

OPERATIONAL AUDIT

OKLAHOMA LIQUEFIED PETROLEUM GAS BOARD

For the period January 1, 2008 through July 31, 2011



*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 Liquefied Petroleum Gas Board
For the Period
January 1, 2008 through July 31, 2011**



Oklahoma State Auditor & Inspector

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April 12, 2012

TO THE OKLAHOMA LIQUEFIED PETROLEUM GAS BOARD

This is the audit report of the Oklahoma Liquefied Petroleum Gas Board for the period January 1, 2008 through July 31, 2011. 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.

Sincerely,

A handwritten signature in blue ink, appearing to read "Gary A. Jones".

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

Oklahoma Liquefied Petroleum Gas Board
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Background

The Oklahoma Liquefied Petroleum Gas Board (the Agency) is responsible for regulating the industry within the state and issuing dealer and manager permits after applicants qualify by written examination, in accordance with the Oklahoma Liquefied Petroleum Gas Regulation Act (52 O.S. § 420.1-17). It also executes and enforces all laws relating to the handling, issuing, storing, selling, distributing, transporting, and manufacturing of butane, propane, and other liquefied petroleum gases and installation of liquefied petroleum gas systems.

Oversight is provided by a seven member board (Board), each appointed by the governor, and all members serve four-year terms.

Board members¹ are:

Bill Ballard..... Chair
 Kevin Huddleston..... Vice-Chair
 David Root.....Member
 Ed Kelsay.....Member
 Greg Baker.....Member
 Lance Steven.....Member

Table 1 summarizes the Agency’s sources and uses of funds for state fiscal years 2011 and 2010 (July 1, 2009 through June 30, 2011).

Table 1 - Sources and Uses of Funds for SFY 2011 and SFY 2010

	2011	2010
Sources:		
Liquefied Petroleum Permit and Fee	\$ 711,595	\$ 668,696
Total Sources	\$ 711,595	\$ 668,696
Uses:		
Personnel Services	\$ 531,220	\$ 523,221
Professional Services	22,015	18,036
Miscellaneous Administrative	27,610	32,179
General Operating	3,251	3,744
Travel	11,334	8,028
Rent	45,976	42,474
Office Furniture and Equipment	7,936	905
Other	5,926	8,078
Total Uses	\$ 655,268	\$ 636,665

Source: Oklahoma PeopleSoft Accounting System (unaudited, for informational purposes only)

¹ One board member position is vacant and awaiting appointment by the governor.

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**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 all state agencies whose duty it is to collect, disburse or manage funds of the state.

The audit period covered was January 1, 2008 through July 31, 2011.

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 selected our samples in such a way that whenever possible, the samples are representative of the populations and provide sufficient evidential matter. 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 - Determine whether the Agency's internal controls provide reasonable assurance that revenues, expenditures (including payroll), and inventory were accurately reported in the accounting records, and financial operations complied with 52 O.S. § 420.11.A and 74 O.S. § 3601.2.A.3.

Conclusion

The Agency's internal controls provide reasonable assurance that payroll expenditures were accurately reported in the accounting records; however, they do not provide the same assurance for revenues, miscellaneous expenditures, or inventory.

Financial operations complied with the following statutes:

- 52 O.S. § 420.11.A – 10% transfer of the total amount collected from fees and funds to the credit of the state's general revenue fund. (It should be noted that because of the lack of segregation of duties related to revenues discussed in this report, controls were not in place at the Agency to ensure that all revenues received were deposited. Therefore, our procedures could be designed only to ensure that 10% of revenues receipted and deposited appeared to have been properly transferred.)
- 74 O.S. § 3601.2.A.3 – statutory limit on executive salaries.

Methodology

To accomplish our objective, we performed the following:

- Obtained an understanding of internal controls related to the receipting, expenditure, payroll, and inventory processes as well as the financial processes relevant to the significant statutes through discussions with Agency personnel, observation, and review of documents.
- Tested controls using the following procedures:
 - Reviewing payroll documentation from a random selection of 14 months to determine whether payroll expenditures were properly approved and payroll changes were properly reflected.
 - Reviewing all 21 payroll changes from the audit period to ensure changes were properly approved by the administrator.
- Recalculated the amounts transferred to the state’s general revenue fund to ensure 10% of all the fees receipted and deposited by the Agency were transferred as required by 52 O.S. § 420.11.A.
- Reviewed audit period payroll information in the accounting system to ensure the administrator’s annual salary did not exceed the maximum limit set forth in 74 O.S. § 3601.2.A.3.

Observation

Inadequate Segregation of Duties
in the Revenue Process

The United States Government Accountability Office’s (GAO) *Standards for Internal Control in the Federal Government*² states in part, “Key duties and responsibilities need to be . . . segregated among different people to reduce the risk of error or fraud. . . . No one individual should control all key aspects of a transaction.”

The administrative assistant is responsible for the following in the revenue process:

- Periodically receipting payments
- Issuing cylinder tags
- Preparing invoices and records for inspection stickers and cylinder tags
- Monitoring the issuance of inspection stickers and cylinder tags by safety inspection officers
- Preparing the bank deposit
- Posting deposits into the PeopleSoft accounting system
- Preparing the monthly clearing account reconciliation

This situation is complicated further in that the administrative assistant is married to the employee responsible for issuing permits, which account for nearly 50% of the Agency’s total revenue during the audit period.

² 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.

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Management believed they had appropriate segregation of duties in place and did not consider a husband and wife relationship between employees to be a risk to the revenue process, despite the fact that one is responsible for preparing deposits, and the other for issuing licenses. Overall, management has no assurance that funds received are ultimately deposited.

Recommendation The administrator should develop a process to compare a complete list of inspection stickers, cylinder tags, and permits issued and renewed to revenues deposited (actual bank receipts) to ensure receipt and deposit of payments for all transactions. A record of the comparison should be retained. If it is determined that this recommendation is not feasible, other mitigating controls should be developed and implemented to address the deficiency.

Assuming this recommendation is implemented, the administrator should also perform a detailed review of the monthly clearing account reconciliation. In addition, the administrator and the Board should assess the risks associated with a husband and wife working together with related duties in a small entity and consider whether it is in the best interest of the Agency.

Views of Responsible Officials

The agency Administrator will implement a process of more comparisons regarding the truck inspection tags, cylinder tags and tank tags, making sure the receipt and deposit of payments is accurate. The Administrator will also review all monthly clearing account reconciliations. However, neither the Administrator nor the Board has ever had any reason to doubt whether there have been any risks associated with the husband and wife working together. No permit holder, cylinder tag purchaser, etc., has ever complained of not receiving their permits or goods in exchange of funds, nor have they reported that their checks were endorsed in any way other than this agency's deposit endorsement. All permits issued, new as well as renewed, must have a receipt issued and retained in the files. Again, there have never been any discrepancies reported or found. You stated "overall, management has NO assurance that funds received are ultimately deposited." But, management and your audit did not find any evidence that all funds have not been deposited. We will continue to improve reconciliation of accounts.

Auditor's Response Despite management's assertion they have no evidence to support funds being mismanaged, part of our responsibility as auditors is to identify internal control deficiencies and the associated risks.

Observation

Officers Depositing Funds to Personal Bank Accounts

52 O.S. § 420.11 A. requires in part that "all funds and fees, from whatever source derived . . . shall be deposited into the Liquefied Petroleum Gas Fund."

When safety inspection officers receive a cash payment for performing inspections or issuing cylinder tags, they deposit the cash into their personal bank account and write personal checks to the Agency. This process is designed in this manner to avoid sending cash through the mail.

This practice combined with the deficiency identified in the preceding observation creates an opportunity for assets to be misappropriated.

Recommendation Management should develop a policy that requires all receipting functions to be centralized at the Agency's Oklahoma City office.

Views of Responsible Officials This agency is in the process of developing a policy requiring all receipting functions be done at the Agency's Oklahoma City office. The field officers were notified by e-mail and telephone as of January 24, 2012, to no longer accept cash for payment.

Observation **Inadequate Recordkeeping Related to Inspection Stickers**

An effective internal control system provides accountability related to Agency processes.

Safety inspection officers are issued sequentially numbered inspection stickers annually. Informal Agency policy requires they return any unissued stickers at the end of the renewal period. Procedures performed indicate:

- 100 inspection stickers with a value of \$15,000 are unaccounted for during the audit period. Approximately 4,500 inspections occurred during this time frame.
- Officers often transfer their assigned stickers to other officers without documenting the transfer.

Conversation with two officers revealed they did not consider transferring the stickers or not returning unissued stickers to be a risk. By allowing the transfer of assigned stickers to other officers, the Agency is creating an atmosphere of opportunity in which stickers could be misappropriated.

Recommendation Management should develop a formal policy related to the inspection stickers which includes ensuring:

- Transferred stickers are documented and the administrative assistant is notified of the transfer
- Any unissued stickers are returned to the administrative assistant at the end of the renewal period
- Any stickers which are damaged during the renewal period are documented and the administrative assistant is notified of the situation

Further, each year, the administrator should ensure there are no unexplained gaps in the sticker numbering and unissued stickers are properly accounted for.

Views of Responsible Officials The Liquefied Petroleum Gas Administration will be implementing a new formal policy related to truck inspection stickers. It will include the following:

1. Check the printing of the stickers (labels) when the order is received from the manufacturer for:
 - a. Condition, making sure the label is not creased and should stick to the surface

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- b. Correct sequence, making sure there are no missing labels and they are numbered correctly
2. Check out and inventory the requested number of labels to each officer with receipt to officer and copy to the administrator. The requested number of labels will be added to each officer's official inventory.
3. Officers are to notify the office each time a sticker is missing and why, this includes damaged, destroyed, or misplaced. The officers are to notify the office if any tags in their possession are transferred to another officer. The officer's name and the date of the transfer must be provided. Also, the office is to be notified of any other action regarding the tags.
4. After each truck inspection season ends each year, all labels are to be returned to the office from that year. Each officer is to present an accounting to the executive assistant or administrator of each tag they received from the office or by transfer.

In regards to the 100 stickers from the audit period that are missing or unaccounted for, none of these have ever appeared on a transport or bobtail entering the State of Oklahoma. These stickers are worthless in other states at anytime and they are also worthless as of August of a previous year.

The Agency has every intention of ensuring that there are no unexplained gaps in the sticker numbering and unused tags are properly accounted for.

Observation

Daily Deposits Not Occurring – Repeat Finding

62 O.S. § 34.57.C.1 requires that "receipts of \$100.00 or more shall be deposited on the same banking day as received."

From conversations with staff and review of three haphazardly selected deposits from throughout the audit period, it appears it is the Agency's practice to deposit funds, which most often exceed \$100, approximately two to three times per week. Management attributes the delay to an insufficient number of staff. The Agency is not in compliance with state law.

Recommendation

Management should develop procedures to ensure compliance with 62 O.S. § 34.57.C.1. Consideration could be given to establishing a "cut off" time when funds received after a certain point in the day are considered to be part of the following day's business.

Views of Responsible Officials

The agency does and will make every effort to deposit checks/cash on the same day received but it is almost an impossible task. Our agency mail is received anywhere from noon to 4:00 p.m. The mail is immediately opened and date stamped. During certain times of the year, it takes up to 3 hours or longer to open the mail. As per the recommendations of previous audits, our checks, cash and receipts then go through 3 hands and a separate person takes the deposits to the State Treasurer's Office at the State Capitol. It was recommended that one person write the receipts, which is our Department Secretary, the checks and receipts are then double checked and tape initialed by our Administrator. After

the Administrator reviews, he gives the receipts attached to the checks or cash to the Administrative Assistant, who then separates the monies from the receipts, double checks the tapes and prepares the deposit, both manually and on the CORE system. Copies of all receipts, deposit records and tapes signed by the Administrator are retained in the office for future audits. The deposit is then placed in an official deposit bag, and initialed by the 4th person who takes the deposit to the State Treasurer's Office. The initialed receipt of the 4th person is also retained in the office as part of the deposit records. These steps are completed as soon as physically possible. When any of these 3-4 step employees are out of the office whether for emergencies, sick leave or vacation, it further delays the process. Only in the event of the Department Secretary being out of the office is the Administrative Assistant responsible for writing receipts or receiving funds.

Observation

Inadequate Expenditure Approvals

It is the responsibility of management to maintain an effective internal control system and ensure that expenditure payments are properly authorized. The Agency contracts with the Office of State Finance (OSF) to perform certain accounting functions such as purchasing and posting to the PeopleSoft accounting system. The administrative assistant is responsible for:

- Approving purchases and receiving goods
- Approving invoices for payment
- Receiving and mailing warrants

The administrator reviews the invoices and signs the voucher jackets presented to him. However, he has no assurance that all expenditures have been approved and are appropriate given the mission of the Agency.

Because OSF performs certain accounting functions on behalf of the Agency, the administrator believes OSF would alert him to a potential, inappropriate expenditure. Misappropriations could occur and not be detected in a timely manner.

Recommendation

Each month, the administrator should request OSF provide him the "six digit detailed expenditure report" from the PeopleSoft accounting system. He should review the report in detail and ensure all of the expenditures identified were presented to him for approval and are appropriate given the mission of the Agency. Ideally, evidence of this review should be retained with the date and signature of the administrator noted.

Views of Responsible Officials

The Administrator will review and approve the "six digit detailed expenditure report" monthly and ensure all expenditures were presented and approved by him. The approval will then be initialed or signed and retained in the office. Our list can be matched with the list received from OSF.

Observation

Inadequate Segregation of Duties in the Inventory Process

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*² states in part, "Key duties and responsibilities need to be . . . segregated among different people to reduce the risk of error or fraud. . . . No one individual should control all key aspects of a transaction."

The administrative assistant is responsible for the following in the inventory process:

- Approving purchases and receiving goods
- Maintaining the inventory records
- Participating in the inventory count
- Transferring and disposing of inventory

Management believed appropriate segregation of duties was in place. These duties combined with the deficiency identified in the preceding observation create an opportunity for assets to be misappropriated.

Recommendation

The administrative assistant should not be responsible for maintaining the inventory records. An employee independent from the expenditure process should be assigned recording-keeping duties for inventory, and access to the records should be restricted to view-only for other employees.

Views of Responsible Officials

The Administrator will be responsible for maintaining the inventory records. We will develop a plan and review inventory at least once per year.

Other Items Noted

Although not considered significant to the audit objective, we feel the following issues should be communicated to management.

Observation

Deposits and Transfers Made in Irregular Manner

An effective internal control system provides for an adequate reconciliation of funds.

The Agency deposits the majority of their receipts directly to their revolving fund while occasionally (approximately every three months) making a deposit to their clearing account. The funds in the clearing account are ultimately transferred to the state's general revenue fund in accordance with 52 O.S. § 420.11.A.

Management's understanding is that once in the clearing account, funds can only be transferred to the state's general revenue fund. The only reconciliation required by OSF³ is of the clearing account. A meaningful reconciliation of the

³ OSF procedures manual section 510 states in part, "The purpose of OSF Form 11 is to provide to OSF summary information of the clearing account activity of each agency clearing account. This report is to be completed each month by agency personnel and remitted to OSF on the 10th of each month following the reporting month regardless of the amount of activity."

Agency's financial activity is not occurring because of their sporadic use of this account. Errors related to transfers to the state's general revenue fund could occur and not be detected in a timely manner.

Recommendation Management should consider depositing all funds directly to their clearing account. Once a month, they should transfer the applicable 10% of funds received to the state's general revenue fund and the remaining portion to their revolving fund.

Views of Responsible Officials

Management will consider depositing all funds directly to their clearing account. However, the agency was always instructed to deposit all monies collected at least the first few months of the fiscal year into the revolving fund account, so there was a proven amount of money available for payrolls, expenditures and purchase orders. We then deposit funds in to the clearing account and make the 10% transfers approximately 3 times during the remainder of the fiscal year. Not only does the agency reconcile with the State Treasurer's office clearing account, but the Administrative Assistant also reconciles the general revenue deposits monthly with the Office of State Finance "Summary of Receipts and Disbursements" report.

Observation

Use of Employee Reimbursements Should be Reconsidered

An effective internal control system provides for timely and independent approval of expenditures. The Office of State Finance Procedures Manual Chapter 300, Section 319.G states in part, "Employees and officials may be reimbursed for miscellaneous emergency purchases or purchases not available through their agency's normal purchasing procedures. Such purchases must be an official state expense . . . are subject to the agency head's approval and must be accompanied by evidence of payments."

The 88 claims submitted under account code 561130 for Employee Reimbursement (Non-travel) totaled \$4,570 and included charges for the following expenses:

- Two t-shirts and a cap
- Vehicle window tinting on a state vehicle
- Ammunition
- Postage and shipping
- Office supplies
- Picture development and enlargement

Because OSF is performing certain accounting functions on behalf of the Agency, the administrator believes OSF would alert him to a potential, inappropriate expenditure. Allowing employees to seek reimbursements for items which could be easily converted to personal use is a risk the Agency did not appear to consider.

Recommendation The administrator and the Board should consider if it is in the best interest of the Agency to continue allowing employees to seek reimbursement for costs they

incur. Other options should be explored such as faxing or emailing files rather than mailing them or utilizing state purchase cards.

**Views of Responsible
Officials**

The Administrator will continue to allow field employees to seek reimbursements for costs they incur. However, on January 24, 2012, these employees were informed that future purchases must include more detail as to the nature and intent of the purchase. All photo receipts have to be identified as to the accident or evidence they pertain to, and miscellaneous items must have prior approval. Because of the distance these employees live from the Oklahoma City office, it is not always practical or economically feasible to drive to pick up miscellaneous items. Also, the mail received from the field personnel cannot be faxed or emailed, due to the need for original signatures, evidence and original forms that are retained in the office.



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