

# OKLAHOMA CONSERVATION COMMISSION

JANUARY 1, 2006 THROUGH  
DECEMBER 31, 2007

# OPERATIONAL AUDIT



Oklahoma State Auditor  
& Inspector

**Audit Report of the  
Oklahoma Conservation Commission**

**For the Period  
January 1, 2006 through December 31, 2007**



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

Steve Burrage, CPA  
State Auditor and Inspector

June 25, 2008

**TO THE OKLAHOMA CONSERVATION COMMISSION**

Pursuant to 62 O.S. § 212, transmitted herewith is the audit report for the Oklahoma Conservation Commission for the period January 1, 2006 through December 31, 2007. 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 "Michelle R. Day".

Michelle R. Day, Esq.  
Deputy State Auditor and Inspector

## **Mission Statement**

To conserve, protect and restore Oklahoma's natural resources, working in collaboration with the conservation districts and other partners, on behalf of the citizens of Oklahoma.

## **Commissioners**

Matt Gard.....	Area I
Mike Rooker .....	Area II
George Stunkard .....	Area III
Dan Lowrance .....	Area IV
Virginia Kidd .....	Area V

## **Key Staff**

Mike Thralls .....	Executive Director
Ben Pollard .....	Assistant Director
Steven Coffman .....	Comptroller



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

Steve Burrage, CPA  
State Auditor and Inspector

**TO THE OKLAHOMA CONSERVATION COMMISSION**

We have audited the Oklahoma Conservation Commission for the period January 1, 2006 through December 31, 2007. The objectives of this audit were to:

- Determine whether the Commission's internal controls provide reasonable assurance that revenues, expenditures, and inventory were accurately reported in the accounting records, and financial operations complied with applicable finance-related laws and regulations.
- Determine compliance with certain laws and regulations.
- Determine the status of management's corrective actions for reportable conditions noted in prior year's report.

As part of our audit, we obtained an understanding of internal controls significant to the audit objectives and considered whether the specific controls have been properly designed and placed in operation. We also performed tests of certain controls to obtain evidence regarding the effectiveness of the design and operation of the controls. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We also obtained an understanding of the laws and regulations significant to the audit objectives and assessed the risk that illegal acts, including fraud, violation of contracts, grant agreements, or other legal provisions could occur. Based on this risk assessment, we designed and performed procedures to provide reasonable assurance of detecting significant instances of noncompliance with the laws and regulations. However, providing an opinion on compliance with these laws and regulations was not an objective of our audit and accordingly, we do not express such an opinion.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances.

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.

Michelle R. Day, Esq.  
Deputy State Auditor and Inspector

June 5, 2008

## **Background**

In recognition of the ever-increasing demands on the renewable natural resources of the state and of the need to preserve, protect and develop such resources at such a rate and at such levels of quality as will meet the needs of the people of the state, it is the policy of the State of Oklahoma to provide for the conservation of the renewable natural resources of this state, and for the control and prevention of soil erosion, and for the prevention of floodwater and sediment damages. It is also the policy of the State of Oklahoma to further the conservation, development, utilization and disposal of water, and thereby to preserve and develop natural resources, control floods, conserve and develop water resources and water quality, prevent impairment of dams and reservoirs, preserve wildlife, preserve natural beauty, promote recreational development, protect the tax base, protect public lands and protect and promote the health, safety and general welfare of the people of this state. In general, conservation districts established under the Conservation District Act serve as the primary local unit of government responsible for the conservation of the renewable natural resources of the state.

Table 1 summarizes the Commission's sources and uses of funds for state fiscal years 2006 and 2007.

**Table 1-Sources and Uses of Funds for SFY 2006 and SFY 2007**

<b>Sources:</b>	<b>2006</b>	<b>2007</b>
Gross Production Tax – Oil	\$ 0	\$ 2,121,347
Income from Money and Property	108,161	77,753
Grants, Refunds and Reimbursements	68,868	129,196
Federal Grants	8,539,315	10,806,415
Sales and Services	375	0
Non-Revenue Receipts	282,555	262,748
Transfers In	<u>9,796,745</u>	<u>9,328,812</u>
Total Sources	<u>\$18,796,019</u>	<u>\$22,726,271</u>
<b>Uses:</b>		
Personal Services	\$ 5,748,808	\$ 7,078,528
Travel	214,085	176,972
Administrative Expense	1,074,512	1,268,578
Property, Furniture, Equipment and Related Debt	3,673,578	5,523,089
General Assistance, Awards, Program-Directed	7,475,468	7,763,974
Transfers and Other Disbursements	<u>1,106</u>	<u>988</u>
Total Uses	<u>\$18,187,557</u>	<u>\$21,812,129</u>

Source: Oklahoma CORE Accounting System

---

**Objective 1** – Determine whether the Commission's internal controls provide reasonable assurance that revenues, expenditures, and inventory were accurately reported in the accounting records, and financial operations complied with applicable finance-related laws and regulations.

---

## **Conclusion**

The Commission's internal controls related to revenues, expenditures, and inventory are generally effective; however, a few issues were noted.

## **Methodology**

To accomplish our objective, we:

- Reviewed 62 O.S. § 7.1 “Agency Clearing Accounts – Deposits – Transfers – Exemptions”;
- Documented internal controls related to the revenue, expenditure, and inventory process;
- Tested controls which included:
  - Determining if checks were endorsed upon receipt;
  - Determining if receipts were stored in a secure location prior to deposit;
  - Reviewing 25 deposits from the period to ensure the deposit was supported with receipt(s), the receipt amounts mathematically agreed to the deposit amount, the CORE deposit date was within one day of the bank deposit, and the correct CAFR fund type was used;
  - Reviewing three OSF receipts and disbursements report reconciliations to ensure the reconciling items were adequately supported;
  - Determining if the employee responsible for receiving warrants from OSF was independent of the posting and approval process;
  - Reviewing 25 disbursement claims to ensure approval at the division and executive levels, an original invoice was maintained, the invoice was mathematically accurate, and the correct account code was used;
  - Determining if an inventory listing was properly maintained and contained the items’ inventory tag number, description, cost, serial number (if applicable), and date sent to surplus (if applicable);

## **Observations**

### **Incorrect Disbursement Account Code**

An effective internal control system provides for accurate and reliable records. The nature of the purchase should be consistent with the account code recorded.

We noted one claim was coded as office supplies (536140); however, because the purchase was for agricultural equipment and oil products, the claim should have been coded as maintenance and repair of buildings and grounds (533210) and maintenance and repair of equipment, non-motor vehicle (533220).

If the purchases are not recorded with the appropriate account codes, then financial reports may be inaccurate.

#### **Recommendation:**

We recommend the agency use account codes that are consistent with the nature of the purchase.

**View of Responsible Officials:** A journal voucher could not be processed to correct the account code use because 19701 funds lapsed November 2007 and changes can no longer be made. Employees responsible for processing claims for payment have been reminded to carefully review the account code use to ensure it best describes the purchase.

### **Inadequate Electronic Data Storage and Access**

An effective internal control system provides for accurate and reliable records.

During our inspection of internal controls over capital assets, we noted that the physical inventory list is stored electronically on the agency network and multiple employees have complete access to the inventory records.

Without limited access to these files by the appropriate personnel, the inventory records are in danger of misuse or corruption.

**Recommendation:**

We recommend access to electronically-stored physical inventory records be limited to the person responsible for posting or removing inventory information. This person should be independent of purchasing/acquisition of inventory and also independent of physical inventory count processes to ensure proper segregation of duties.

**View of Responsible Officials:** Inventory records are currently stored on the agency server located under the Financial Management and Human Resources Divisions Private folder. This folder is only accessible for viewing and modification by employees of the Financial Management and Human Resources Division. In order to limit the posting and removing of information to this file, the employee responsible for this task has assigned a password protection to the file. The employee assigned this responsibility and the division director will be the only employees with access to this password.

**Lack of Physical Inventory and Data Reliance**

An effective internal control system provides for periodic physical inventories of Commission assets to ensure accurate and reliable records. Based on conversation with the comptroller, the Financial Management and Human Resources Division are responsible for receiving/disposing of the assets and posting the assets to the inventory records; however, no periodic physical inventories have been performed by the Commission.

Without a periodic physical inventory count conducted by an employee independent of the receiving/posting process, errors and improprieties could occur and not be detected in a timely manner.

**Recommendation:**

We recommend a physical inventory count be conducted by an employee independent of the receiving or purchasing process. Documentation of the count should be maintained, signed and dated by the employee performing the count, as well as signed and dated by management to indicate their formal approval. If the Agency conducts their count in conjunction with submitting their inventory report to the Department of Central Services as required by OAC 580: 70-3-1(a), this report could serve as documentation the count occurred.

**View of Responsible Officials:** An employee from each division, independent of the receiving or purchasing process, will be assigned the responsibility of conducting a physical inventory of items assigned to their division. Documentation of this physical inventory will be maintained, signed and dated by the employee conducting the physical inventory and by management to indicate their formal approval. A physical inventory will be conducted each fiscal year.

---

**Objective 2 – Determine compliance with certain laws and regulations.**

---

**Conclusion**

Based on procedures performed, it appears the Commission is in compliance with 2007 O.S.L. 302, SB 272 and the Department of Central Services' Purchase Card Procedures (62 O.S. § 211).

**Methodology**

To accomplish our objective, we:

- Reviewed 2007 O.S.L. 302, SB 272 and performed procedures to determine if the executive director's salary was in compliance with the law;
- Reviewed DCS' Purchase Card Procedures;
- Reviewed four purchase card transactions to ensure:

- Transaction log was supported by receipts or other supporting documentation and reconciled to the monthly statement;
- Transaction log was signed by the cardholder;
- Statement was signed by the cardholder;
- Statement was signed by the approving official;
- Transaction was not for prohibited purchases;
- Receipt was annotated “received”, signed and dated by the receiving employee.

---

**Objective 3** - Determine the status of management’s corrective actions for reportable conditions noted in prior year’s report.

---

### **Conclusion**

The prior engagement report issued by the State Auditor’s Office on July 6, 2006 contained eight findings. The findings were related to timely endorsement of receipts, reconciliations, supporting documentation for deposits, account coding for expenditures, and purchase card transactions. Management’s corrective actions for seven findings were implemented.

### **Methodology**

See methodology and observations for objective 1 and objective 2.

---

### **Other Items Noted**

---

#### **Commission Should Develop Cell Phone Policy**

The Commission had forty cell phones during our period. There is no policy in place related to the assignment and use of the phones; however, management stated employees were clear the phones were for business use only. We reviewed four claims paid to a cell phone vendor, and noticed several calls and data transfers occurred during non-business hours (Saturday and Sunday as well as Monday through Friday 6:00 PM to 6:00 AM).

**Recommendation:** We recommend policy be developed and implemented which, at a minimum, includes:

- Personal use (allowable, limitations on frequency);
- Need of a phone based on job duties;
- Size of plan (minutes/features required).

**View of Responsible Officials:** The Conservation Commission is currently developing a Commission-Owned Cellular Telephone Policy for the agency. Policies from other agencies and entities are being reviewed. Once developed, a copy will be provided to the State Auditor and Inspector.



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

**[WWW.SAI.STATE.OK.US](http://WWW.SAI.STATE.OK.US)**