

# OKLAHOMA DEPARTMENT OF MINES

FOR THE PERIOD  
JANUARY 1, 2007 THROUGH  
DECEMBER 31, 2008

# OPERATIONAL AUDIT



Oklahoma State Auditor  
& Inspector

**Audit Report of the  
Oklahoma Department of Mines**

**For the Period  
January 1, 2007 through December 31, 2008**

# STATE AUDITOR AND INSPECTOR

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September 3, 2009

## **TO THE OKLAHOMA MINING COMMISSION**

Following is the audit report of the Oklahoma Department of Mines for the period January 1, 2007 through December 31, 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

**Mission Statement**

The mission of the Oklahoma Department of Mines is to protect the environment of the state, to protect the health and safety of the miners and to protect life, health, and property of the citizens who are affected through enforcement of the state mining and reclamation laws.

**Mining Commission**

George Fraley ..... Chair  
J. Clement Burdick III ..... Vice-Chair  
Bill David Donoley..... Secretary  
Kris Kinder ..... Member  
Bill Willis ..... Member  
Jan Kunze ..... Member  
Larry A. Ennis ..... Member  
Ron Cunningham ..... Member  
Timothy David Lochridge ..... Member

**Key Staff**

Mary Ann Pritchard ..... Executive Director  
Doug Schooley ..... Deputy Director  
Suzen Rodesney..... Chief Financial Officer

**Oklahoma Department of Mines  
Operational Audit**

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**Background**

The Oklahoma Department of Mines (Agency) is responsible for ensuring the reclamation of land disturbed by mining operations. The Agency regulates the production of coal and non-fuel minerals by enforcing and implementing various provisions of state and federally mandated programs in health, safety, mining and land reclamation practices associated with surface and subsurface mining.

The Agency has a central office in Oklahoma City and field offices located in McAlester, Poteau and Wagoner. They are governed by a nine member commission which meets six times a year.

Table 1 summarizes the Agency's sources and uses of funds for fiscal years 2007 and 2008.

**Table 1 - Sources and Uses of Funds for Fiscal Years  
2007 and 2008**

<b>Sources</b>	2007	2008
State Appropriations	\$997,464	\$1,013,586
Mines Operator Fee	734,539	748,840
Mining Permit Fee	133,115	144,953
Penalties	12,579	24,638
Federal Revenue	947,056	1,009,048
Other Sources	<u>5,740</u>	<u>129,115</u>
Total Sources	<u>\$2,830,493</u>	<u>\$3,070,180</u>
<b>Uses</b>		
Personnel Services	\$2,221,873	\$2,275,037
Professional Services	10,758	315,585
Travel Expenses	144,779	36,663
Miscellaneous Administrative	77,870	86,135
Maintenance and Repair	11,331	30,535
Production, Safety, Security	2,060	2,775
General Operating	20,956	29,007
Rent	198,636	188,376
Other Uses	<u>173,107</u>	<u>77,505</u>
Total Uses	<u>\$2,861,370</u>	<u>\$3,041,618</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 state officers whose duty it is to collect, disburse or manage funds of the state.

The audit period covered was January 1, 2007 through December 31, 2008.

We selected our samples in such a way that whenever possible, the samples are representative of the populations and provide sufficient evidential matter. 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 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 1 – Determine whether 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.C.2.a and 62 O.S. 7.1 E.1.**

**Conclusion**

The Agency’s internal controls:

- Generally provide reasonable assurance that revenues were accurately reported in the accounting records;
- Provide reasonable assurance that expenditures were accurately reported in the accounting records; and
- Do not provide reasonable assurance inventory was accurately reported in the accounting records.

Financial operations complied with the following statutes:

- 62 O.S. § 7.1.C.2.a - adequate safeguarding of receipts awaiting deposit; and
- 62 O.S. § 7.1.E - monthly transfers from the clearing account.

**Methodology**

To accomplish our objective, the following was performed:

- Documented internal controls related to the revenue, expenditure, and inventory processes;
- Tested controls which included:
  - Determining the Agency’s clearing account and 1125A account<sup>1</sup> was reconciled on a monthly basis to the State Treasurer’s Office by someone independent of the cash receipting process;
  - Reviewing a haphazard sample of five Office of State Finance (OSF) – form 11 reconciliations (clearing account) and five OSF form 11A reconciliations (1125A fund) to ensure the reconciliations were mathematically accurate, agreed to supporting documentation<sup>2</sup>, reconciling items appeared reasonable, and were performed timely;
  - Determining the Agency reconciled their clearing account to PeopleSoft

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<sup>1</sup> When an entity begins a mining operation, they must place funds in escrow with the Agency. If the entity chooses not to restore the land to its original condition after mining operations have ceased, these funds are used for the restoration. The 1125A account is where these funds are maintained.

<sup>2</sup> The supporting documentation reviewed included a report prepared by the employee receipting funds as well as a separate report prepared by another employee responsible for depositing the funds. The totals from both reports were traced to the amounts deposited per the State Treasurer’s Office.

- accounting records on a monthly basis;
  - Reviewing a random sample of 25 expenditure claims to ensure they were properly authorized. This included ensuring the invoice supported the payment, the invoice was mathematically accurate, the correct account code was used, and the expenditure was reasonable given the Agency's mission;
  - Determining if the employee receiving the warrants from OSF was independent of the posting and approval process;
  - Reviewing 10 expenditure claims from the 1125A account to ensure the payment request form was properly authorized and the warrants contained two authorized signatures.
- Observed a PeopleSoft deposit report to ensure funds were transferred from the clearing account to the fund at least once per month as required by 62 O.S. § 7.1.E.1; and
  - Observed location of funds prior to deposit to ensure compliance with 62 O.S. § 7.1.C.2.a.

**Observation**

**Failure to Perform Timely Reconciliations**

An effective internal control system provides for periodic comparisons to be made between related accounting documents for consistency (reconciliations). These comparisons should occur in a timely manner to identify potential variances. The clearing account (OSF Form 11) and 1125A account (OSF Form 11A) reconciliations were not performed on a consistent basis, nor were they performed in a timely fashion.

Management was unaware of the risks created by not ensuring there was a timely reconciliation of funds. Variances could occur and not be detected in a timely manner.

**Recommendation**

We recommend reconciliations for the clearing account and the 1125A account be performed once a month immediately following the month's end.

**Views of Responsible Officials**

It is true that monthly Treasury reconciliations did not occur timely during a portion of the audit period. The employee who was assigned that duty resigned from employment at the Dept. of Mines. It was several months before a replacement employee was hired. Subsequently, the new employee has not been assigned that duty, since there is not any prior job experience that gives the CFO any assurances that this duty could be assigned and completed accurately. The CFO has been the only employee with the skills and knowledge to perform this task. This task was in addition to the regularly required duties of the CFO. As a result, the reconciliations have not been performed timely. However, there were not any variances discovered at the time of reconciliations, and all funds have been properly and accurately accounted for during the reconciliation period.

**Action Plan:**

As a result of this deficiency, the Department of Mines has decided to cross train another individual within the Finance division who would be independent of the revenue duties. The CFO has begun to write a procedures guide for the proper completion of this task.



**Observation**

**Inadequate Segregation of Duties Related to Inventory**

An effective internal control system provides for accurate and reliable records as well as adequate segregation of duties. The accountant II has the ability to have the following duties:

- Purchasing of inventory;
- Receiving purchased items from vendors; and
- Inventory recordkeeping functions which include completing the surplus forms.

Additionally, the Agency has not performed a periodic comparison of actual inventory to its recorded inventory records.

The Agency was unaware of the risks created by not ensuring there was an adequate segregation of duties and a periodic inventory count. Deficiencies such as these increase the risk that misappropriations of assets may occur.

**Recommendation**

We recommend:

- An employee without the ability to create purchase orders or make purchases be responsible for maintaining the Agency's inventory records;
- Someone other than the employee responsible for maintaining the inventory records begin performing a physical inventory count of the Agency's inventory and comparing it to the accounting records for discrepancies. This physical inventory count should be performed at least annually. If discrepancies are noted, the chief financial officer or designee should investigate and resolve. The Agency should also retain documentation to support who performed the count, when the count was performed, and any discrepancies noted during the count; and
- An employee without the authority to update inventory records should be responsible for completing the Department of Central Services' Form 001 (surplus).

**Views of Responsible Officials**

There are some misinterpreted lines of duty as explained above. While the Accountant II (also the agency Certified Procurement Officer) completes the purchase orders for the agency within the Peoplesoft system, a requisition signed by a supervisor initiates the purchase. Additionally, the Chief Financial Officer or agency Director approves and signs the purchase orders. When the goods are received by the agency, the Accountant II is only ONE of the individuals who may receive the goods. Other staff who receives the goods may be the Chief Financial Officer or the Accounts Payable Accountant. Additionally, any items received in the field are verified when received. Packing slips are dated and approved or notated if there are discrepancies, and forwarded to the Oklahoma City office. Not all items received for the Dept. of Mines are received SOLELY by the Accountant II.

Additionally, initiating the surplus process IS NOT a duty of the Accountant II. The surplus process is initiated by a field administrator, the Deputy Director or the Chief Financial Officer. The Accountant II's duty in completing the form for approval by the Director, Deputy Director or the Chief Financial Officer are clerical in nature. The



Accountant II will verify the information such as ID #, serial # and purchase date prior to approval by the above listed parties.

The agency is aware that a physical inventory has not been taken in several years. The agency also concurs that therefore, the inventory records are not accurately reflected, since there has not been a verification of the items on record. The agency moved in October 2007, and DCS gave approval to dispose of broken, invaluable or useless equipment that had been in the agency's possession for up to 30 years. With the quick moving timetable that was provided for our agency, the Department can agree, that due to oversight, some of the items that were disposed of prior to the agency move, and did not get deleted from the agency inventory list.

**Action Plan:**

As of July 1, 2009, all items that the Department of Mines receives are now verified with the Receptionist. She will check against an enclosed or attached packing slip for accuracy in shipping. The goods will then go to the Accountant II for distribution as indicated on the purchase order or attached requisition. Items received in the field will be reviewed at receipt and verifying documentation will be forwarded to the Oklahoma City office for attachment with the other documents maintained in the inventory records. The Accountant II is no longer receiving any items ordered by the Department of Mines.

The Director, Deputy Director or Chief Financial Officer will be the final preparers of the DCS surplus forms. Since DCS has gone to a paperless procedure, involving the electronic submittal of this form, these three approvers will be the individuals submitting the surplus equipment forms. This will also be supported by the approval email returned from DCS, who will submit it to the name provided on the surplus form.

The agency will have a physical inventory taken this fiscal year. Any discrepancies will be noted, and with the acceptance of DCS, will be corrected, thus accurately reporting the agency inventory items. Staff who are not involved in the approval, purchase, payment or record keeping of inventory will be assigned to this task.

## Additional Procedures Performed

### Methodology

As a result of the control deficiencies identified under objective 1 of this report, the following procedure was performed:

- Selected all 44 high-appeal (laptop computers, digital cameras, etc.) items from the Agency's inventory listing and physically observed the items.

### Observation

#### Missing Inventory Items

An effective internal control system provides for accurate and reliable records. Of the 44 "high appeal" inventory items (historic cost totaling \$41,606) selected, the following was noted:

- 14 items were unaccounted for. Management stated three items were stolen (historical cost totaling \$1,330), seven items were thrown away (historical cost totaling \$6,291), and four items were lost (historical cost totaling \$4,484). There is no supporting documentation related to any of the discrepancies.

Management was unaware of the risks created by not maintaining an accurate inventory listing. Poor record keeping could allow for misappropriation of assets to occur and not be detected in a timely manner.

**Recommendation**

We recommend:

- Management review the exceptions discussed above and perform necessary procedures to correct these errors. If the explanations identified above are accurate, approved documentation should be created discussing the situation and the items should be removed from the inventory listing; and
- Appropriate documentation be created and retained when an item is lost, stolen and/or surplus.

**Views of Responsible Officials**

As previously stated, when the agency moved in October 2007, the Dept. of Central Services gave approval to dispose of old, broken and otherwise useless equipment prior to our move. Some of these items were inadvertently neglected to be placed on the proper documentation at the time of the move, and are therefore still reflected on the agency inventory. Other items the agency was aware of their absence, but did not have proper documentation on record that reflected the status of the equipment. Some of the items are so old (30 years) that no one on staff knows the status of the items. The agency concurs that necessary procedures correct these errors and omissions. The agency concurs that appropriate documentation be created and retained when inventory is lost, broken or stolen.

**Action Plan:**

The agency will create documentation to account for the items not found in our possession. The inventory records will be maintained to reflect these actions. Additionally, the Department will develop a procedure and documentation that will support the action plan, thus maintaining an accurate inventory record. The Department will use the next fiscal year to implement and test the procedures and documentation developed.



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