

OKLAHOMA DEPARTMENT OF CONSUMER CREDIT

DECEMBER 1, 2005 THROUGH
DECEMBER 31, 2007

OPERATIONAL AUDIT



Jeff A. McMahan

Oklahoma State Auditor
& Inspector

**Audit Report of the
Oklahoma Department
of Consumer Credit**

**For the Period
December 1, 2005 through
December 31, 2007**



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Jeff A. McMahan
State Auditor and Inspector

April 1, 2008

TO THE ADMINISTRATOR OF THE OKLAHOMA
DEPARTMENT OF CONSUMER CREDIT

Pursuant to 74 O.S. § 212, transmitted herewith is the audit report for the Oklahoma Department of Consumer Credit for the period December 1, 2005 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

We serve consumers and creditors through education, protection, and regulation. The Department of Consumer Credit furthers understanding of the terms of credit transactions; protects consumer buyers, lessees and borrowers against unfair practices; permits and encourages the development of fair and economically sound consumer credit practices, and implements the Uniform Consumer Credit Code in the State of Oklahoma.

Board Members

Spencer Stanley	Chairman
Jack Vaughan.....	Vice Chairman
Gary Betow.....	Commissioner
Darrel Chabino	Commissioner
Odell Roland.....	Commissioner
Phil Endicott	Commissioner
Wanda DeBruler.....	Commissioner
Armando Rosell.....	Commissioner
Mick Thompson.....	State Banking Commissioner (Ex-Officio/Non-Voting)

Key Staff

Jack Stone.....	Interim Administrator
Janice Hendricks.....	Business Manager
Theresa Callahan	Administrative Assistant



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Jeff A. McMahan
State Auditor and Inspector

**TO THE ADMINISTRATOR OF THE OKLAHOMA
DEPARTMENT OF CONSUMER CREDIT**

We have audited the Oklahoma Department of Consumer Credit (Agency) for the period December 1, 2005 through December 31, 2007. The objectives of this audit were to determine if:

- The Agency's internal controls provide reasonable assurance that revenues, expenditures, and inventory were accurately reported in the accounting records, and financial operations complied with 62 O.S. § 7.1 and 14A O.S. § 6-512;
- The Agency complied with the Department of Central Services' Purchase Card procedures;
- The Agency's corrective actions for reportable conditions noted in prior year's report were implemented.

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 "Michelle R. Day".

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

March 26, 2008

Background

The Oklahoma Department of Consumer Credit (Agency) is responsible for administering the Uniform Consumer Credit Code, which includes provisions with respect to maximum charges, rate ceilings, disclosure requirements, enforcement rights, contract terms, advertising requirements and administration control. That responsibility includes investigations and licensing of creditors designated as Supervised Lenders, and regulation through filing of notice by non-lender extenders of credit. Additional responsibilities include investigation and licensing duties under the Pawnshop Act, Precious Metal and Gem Dealers Act, Credit Services Organization Act, Health Spa Act and Rental-Purchase Lessor Act and the Mortgage Broker Licensure Act as well conducting customer records exams of licensed Supervised Lenders, Pawnbrokers, Credit Service Organizations and Rental-Purchase Lessors.

The Agency's operations are governed by:

- 14A O.S. § 1-101 thru 9-103;
- 24 O.S. § 1-18, 31-50, 81-86, 91-93, 112-123, and 131-147;
- 59 O.S. § 1501-1515, 1521-1532, 1950-1957, 2000-2012, 2081-2091, and 3101-3119 ;
- Title 160 of the Oklahoma Administrative Code.

Oversight is provided by an eight-member Commission appointed by the Governor. Five of those members are at-large members. The three additional members are appointed as follows: one member is recommended by the Oklahoma Consumer Finance Association, one from the Independent Finance Institute and one from the Oklahoma Pawnbrokers Association. The State Banking Commissioner is a non-voting ninth member of the Commission. The Agency pays for its operations through state appropriations and a variety of fees charged.

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

Table 1-Sources and Uses of Funds for FY 2006 and FY 2007		
Sources:	2006	2007
Licenses, Fees and Other Charges	\$801,819	\$545,056
State Appropriations	<u>637,861</u>	<u>661,262</u>
Total Sources	<u>\$1,439,680</u>	<u>\$1,206,318</u>
Uses:		
Personnel Services	\$787,650	\$885,617
Professional Services	41,670	52,661
Travel	77,177	93,268
Misc. Administrative	96,222	70,808
Rent	32,207	32,143
Office Furniture and Equipment	45,691	25,541
Other	<u>30,468</u>	<u>22,016</u>
Total Uses	<u>\$1,111,085</u>	<u>\$1,182,054</u>

Source: Oklahoma CORE Accounting System.

Objective 1 – Determine if the Agency's internal controls provided reasonable assurance that revenues, expenditures, and inventory were accurately reported in the accounting records and financial operations complied with 62 O. S. § 7.1 and 14A O.S. § 6-512.

Conclusion

Based on the procedures performed, the Agency's internal controls related to receipts, expenditures, and inventory need to be strengthened. Additionally, the Agency is not in compliance with 62 O. S. § 7.1 and 14A O.S. § 6-512.

Methodology

To accomplish our objective, we performed the following:

- Reviewed 62 O.S. § 7.1 and 14A O.S. § 6-512;
- Documented internal controls related to the receipting and expenditure process;
- Tested controls which included:
 - Determining if checks are endorsed upon receipt;
 - Reviewing 59 deposits from the period to ensure the deposit was supported with the appropriate “Deposit Register/Daily Breakdown Report”;
 - Determining if funds are stored in a secure location prior to deposit;
 - Reviewing 59 deposits from the period to ensure the bank deposit date was within one day of when the funds were received;
 - Reviewing 59 deposits to ensure the deposit was posted into CORE within one day of being deposited at the bank;
 - Reviewing six OSF-Form 11 reconciliations to ensure the preparer and reviewer are independent of each other and the reconciling items are adequately supported and appeared reasonable;
 - Determining if the employee responsible for receiving warrants from OSF is independent of the posting and approval process;
- Reviewing a CORE deposit report for the period to ensure funds are being transferred from the Board’s clearing account to their revolving funds at least once per month;
- Reviewing an expenditure report for the period and judgmentally selecting 24 claims to ensure the vendor was valid and the expense appeared consistent with the Department’s mission;
- Reconciling the Agency’s deposit records to the Office of State Finance and testing to ensure the funds were transferred to the appropriate revolving funds as well as the State’s general fund;
- Inventory controls and procedures are addressed under Objective 3 of this report.

Observations

Clearing Account Reconciliations Inadequate

An effective internal control system provides for an adequate reconciliation of accounting records with a sufficient level of review. Based on observation of an OSF-Form 11 reconciliation for each month of the period, Agency staff reconcile the clearing account to the State Treasurer’s Office. However, we tested six of the reconciliations in detail by agreeing the amounts presented to supporting documentation and noted the following:

- On the April 2006 reconciliation, \$382,850 was reported as transfers. Included in this amount was a \$310,000 pending settlement the Agency had yet to receive. The settlement was not deposited until May 5, 2006. By transferring this amount prior to receiving it, a negative cash position was created in the clearing account. This issue is discussed further in a separate finding later in this report.

As evidenced by this particular transaction, the reviews provided by management on the reconciliations are cursory in nature with no verification of the supporting documentation. Additionally, the Agency does not formally reconcile their clearing account to CORE records. Without an official reconciliation to CORE, transactions that were inadvertently not posted or posted incorrectly may go undetected.

Recommendation: We recommend management perform a detailed review of the OSF-Form 11 reconciliation which involves agreeing the reconciling items to the supporting documentation as well as develop a formal process for reconciling their clearing account to CORE on a monthly basis. This also should include a detailed review by someone other than the preparer.

View of Responsible Officials: The Amerquest money was wire transferred direct from Amerquest via the State Treasurer’s Office (STO) on March 30, 2006 to the STO Main Account per staff at STO. She told Agency staff to

transfer the \$310,000 from our clearing account which we did on 4/3/06. Due to confusion in their office, they failed to put it into our clearing account. STO staff realized on 5/3/06 that she needed to do the transfer, thus the overlap.

As to reconciling with CORE, we have made numerous attempts prior to this audit to meet with OSF to get some idea how to do this. OSF informed us that we had to take the class but first had to be reconciled. OSF management then referred us to OSF staff who attempted to assist, but needed to straighten things out prior to us being able to reconcile with them. OSF staff stated that there was a double transfer at the time of transition and that he would correct it and advise us when that was done. To date, no one has contacted us, thus the issue is still pending. Therefore we are at a standstill since we have to be reconciled prior to training and we cannot train until OSF management instructs us that the transfer issues have been resolved and we have a reconciliation point.

Daily Deposits are not Occurring

62 O.S. § 7.1 C states, “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...”

Of the 59 deposits tested, 27 deposits of \$100 or more were not deposited within one day of the funds being received. Checks could be lost, altered or stolen prior to deposit.

Recommendation: We recommend receipts of \$100 or more be deposited within one day of being received to ensure compliance with 62 O.S. § 7.1 C.

Views of Responsible Officials: We concur. As of March 2008, this has been resolved. Management will exercise diligence and ensure receipts of \$100 or more will be deposited within one day of being received.

Deposits Not Posted to CORE in a Timely Manner

An effective internal control system provides for prompt recording of accounting transactions. Of the 59 deposits tested, 27 deposits were not posted into CORE within one day of deposit. For the exceptions noted, the average span between the bank deposit date and the CORE journal date was 8 days. In the CORE system, the cash is not available until the journal entry is made and added to the Agency’s cash balance. Therefore, the available cash balance on CORE reports could be misstated.

Recommendation: We recommend management exercise diligence and ensure their deposit entries are posted into CORE within one day of receipt.

Views of Responsible Officials: We concur. As of March 2008, this has been resolved. Management will exercise diligence and ensure their deposit entries are posted into CORE within one day of receipt.

Inadequate Segregation of Duties Related to Expenditure Process

An effective internal control system provides for adequate segregation of duties. Based on conversation with the Business Manager, she is responsible for:

- Posting disbursements into CORE;
- Receiving warrants from the Office of State Finance (OSF);
- Mailing warrants to the vendors.

The Executive Director provides only a cursory review of the expenditure claim. Without adequate segregation of duties and proper reviews, errors and improprieties could occur and not be detected in a timely manner.

Recommendation: We recommend the Executive Director provide a detailed review of each claim prior to approval. This should include ensuring the invoice is mathematically accurate and agrees with the claim amount, as well as ensuring the correct account code and fund were used. Additionally, an employee other than the Business

Manager should receive the warrants from OSF, match them to the appropriate invoice/ purchase orders, and mail them to the vendors.

Views of Responsible Officials: The Business Manager will process the warrants into CORE system and the Administrative Assistant will receive and match the warrants and mail to the vendors.

Transfers to State General Fund and Agency Revolving Funds Appear Inaccurate

14A O.S. § 6-512 states in part, "...any unencumbered and unobligated balance remaining in the Revolving Fund of the Commission on Consumer Credit shall be transferred to the credit of the General Revenue Fund of the State Treasury..."

59. O.S. § 2011 states in part, "There is hereby created in the State Treasury a revolving fund for the Commission on Consumer Credit to be designated the "Health Spa Revolving Fund". The fund shall be a continuing fund, not subject to fiscal year limitations, and shall consist of registration and annual renewal fees provided for in Section [2002](#) of Title 59 of the Oklahoma Statutes..."

59 O.S. § 2091 states in part, "1. There is hereby created in the State Treasury a revolving fund for the Commission on Consumer Credit to be designated the "Oklahoma Mortgage Brokers Recovery Fund". The fund shall consist of monies received by the Administrator of Consumer Credit as license fees, application fees and any administrative fines imposed pursuant to the Mortgage Broker Licensure Act..."

59 O.S. § 3118 states in part, "There is hereby created in the State Treasury a revolving fund for the Commission on Consumer Credit to be designated the "Oklahoma Deferred Deposit Lending Regulatory Revolving Fund". The fund shall consist of all monies received by the Administrator of Consumer Credit as license fees, examination fees, investigation fees, application fees, fees imposed for consumer credit counseling education and any administrative fines imposed pursuant to the Deferred Deposit Lending Act..."

Based on procedures performed on the Agency's receipts and corresponding transfers to the State's general fund and the Agency's applicable revolving funds, the following was noted:

- In January 2006, an additional \$1,510 was transferred to the Mortgage Broker (MB) Fund and \$1,025 too little was transferred to the State's general fund (SGF);
- In March 2006, the Agency transferred \$310,000 to the Consumer Credit Revolving Fund before receiving it in May 2006 and \$500.25 too little was transferred to the SGF;
- In September 2006, an additional \$1,000 was transferred to the Health Spa Fund, an additional \$2,310 was transferred to the MB Fund, an additional \$4,312 was transferred to the Deferred Deposit Lending (DDL) Fund, and additional \$950 was transferred to the SGF;
- In July 2007, \$2,350 too little was transferred to the SGF;
- In October 2007, an additional \$290 was transferred to the MB Fund and \$365 too little to the SGF.

The Agency is not in compliance with the above mentioned statutes.

Recommendation: We recommend the Agency review the exceptions noted and transfer the appropriate amounts to the applicable funds. In the future, staff should adjust their transfer amounts to account for refunds issued.

Views of Responsible Officials: We concur. We have reviewed the exceptions noted and are creating new policies to address the transfer amounts for refunds.

Settlement Agreements Appear to have been Transferred to Incorrect Funds

14A O.S. § 6-512 states in part, "...any unencumbered and unobligated balance remaining in the Revolving Fund of the Commission on Consumer Credit shall be transferred to the credit of the General Revenue Fund of the State Treasury..."

59 O.S. § 2091 states in part, “1. There is hereby created in the State Treasury a revolving fund for the Commission on Consumer Credit to be designated the "Oklahoma Mortgage Brokers Recovery Fund". The fund shall consist of monies received by the Administrator of Consumer Credit as license fees, application fees and any administrative fines (emphasis added) imposed pursuant to the Mortgage Broker Licensure Act...”

59 O.S. § 3118 states in part, “There is hereby created in the State Treasury a revolving fund for the Commission on Consumer Credit to be designated the "Oklahoma Deferred Deposit Lending Regulatory Revolving Fund". The fund shall consist of all monies received by the Administrator of Consumer Credit as license fees, examination fees, investigation fees, application fees, fees imposed for consumer credit counseling education and any administrative fines (emphasis added) imposed pursuant to the Deferred Deposit Lending Act...”

During the period, the Agency received and transferred the following settlements:

- Ameriquest - \$310,000 - The funds were transferred to the Agency’s Consumer Credit Revolving Fund on March 31, 2006. However, it appears the funds should have been transferred to the Mortgage Brokers’ Recovery Fund;
- Seven deferred deposit lenders - \$100,000 – The funds were transferred to the Agency’s Consumer Credit Revolving Fund on November 8, 2007. However, it appears the funds should have been transferred to the Deferred Deposit Lending Regulatory Revolving Fund;
- Five credit service organizations - \$125,000 – The funds were transferred to the Agency’s Consumer Credit Revolving Fund on October 18, 2007. Since the Agency does not have a revolving fund designated for credit service organizations and all other fees received related to credit service organizations are paid to the State’s general revenue fund, it would appear reasonable this settlement should have been transferred to the State’s general revenue fund in accordance with 14A O.S. § 6-512.

The Agency is not in compliance with 14A O.S. § 6-512, 59 O.S. § 2091, and 59 O.S. § 3118.

Recommendation: Regarding the \$125,000 received from five credit service organizations and transferred to the Agency’s Consumer Credit Revolving Fund, we recommend the Agency consult their current legal counsel to determine the appropriate course of action. Regarding the two remaining settlements, we recommend the Agency transfer these funds from the Consumer Credit Revolving Fund to the Mortgage Brokers’ Fund and the Deferred Deposit Lending Fund.

Views of Responsible Officials: We will have our current legal counsel review and determine the appropriate course of action.

Objective 2 – Determine if the Board complied with the Department of Central Services’ (DCS) Purchase Card Procedures.

Conclusion

Based on procedures performed, it appears the Agency is not in compliance with DCS’s Purchase Card Procedures.

Methodology

To accomplish our objective, we performed the following:

- Reviewed DCS’ Purchase Card Procedures;
- Reviewed 15 purchase card transactions

Observations

Compliance Issues with DCS's Purchase Card Procedures

Section 3.10 of DCS's Purchase Card Procedures states, "Entity p/card administrators...authorized signers, approving officials, and cardholders must sign the State of Oklahoma Purchase Card Employee Agreement form prior to assuming their duties and being issued p/cards..."

Section 6.1.3 of DCS's Purchase Card Procedures states, "The Entity p/card administrator shall maintain the original employee signed copy of the State of Oklahoma Purchase Card Employee Agreement..."

Section 6.2.3 of DCS's Purchase Card Procedures states in part, "The p/card...shall **NOT** be used for the following types of purchases...food and beverages...any goods or services for personal use and not for official state use..."

Section 6.9.1 of DCS's Purchase Card Procedures states in part, "...After confirming the transactions on the memo statement, the cardholder shall sign and date the transaction log, indicating that the cardholder did make the purchases. The cardholder shall also sign and date the memo statement verifying that the transaction logs and memo statement have been reconciled..."

Section 6.9.2 of DCS's Purchase Card Procedures states in part, "...To indicate concurrence with the reconciled statement, the State Entity Approving Official shall sign and date the memo statement..."

Section 6.7.1 of DCS's Purchase Card Procedures states in part, "...The receiving document should be annotated "Received" and signed and dated by the receiving employee..."

Section 6.2.5.3 of DCS's Purchase Card Procedures states in part, "State entities shall make purchases from mandatory statewide contracts regardless of the purchase price unless the State Purchasing Director has issued a waiver to the entity."

Based on procedures performed on 15 transactions and conversation with management, the following was noted:

- The approving official did not sign and/or maintain the State of Oklahoma Purchase Card Employee Agreement;
- Two transactions were for beverages;
- The transaction log for seven transactions was not signed and dated by the cardholder;
- The memo statement for two transactions was not signed and dated by the cardholder or approving official;
- The memo statement for one transaction was not signed and dated by the cardholder;
- Seven transactions' receiving documents were not annotated "received";
- Two transactions' receiving documents were not dated;
- Two transactions' receiving documents were not annotated "received" or signed;
- Merchant preference (statewide contract, state use committee, and OCI) was not utilized on three transactions.

Recommendation: We recommend the p/card holder and the p/card approving official attend p/card training provided by the DCS to ensure they understand how to comply with these requirements. Additionally, we recommend the approving official sign and retain a p/card agreement.

Views of Responsible Officials: P-Card Training will be attended by p/card holder and the p/card approving official. The approving official has signed the p/card agreement as of March 2008.

Objective 3 – Determine if the Agency’s corrective actions for reportable conditions noted in the prior year’s report were implemented.

Conclusion

Based on review of the Office of the State Auditor’s report issued August 8, 2006, 12 findings were noted which were considered significant to this engagement. Corrective action on eight of the findings has been implemented while corrective action on the four remaining findings has not been implemented or has been partially implemented.

Methodology

To accomplish our objective, we performed the following:

- Reviewed the Office of the State Auditor’s report issued August 8, 2006;
- Interviewed management and reviewed the Agency’s compensatory time policy to determine if:
 - policy addressed non-exempt employees accruing compensatory time in accordance with OPM rules;
 - policy had been revised to coincide with OPM rules regarding the length of time available to use time and addressed employees agreeing in writing to accept compensatory time in lieu of overtime pay;
 - policy requires pre-approval of compensatory time;
- Interviewed management and reviewed an employee’s February 2007 timesheet to determine if timesheets had been revised to more clearly reflect compensatory time accrued and used;
- Examined the December 2006 payroll to determine the course of action taken by the Agency to address additional compensatory time which may have been due to non-exempt employees;
- Reviewed five employees’ timesheets throughout the period to determine if accrued compensatory time was being used prior to annual and sick leave;
- Reviewed two employees written statement agreeing to accept compensatory time in lieu of overtime pay;
- Reviewed two professional services contracts during the period to determine if the termination clause in the contract required the termination to be performed in writing;
- Reviewed 11 travel claims, interviewed staff, and reviewed the November 8, 2006 Commission meeting minutes to determine if staff are completing travel claims on behalf of the Commission members;
- Reviewed 62 O.S. § 7.1;
- Documented internal controls related to the receipting and inventory process as well as tested controls to determine if:
 - checks are endorsed upon receipt;
 - funds are transferred monthly from the clearing account to the State’s general fund and the Agency’s revolving funds;
 - there is adequate segregation of duties in the inventory process;
 - an annual, physical inventory count is conducted;
- Reviewed 11 assets from the inventory listing to verify their existence on the floor, ensuring they are identified as property of the State, and ensuring the inventory tag number and serial number agree to the listing;
- Reviewed 10 assets from the floor to verify they are identified on the inventory listing, ensuring they are identified as property of the State, and ensuring the inventory tag number and serial number agrees to the listing;
- Reviewed Agency’s policy addressing cell phones;
- Tested 15 claims from Fund 200 to determine if the expenditures were in compliance with 14 O.S. § 6-106A;
- Reviewed the Agency’s monthly income report for August 2006 as well as Office of State Finance transfers to determine if an additional \$1,000 deposited into the Mortgage Broker Recovery fund in March 2004 was transferred to the State’s general revenue fund;
- Reviewed supporting documentation for three licensees who waived their right to a hearing and paid an administrative fine during the period.

Observations

NOTE: The Office of the State Auditor's report issued on August 8, 2006 should be read in conjunction with the observations noted below. The report may be accessed at www.sai.state.ok.us.

Inclusion of Written Termination Clause in Professional Services Contract Appears Inconsistent

Department of Central Services Form 018 "Professional Services Requisitioning Guide" states in part, "The following is representative...of criteria/requirements of a contract document: I. G. 2. Termination Clause..."

Based on review of two professional services contracts between the Agency and two separate vendors, one contract stated termination of the contract must be in writing while the other contract did not.

Recommendation: In the best interest of the Agency, we recommend all professional services contract have a termination clause requiring the termination to occur in writing.

Views of Responsible Officials: We concur. This matter will be rectified in all future professional service contracts.

Inadequate Segregation of Duties and Lack of Supporting Documentation Related to Inventory Process

An effective internal control system provides for periodic physical inventories of Agency assets as well as appropriate segregation of duties. Based on conversation with staff, the Administrative Assistant is responsible for:

- Receiving the assets;
- Posting the assets to the inventory records;
- Conducting an annual inventory count; however, there is no documentation to support this occurs and that it is reviewed by the appropriate level of management.

Without evidence to support a physical inventory count occurs and that the employee conducting the count is 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.

Views of Responsible Officials: We concur. We are instituting policy: the Administrative Tech will receive the assets. The Administrative Assistant is the Inventory Officer and will record and tag the assets and post to the inventory records. A physical count will be conducted by an assigned employee independent of the receiving or purchasing process each June. Documentation of the count will be signed and dated by the employee conducting the count and the business manager.

Inventory Records Appear Incomplete

An effective internal control system provides accurate and reliable records.

OAC 580: 70-3-1(a) states in part, " All agencies must submit an annual report of current inventory of tangible assets owned by the agency as of June 30 of the preceding fiscal year to the Department by August 15..."

During procedures performed, the following was noted:

- From the June 30, 2006 and June 30, 2007 inventory reports prepared in accordance with OAC 580: 70-3-1(a), we determined which items, if any, were sent to surplus during fiscal year 2007. There were none.

However, we were provided a DCS Form 001 for items surplus on August 15, 2007. Thirteen items on this form with an initial, presumed value of \$500 or more were not identified on the June 30, 2007 inventory report.

Errors and improprieties could occur and not be detected in a timely manner.

Recommendation: We recommend a physical count of the inventory be conducted as soon as possible to ensure the inventory report is accurate.

Views of Responsible Officials: This was a transition from the former employee who couldn't comprehend the urgency of the documented inventory process. We concur and a procedure will be established for the physical count of the inventory as a duty segregated from the inventory officer duties. Value of the 13 items is debatable if \$500 or more.

Expenditures from Consumer Credit Investigation Fund not in Compliance with State Law

14A O.S. § 6-106A states in part, "There is hereby created...a revolving fund for the Commission on Consumer Credit to be called the Consumer Credit Investigation Fund...expenditures from said fund shall be made exclusively for the purpose of carrying out the provisions of subsection (1) of [Section 3-506 of Title 14A](#) of the Oklahoma Statutes when the records of a licensee are located outside this state..." Based on procedures performed on 15 claims paid from the Consumer Credit Investigation Fund during the period, all 15 expenditures were not in compliance with the requirements set forth by 14A O.S. § 6-106A.

Recommendation: We recommend the Agency expend funds from the Consumer Credit Investigation Fund in accordance with the requirements established by 14A O.S. § 6-106A. As noted previously in this report, an independent, detailed review of the claim prior to payment would help ensure compliance with this law.

Views of Responsible Officials: We concur. We are currently not utilizing the fund. However, if needed in the future, we will comply with 14A O.S. § 6-106A.