

# OKLAHOMA CORPORATION COMMISSION

JANUARY 1, 2006 THROUGH  
JUNE 30, 2008

# OPERATIONAL AUDIT



Oklahoma State Auditor  
& Inspector

**Audit Report of the  
Oklahoma Corporation Commission**

**For the Period  
January 1, 2006 through June 30, 2008**

# STATE AUDITOR AND INSPECTOR

STEVE BURRAGE, CPA  
State Auditor

MICHELLE R. DAY, ESQ.  
Chief Deputy



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October 31, 2008

## TO THE OKLAHOMA CORPORATION COMMISSION

Pursuant to 74 O.S. § 212, transmitted herewith is the audit report for the Oklahoma Corporation Commission for the period January 1, 2006 through June 30, 2008. 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

A handwritten signature in blue ink that reads "Michelle R. Day".

MICHELLE R. DAY, ESQ.  
DEPUTY STATE AUDITOR & INSPECTOR

## **Mission Statement**

Administer the legislative and constitutional mandates assigned to the Corporation Commission to balance the rights and needs of our customers through regulation, access to information, and education.

## **Corporation Commission**

Jeff Cloud ..... Chairman  
Bob Anthony ..... Commissioner  
Jim Roth ..... Commissioner

## **Key Staff**

Brooks Mitchell ..... Director of Administration  
Betty Koehn..... Director of Finance

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## TO THE OKLAHOMA CORPORATION COMMISSION

We have audited the Oklahoma Corporation Commission (the Commission) for the period January 1, 2006 through June 30, 2008. The objectives of this audit were to determine if:

- 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;

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.

A handwritten signature in blue ink that reads "Steve Burrage".

STEVE BURRAGE, CPA  
STATE AUDITOR & INSPECTOR

A handwritten signature in blue ink that reads "Michelle R. Day".

MICHELLE R. DAY, ESQ.  
DEPUTY STATE AUDITOR & INSPECTOR

October 22, 2008



## Oklahoma Corporation Commission Operational Audit

### Background

The Oklahoma Corporation Commission (Commission) regulates:

- Public utilities;
- Oil and gas exploration, drilling, production and waste disposal;
- Motor carrier transport;
- Transportation;
- Storage, quality, and dispensing of petroleum products.

Oversight is provided by three commissioners elected statewide for six-year staggered terms. The commissioners have the power and authority of a court of record and their decisions can only be overturned by the state Supreme Court. Operations are governed by the State Constitution, Article 9 § 15 through 33, 17 O.S. § 1 through 701, and the Oklahoma Administrative Code-Title 165.

**Objective 1 – Determine if 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 52 O.S. § 554 D. and 68 O. S. § 607 D.**

### Conclusion

The Commission’s internal controls are not sufficient to provide reasonable assurance that revenues, expenditures, and inventory were accurately reported in the accounting records. Compliance procedures were performed with regards to two laws:

- The Commission appears to be in compliance with 52 O.S. § 554 D (retains 10% of amount deposited into the Mineral Owners’ Escrow account);
- We were unable to conclude as to whether financial operations complied with 68 O.S. § 607 D. (IFTA temporary permits - \$25 - \$8 of this fee goes to the Tax Commission, the Commission retains \$2 and the remaining \$15 is paid to the state’s general revenue fund) due to the deficiencies identified on the following pages.<sup>1</sup> However, it appears the method the Commission used to calculate the split of the fee is reasonable and appears consistent with the law.

### Methodology

To accomplish our objective, we performed the following:

- Reviewed 62 O.S. § 7.1(depositing requirements for agency clearing accounts and agency special accounts);
- Documented internal controls related to the receipting, expenditure, and inventory processes;
- Tested controls which included:
  - Determining if receipts were stored in a secure location prior to deposit;
  - Determining if the person who prepared the deposit was independent of the receipting process;
  - Reviewing 58 deposits from the period to ensure funds were deposited within one day of receipt, were correctly posted into CORE within one day of being deposited at the bank, and were supported by the “Daily Report”;

<sup>1</sup> According to management, effective July 1, 2004, Senate Bill 141 transferred the IFTA/IRP (International Fuel Tax Act/International Registration) Program from the Oklahoma Tax Commission (OTC) to the Commission. On July 1, 2006, the Commission took over the accounting functions and IFTA/IRP fund for this program with limited staff. The IFTA/IRP account had not been formally reconciled prior to the transfer and the Commission still has to utilize OTC's computer system to run the program due to compatibility issues with the Commission’s system.

**Oklahoma Corporation Commission**  
**Operational Audit**

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- Determining if transfers from the Commission's clearing account to their funds occurred at least monthly;
- Determining the Commission's clearing account was reconciled on a monthly basis by a person independent of the cash receipting process;
- Determining if the Commission's clearing account records are reconciled to the State Treasurer (OST) as well as Office of State Finance (OSF) PeopleSoft accounting records;
- Reviewing 76 expenditure claims to ensure they were properly authorized and were allowable based on statutory requirements, if applicable. This included ensuring the invoice supported the payment, the invoice was mathematically accurate, the correct account code was used, and the expenditure was reasonable for the Commission's mission;
- Determining if the employee responsible for receiving warrants from OSF was independent of the posting and approval process;
- Determining if there was adequate segregation of duties in the inventory process;
- Determining periodic physical inventory counts were conducted;
- Interviewing ChkEFT program (internal warrant printing system) personnel, researching vulnerabilities of Access 2000, performing security evaluation of software, reviewing status of operating system and database software patches, and reviewing password requirements;
- Conference Fund
  - Interviewed various personnel involved with the fund;
  - Reviewed logs from two departments which receipted money for the fund and materially reconciled them to OSF accounting records;
  - Reviewed 23 expenditures to ensure they appeared consistent with the requirements set forth in 17 O.S. § 166.3 (costs must be incidental to conferences sponsored by the Commission);
- Surety Fund
  - Interviewed Surety Department personnel;
  - Reviewed 52 O.S. § 318.1;
  - Reviewed the Department's log of operator numbers issued during the period;
  - Reviewed 26 operators' files to determine if a surety paid by cashier's check was deposited into fund 720;
  - Reviewed 13 expenditures from this fund to ensure they were related to releasing the surety to the operator or for plugging/cleaning up a well;
- Mineral Owners' Escrow Fund (MOE)
  - Reviewed 52 O.S. § 554 and 556;
  - Interviewed MOE personnel;
  - Randomly selected 25 orders from the listing of pooling orders obtained from the Commission's Court Clerk's Office, reviewed the order to determine if funds were received with it, and ensured the funds (if applicable) appeared to have been processed for deposit;

## Oklahoma Corporation Commission Operational Audit

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- Materially reconciled internal ledger of funds received to OSF PeopleSoft accounting records;
- Reviewed 15 expenditures to ensure they were approved and consistent with:
  - 1) 52 O.S. § 556 (Commission transfers funds held in escrow 5 years or more to OST); or
  - 2) 52 O.S. § 554 C. (Commission reimburses OST for payments made to rightful owners of funds);
- Reviewed eight expenditures from fund 711 paid to the Commission to ensure the amount was 10% of funds deposited into the Commission's fund 1185C in accordance with 52 O.S. § 554 D.
- International Registration Plan (IRP)/Interstate Fuel Tax Association (IFTA) Fund - Interviewed IFTA/IRP personnel and tested 58 payments to ensure they were consistent with the intent of the programs (payments to other jurisdictions for miles driven and fuel consumed by Oklahoma carriers in participating jurisdictions);
- Agreed 25 assets from the inventory listing to the floor to ensure they existed, they were identified as property of the State, and their inventory tag numbers and serial numbers agreed to the listing;
- Agreed 15 assets from the floor to the inventory listing to ensure they were included on the listing, they were identified as property of the State, and their inventory tag numbers and serial numbers agreed to the listing;
- Reviewed timesheets from 25 home-based employees to ensure the Commission has a process in place for monitoring the hours worked by this type of employee;
- Reviewed 68 O.S. § 607 D. (IFTA temporary permits - \$25 - \$8 of this fee goes to the Tax Commission, the Commission retains \$2 and the remaining \$15 is paid to the state's general revenue fund), interviewed IFTA personnel, and reviewed March 2007's and August 2007's support for this calculation.

### Observation

#### **Reconciliations Should be Performed**

OSF Policy and Procedure Manual Chapter 500 - Section 515 states in part, "...The purpose of OSF Form 11A is to provide to OSF summary information of the Agency Special Account activity of each agency special account. This report is to be completed each month by agency personnel and remitted to OSF on the 10<sup>th</sup> of each month...regardless of the amount of activity..."

An effective internal control system provides for an adequate reconciliation of accounting records with a sufficient level of review.

The following were noted:

- A reconciliation of the International Registration Plan (IRP)/International Fuel Tax Agreement (IFTA) fund was not performed;
- A detailed review of the OSF Form-11(clearing account) and Form-11A (Mineral Owner's Escrow) reconciliations were not performed;
- The Commission did not formally reconcile their clearing account to PeopleSoft records. Without an official reconciliation to PeopleSoft, transactions that were inadvertently not posted or posted incorrectly may go undetected.



Without formal reconciliations including a detailed review, misstatements could occur and not be detected in a timely manner.

**Recommendation**

We recommend:

- Someone independent of the receipting process reconcile the IRP/IFTA fund to OST records on a monthly basis. A detailed review should be performed by someone independent of the person preparing the reconciliation and should include agreeing the reconciling items to the supporting documentation and verifying mathematical accuracy. Due to the volume of transactions the Commission experiences, this review could eventually be tapered back to a random verification of certain amounts presented. However, assuming this scenario, the amounts selected for verification should remain the prerogative of the reviewer.
- Someone independent of the person preparing the reconciliation perform a detailed review of the OSF-Form 11 and Form 11A reconciliations. This review should include agreeing the reconciling items to the supporting documentation and verifying mathematical accuracy. Due to the volume of transactions the Commission experiences, this review could eventually be tapered back to a random verification of certain amounts presented. However, assuming this scenario, the amounts selected for verification should remain the prerogative of the reviewer.
- The Commission develop a formal process for reconciling their clearing account and ASA funds to PeopleSoft on a monthly basis. This should include a detailed review by someone other than the preparer.

**Views of Responsible Officials**

Upon receipt of the IFTA/IRP program in FY06, we discovered that the account had not been reconciled. A formal reconciliation to PeopleSoft has not been possible on our clearing account and Mineral Owner's account as the expenditure information that should have been posted into PeopleSoft had not been posted by OSF. As of April 2008 we now have access to post expenditure information to PeopleSoft monthly and have completed a reconciliation of the Mineral Owner's account for FY06 through FY08 and have completed FY06 and 07 for the clearing account and are working on FY08. We understand the importance of reconciliations, and are currently in the process of reconciling these accounts.

We also recognize the importance of reviewing all reconciliations that are prepared and will designate someone to review those reconciliations monthly.

**Observation**

**Inadequate Segregation of Duties Related to Receipts**

An effective internal control system provides for adequate segregation of duties. The Accounting Technicians in the Oklahoma City office's cashier's cage and in the Tulsa office are responsible for:

- Posting funds received into the Commission's receipting system;
- Preparing and delivering the deposit to the bank without review from another employee. Additionally, the Commission's receipting system allows these employees the ability to void a transaction without the system recording the reversal.

Without adequate segregation of duties, misappropriation of assets could occur.

## Oklahoma Corporation Commission Operational Audit

### Recommendation

We recommend:

- Someone other than the person receipting the funds provide a detailed review of the deposit prior to the funds being deposited. Due to potential staffing limitations in the Tulsa office, the Commission should consider implementing mitigating controls such as additional reviews of Tulsa data in the Oklahoma City finance office;
- The Commission's Information Technology Division develop a mechanism for the receipting system to track voided transactions. The person reviewing the deposit should ensure that the voids appear reasonable.

### Views of Responsible Officials

Finance has requested our IT division to remove cashier ability to reverse their own receipts. Only employees working outside the receipting process, or supervisors, will be able to reverse cashier entries. IT is currently working on facilitating this request.

In addition, a download of the day's receipts will report any negative entries made. These will be reviewed by supervisors.

We will also have someone who does not handle receipts review the deposit slips before they are deposited with the Treasurer's Office.

### Observation

#### **Receipting Functions Should be Centralized**

The Commission receives a large number of various receipt types from IFTA tax payments to application fees associated with drilling a well. From discussions held with personnel in the Surety, Mineral Owner's Escrow, Administrative Proceedings, and Pipeline Safety Departments of the Commission, all receive funds related to various aspects of their job duties (this listing is not all-inclusive of the departments which receive funds). However, an effective internal control system provides for a centralized receipting system reducing the risk of theft or misappropriation of assets.

### Recommendation

We understand the department personnel need the information included with the payment to perform their jobs. However, they do not need access to the funds associated with that information, only proof that the funds were provided and receipted by the proper personnel. We recommend management develop policy and procedure requiring all funds to be initially received through the Finance Department, specifically the cashier's cage. For example, if a person wishes to post a surety payment with the Surety Department, they must first make payment with the cashier. The cashier can forward the appropriate documentation to the Surety Department. At the end of the month, the Surety Department should ensure the appropriate amount of funds was deposited to coincide with the documentation they processed.

To aid in this transition, any type of correspondence issued by the Commission which requires funds to be sent via mail should be revised to instruct the funds to be routed to the "Cashier" or "Finance" rather than the applicable division as currently noted on certain Commission forms and applications.

### Views of Responsible Officials

We will review the recommendation to determine its impact on current processes already in place.

**Observation**

**Deposits Not Posted to PeopleSoft in a Timely Manner**

An effective internal control system provides for prompt recording of accounting transactions and adequate supporting documentation.

The following were noted:

- Of the 58 deposits tested, 23 were not posted into PeopleSoft within one day of receipt. For the exceptions noted, the average span between the bank deposit slip date and the PeopleSoft journal date was 6 days. In the PeopleSoft system, the cash is not available until the journal entry is made and added to the Commission's cash balance. The available cash balance on PeopleSoft reports could be misstated; however, the actual cash position of the Commission would not appear to be materially affected.
- Supporting documentation for one deposit could not be located by management.

**Recommendation**

We recommend management exercise diligence and ensure their deposit entries are posted into PeopleSoft within one day of receipt and appropriate supporting documentation is maintained.

**Views of Responsible Officials**

While we recognize the importance of posting to PeopleSoft in a timely manner in order to correctly reflect funds that are available, we try to make it our first priority to get those funds deposited daily (which is a statutory requirement). We will certainly make a more concerted effort to get those funds transferred on a daily basis.

**Observation**

**Inadequate Segregation of Duties Related to Expenditures**

An effective internal control system provides for adequate segregation of duties. One accounts payable employee is responsible for:

- Posting disbursements into the PeopleSoft accounting system;
- Receiving warrants from OSF;
- Mailing warrants to the vendors.

Without adequate segregation of duties, misappropriation of assets could occur.

**Recommendation**

We recommend someone other than the accounts payable employee receive the warrants from OSF, match them to the appropriate invoice/ purchase order, and mail them to the vendors.

**Views of Responsible Officials**

We will be tasking another employee in the Finance area to receive and mail warrants separate from the employee who posts disbursement to PeopleSoft.

**Observation**

**Lack of Review on IFTA/IRP Expenditures**

Effective internal controls provide for accurate and reliable information. Two Commission employees (Accountants) are responsible for downloading IFTA and IRP expenditure data from the Oklahoma Tax Commission (OTC). Using the ChkEFT system, the warrants are issued to the applicable parties. The following were noted:

- The downloaded data can be adjusted by the employees;
- The un-issued warrants are kept in an unlocked cabinet;
- The warrants are signed electronically;
- The warrant register (listing of warrants issued) from the system is not reviewed by management prior to issuance of the warrants;
- The fund is not reconciled (noted previously in this report).

Unauthorized checks could be issued. The likelihood of this being detected in a timely manner is low.

**Recommendation**

We recommend a supervisor independent of the process review the original file (file #1) downloaded by the Accountants as well as the file from which the Accountants are issuing the warrants (file #2 -adjustments may have been made on this version). Any variances should be evaluated for reasonableness. After formal approval, the warrants could be printed with the warrant register being periodically reviewed and compared to the file #2 with specific attention being given to voids and adjustments. Additionally, the unissued warrants should be adequately secured at all times.

**Views of Responsible Officials**

Procedures will be put in place for a supervisor to review both files and periodically review the warrant register to ensure that all voids and adjustments were appropriate.

**Observation**

**Missing Electronic Equipment and Inaccurate Inventory Records**

An effective internal control system provides for accurate and reliable records. The following were noted:

- Seven (three digital cameras, a projector, geo explorer, and two global positioning systems) of 25 items selected from the Commission's electronic equipment inventory listing could not be located;
- Eight of 15 items selected from the floor could not be located on the electronic equipment inventory listing. However, we were able to locate these items in the Commission's database and agree the significant information (asset tag number, serial number, make/model).

Because of the large number of discrepancies which appeared on the report we were provided, we attempted to locate all the items from our testwork selection (40 items - 25 from the list and 15 from the floor) on the May 2008 100% inventory count that the Commission conducted. Only eight of the 40 items could be located on the count sheet.

Although management does perform a count of inventory, there appears to be an issue between what is recorded in the database (which appears accurate) and the system's reporting capabilities. Therefore, they may believe they are conducting a full count when actually it may include only a portion of the inventory.

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Deficiencies such as these may lead to misappropriation of assets.

**Recommendation**

We recommend:

- Management investigate and locate the missing items;
- Information Technology Division management investigate and resolve the issue as to why reports generated from the inventory system appear incomplete;

- Information Technology Division management consider if a new inventory count including 100% of their electronic equipment should be performed after the recommendation under the second bullet is addressed.

**Views of Responsible  
Officials**

IT is in the middle of upgrading OCC's inventory system. Until recently, inventory was recorded in an Access database. Currently, the system is being migrated to TrackIt. As is typical with product implementations, the reporting is the last feature to be completed. OCC IT continues to work on the data and screen functionality. Reporting is critical and will be addressed appropriately. Then a physical inventory may be conducted. Notice of missing inventory items will be given to OCC's division management for investigation and location.

**Observation**

**ChkEFT System Passwords Inadequate**

Effective internal controls provide for appropriate password access to information systems. During procedures performed related to the ChkEFT system, it was noted users are issued complex passwords; however, when the users change their passwords, they can be set anywhere between one and 14 characters. Unauthorized access to the ChkEFT system could occur.

**Recommendation**

We recommend password requirements be implemented requiring secure passwords. Secure is defined as a minimum of five alpha and numeric characters. However, if requirements were set to require a minimum of 8 characters, alpha only would be sufficient.

**Views of Responsible  
Officials**

Users with access to Chk/EFT database were given new passwords. These passwords have a minimum length of eight characters with mixed number and alphabetic letters and do not contain consecutive identical characters.



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