations information is provided to the employee responsible for approving the payroll claims.

21 O.S. § 590A states in part,

Every state governmental entity shall, for a period of two (2) years, maintain accurate and complete records...reflecting all financial and business transactions, which records shall include support documentation for each transaction. No such records shall be disposed of for three (3) years thereafter...

The following was noted based on review of 23 payroll changes (five haphazardly selected and 18 randomly selected) during the audit period:

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.

⁶ "Claim entry" and "super user" are PeopleSoft terms which describe certain rights within the system.

- The amount (\$-399.11) identified on three payroll change documents did not agree to the change amount identified in PeopleSoft accounting records;
- Four payroll change documents did not identify the amount (\$1,261.87 per PeopleSoft) of the salary change; however, they were approved; and
- Documentation for three payroll changes (\$-5,558.03 per PeopleSoft) was not retained.

Additionally, because the employee (chief financial officer) primarily responsible for approving the payroll claims is not made aware of payroll changes that occurred during the month, he has no assurance changes are accurately reported.

The review and subsequent approval provided on payroll change documents is not sufficient nor is the documentation made available to the appropriate staff. Management did not consider the risks associated with:

- Not providing a detailed review of proposed payroll changes (salary increases/decreases);
- Not ensuring the employee responsible for approving the payroll claims is made aware of payroll changes (salary changes/separations).

Errors could occur and not be detected in a timely manner.

Recommendation

We recommend:

- The applicable Agency management ensure the payroll change documentation identifies the amount of the salary change prior to approval. Additionally, a policy and procedure should be designed and implemented to ensure the approved change amount is correctly entered into PeopleSoft;
- The Agency retain supporting documentation for all payroll changes; and
- The Agency design and implement a policy and procedure to ensure the employee responsible for approving the payroll claims is made aware of payroll changes that occurred during the month. This employee should incorporate this information into the review of the payroll claims.

Views of Responsible Officials

OSF Human Resources department is in the process of updating the agency policy and procedure manual. We anticipate completing this project in December 2010.

Once the policy and procedure manual is updated, a copy will be disseminated electronically to all agency employees. New employees will be given a copy as they are hired as part of the new employee orientation process.

OSF's Human Resources department will retain appropriate documentation for all payroll changes in a folder. When payroll is run, the approving employee will be given this folder along with the payroll documents for approval. The approving employee will verify the changes prior to signing the payroll.

Observation

Inadequate Segregation of Duties Related to Inventory

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*⁴ 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...."

Oklahoma Administrative Code (OAC) 580: 70-1-4 (b) states, “To ensure accuracy of state inventory records, an agency shall develop internal procedures for reporting and maintaining information related to the acquisition, reallocation, relocation and disposition of tangible assets to an agency inventory control officer.”

OAC 580: 70-3-1 (c) states, “The inventory report shall be signed by the agency inventory control officer and shall include for each tangible asset:

- (1) the agency number;
- (2) the asset tag number;
- (3) the model and serial number, if any;
- (4) the manufacturer;
- (5) the description;
- (6) product name;
- (7) physical location;
- (8) acquisition date and cost;
- (9) any other information which may be requested by the Department to ensure the integrity of state inventory records.”

The following was noted:

- The information systems specialist is responsible for information systems’ inventory recordkeeping as well as participating in the physical count of this inventory;
- The server support manager and the information systems specialist intern also have access to information systems’ inventory records;
- The Agency does not have a policy and procedure in accordance with OAC 580: 70-1-4 (b);
- Key information required by OAC 580: 70-3-1 (c) is not included on the non-information systems’ report. Information not included: the asset tag number, serial number (if applicable), the physical location, and the acquisition date; and
- A periodic, physical count of the Agency’s non-information systems equipment inventory has not been performed.

Management was unaware of the risks created by: not ensuring there was adequate segregation of duties; not having a policy in accordance with OAC 580: 70-1-4 (b), not maintaining a detailed inventory report of non-information systems’ equipment inventory; or not conducting a periodic, physical count of the Agency’s non-information systems equipment. Misappropriation of assets could occur and not be detected in a timely manner.

Recommendation

We recommend:

- The employee responsible for maintaining the information systems’ inventory should not participate in the physical inventory count of these items. If discrepancies are noted, applicable management, other than the personnel involved in the physical count, should investigate and resolve. The Agency should also retain documentation to support who performed the count, when the count was performed, and any discrepancies noted during the count;
- The Agency should design and implement a policy and procedure in accordance with OAC 580: 70-1-4 (b);

- The Agency’s non-information systems’ equipment inventory records⁷ be updated to reflect all applicable data required by OAC 580: 70-3-1 (c). Further, management should assess the risks associated with this type of equipment and develop and implement a policy and procedure for conducting a periodic count of the equipment. The Agency should also retain documentation to support who performed the count, when the count was performed, and any discrepancies noted during the count; and
- Access to both of the Agency’s inventory records should be restricted to only the employee responsible for recordkeeping. If needed, additional employees could have “read-only” access.

Views of Responsible Officials

OSF will develop written policy and procedures in compliance with OAC 580: 70-1-4 (b) to ensure proper safe-guarding of assets and adequate record retention. Actual physical inspection of the assets will be performed and documented by someone other than the inventory officer, and will include any discrepancies noted. Electronic inventory listings will be restricted to read only for persons other than the inventory officer.

Efforts will be made to update existing equipment records with the details listed above in OAC 580: 70-3-1(c). However, due to the age of most items, some information may not be available. Such information will be recorded as new assets are acquired.

Objective 2 - Determine whether the agency complied with 62 O.S. § 34.13 in regards to collected funds being deposited to the general revenue fund.

Conclusion With respect to the months tested, it appears the Agency complied with 62 O.S. §34.13⁸ in regards to collected funds being deposited to the general revenue fund.

Methodology To accomplish our objective, the following was performed:

- Using the three randomly selected reconciliations between the PeopleSoft accounting system and the Agency’s “ARB system” discussed under objective 1 of this report, we ensured the amounts posted into the Agency’s “ARB system” as data center fees (\$50,733.55) were also posted to the state’s general revenue fund.

There were no exceptions noted as a result of these procedures.

⁷ The director of the Department of Central Services sent a letter to all state agencies on April 5, 2010 which stated in part, “...the Department of Central Services is increasing the reporting threshold of all agencies to \$2,500 per item for purposes of tangible asset inventory reports...The new tangible asset threshold does not apply to telecommunications and electronic information technology...All agencies are encouraged to track their assets under the threshold limit internally to promote prudent financial responsibility and internal control...”

⁸ 62 O.S. § 34.13 states, “The Information Services Division shall, at the end of each month, render a statement of charges to all state agencies to which it has furnished processing services for the direct costs of the Data Service Center of the Division. In total, the charges shall not exceed the direct costs of the Data Service Center of the Division. Systems analysts and programming services costs shall be recovered directly from the agency for which the service was rendered, as agreed to by that agency, and shall not be prorated to agencies not receiving such services. All amounts so collected shall be deposited in the State Treasury to the credit of the General Revenue Fund.

Other Items Noted

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

Observation

Fee Adjustment Agreements Should be Formalized

During interviews with management related to the “ARB system” reconciliations, it was noted the Agency has or had at least two informal agreements in place with two separate state agencies in which the Agency provides the two entities a “credit” for payments due to the Agency or the state general revenue fund. They are:

- Oklahoma Employment Security Commission (OESC) – The Agency provides OESC a monthly credit of \$2,359.88 related to their electronic resource planning (ERP) fee payable to the Agency. A formal agreement addressing the terms of this arrangement was not created;
- Police Pension and Retirement System (PPRS) – The Agency provides the PPRS a monthly credit of approximately \$7,150 to the fee PPRS owes the state’s general revenue fund (62 O.S. § 34.13). A formal agreement addressing the terms of this arrangement was not created.

The Agency did not consider the risks associated with entering into these types of agreements without formal documentation. Without a formal agreement and monitoring of the terms, the Agency and the state’s general revenue funds may have not received all fees due to them.

Recommendation

We recommend management investigate these two instances in more detail and evaluate whether the terms of these informal agreements have been satisfied. In the future, we recommend the Agency formally document agreements such as this which includes specifying the terms and obtaining the approval signature of management.

Views of Responsible Officials

A running balance of these accounts and the documentation supporting such agreements will be obtained and kept in the finance office.



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