

OPERATIONAL AUDIT

# OKLAHOMA EMPLOYEE BENEFITS COUNCIL

January 1, 2008 through October 31, 2010



*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 Employee Benefits Council**

**For the Period  
January 1, 2008 through October 31, 2010**



# Oklahoma State Auditor & Inspector

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June 7, 2011

## **TO THE OKLAHOMA EMPLOYEE BENEFITS COUNCIL**

This is the audit report of the Oklahoma Employee Benefits Council for the period January 1, 2008 through October 31, 2010. 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 line extending from the end of the name.

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

**Oklahoma Employee Benefits Council  
Operational Audit**

**Background**

The Oklahoma Employee Benefits Council (Agency) was created in 1992 by the Legislature for the purpose of furnishing state employees with choices among various employee benefits including health, life, dental, and disability insurance, optional plans, and flexible spending accounts.

Operations are governed by 74 O.S. §§ 1361 through 1384 as well as Oklahoma Administrative Code Title 87. Oversight is provided by a five member council:

Bryce Fair ..... Chair  
 Weldon Davis..... Vice-Chair  
 Cliff Peden..... Secretary  
 Oscar B. Jackson..... Member  
 Vacant..... Member

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:		
Refunded Money Previously Disbursed	\$ -	\$ 9,000
Intra Agency Transfer from Special Account	5,222,332	4,507,950
Total Sources	\$ 5,222,332	\$ 4,516,950
Uses:		
Personnel Services	\$ 2,539,967	\$ 2,419,240
Professional Services	1,188,228	1,116,346
Travel Reimbursements	45,967	53,491
Miscellaneous Administrative	374,470	428,705
Rent	109,246	103,645
Maintenance and Repair	105,688	68,014
General Operating	58,737	54,798
Office Furniture and Equipment	135,793	240,185
Other	37,714	16,594
Total Uses	\$ 4,595,810	\$ 4,501,018

*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 October 31, 2010.

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

**Conclusion**

The Agency’s internal controls:

- Do not provide reasonable assurance that manually receipted revenues were accurately reported in accounting records;
- Generally provide reasonable assurance that non-payroll expenditures were accurately reported in the accounting records except for the period April 2008 through September 2008; and
- Generally provide reasonable assurance that payroll expenditures were accurately reported in the accounting records.

**Methodology**

To accomplish our objective, we performed the following:

- Documented internal controls related to the receipting and expenditure (including payroll) processes which included discussions with Agency personnel, observation, and review of documents;
- Tested controls which included:
  - Reperforming management’s review of PeopleSoft’s “6-digit detailed expenditure” reports on 12 randomly and three haphazardly selected months;
  - Reviewing 15 randomly selected months’ payroll claims to ensure they were properly approved and agreed to supporting documentation;
  - Reviewing the supporting documentation for all 15 salary changes (\$4,852.84) that occurred during our audit period ensuring they were properly approved and reflected in the payroll system; and
  - Reviewing the supporting documentation for all nine separations that occurred during our audit period ensuring employees were removed from the payroll system in a timely manner.
- For the Agency’s “agency special account”, we ensured the Agency’s BAS system report reconciled to the Office of State Finance for the audit period as well as confirmed all warrants issued were consecutively numbered, contained the signature of the executive director and the deputy director, and agreed to supporting documentation, as applicable.

**Observation**

**“FICABill” Report Should Be Reviewed in Detail**

The United States Government Accountability Office’s (GAO) *Standards for Internal Control in the Federal Government*<sup>1</sup> 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 sends invoices to other state agencies for certain costs related to FICA (Federal Insurance Contributions Act). The date, applicable agency and amount are recorded into an internal spreadsheet known as “FICABill”. When the related fees are received, the receptionist receipts them and forwards to the accountant to be recorded into “FICABill”. However, there is not a control in place to ensure all fees received by the receptionist are deposited and communicated to the accountant as being received.

In approximately March 2010, management recognized this as a risk and began reviewing the “FICABill” for outstanding invoices. However, the review procedure performed would not detect if funds were received by the receptionist and not deposited.

**Recommendation**

To ensure funds received are deposited, we recommend the comptroller (or designee, provided he or she is independent of the invoicing, receipting, and deposit preparation process) perform a detailed review of the ”FICABill” report each month, which includes but is not limited to, investigating invoiced amounts that have not been received.

**Views of Responsible Officials**

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

**Observation**

**Lack of Segregation of Duties Related to Expenditures**

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

During the period of April 2008 through September 2008, the comptroller position was vacant. As a result, the deputy director was performing this position’s duties which gave him the ability to enter payments into the PeopleSoft accounting system as well as approve expenditure payments. No mitigating controls were in place to reduce this risk; as a result, misappropriation of assets could have occurred and not have been detected.

**Recommendation**

If a situation similar to this should occur in the future, we recommend management design and implement mitigating controls to reduce the risk rather than allow a segregation of duties deficiency to develop.

**Views of Responsible Officials**

EBC concurs with the finding and should a similar staffing situation occur in the future, every effort will be made to maintain the segregation of duties

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<sup>1</sup> 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.

**Observation**

**Control Environment Risks Are High**

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 15 Agency employees, some with roles related to our objective and others chosen randomly. Eight written responses were received. We also conducted follow-up interviews in person with 11 of the 15 employees. The following general responses were noted:

- Employees believe the ethical tone is unsatisfactory;
- An atmosphere of mistrust exists; and
- Employees may hesitate to report improper activity to management.

These concerns, whether they are factual or perceived, have a negative impact on the Agency's control environment. This could increase the risk of errors or misappropriation of assets occurring.

**Recommendation**

We recommend executive management be cognizant of the risks associated with this type of environment and begin working towards evaluating and addressing the situation to ensure the mission of the Agency is accomplished in the most efficient manner possible.

**Views of Responsible Officials**

The EBC management team has carefully reviewed and examined the audit for the period of January 2008 through October 2010, specifically the Control Environment section. It should be noted that the Control Environment Survey of randomly selected employees was the first of its kind in the history of EBC audits.

The EBC management team understands the importance of the Control Environment and is committed to upholding a stellar environment, which is formed by all levels of employees, particularly regarding competence, integrity and operating style. The Internal Control Component Survey, which excluded control activities, was presented to all employees in the Finance and Accounting division (with the exception of the Chief Financial Officer) and a few employees from other departments within EBC. Eight written responses were received. The survey results indicate more positive responses than negative. At worst, the average response could be described as "neutral." Therefore, the observations that "employees believe the ethical tone is unsatisfactory" and that "an atmosphere of mistrust exists" seem inconsistent with the scoring. Furthermore, if the control environment is less than perfect, one would expect significant problem areas being manifested in the remaining four components above the control environment. However, that's not the case in this audit.

One important factor that does not appear to be taken into account by the survey is timing. The audit and survey were conducted while the State Legislature was in session. As you may be aware, the Employees Benefits Council was targeted for consolidation this year, leaving employees uncertain about the future of the agency and whether their jobs would be secure. Uncertainty is, of course, a negative emotion. For most of the EBC employees, it is a feeling that has accumulated over time. This is just the latest in a series of legislative efforts to modify, overhaul or abolish the agency that have included multiple bills, interim studies, working groups and task forces during the past nine years.

Nonetheless, EBC management takes the audit seriously and will diligently work toward evaluating and addressing any issues that may exist, especially in the Finance and Accounting department.

**Auditor's Response**

As discussed in the second paragraph on the previous page as well as in verbal and email discussions with the executive director and the deputy director, the issues identified in this observation are a result of both the survey responses and follow-up interviews in person with 11 Agency employees.

**Objective 2 – Determine whether the Agency complied with 74 O.S. § 3601.2 A. 3.**

**Conclusion**

Financial operations complied with 74 O.S. § 3601.2 A.3. (statutory limitation on the executive director's salary).

**Methodology**

To accomplish our objective, we reviewed payroll information in the PeopleSoft accounting system to ensure the executive director's annual salary did not exceed the maximum limit set forth in 74 O.S. § 3601.2 A. 3. during the audit period.

There were no exceptions as a result of these procedures.





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