

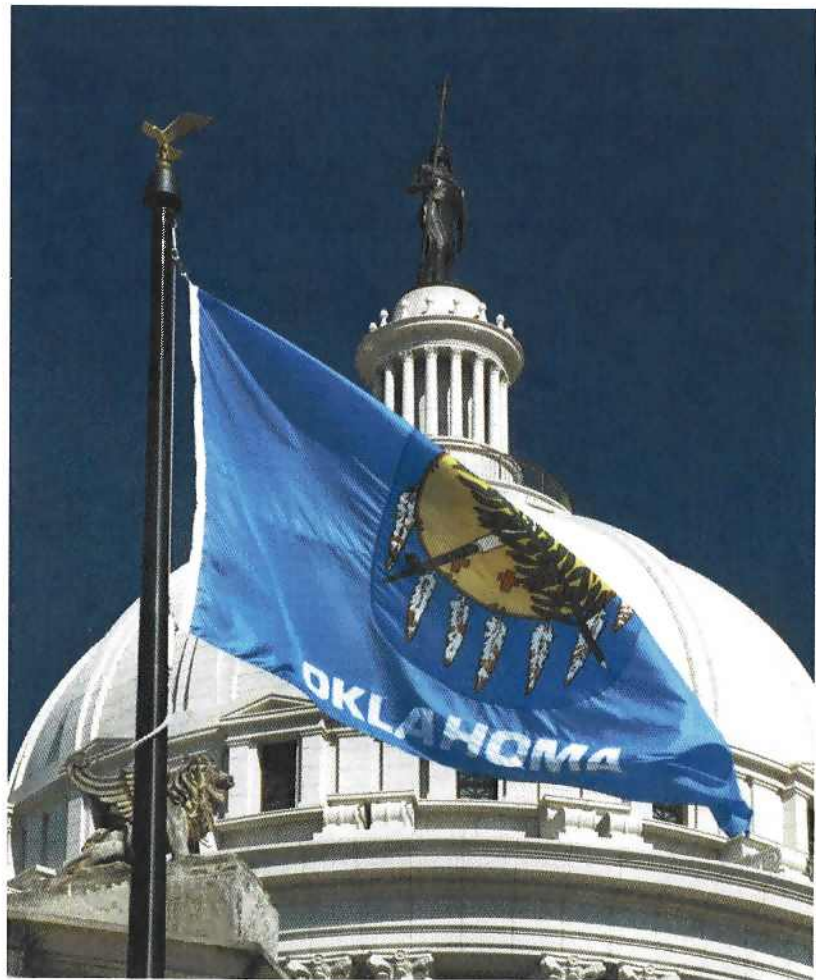


**STATE OF OKLAHOMA**  
**OFFICE OF THE STATE AUDITOR & INSPECTOR**

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**USED MOTOR VEHICLE AND  
PARTS COMMISSION**

*REPORT ON AGREED-UPON PROCEDURES  
JULY 1, 2004 THROUGH DECEMBER 31, 2005*



**JEFF A. McMAHAN, CFE**  
**OKLAHOMA STATE AUDITOR & INSPECTOR**

**Used Motor Vehicle and Parts Commission**

**Agreed-upon Procedures Report**

**For the Period**

**July 1, 2004 through December 31, 2005**



STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN  
State Auditor and Inspector

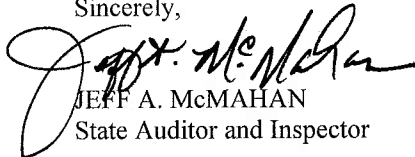
September 23, 2006

**TO THE USED MOTOR VEHICLE AND PARTS COMMISSION**

Transmitted herewith is the agreed-upon procedures report for the Used Motor Vehicle and Parts Commission. 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,

  
JEFF A. McMAHAN  
State Auditor and Inspector

## **Mission Statement**

To license and regulate used motor vehicle dealers, wholesale motor vehicle dealers, automotive dismantlers, rebuilders, manufactured home dealers, manufactured home manufacturers, and manufactured home installers: To create an atmosphere of fair competition among equally regulated dealers: and to protect the interests of the consuming public.

## **Commissioners**

Sam Grubb	Chairman
John Vance	Vice- Chairman
Roy Burch	Commissioner
Marc Crow	Commissioner
Jim Davis	Commissioner
Don Hickey	Commissioner
John Longacre	Commissioner
Roy Murphy	Commissioner
Ralph Rooks	Commissioner
Steve Ross	Commissioner

## **Key Staff**

John Maile	Executive Director
Kenneth Whitehead	Deputy Director
Rebecca Thompson	Finance Officer



STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN  
State Auditor and Inspector

**INDEPENDENT ACCOUNTANT'S REPORT  
ON APPLYING AGREED-UPON PROCEDURES**

We have performed the procedures enumerated below, which were agreed to by management of the Used Motor Vehicle and Parts Commission (Commission), solely to assist you in evaluating your internal controls over the receipt and disbursement process and in determining whether selected receipts and disbursements are supported by underlying records for the period July 1, 2004 through December 31, 2005. This agreed-upon procedures engagement was conducted in accordance with standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We compared the Commission's internal controls over receipts and disbursements with the following criteria:
  - Accounting duties were segregated by functions into those who initiate or authorize transactions; those who execute transactions; and those who have responsibility for the asset, liability, expenditure, or revenue resulting from the transaction;
  - Receipts were issued for cash and/or checks received;
  - Incoming checks were restrictively endorsed upon receipt;
  - Receipts not deposited daily were safeguarded;
  - Voided receipts were retained;
  - 10% of the gross fees charged, collected and received were deposited to the State's General Revenue Fund;
  - Receipts and disbursements were reconciled to Office of State Treasurer and Office of State Finance records;
  - Disbursements were supported by an original invoice;
  - Timesheets were prepared by employees and approved by supervisory personnel;

A component objective of an effective internal control system is to provide adequate segregation of duties. During our documentation of internal controls over disbursements, we noted the same individual was responsible for the following:

- preparing the voucher;
- ensuring the invoice matches the voucher amount;
- ensuring the account codes are correct;
- ensuring the funds are available;
- approving the voucher for payment;
- mailing the warrants to the vendor.

If duties are not adequately segregated, errors and improprieties may occur and not be detected in a timely manner. We recommend the duties identified above be properly segregated between more than one employee. For example, the executive director could approve the voucher for payment.

**Views of Responsible Officials** – It is the duty of the Director to put a responsible, trustworthy person in charge of the functions listed above. If I, as the Director, routinely approve vouchers for payment, there is a

likelihood I will rely on what is presented to me as accurate without additional scrutiny. The people in charge of these functions are long term employees; the agency is small in number of employees and compact as far as physical boundaries. Under these circumstances separating the functions is not logical and unnecessarily slows down the process.

**Auditor's Response:** Allowing one employee to post disbursements, approve claims for payment and mail the payments to vendors without review from another employee creates a weak control environment and a high risk for potential improprieties to occur.

A component objective of an effective internal control system is to provide adequate segregation of duties. The executive director is responsible for preparing the deposits and delivering the deposits to the bank as well as preparing and approving monthly reconciliations of the deposits. Without adequate segregation of duties, errors and improprieties could occur and not be detected in a timely manner. We recommend the Commission segregate these duties to ensure the person responsible for preparing the deposits is not responsible for delivering the deposits to the bank. For example, the executive director could prepare the deposits while the finance officer delivers it to the bank. Additionally, we recommend the person preparing the reconciliation of deposits is not responsible for the approval function. For example, the finance officer could prepare the reconciliation and the executive director could approve.

**Views of Responsible Officials** – Who delivers the deposit to the bank makes no difference. The agency does not deal in cash. There is no opportunity here for misappropriation of funds. I should trust someone else to make the deposit more than I trust myself?

**Auditor's Response-** The risk of improprieties occurring is reduced since the agency does not accept cash; however, the risk is not non-existent. We recommend the Commission segregate these duties to ensure the person responsible for preparing the deposits is not responsible for delivering the deposits to the bank.

An entity should have processes (internal controls) in place that are effected by the board, management, and other personnel that are designed to provide reasonable assurance regarding the achievement of financial reporting, efficiency of operations, and compliance with laws and regulations.

In performing our procedures relating to internal controls, we noted the Commission has not developed or implemented official policies and procedures for the daily operations of the office which at a minimum should include:

- handling insufficient checks;
- supervisory review of timesheets;
- ethical behavior of employees

Without written policies and procedures, the Commission's directives may not be clear. We recommend the Commission develop and implement policies and procedures regarding their daily operations which include, at a minimum, handling insufficient checks, supervisory review of timesheets, and ethical behavior of employees.

**Views of Responsible Officials -** The procedures for handling the problems recited are well known to the responsible personnel.

**Auditor's Response-** There was no documented evidence that policies and procedures exist.

Segregation of duties is a basic control that prevents or detects errors, irregularities, and fraud. For this reason, separate performance of critical tasks is imperative. Based on inspection of CORE financial and HR system security access settings, it appears the Commission's administrative supervisor and finance officer have incompatible roles within the CORE PeopleSoft system. Errors and irregularities could occur and not be detected in a timely manner. We recommend management review the access rights/PeopleSoft roles to ensure personnel are performing only those duties stipulated for their respective jobs/positions and incompatible roles have not been assigned. Management should ensure system access is given to staff on a need-to-know basis.

**Views of Responsible Officials** – We do have access on a need to know basis. We also cross train in case one person is not available at a particular time. Peoplesoft is a cumbersome system which requires excessive training. Limiting the number of people using it regularly, therefore, makes sense.

With respect to the other procedures applied, there were no findings.

2. We randomly selected 20 deposits and:
  - Compared the Treasurer’s deposit date to agency deposit slip date to determine if dates were within one working day.
  - Inspected agency receipts to determine whether receipts of \$100 or more were deposited on the same banking day as received.
  - Inspected agency receipts to determine whether receipts of less than \$100 were deposited on the next business day when accumulated receipts equaled \$100 or after five business days, whichever occurred first.
  - Compared the fund type to which the deposit was posted in CORE to the CAFR fund type listing for consistency;
  - Compared the nature of the deposit to the account code description to determine consistency.

62 O.S. § 7.1 A. and C. 1. state in part,

“A. There is hereby created in the official depository in the State Treasury an agency clearing account for each state officer, department, board, commission, institution or agency of the state...C. All such monies collected pursuant to this section shall be deposited as follows in the agency clearing account or agency special account established therefore: 1. Receipts of One Hundred Dollars (\$100.00) or more shall be deposited on the same banking day as received.”

An effective internal control system provides prompt recording of accounting transactions.

During our procedures related to 20 deposits, we identified two deposits in which the deposit slip date and the bank processing date were more than one day apart. Additionally, we identified 18 deposits in which the bank processing date and the journal date in CORE were more than one day apart. The average span between these dates was 12 days. In the CORE system, the cash isn’t available to spend until the journal entry is made and added to the agencies cash balance. We recommend the Commission ensure receipts in excess of \$100 are deposited within one banking day. Additionally, we recommend the Commission post their deposit journal entry into CORE within one banking day of the deposit slip date.

**Views of Responsible Officials** – Checks are endorsed as soon as they are received. They are put in a locking safe. Cash is not accepted. It is often a physical impossibility to do the deposit for the day and take it to the bank the same day. With the responsibilities given to all personnel, it often saves time for the employee to do all related tasks at one time rather than to do them separately every day.

**Auditor’s Response** – The Commission is not in compliance with 62 O.S. § 7.1 A. and C. 1.

With respect to the other procedures applied, there were no findings.

3. We randomly selected 4 deposits and agreed the checks recorded on the internal ledger and deposit slip to the check.  
  
There were no findings as a result of applying the procedures.
4. We recalculated the required percentage/amount to be deposited to the State’s General Revenue Fund and agreed it to the amount transferred to the General Revenue Fund.

62 O.S., § 211 states in part "...all self-sustaining boards created by statute to regulate and prescribe standards, practices and procedures in any profession, occupation or vocation...shall pay into the General Revenue Fund of the state ten percent (10%) of the gross fees...charged, collected and received by such board" We noted the following during our procedures:

- Based on conversation with management and the procedures we performed, it appears the Commission is including administrative penalties they have assessed into the 10% payment to the state. Records indicate \$13,829.25 in penalties was received during the period. The penalties would appear to be exempt from the law as they are not fees charged by the Commission; therefore, it appears \$1,382.92 was inadvertently paid to the state.

The Commission does not appear to be in compliance with 62 O.S., § 211. We recommend the Commission no longer include administrative penalties into their 10% payment to the general revenue fund of the state.

**Views of Responsible Officials** – We are now, not including receipts of fines in the 10% payment to the state, as of July 1, 2006

5. We randomly selected 60 vouchers and:
  - Compared the voucher amount and payee to the invoice amount and payee;
  - Compared the voucher amount and payee to the CORE system;
  - Compared the fund type to which the disbursement was charged in CORE to the CAFR fund type listing for consistency;
  - Compared the nature of the purchase to the account code description to determine consistency.

There were no findings as a result of applying the procedures.

6. We compared salaries set by statute to the actual salary paid to determine the statutory limit was not exceeded.

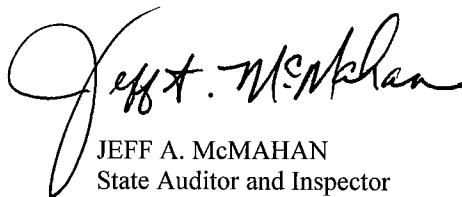
There were no findings as a result of applying the procedures.

7. We randomly selected one employee from the June 2005 payroll and agreed the amount paid to the "Request for Personnel Action" (OPM-14) in effect for June 2005.

There were no findings as a result of applying the procedures.

We were not engaged to, and did not, conduct an examination or a review, the objective of which would be the expression of an opinion or limited assurance on the cash, receipts, and disbursements for the Commission. Accordingly, we do not express such an opinion or limited assurance. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management of the Commission and should not be used for any other purpose. This report is also 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.

  
JEFF A. McMAHAN  
State Auditor and Inspector

September 12, 2006







## **Office of the State Auditor & Inspector**

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