

OKLAHOMA STATE BOND ADVISOR

FOR THE PERIOD
JANUARY 1, 2007 THROUGH
JUNE 30, 2009

OPERATIONAL AUDIT



Oklahoma State Auditor
& Inspector

**Audit Report of the
Oklahoma State Bond Advisor**

**For the Period
January 1, 2007 through
June 30, 2009**

STATE AUDITOR AND INSPECTOR

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September 8, 2009

TO THE COUNCIL OF BOND OVERSIGHT

This is the audit report of the Oklahoma State Bond Advisor for the period January 1, 2007 through June 30, 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

**Oklahoma State Bond Advisor
Operational Audit**

Background

The Oklahoma State Bond Advisor's Office (Agency) serves as staff to the Council of Bond Oversight and provides advice and assistance to the governor and Legislature on matters relating to capital planning, debt issuance, and debt management.

Oversight is provided by five council members. Two members are appointed by the governor, one member is appointed by the speaker of the Oklahoma House of Representatives, one member is appointed by the president pro tempore of the Oklahoma Senate, and one member is the director of the Office of State Finance.

Council members are:

Ted Fisher Chairman
 Tom Langdon..... Vice Chairman
 Michael Clingman Member
 Cliff Elliot..... Member
 Carl Packwood..... Member

Table 1 summarizes the Agency's sources and uses of funds for fiscal years 2008 and 2009.

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

	2008	2009
Sources:		
State Appropriations	\$186,419	\$186,191
State Bond Advisor Fee	46,295	180,554
Total Sources	<u>\$232,714</u>	<u>\$366,745</u>
Uses:		
Personnel Services	\$305,219	\$301,934
Travel	7,060	6,270
Miscellaneous Administrative	9,502	12,274
Other	10,854	10,992
Total Uses	<u>\$332,635</u>	<u>\$331,470</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 state officers whose duty it is to collect, disburse or manage funds of the state.

The audit period covered was January 1, 2007 through June 30, 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 if the Agency's internal controls provide reasonable assurance that revenues and expenditures 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, one area should be strengthened; and
- Provide reasonable assurance that 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 processes which included discussions with Agency personnel, observation, and review of documents;
- Discussed with personnel and observed location where funds are retained prior to deposit to ensure they are adequately safeguarded as required by 62 O.S. § 7.1.C.2.a;
- Tested controls which included:
 - Reviewing a sample of eight deposits (four were haphazardly selected, one was randomly selected and three were judgmentally selected) from the audit period to ensure the deposit was adequately supported. This included agreeing the amount on the deposit receipt to the amount on the "statement of professional fees" form and ensuring the form was signed by the state bond advisor. Additionally, we ensured each applicable bond issue file contained documentation from the investment banker that final pricing on the bond had been set;
 - Reviewing a sample of six months' payroll¹ claims (four were haphazardly selected and two were randomly selected) to ensure the claim was approved, the hours reported as worked agreed to the employees' timesheets, the timesheets were signed by the employees and the timesheets were approved by the state bond advisor²; and

¹ Payroll expenses represent 91% of fiscal year 2007 total expenditures and 92% of fiscal year 2008 total expenditures. As a result, we determined the Agency's risk was in payroll expenditures; therefore, only those expenditure controls were tested.

² The state bond advisor's timesheets were not approved since he is top official for the Agency. Additionally, for the months of March 2007 and August 2007, staff was unable to locate the state bond advisor's timesheets. Since the timesheets are not required, alternate procedures were performed to obtain reasonable assurance he worked the number of hours identified on the payroll claim.

- Reviewing three “OPM-14 Request for Personnel Action” forms (represents all payroll changes during the audit period) to ensure they were approved by the state bond advisor or the Council chairman.

Observation

Reconciliations Should be Formalized with an Independent Detailed Review-Repeat Finding

An effective internal control system provides for a timely reconciliation of funds by a person independent of the receipting process. The Agency currently has two employees, the finance officer and the state bond advisor. The finance officer is responsible for receipting funds and informally reconciling the Agency’s accounting records to the PeopleSoft accounting system. However, a detailed review of this informal reconciliation is not performed by the state bond advisor.

The Agency was not aware of the risks created by not ensuring there was a formalized reconciliation of funds with an independent review. Errors or misappropriation of assets could occur and not be detected in a timely manner.

Recommendation

We recommend the Agency formalize the reconciliation between the Agency’s accounting records and the PeopleSoft accounting system. A detailed review of the reconciliation should be performed by the state bond advisor.

Views of Responsible Officials

We have established a procedure for monthly reconciliations as follows:

On the third business day of each month the Administrative Assistant II will provide the State Bond Advisor with the following monthly reconciliations for the Bond Advisor’s review and approval:

- A. Monthly Deposit Report
- B. Monthly Cash Balance Report
- C. Monthly Detail of Expenditures Report.

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.

The Agency has not developed and implemented an official written policy addressing ethical behavior in the workplace as they did not believe a policy was necessary. 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.

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.

**Views of Responsible
Officials**

The State Bond Advisor’s Office has established an Ethics Policy.



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