

OPERATIONAL AUDIT

# OKLAHOMA STATE BANKING DEPARTMENT

July 1, 2010 through June 30, 2012



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



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

**Audit Report of the  
Oklahoma State Banking Department**

**For the Period  
July 1, 2010 through June 30, 2012**



# Oklahoma State Auditor & Inspector

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

August 6, 2013

**TO THE OKLAHOMA STATE BANKING COMMISSIONER:**

This is the audit report of the Oklahoma State Banking Department for the period of July 1, 2010 through June 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.

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.

Sincerely,

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

# Oklahoma State Banking Department Operational Audit

## Background

The mission of the Oklahoma State Banking Department (the Agency) is to allocate human and other resources to implement an effective regulatory program for financial institutions by examining banks, credit unions, trust companies, and savings associations, and rating them based on safety and soundness.

The Agency serves as the administrative arm for two regulatory boards: the Banking Board and the Credit Union Board. However, neither board provides oversight to the Agency; the Commissioner of the Banking Department reports directly to the Governor.

Table 1 below illustrates how the Agency is primarily funded, and where the funds are expended.<sup>1</sup>

**Table 1 – Sources and Uses of Funds for FY 2011 and FY 2012**

Annual Assessment State Bank	\$ 5,459,716	\$ 5,336,822
Credit Union/Savings & Loan Fee	624,746	665,527
Other Banking Fees & Exam	665,095	679,161
Refunded Money Prev. Disb. - Gds & Svcs	763	1,913
<b>Total Sources</b>	<b><u>\$ 6,750,320</u></b>	<b><u>\$ 6,683,423</u></b>

Uses:	FY 2011	FY 2012
Personnel Services	\$ 4,618,579	\$ 4,873,439
Travel Expenses	410,203	474,160
Misc. Administrative Expenses	126,730	132,155
Professional Services	56,899	74,698
Rent Expense	90,833	103,705
Miscellaneous Expenses	99,272	348,023
<b>Total Uses</b>	<b><u>\$ 5,402,516</u></b>	<b><u>\$ 6,006,180</u></b>

<sup>1</sup> This information was obtained from Oklahoma PeopleSoft Accounting System. It is for informational purposes only and has not been audited.

# Oklahoma State Banking Department Operational Audit

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## Scope and Methodology

Our 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 duties it is to collect, disburse, or manage funds of the state.

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.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessment of materiality and risk for the period of July 1, 2010 through June 30, 2012. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Agency's operations. We also tested samples of transactions to achieve our objectives. To ensure the samples were representative of the population and provided sufficient, appropriate evidence, the random sample methodology was used. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

**OBJECTIVE I**

Determine whether the Agency's internal controls provided reasonable assurance that revenues, expenditures (including payroll), and inventory were accurately reported in the accounting records, and financial operations complied with 6 O.S. § 211 A. 3. , 6 O.S. § 2001.2, 18 O.S. § 318.15, and 74 O.S. § 3601.2. A.3.

**Conclusion**

The Agency's internal controls provided reasonable assurance that revenues and payroll expenditures were accurately reported in the accounting records. However, they did not provide reasonable assurance that miscellaneous expenditures and inventory were accurately reported. These will be further discussed under 'Results and Recommendations.'

Financial operations complied with the following statutes:

- 6 O.S. § 211.A.3 - requires ten percent (10%) of all assessments collected from state-chartered banks existing as of December 31 of the previous year to be deposited to the General Revenue Fund of the State Treasury;
- 6 O.S. § 2001.2 - requires 10% of all assessments collected from state credit union boards to be deposited to the General Revenue Fund of the State Treasury;
- 18 O.S. § 318.15 - requires 20% of all assessments collected from savings and loan associations to be deposited to the General Revenue Fund of the State Treasury; and
- 74 O.S. § 3601.2.A.3 - sets the range for the executive officer's salary.

**RESULTS AND RECOMMENDATIONS**

**Inadequate Segregation of Duties in the Expenditure Process**

The United States Government Accountability Office's *Standards for Internal Control in the Federal Government*<sup>2</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 Agency's Director of Administration is involved in multiple aspects of purchasing and expenditure processes. This individual is not only

<sup>2</sup> Although this publication addresses controls in the federal government, this criterion can be treated as best practices. The theory of controls applies uniformly to federal or state government.

responsible for creating purchase orders, but she also reviews and approves invoices. Additionally, she prints out claim jackets for the Commissioner to sign. Further, this individual posts payments to the PeopleSoft accounting system while the resulting warrants are received by a subordinate. Management did not view the assigned duties as problematic and this situation creates the risk that unauthorized payments could occur and not be detected in a timely manner.

### **Recommendation**

In order to mitigate the risks created by the employee's conflicting duties, we recommend that the Commissioner review the Agency's 6-digit detail expenditure report available through PeopleSoft. Though the Commissioner currently reviews the claim jackets provided to him, reviewing the 6-digit expenditure detail report would enable the Commissioner to identify items that might appear unreasonable or unexpected.

### **Views of Responsible Officials**

Currently, the Commissioner reviews individual claims that are submitted for payment and monthly expenditure reports including the 6-digit report. However, the Department will implement the auditor's recommendation and the Commissioner will also be provided with a copy of the 6-digit detail expenditure report on a monthly basis.

### **Inadequate Segregation of Duties in the Inventory Process**

The United States Government Accountability Office's *Standards for Internal Control in the Federal Government*<sup>3</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 audit period, two individuals maintained inventory records and conducted the annual inventory count.<sup>4</sup> Employees in such positions

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<sup>3</sup> Although this publication addresses controls in the federal government, this criterion can be treated as best practices. The theory of controls applies uniformly to federal or state government.

<sup>4</sup> The Operations Coordinator maintained the IT inventory records and the Secretary maintained non-IT inventory records.

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could have the ability to misappropriate assets and modify records to conceal their actions, without being detected in a timely manner.

### **Recommendation**

To address the risks associated with the current inventory process, we recommend that the Agency assign the annual inventory count duty to an employee independent of inventory record maintenance. Additionally, the Director of Administration should perform a reconciliation of purchases and transfers to the final inventory count to ensure all items have been accounted for.

### **Views of Responsible Officials**

Currently, two Department employees are assigned to do the annual inventory count together, with one maintaining the list of IT inventory while the other maintains the list of non-IT inventory. The Department will implement the auditor's recommendation and assign the annual inventory count to one employee independent of inventory record maintenance. Also, the Director of Administration has started reconciling the purchases and transfers to the final inventory count.



**OFFICE OF THE STATE AUDITOR & INSPECTOR**  
2300 N. LINCOLN BOULEVARD, ROOM 100  
OKLAHOMA CITY, OK 73105-4896

[WWW.SAI.OK.GOV](http://WWW.SAI.OK.GOV)