



LIQUEFIED PETROLEUM GAS BOARD

Operational Audit

July 1, 2017 through June 30, 2019

Cindy Byrd, CPA
State Auditor & Inspector

**Audit Report of the
Liquefied Petroleum Gas Board**

**For the Period
January 1, 2017 through June 30, 2019**

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July 15, 2020

TO THE LIQUEFIED PETROLEUM GAS BOARD

We present the audit report of the Liquefied Petroleum Gas Board for the period of January 1, 2017 through June 30, 2019. 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 "Cindy Byrd".

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR



Liquefied Petroleum Gas Board Operational Audit

Background

The mission of the Liquefied Petroleum Gas Board (LP Gas or the Agency) is to protect the health and welfare of the citizens of the State of Oklahoma and to promulgate rules relating to safety compliance in storage, distribution, dispensing, transporting and utilization of Liquefied Petroleum Gas (LPG) in this state and in the manufacture, fabrication, assembly, sale, installation or use in this state of LPG systems, containers, apparatus or appliances.

Oversight is provided by seven board members (Board) appointed by the governor. Each member serves a term of four years.

Board members as of April 29, 2020 are:

Kevin Fronman.....	Chairman
David Root.....	Vice Chairman
Amy Toney	Member
Troy Earnheart	Member
Rex Gilbreath.....	Member
Kyle Clayton.....	Member
Travis Lamborn.....	Member

The Office of the Secretary of Energy & Environment (OSEE) also provides oversight to LP Gas. OSEE was formed to serve as the Governor's chief advisor on energy and environmental issues. Additional duties have been provided by state statute (74 O.S. § 10.3), including coordination and oversight of the state's energy and environmental agencies and serving as the recipient of Federal Clean Water Act funding.

Liquefied Petroleum Gas Board Operational Audit

The following table summarizes the Agency's sources and uses of funds for fiscal years 2017, 2018 and 2019 (July 1, 2016 through June 30, 2019).

Sources and Uses of Funds for FY 2017 through FY 2019

	2017	2018	2019
Sources:			
Liquefied Petroleum Permit & Fees	\$ 537,316	\$ 801,263	\$ 950,010
Total Sources	<u>\$ 537,316</u>	<u>\$ 801,263</u>	<u>\$ 950,010</u>
Uses:			
Personnel Services	\$ 497,715	\$ 504,055	\$ 643,526
Administrative Expenses	77,111	110,140	114,541
Professional Services	36,851	31,904	41,146
Travel	10,686	13,086	14,043
Assistance, Payments to Local Govn'ts	444	26,367	18,911
Property, Furniture, Equipment	3,412	-	6,814
Transfers and Other Disbursements	679	858	600
Total Uses	<u>\$ 626,898</u>	<u>\$ 686,410</u>	<u>\$ 839,581</u>

Source: Oklahoma PeopleSoft accounting system (unaudited, for informational purposes only)

Please note:

1. The fluctuations in revenues appear to be related to the delay in invoicing and later collection of the related receivables discussed in the report.
2. Per statewide accounting records, increased expenditures appear to be due in large part to the Agency hiring a new Administrator at a higher rate and hiring more permanent staff.

Liquefied Petroleum Gas Board Operational Audit

Scope and Methodology

Our audit was conducted in response to 74 O.S. § 212, which requires the State Auditor and Inspector's office to audit the books and accounts of all state agencies whose duty it is to collect, disburse, or manage funds of the state.

Except as noted in the scope limitations discussed below, 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, 2017 through June 30, 2019. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Liquefied Petroleum Gas Board operations.

Due to the scope limitations of key staff turnover, ongoing process changes, and concerns about database and documentation reliability, we were unable to perform procedures as planned or to develop alternative objectives or analytical procedures that would be effective given these limitations. Details are discussed in the report.

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.

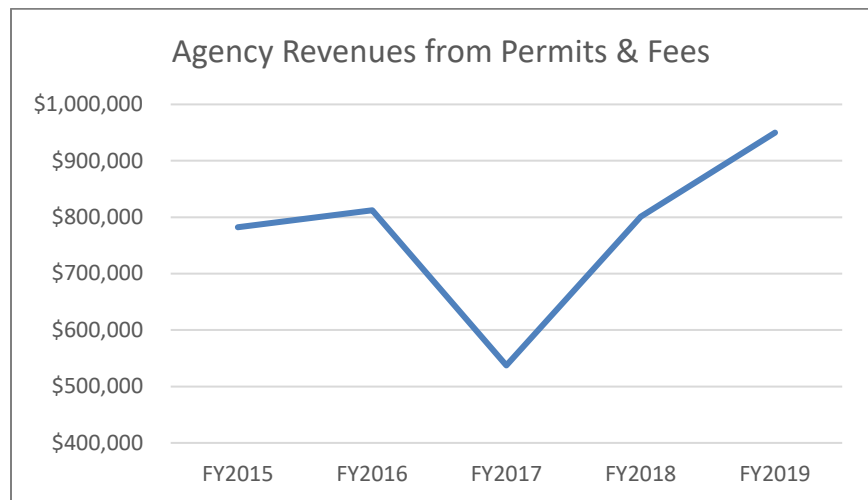
Initial
Objective
and
Procedures
Performed

During our planning process, we identified some concerns with the Agency’s revenue stream and personnel turnover. At that time we believed we could obtain sufficient evidence to address our audit objective, which was to:

Determine whether the agency’s internal controls provide reasonable assurance that revenues and payroll expenditures were accurately reported in the accounting records.

We met with the Agency’s staff, management, and cabinet secretary, and endeavored to document the relevant audit period financial and overall processes to the greatest extent possible. During these discussions, we gained additional information relating to our concerns:

- **Turnover:** The previous Administrator left the Agency in March 2018. After a brief interim period during which the agency received guidance from OMES, the current Administrator took the position in June 2018. The executive secretary who was solely in charge of all financial transactions during the majority of the audit period went on FMLA in September 2018 to December 2018 and then later permanently departed the Agency in January 2019, leaving untrained temporary personnel to carry out the daily financial needs of the Agency.
- **Revenue Concerns Under Previous Executive Secretary:**
 - The audit period executive secretary mentioned above neglected to send numerous invoices between FY 2016 through FY 2018; this was realized only when revenues trended downwards. The physical invoices were eventually found by current staff, who are still struggling to determine what invoices have been paid. The following graph (based on reports from the statewide accounting system) shows the resulting revenue fluctuations.



- Staff reported that the executive secretary left deposits in the safe for weeks before taking them to the bank for deposit.
- The remaining staff members do not have a clear idea of the processes followed by the audit period executive secretary, and given that she did not complete an integral process such as invoicing, and had a personal relationship with the previous Administrator (which suggests inadequate supervision), her processes may not have been sound.
- The Agency's database used to track permits is outdated and unable to produce reports that contain a complete listing of permits that have been issued to customers. Tracking active permits in the LP Gas industry is of course integral to the mission of this Agency; OK Administrative Rule 420:10-1-1 requires all persons who make, sell or transport LP gas appliances to have a permit.

Personnel reported the database is not user friendly, does not reliably maintain data – to the extent even that staff reported customers' information being sporadically deleted by the system – and does not produce reports that can be used for financial reconciliations. The state of this database likely played a part in allowing the unsent invoices to go undetected, and surely impacts the ability of safety officers in the field to perform inspections and related duties at all relevant locations.

- The reliability of other audit period documentation is called into question by the above concerns.

**Partial
Conclusion
and
Moving
Forward**

We *were* able to use statewide accounting records to ensure the Agency complied with 74 O.S. § 3601.2, which sets guidelines for the Administrator's salary.

Due to the key staff turnover, ongoing process changes, and concerns about database and documentation reliability, we were unable to fulfill the rest of the scope of procedures set forth in our objectives, or to develop alternative objectives or analytical procedures that would be effective given these limitations.

In addition to the information discussed in this report, a few other concerns were brought to our attention regarding Agency activities that we were not able to verify given the scope limitations. We have provided those concerns to those charged with governance in additional correspondence.

Going Forward

The Agency's current Administrator and staff were helpful and courteous during our procedures, and have been working to improve internal practices and to recover the permitting data and establish online permit renewals. They also partner with OMES ABS for some financial services; in fact, an ABS representative first identified the revenue fluctuations and brought them to the Agency's attention.

Once the Agency's permitting data is restored and related processes have stabilized, a future audit can and should be conducted.



Best
Practices
and
Guidance
for the
Future

While we were unable to conclude on our objectives and formulate specific recommendations, we would like to provide some guidance to assist the Agency as it generally improves its processes and data retention.

Best Practices for Regulatory Agencies

The following practices for licensing and regulatory agencies were set forth by the National State Auditors Association (NSAA)¹ and could aid the Agency as it updates its policies and procedures. The entire document is available online for further reference regarding standard setting formal permitting processes, and monitoring.

- Require applicants to submit an application or renewal form, and any supporting documents needed to help determine whether the applicant is qualified.
- Issue licenses/permits on a timely basis and for a specified period of time to applicants who meet requirements and collect any applicable fees.
- Track and oversee the application process to ensure that applications are handled as intended and don't get lost, and that the amount of fees collected reconciles to the number of licenses and permits issued.
- Maintain a record of the applications and supporting documents submitted, the screening process followed and its results, the licenses or permits held.

Inspection Process Best Practices

Given that the Agency is currently undergoing changes in key processes, we have also provided additional best practices from the NSAA for monitoring the inspection process:

¹ A National State Auditors Association Best Practices Document-Carrying Out a State Regulatory Program, published 2004. https://www.nasact.org/nsaa_best_practice_docs.

1. Develop standard criteria or categories for types of violations, their seriousness, and required corrective actions with timelines and repercussions for not taking those actions.
2. Set up a schedule for periodically inspecting regulated people/entities. Factors to consider include frequency to provide reasonable safeguards to the public, taking a risk-based approach, and complying with legal and regulatory requirements.
3. Provide formal written notification to the person/entity that was inspected about the final results of the inspection, including any violations and corrective action requirements.
4. Track the inspections conducted, violations found, and actions taken to ensure that they are being addressed appropriately and that things don't slip through the cracks.
5. Maintain a record of the monitoring process and its results and make those results available to inspectors for future inspections so they are aware of the licensee's inspection history and past violations.
6. Provide formal training to new inspectors and periodic training to all inspectors on how to use, interpret, and apply these standardized checklists or guides accurately, consistently, and fairly.

Internal Controls Best Practices

It is also important that those charged with governance of the Agency ensure appropriate internal controls are in place, emphasizing proper segregation of key duties or, where that is not practical, designing alternative control activities to address the risk. Detailed guidance can be found in both Oklahoma's Statewide Accounting Manual² and the Government Accountability Office's Standards for Internal Control³. A reliable database containing a complete and up to date record of permitting activity is integral for performing and monitoring the above practices.

**Agency
Response**

While this report contains no specific recommendations that require the response of those charged with governance, management confirmed they are progressing toward resolving the issues outlined. They anticipate having on-line permit renewals available by July 2020 and are actively evaluating software systems that can be adapted for the Agency's further needs.

² Latest version as of this report published January 2020. Manual available online at <https://omes.ok.gov/services/accounting-reporting>.

³ Standards are available on the GAO website, <https://www.gao.gov/products/GAO-14-704G>. Published September 2014.

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