

PERFORMANCE REPORT

OKLAHOMA DEPARTMENT OF LABOR

For the period January 1, 2009 through June 30, 2014



*Independently serving the citizens of
Oklahoma by promoting the
accountability and fiscal integrity of
governmental funds.*



Oklahoma State
Auditor & Inspector
Gary A. Jones, CPA, CFE

**Audit Report of the
Oklahoma Department of Labor**

**For the Period
January 1, 2009 through June 30, 2014**



Oklahoma State Auditor & Inspector

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June 1, 2015

TO THE OKLAHOMA COMMISSIONER OF LABOR

This is the audit report of the Oklahoma Department of Labor for the period January 1, 2009 through June 30, 2014. 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.

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.

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones".

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

Background

The Department of Labor (the Agency) is headed by the Commissioner of Labor, an elected official who serves as the Agency’s chief executive officer. The Agency is responsible for duties such as licensure, inspection, and enforcement in a wide variety of industries and programs, from Boiler and Pressure Vessel Safety to Elevators and Escalators to Asbestos Abatement, and provides additional safety-related services.

Alarm and Locksmith Program

One program under the purview of the Department of Labor is the Alarm and Locksmith Industry Program, which in turn includes a variety of industry areas: burglar alarm, fire alarm, fire sprinkler, locksmithing, access control, closed circuit television, alarm monitoring, and nurse call. The Agency assumed responsibility for this program from the Department of Health in November 2012. The Alarm and Locksmith Industry Committee provides oversight through assistance and advisement of the Commissioner on all matters relating to the Alarm and Locksmith Industry Act.

Alarm & Locksmith Committee Members (as of May 2015)

Bob Carroll.....	Chair/Lay Member Representative
Dennis Bloye.....	Secretary/Commercial Fire Alarms Industry
Steve Lutz.....	Burglar Alarm Industry
Ronald Edwards.....	Fire Sprinkler Industry
Maurice Grant	Electronic Access Control Industry
James Perry	Locksmith Industry
Lisa Fields	Alarm Industry
Sean Crain.....	Closed Circuit TV Access Industry
Jim Buck	Labor Commissioner’s Representative

Since taking over the program, management has taken many steps to improve its operations and to address the industry’s needs and concerns. These steps included returning some of the program’s fund balance to licensees in the form of a fee decrease, changing renewal dates to licensees’ birth months, and improving physical licenses from cardstock to hologram-enhanced cards. Management further stated that they have:

- Enhanced public education efforts related to the industry,
- Enhanced related enforcement efforts,
- Improved testing standards and materials, and
- Improved fingerprinting methods related to fire sprinkler licensing.

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While we did not perform specific procedures related to these areas, these efforts were reflected in the Alarm and Locksmith Committee meeting minutes and in our discussions with staff.

Management requested objectives I and II of this audit in order to ensure the Agency is properly administering the program and providing accurate and transparent reporting to the Alarm and Locksmith Committee. They also stressed the importance of the Alarm and Locksmith industry to the public safety: industry professionals may have access to people's homes and vehicles and may take responsibility for citizens' safety and security. Failure to enforce the rules in this industry could lead to dangerous situations.

Scope and Methodology

Our audit was conducted under the authority of 74 O.S. § 213.2(B), in response to a written request from the Commissioner of Labor.

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.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessment of materiality and risk for the period January 1, 2009 through June 30, 2014, and on specific aspects of the Alarm and Locksmith Industry Program as specified in our objectives. Detailed audit procedures related to objectives I and II relate to the audit period of November 1, 2012, the date upon which responsibility for the Alarm and Locksmith Industry Program was transferred to the Department of Labor, through June 30, 2014. Detailed procedures related to objective III focused on the period of July 1, 2012 through June 30, 2014, addressing the most current financial processes and providing the most relevant and timely recommendations for management.

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Department of Labor's operations. We utilized sampling of transactions to achieve our objectives. To ensure the samples were representative of the population and provided sufficient, appropriate evidence, the random sample methodology was used. We identified specific attributes

for testing each of the samples and when appropriate, we projected our results to the population.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

OBJECTIVE I Ensure that financial reports provided to the Alarm and Locksmith Committee for fiscal years 2013 and 2014 substantially agreed to underlying accounting records.

We reviewed the transfers and financial records underlying the financial reports prepared for the Alarm and Locksmith Committee by Department of Labor financial staff. This included areas such as annual expenditures by account code and monthly totals of deposits, transfers, and expenditures.

Conclusion It appears the financial reports provided to the Alarm and Locksmith Committee for fiscal years 2013 and 2014 substantially agreed to underlying accounting records. However, the reliability of those records may be impacted by control deficiencies identified during our operational audit. See pages 8 through 10 of this report.

OBJECTIVE II

Ensure the Alarm and Locksmith Industry Program complied with all significant laws and regulations.

We documented relevant agency expenditure practices, and tested for compliance with the following statute:

- **59 O.S. § 1800.14**, requiring that the Labor Commissioner shall not expend or transfer any monies from the Alarm and Locksmith Industry Revolving Fund for any purpose not relating to the Alarm and Locksmith Industry Act.

We also documented the Agency's licensing practices, and tested for compliance with significant aspects of the following laws and regulations pertaining to the licensing process:

- **59 O.S. § 1800.7**, setting qualifications for managers of Alarm and Locksmith businesses or branches,
- **59 O.S. § 1800.8**, setting company and individual application requirements and limiting fees to \$250,
- **59 O.S. § 1800.9**, requiring application, payment, and certification of recommendation by the Alarm and Locksmith Committee prior to licensure,
- **OK Admin Code 380:75-3-2**, setting specific application, renewal, testing, and other fees; and setting the license period and requiring initial license fees be prorated, and
- **OK Admin Code 380:73-3-3 through -10**, setting specific licensure requirements related to each relevant profession and position within those professions.

Conclusion

In order to test for compliance with 59 O.S. § 1800.14, we reviewed a sample of 34 program miscellaneous expenditure claims and 10 months of program payroll expenditures to ensure they were made for purposes relating to the Alarm and Locksmith Industry Act. With respect to the items tested, the agency appeared to be in compliance. However, it should be noted that due to the control deficiencies discussed on pages 8 through 10, management does not have assurance that all expenditures were properly approved.

Overall, it appears the agency generally complied with significant laws and regulations related to the Alarm and Locksmith Industry Program. However, we did note several areas for possible improvement related to licensing procedures, which are detailed in the next section.

FINDING AND RECOMMENDATIONS

**Opportunities
for Improvement
in Licensing
Process**

We identified the following issues related to the complex licensing activities within the Alarm and Locksmith Industry Program, resulting in several recommendations for improvement.

- According to 59 O.S. 1800.9, “Upon receiving proper application, payment of the proper license fee, and certification of recommendation by the Alarm and Locksmith Industry Committee, the Commissioner of Labor shall issue a license to the applicant.” While the Agency’s current process is to submit all companies to the Committee for recommendation for licensure, few individual licenses with pending questions are submitted to the Committee for approval. According to our interpretation of 59 O.S. § 1800.9, it appears licenses for all applicants, both companies and individuals, require certification of recommendation by the Committee before a license can be issued.
- 59 O.S. § 1800.8 states that, “An application for a company license shall include the name per business location under which the applicant intends to do business as a licensee.” Audit period applications for company licensure required a manager name and license number per location, but not the business name per location. Staff noted that most companies run all locations under the parent company name, but acknowledged that this information was not collected during the audit period.
- An effective internal control system provides for accurate and reliable records and adequate review of supporting documentation. We reviewed the detailed electronic licensing records and supporting documentation for 45 active licenses, spanning all Alarm and Locksmith professions and positions. These licenses were drawn from a population of 3,954 individual and company licenses reported by management as having been issued during the audit period.

We identified a licensed trainee who had not yet passed the required examination to be licensed as a technician, but was already listed in the licensing database as a technician. Another individual’s license expiration date was one year beyond that allowed by Agency regulations. A staff member explained these were known database errors and likely did not impact the accuracy of the printed license card for each licensee due to certain system conventions.

We also identified an inactive licensee who shares a name with his son. While only the son is approved for an active license, the database system listed both men as active.

Additionally, it came to our attention that some supporting licensing documents are missing due to complications in scanning or accidental deletion during licensing database updates. An update to the licensing database is in development that staff believes will resolve some current system problems.

Failure to address these issues could result in licenses being issued when not appropriate and in general non-compliance with state laws and regulations.

Recommendations:

- We recommend management seek a legal opinion if necessary as to the intent of 59 O.S. § 1800.9. The Agency should then either update its license approval procedures, or seek changes to the relevant statutory language, in order to ensure Committee recommendations of all appropriate license approvals are achieved in compliance with state statute.
- We recommend management update company licensure applications to facilitate collection of business names per location by the licensing division, as required by 59 O.S. § 1800.8.
- Management should review electronic database records for accuracy and work with IT contacts to ensure systemic issues are resolved with future database updates. This includes confirming all supporting documentation is properly retained and backed up as necessary. Review of records should include checking the status of licensees with duplicate names and reviewing expiration dates for reasonableness.

Views of Responsible Officials:

- a) The Oklahoma Department of Labor (ODOL) will issue Alarm and Locksmith licenses, which certifies that an applicant has been tested and qualifies with relevant provisions of the Alarm and Locksmith Industry Act, 59 O.S. §§ 1800.1, *et seq.* Final approval of a license will be contingent upon the Alarm and Locksmith Industry Committee's (Committee) recommendation, pursuant to 59 O.S. § 1800.5(2). Licenses shall be considered fully approved upon recommendation of the Committee.

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- b) The Licensure Program has implemented a procedure to document all names and locations which an applicant plans to do business as.
- c) Prior to the transfer of the Alarm and Locksmith Program to the ODOL, the program was managed using an obsolete AS-400 mainframe system. The ODOL transferred management of the program to a web-based application known as AMANDA, Account Management and Data Automation System. The ODOL encountered issues with data integrity with the transfer of the program from the Oklahoma State Department of Health (OSDH). ODOL has implemented several processes to clean data files to address systemic issues.
 - i. Upgrades have been installed to ensure the AMANDA software environment is functioning in a healthy state and to clean up documented data errors.
 - ii. The Licensure Program has implemented procedures to remove or rearrange (update) content through the license renewal process.
 - iii. ODOL will implement an enhancement to AMANDA on May 21, 2015 to address remaining data integrity (accuracy) and align business processes with 59 O.S. §§ 1800.1 *et seq.*
 - iv. All data files stored on AMANDA live on the Office of Management and Enterprise Services (OMES-ISD) secure server.

OBJECTIVE III

Determine whether the Agency's internal controls provide reasonable assurance that revenue, expenditures (both payroll and miscellaneous), and inventory were accurately reported in the accounting records.

Conclusion

The Agency's internal controls provide reasonable assurance that revenues are accurately reported in the accounting records and generally provide reasonable assurance that payroll expenditures are accurately reported. However, the Agency's internal controls do not provide reasonable assurance that miscellaneous expenditures or inventory were accurately reported in the financial records.

Views of responsible officials are presented in summary at the end of this section.

FINDINGS AND RECOMMENDATIONS

Inadequate Segregation of Duties over Expenditures

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (2014 revision)¹ provides that key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

Duties related to miscellaneous expenditures are not properly segregated due to the following conditions:

- The accountant who posts expenditure vouchers to PeopleSoft also receives the paper warrants back from the Office of the State Treasurer (OST), and these warrants are not independently reviewed by another party.
- There was no documentary evidence to corroborate management's review of detailed expenditure data received from the Office of Management Enterprise Services, Agency Business Services division (ABS).

Management's review and approval of purchases could be circumvented. Without adequate segregation of duties, fictitious payments could be processed and concealed.

¹ Although this publication addresses controls in the federal government, this criterion can be treated as best practices. The theory of controls applies uniformly to federal or state government.

Because management reviews of expenditure data are not documented, this process does not adequately mitigate the risk created by the lack of segregation of duties related to expenditures.

Recommendation: We recommend management segregate duties to ensure individuals who have access to post expenditure vouchers in PeopleSoft do not receive warrants back directly from OST. In addition, management should document reviews of expenditure data, such as with a signature and date on the report or claims reviewed, if they intend to rely on that review as a mitigating control.

**Inadequate
Segregation
of Duties
over
Inventory**

The GAO *Standards for Internal Control in the Federal Government* (2014 revision) provide that key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event. In addition, the Standards also provide that in order to safeguard vulnerable assets, such assets should be periodically counted and compared to control records.

The agency has not segregated key duties related to inventory. The following conflicting conditions were identified:

- The accounts payable accountant has the ability to initiate purchases, process payments, and modify inventory records.
- The legal assistant with primary responsibility for inventory records has the ability to modify inventory records and dispose of assets.
- The agency's physical inventory count is not consistent and is not adequately documented.

The lack of adequate internal controls provides the opportunity for the inventory to be misstated or misappropriated without detection.

Recommendation: We recommend management segregate duties to ensure that no one individual can initiate purchases, process payments, modify inventory records, and dispose of assets. We also recommend that management ensure a comprehensive annual physical inventory count is performed and documented by someone independent from purchasing assets, maintaining inventory items or inventory records, or disposing of surplus assets.

**Documentation
of Payroll
Transactions**

The GAO *Standards for Internal Control in the Federal Government* (2014 revision) provide that internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination.

We noted the following conditions related to payroll claims and personnel transactions:

- We tested 9 of Agency's 30 payroll claims and supporting documentation (3 from FY 13; 6 from FY 14), none included documentary evidence of the key control that the payroll warrant had been compared to the Monthly Activity Sheet (or other information) to ensure that personnel changes were properly reflected in the payroll.
- We also tested 54 of the Agency's 242 audit period personnel transactions, such as new hires and promotions. Out of the 54 personnel transactions tested (25 from FY 13; 29 from FY 14), 13 transactions (24% of transactions tested) did not have adequate documentation in the employee's HR file to indicate the transaction had been properly approved. For purposes of our testwork, adequate documentation was considered to be a New Hire/Budget Salary Request form, a Personnel Action form, or alternate documentation clearly indicating approval of the transaction. Management was able to provide documentation of approval for the 13 transactions in various forms at the end of the audit, but this may still present a cause for concern with the agency's recordkeeping; as stated above, documentation should be readily available for examination.

While the deputy commissioner's review of payroll documentation includes ensuring payroll changes have been properly made, proper documentation of approvals and key reviews is essential to the internal control process. Failure to consistently document pertinent reviews reduces the ability to rely on these processes as a control to ensure personnel changes have been appropriately made. This also increases the risk that inappropriate or unapproved personnel changes could be made and go undetected.

Recommendation: We recommend management ensure the review and comparison of the payroll warrant register is documented, for example by having the reviewer sign a review checklist or initial the reports reviewed. We also recommend management ensure approval of personnel changes is consistently documented in personnel files using the agency's New Hire/Budget Salary Request and Personnel Action forms.

**Views of
Responsible
Officials**

- Control deficiencies have been rectified subsequent to the audit period with emphasis given to the review and approval process.
- Inadequate segregation of duties was due to the staffing levels in relation to staff turnover in FY14. The responsibilities have already been shifted to another department allowing for proper segregation.
- The FY16 physical inventory will be conducted in alignment with recommendations.
- Key control over payroll preparation and documentation has now been rectified in accordance with audit recommendations.
- Documentation for the HR test cases has been provided.



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