

OPERATIONAL AUDIT

OKLAHOMA CONSERVATION COMMISSION

For the period January 1, 2008 through December 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 Conservation Commission**

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



Oklahoma State Auditor & Inspector

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

September 7, 2011

TO THE OKLAHOMA CONSERVATION COMMISSION

This is the audit report of the Oklahoma Conservation Commission for the period January 1, 2008 through December 31, 2010. 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.

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones". The signature is fluid and cursive, with a long horizontal stroke at the end.

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

**Oklahoma Conservation Commission
Operational Audit**

Background

The Oklahoma Conservation Commission (Agency) was established by the Legislature in 1937 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.

Oversight is provided by five commissioners (commission members) appointed by the governor. Each member serves a term of five years.

Commission members are:

Matt Gard (ending June 30, 2011) Area I
 Karl Jett (beginning July 1, 2011) Area I
 Mike Rooker Area II
 George Stunkard Area III
 Dan Lowrance Area IV
 Virginia Kidd (ending June 30, 2010) Area V
 James Grego (beginning July 1, 2010) Area V

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
Cash Balance	\$ 11,399,756	\$ 16,262,785
Sources:		
State Appropriations	\$ 9,032,390	\$ 10,281,862
Gas Production Tax-Oil	2,627,701	2,627,701
Federal Reimbursements	12,551,715	14,580,948
Employee Contribution - State Health Insurance Plan and Retirement Plan	272,837	273,834
Other	11,109	24,282
Total Sources	<u>\$ 24,495,752</u>	<u>\$ 27,788,627</u>
Uses:		
Personnel Services	\$ 7,772,933	\$ 7,394,281
Professional Services	3,720,019	1,800,380
Travel Expenses	156,761	180,826
Miscellaneous Administrative	289,321	440,478
Rent Expense	374,713	439,755
Maintenance and Repair Expense	128,155	162,329
Office Furniture and Equipment	161,320	142,970
Land, Right of Ways, Pass Thru Assets	4,888,522	3,806,938
Program Reimbursements - Litigation Costs	3,090,923	3,947,130
Payments to Local Gov't - Non-Profits	6,456,012	6,667,177
Loans, Taxes, Other Disbursements	2,106,986	822
Other	118,203	120,907
Total Uses	<u>\$ 29,263,868</u>	<u>\$ 25,103,993</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 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 December 31, 2010.

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 selected our samples in such a way that whenever possible, the samples are representative of the populations and provide sufficient evidential matter. 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: Determine whether the Agency’s internal controls provide reasonable assurance that revenues, expenditures (including payroll), and inventory were accurately reported in the accounting records.

Conclusion

The Agency’s internal controls provide reasonable assurance that revenues (manually receipted federal reimbursements received from the Office of the Secretary of Environment and payments received from the individual conservation districts) and payroll were accurately reported in the accounting records; however, they do not provide the same assurance for expenditures and inventory.

Methodology

To accomplish our objective, we performed the following:

- Documented internal controls related to the receipting, expenditure, payroll, and inventory processes through discussions with Agency personnel, observation, and review of documents;
- Tested controls which included:
 - Reviewing payroll documentation from nine randomly selected months to determine the documents were properly approved;
 - Reviewing payroll change forms for seven changes that occurred in nine randomly selected months to ensure the forms were properly approved and reflected on the payroll documentation;
 - Ensuring 13 employee separations that occurred in nine randomly selected months were properly reflected on the payroll documentation;
 - Observed where funds are retained prior to deposit to ensure they are properly secured.

Observation

Inadequate Segregation of Duties in the Expenditure Process

An effective internal control system should provide reasonable assurance that assets are adequately safeguarded by properly segregating the duties of employees.

The comptroller is responsible for approving expenditures and serves as the back-up for posting expenditures, should other employees not be available. Misappropriations could occur and may not be detected in a timely manner.

Recommendation

Management should assign the back-up responsibility for generating the claim vouchers in PeopleSoft to another employee who does not have approval responsibilities. In addition, the comptroller's PeopleSoft access should be changed so that he does not have this ability.

Views of Responsible Officials

The comptroller was removed as an approving officer for expenditures with the Office of State Finance. The comptroller will continue to have the ability to generate claim vouchers in PeopleSoft.

Observation

Inadequate Segregation of Duties in the Inventory Process

An effective internal control system should provide reasonable assurance that assets are adequately safeguarded by properly segregating the duties of employees.

The accountant is responsible for inventory record keeping and purchasing functions. Management did not consider this lack of segregation of duties as a risk. Misappropriations could occur and may not be detected in a timely manner.

Recommendation

Management should assign the recordkeeping duties to another employee who does not have purchasing duties.

Views of Responsible Officials

The responsibility for inventory record keeping has been reassigned to the agency's Information Technology division with primary responsibility given to the Geographic Information Systems Specialist.

Observation

Inadequate Electronic Data Access – Repeat Finding

An effective internal control system should limit access of records to authorized individuals.

The Agency's inventory records are stored electronically on their network where multiple employees have complete access to the records. Failure to limit access to the records could allow errors, misuse, or unauthorized alterations to occur. Management stated in the previous audit report the records are only accessible to employees of the Financial Management and Human Resources Divisions, and that the records would be password protected. It appears the implementation of the password protection did not occur.

Recommendation

Management should ensure the inventory records are password protected with only authorized personnel having knowledge of the password.

Views of Responsible Officials

The agency's inventory records have been password protected with only authorized personnel of the Information Technology division having knowledge of the password.

Observation

Lack of Physical Inventory Count – Repeat Finding

An effective internal control system should provide for physical control over vulnerable assets through the use of periodic physical counts and comparison to records.

A physical inventory count has not been recently performed by Agency personnel, nor could they identify when the last count was performed. Without a periodic physical inventory count conducted by an employee independent of the recordkeeping and purchasing processes, errors or misappropriation could occur and may not be detected in a timely manner. In the previous audit report, management stated these counts would be performed by employees in each division; however, it appears the counts did not occur.

Recommendation

Management should ensure an employee independent of the recordkeeping and purchasing processes conducts a physical inventory count. Documentation of who performed the count, when the count was performed, and any errors noted should be retained as evidence the count occurred. In addition, written policies and procedures should be developed documenting who is responsible for the inventory count, frequency (annual, bi-annual, etc.) of the count, and what documentation will be retained.

Views of Responsible Officials

Procedures are being developed to perform an agency wide physical inventory. No employee responsible for recording keeping of inventory or employees responsible for purchasing processes will conduct the physical inventory. Employees responsible for conducting the physical inventory will perform inventory count on items not assigned to the division in which the employee is assigned.



OFFICE OF THE STATE AUDITOR AND INSPECTOR

2300 N. LINCOLN BOULEVARD, ROOM 100

OKLAHOMA CITY, OK 73105-4896

WWW.SAI.OK.GOV