

OKLAHOMA MARGINAL WELL COMMISSION

JANUARY 1, 2006 THROUGH
DECEMBER 31, 2007

OPERATIONAL AUDIT



Oklahoma State Auditor
& Inspector

**Audit Report of the
Marginal Well Commission**

**For the Period
January 1, 2006 through December 31, 2007**



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Oklahoma Office of the
State Auditor and Inspector

June 17, 2008

TO THE MARGINAL WELL COMMISSION

Pursuant to 74 O.S. § 212, transmitted herewith is the audit report for the Marginal Well Commission for the period January 1, 2006 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

To serve the Governor, Legislatures, and oil and gas industry and public by defining, identifying, and evaluating the economic and operational factors of marginally producing oil and gas wells, and to assure that appropriate efforts are made to extend the life of these wells so energy can be economically provided to all citizens of the State of Oklahoma.

Board Members

David K. Moore	Chairman
David Guest	Vice Chairman
A. Hearn Williford	Member
James Beyl	Member
Paul L. Bruce	Member
Charles B. Davis	Member
Thomas F. Dunlap	Member
Bill Gifford	Member
Stan B. Noble	Member

2006 and 2007 Staff

Roy V. Edwards	Executive Director
Regina Finney	Technology Transfer Coordinator
Toni Kitchell	Director of Operations
Brian Lindley	Deputy Administrator

Current Staff

Jim Revard	Executive Director
Regina Finney	Technology Transfer Coordinator
Zhonda Viney	Director of Operations
Lee Ann Moore	Public Information/Event Coordinator
Linda Poindexter	Administrative Assistant



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Oklahoma Office of the
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TO THE MARGINAL WELL COMMISSION

We have audited the Marginal Well Commission for the period January 1, 2006 through December 31, 2007. The objectives of this audit were to determine if:

- The Commission's internal controls provide reasonable assurance that revenues, expenditures, and capital assets were accurately reported in the accounting records, and financial operations complied with applicable finance-related laws and regulations;
- The Commission complied with 52 O.S. § 703.b, 52 O.S. § 703.c, and 74 O.S. § 250.6.b;
- The Commission implemented recommendations from prior year's engagements.

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

May 13, 2008

Segregation of Duties

While this is covered under each objective, we believe it is important to note that during January 1, 2006 through December 31, 2007, the former Director of Operations had virtually total control of all transactions occurring and was also under contract with the Commission to perform other duties. The duties for which she was responsible were:

- preparing the deposit slip, taking the deposit to the bank, and posting the deposit to CORE;
- claims processing and general ledger functions;
- initiating capital asset transactions, tagging the asset, and maintaining the inventory records;
- contracting with her husband's company, Kitchell Inc., to provide database entry services.

We suggest the reader keep this in mind while reading through the report.

Objective 1 – Determine if the Board's internal controls provide reasonable assurance that revenues, expenditures, and capital assets were accurately reported in the accounting records, and financial operations complied with applicable finance-related laws and regulations.

Conclusion

The Commission's internal controls do not provide reasonable assurance that revenues, expenditures, and capital assets were accurately reported in the accounting records. In addition, the Commission's financial operations did not comply with applicable finance-related laws and regulations.

Methodology

To accomplish our objective, we performed the following:

- Documented internal controls related to the receipting, expenditure, and capital asset process
- Tested controls which included:
 - Determining if checks were endorsed upon receipt;
 - Determining if receipts were pre-numbered and were issued in sequential order;
 - Reviewing 55 deposits to ensure cash and/or checks were deposited in accordance with 62 O.S. § 7.1c;
 - Reviewing a CORE deposit report to ensure funds were transferred from the agency's clearing account to the revolving fund at least once per month;
 - Reviewing three OSF Form 11 reconciliations to ensure the preparer and reviewer were independent of each other and the reconciling items were adequately supported;
 - Reviewing 60 disbursements to ensure the voucher was properly approved. This included ensuring the voucher amount and vendor agreed to the CORE system, the nature of the purchase was consistent with the account code description, and the voucher agreed to the supporting documentation;
 - Reviewing 60 disbursements to ensure the transaction was properly supported by an approved purchase order;
 - Observing 15 assets coded under 541000 – Office Furniture & Equipment – to ensure their existence. This included ensuring that the asset was properly tagged as property of the State of Oklahoma.

Observations

Receipts

Securing Funds Prior to Deposit

An effective internal control system provides for adequate safeguarding of assets.

Funds are maintained in a locked drawer in the Executive Director's office. However, any employee has access to the keys and there is no one to monitor who has accessed the drawer.

Effect: Improperities could occur and not be detected in a timely manner.

Recommendation: We recommend the funds awaiting deposit be maintained in a locked file cabinet with access limited to essential personnel only.

View of Responsible Officials: A 2nd locking cabinet has been ordered and the Director of Operations will control the key to the cabinet. The Director of Operations and the Executive Director will be the only agency personnel to have access to the Key.

Deposits

62 O.S. § 7.1c states, "All such monies collected pursuant to this section shall be deposited as follows in the agency clearing account or agency special account established therefor:

1. Receipts of One Hundred Dollars (\$100.00) or more shall be deposited on the same banking day as received."
2. Receipts of less than One Hundred Dollars (\$100.00) may be held until accumulated receipts equal One Hundred Dollars (\$100.00) or for five (5) business days, whichever occurs first, and shall then be deposited no later than the next business day."

Of the 55 deposits tested, the following items were noted:

- Four deposits examined included cash or checks amounting to at least \$100 that were not deposited on the same banking day received;
- Nineteen checks were not endorsed upon receipt or recorded in a receipt log to determine the timeliness of the deposit.

Effect: The Commission is not depositing funds within the required time of one business day.

Recommendation: We recommend the Commission implement policies and procedures requiring all funds be deposited within one business day of being received. In addition, we recommend all cash and/or checks received be logged at the time of receipt.

View of Responsible Officials: The Policies and Procedures will be reviewed and revised to see that a log is kept and specifying who within the agency has deposit authority.

Clearing Account Transfers

62 O.S. § 7.1 E. states in part, "At least once each month each state agency shall transfer monies deposited in agency clearing accounts to the various funds or accounts, subdivisions of the state, or functions as may be provided by statute and no money shall ever be disbursed from the agency clearing account for any other purpose, except in refund of erroneous or excessive collections and credits..."

Monthly transfers were made except for the months of August 2007, January 2006, February 2006, and March 2006.

Effect: The Commission is in noncompliance with 62 O.S. § 7.1 E.

Recommendation: We recommend the Commission comply with 62 O.S. § 7.1.e, and transfer funds deposited in the clearing account into the agency's revolving fund at least once per month.

View of Responsible Officials: We will follow up with OSF "Shared Services" to assure that this is being done.

Lack of Segregation of Duties Related to the Receipting Process

An effective internal control system provides for appropriate segregation of duties.

The former Director of Operations was responsible for preparing the deposit slip, taking the deposit to the bank, and posting the deposit to CORE.

Effect: Without appropriate segregation of duties, improprieties could occur and not be detected in a timely manner.

Recommendation: We recommend the Commission implement procedures to properly segregate the duties of the person preparing the deposit slip, delivering the deposit to the bank, and posting the deposit to CORE.

View of Responsible Officials: The P&P will be reviewed and changes will be made in order to have segregation of duties relating to the deposit process.

Revenue Analysis

	<u>2007</u>		<u>2006</u>
CORE Deposits	\$ 260,237.90		\$ 185,202.58
Total CORE Deposits		\$260,237.90	\$185,202.58
Trade Expo as calculated by SA&I	\$ 110,250.00		\$ 95,250.00
Workshops as calculated by SA&I	\$ 75,375.00		\$ 92,250.00
Total Trade Expos & Workshops		\$185,625.00	\$ 187,500.00
Difference between CORE and SA&I calculations		<u>\$ 74,612.90</u>	<u>\$ (2,297.42)</u>

As shown in the table above, the CORE deposits from calendar year 2007 exceeded our calculations for the Trade Expos and the Workshops by \$74,612.90. The Trade Expos were calculated by the number of sponsors and exhibitors by the applicable fee rate, and the workshops were calculated by the number of attendees to the average cost of workshops, \$75.

Management stated the Commission has consistently been behind a few months in getting deposits entered into CORE. As a result of the lack of timely deposits to CORE and not all receipts being recorded on a receipt log, we are unable to determine if the Commission recorded all receipts for our time period.

Effect: If a journal entry is not made to CORE and added to the Commission's cash balance, then the available cash balance on the CORE reports could be misstated. Further, without timely deposits, funds could be misplaced or susceptible to theft.

Recommendation: We recommend management exercise diligence and ensure their deposit entries are posted into CORE within one day of receipt and record all receipts on a receipt log.

View of Responsible Officials: A review of the P&P will be conducted and changes made if necessary to ensure that deposits are posted in CORE within one day of receipt.

Issuing Receipts for Incoming Cash/Checks

An effective internal control system provides for accountability of funds.

Cash or checks received through mail are not recorded in a daily receipt log.

Effect: The Commission has no means of ensuring that all cash and checks received are being deposited.

Recommendation: We recommend the Commission implement policies and procedures requiring all cash and/or checks collected to be recorded on a receipt book/log and performance of a periodic review of the receipt book or log to ensure there are no gaps in the sequence of issued receipts.

View of Responsible Officials: The agency will follow the recommendations and P&P will be written to reflect so.

Endorsing Checks

An effective internal control system provides for accountability of funds.

Checks received are not consistently endorsed upon receipt. We noted the staff will initial and date the check upon receipt; however, they do not consistently stamp the incoming checks.

Effect: Without accountability of funds, improprieties could occur and not be detected in a timely manner.

Recommendation: We recommend the Commission implement procedures requiring all incoming checks to be endorsed upon receipt.

View of Responsible Officials: The Policies and Procedures will be reviewed and re-written to require that received checks be endorsed at the time of receipt.

Expenditures

Lack of Segregation of Duties Related to the Expenditure Process

An effective internal control system provides for appropriate segregation of duties.

There is no segregation of duties separating purchasing and receiving from claims processing and general ledger functions. Additionally, there appears to be no separation of duties separating purchasing from receiving. For instance, the former Director of Operations was responsible for claims processing as well as any general ledger functions. Further, she was also able to purchase items and receive the items.

Effect: Without appropriate segregation of duties, improprieties could occur and not be detected in a timely manner.

Recommendation: We recommend the Commission implement procedures separating the duties of the person responsible for purchasing from requisitioning, shipping, and receiving functions. Also, we recommend the Commission implement procedures separating the duties of the person responsible for requisitioning, purchasing, and receiving from disbursements and general ledger functions.

View of Responsible Officials: The agency has an agreement with OSF “Shared Services” to ensure we are in compliance with state guidelines in regards to purchasing. The P&P will be reviewed and changes will be made as necessary.

Kitchell Inc. Contract and Charges

An effective internal control system provides an adequate review of supporting documentation.

The husband of the former Director of Operations was the owner of Kitchell Inc. Kitchell Inc. was contracted to provide database entry services for the oil and gas fees remitted to the Commission. However, a formal contract was not created. Kitchell Inc. charged the Commission \$4,327.35 for its services from January 1, 2004 through December 31, 2007.

Nine charges from the Kitchell Inc. contract appeared unallowable and inconsistent with the database entry services. Three charges were made for “8x10 Color and B&W Prints” and “Photo Refinishing” for a total of \$266 as outlined in the invoice. Further, there were 6 charges made for “Address Lookup for Main Database” for a total of \$947 as outlined in the invoice. Also, the charges were coded to account 515580 – Business Support Services.

Effect: Without an adequate review of supporting documentation and a lack of a formal contract, unauthorized or inappropriate payments could be made.

Recommendation: We recommend the Commission implement procedures to ensure formal contracts are created outlining the agreement in detail. In addition, we recommend management exercise diligence in reviewing expenditure claims to ensure the correct account codes are used.

View of Responsible Officials: This arrangement has been terminated and all future ongoing outsourcing will require a written agreement between the parties. A Policy and Procedure will be written to reflect this process.

Unallowable Reimbursements

An effective internal control system provides an adequate review of supporting documentation.

Of the 60 expenditures tested, one reimbursement for \$46.51 was paid to the former Director of Operations, for an order that had been cancelled. The former Director was to order a plant as a sympathy gift which was to be sent to a member of the Board whose wife had just passed away. The order to Coleman’s Flowers, Inc. was cancelled; however, the former Director was still reimbursed for the cost of the plant.

Effect: Without an adequate review of supporting documentation, unauthorized or inappropriate payments may be occurring.

Recommendation: We recommend management exercise diligence in reviewing expenditure claims to ensure the claim is supported by a receipt, if applicable, and adequate supporting documentation. Further, we recommend the Commission seek reimbursement from the former Director of Operations.

View of Responsible Officials: By utilizing the OSF “Shared Services” this will ensure a good check and balance for such issues.

Inadequate Supporting Documentation

An effective internal control system provides an adequate review of supporting documentation.

21 O.S. § 590 A. states in part, “ Every state governmental entity shall, for a period of two (2) years, maintain accurate and complete records... reflecting all financial and business transactions, which records shall include support documentation for each transaction. No such records shall be disposed of for three (3) years thereafter...”

Of the 60 expenditures tested, four vouchers lacked supporting documentation. Only a copy of the voucher and the claim jacket was provided for the following items:

- two Kitchell Inc. claims, one for \$120 and the other for \$100;
- a Bubba's BBQ claim for \$599.40;
- Mariah Exploration LLC claim for \$75.

We were able to locate the two Kitchell Inc. claims, the Mariah Exploration LLC claim and the Bubba's BBQ claim at the Department of Libraries. The two Kitchell Inc. claims were to pay for data entry services relating to the oil and gas fees remitted to commission and the Mariah Exploration LLC claim was the charge to attend a daily workshop. The claim for Bubba's BBQ was for a catered lunch that was provided at the Francis Tuttle Technology Center where they were having a workshop.

Effect: Without adequate supporting documentation, unauthorized or inappropriate payments could be occurring.

Recommendation: We recommend the Commission maintain adequate supporting documentation such as the purchase order, invoice, and a receipt, if applicable.

View of Responsible Officials: I believe this is a result of the agency not using the proper purchase order procedures in the past. All records will be kept by the Director of Operation and the P&P will reflect that.

Voucher Approvals

An effective internal control system provides for adequate review and approval of all vouchers.

Of the 60 expenditures tested, the Executive Director approved his own voucher for reimbursement in three instances. The following items were approved by the Executive Director for his own reimbursements:

- out of state mileage – private vehicle, \$202.73;
- employee reimbursement – non travel, \$213.26;
- out of state lodging, \$316.80.

Effect: Without an adequate review and approval of all vouchers, unauthorized or inappropriate payments may be occurring.

Recommendation: We recommend the Commission implement a procedure requiring all vouchers of the Executive Director be properly approved by the Commission.

View of Responsible Officials: All future vouchers for the Executive Director will be approved by the MWC Chairman and P&P will reflect this.

Timesheets

An effective internal control system provides for accurate and reliable time records.

Of the 20 timesheets tested, two timesheets were not approved in a timely manner. A timesheet for the Deputy Administrator in September 2007 was not approved until November 2007, and a timesheet for the Technology Transfer Coordinator in November 2007 was not approved until February 2008.

Effect: Without timely approval of timesheets, unauthorized compensatory time may be paid out to employees.

Recommendation: We recommend timesheets be approved in a timely manner.

View of Responsible Officials: All future Timesheets will be required to be turned in on the last day of each month to the Director of Operations.

Inventory

Lack of Segregation of Duties Related to the Inventory Process

An effective internal control system provides for appropriate segregation of duties.

The former Director of Operations was responsible for initiating any capital asset transactions, tagging the asset, and maintaining the inventory records. Further, there was no other employee responsible for reviewing the former Director of Operation's records over the capital assets.

Effect: Without appropriate segregation of duties, improprieties could occur and not be detected in a timely manner.

Recommendation: We recommend the Commission implement procedures to separate the duties of the person responsible for initiating capital asset transactions, tagging the asset, and maintaining the inventory records.

View of Responsible Officials: New Policy and Procedures will be written in order to ensure that there is a separation of duties as recommended.

Inventory Records

An effective internal control system provides for 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..."

Section 4 of the Commission's Inventory Control Procedures states, "The Director of Operations shall keep two separate database of inventory purchased. One database will include fixed asset inventory. The other shall include consumable and sale inventory."

The following items were noted as a result of the procedures performed:

- The former Director of Operations maintained the inventory records in a locked cabinet; however, any employee had access to the keys ;
- The former Director of Operations did not add any assets to the inventory book during 2007 which were purchased for a total of \$10,832.28;
- Two separate databases for fixed asset inventory and consumable and sale inventory were not maintained by the Director of Operations.

Effect: The Commission is noncompliance with both the Oklahoma Administrative Code and the Commission's internal procedures.

Recommendation: We recommend the Commission provide training for staff regarding inventory control as outlined in their internal procedures; safeguard the inventory records with access to make changes limited to only the Director of Operations as outlined in the internal procedures; and updated inventory records be maintained which include the following:

- The asset tag number;
- The model and serial number, if any;
- The description;
- Physical location;
- Acquisition date and cost.

View of Responsible Officials: The Director of Operations will follow the audit's recommendations and maintain proper Inventory records.

Physical Inventory

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..."

Section 5 of the Commission's Inventory Control Procedures states, "The Assistant Director will conduct a fixed inventory and a consumable inventory audit in January of each year."

A physical inventory has not been performed since the departure of the former Executive Director in April 2006.

Effect: Without a physical inventory performed annually, improprieties could occur and not be detected in a timely manner.

Recommendation: We recommend a physical inventory be performed on an annual basis in accordance with OAC 580: 70-3-1(a) and the Commission's Employee Handbook.

View of Responsible Officials: The recommendation will be followed and a physical inventory will be conducted. P&P will be reviewed and changed to reflect this recommendation if needed.

Missing Items

An effective internal control system provides for adequate safeguarding of assets as well as accurate and reliable records.

The following items could not be located:

- VPN Router – 4 Port Cable/DSL, purchased for \$66.95;
- Firewall and Broadband Router, purchased for \$86.99;
- Belkin Cable – Link 8 Switch Port, purchased for \$74.80;
- Adobe Acrobat 7.0 Software, purchased for \$710 including the cost of the licenses;
- Two HP IPAQ HX2490 Pocket PC's, purchased for \$356 each with federal grant money from the Department of Energy to do testing for a PDA project; however, we could not verify those items existed as we were unable to get in contact with the testers;
- Visual CE Professional Edition, purchased for \$399 with federal grant money from the Department of Energy.

Effect: Without adequate safeguarding of assets and unreliable records, misappropriation of assets could occur and not be detected in a timely manner.

Recommendation: We recommend a physical inventory be performed on an annual basis and any differences between the physical count and inventory records be resolved. All adjustments to the inventory should be approved.

View of Responsible Officials: Recommendations will be followed and P&P will be made to reflect so.

Items Not Tagged

OAC 580: 70-5-1 (a) and (b) state in part, “(a) An agency shall affix a unique identifier as an inventory tag to all tangible assets. (b) The inventory tag shall be affixed in a location to ensure accessibility by an inventory control officer...”

One item of the 15 tested was not tagged as property of the State of Oklahoma. The item was an Epson Powerlite LCD Projector and the replacement lamp for \$1,478.98.

Effect: The Commission is noncompliance with the OAC 580: 70-5-1 (a) and (b).

Recommendation: We recommend all capital assets be tagged as property of the State of Oklahoma.

View of Responsible Officials: Upon completion of our physical inventory all assets will be fitted with the property tag as need be.

Objective 2 – Determine if the Commission complied with 52 O.S. § 703.b, 52 O.S. § 703.c, and 74 O.S. § 250.6.b.

Conclusion

It appears the Marginal Well Commission is in compliance with 52 O.S. § 703.b, *Levying of Fee*, and 74 O.S. § 250.6.b, *Salary Rates of Certain Educational Officers – Limits and Conditions on Salary and Expense Expenditures*. However, the Commission is not in compliance with 52 O.S. § 703.c, *Levying of Fee*, and should take appropriate and necessary action to collect any fee which is not being properly paid to them.

Methodology

To accomplish our objective, we performed the following:

- Reviewed 52 O.S. § 703.c, and performed procedures to determine if the agency is taking appropriate and necessary action to collect any fee which is not paid or is not properly paid;
- Reviewed 52 O.S. § 703.b, and performed procedures to determine if the fee amount remitted to OTC is 3% more than the amount deposited into the agency’s revolving fund;
- Reviewed 74 O.S. § 250.6.b, and performed procedures to determine if reimbursements that exceeded \$100 per claim included a written statement of justification for the purchase as support.

Observations

Noncompliance with 52 O.S. § 703.c

52 O.S. § 703.c states , “The Commission on Marginally Producing Oil and Gas Wells shall be responsible for taking appropriate and necessary actions to collect any fee which is not paid or is not properly paid.”

The agency maintained a database which was used to keep track of the fees that the oil and gas producers were remitting to OTC. However, no reports or assessments were generated from the database to determine whether the agency was being properly paid.

Effect: It is possible the Commission did not receive all fees due, which would limit their ability to carry out their mission.

Recommendation: We recommend the Commission comply with 52 O.S. § 703.c, and develop a procedure to ensure they are being properly paid.

View of Responsible Officials: Action plans are already in place to bring the agency into compliance in this matter. We are working with OERB to train our personnel on the tracking of the Fees and generating reports from the data base and to conduct an annual reconciliation.

Objective 3 – Determine if recommendations from prior engagements were implemented.

SA&I Audit Follow-Up

Conclusion

The Office of the State Auditor’s report issued April 3, 2006, included seven findings which were considered significant to this engagement. Corrective action on three findings has not been implemented or has been partially implemented.

In addition, the Department of Central Service’s report issued April 16, 2007, included five findings (eight issues) which were considered significant to this engagement. Corrective action on three of the findings has been implemented; however, the remaining findings have not yet been corrected or are partially corrected.

Methodology

To accomplish our objective, we performed the following:

- Tested 55 deposits to ensure that cash or checks amounting to at least \$100 were deposited on the same banking day (performed under Objective 1);
- Examined all PikePass charges to ensure they are properly classified under expenditure code 522110, Purchase of Transportation Costs – Agency Direct;
- Observed the receipt log to ensure pre-numbered receipts are being issued for all cash and checks collected (performed under Objective 1);
- Tested 15 purchase card transactions to ensure they were supported by an internal acquisitions form;
- Examined the P-Card Tracking Check List created by the former Director of Operations, to ensure all steps and procedures regarding purchase cards were followed;
- Examined the Purchase Card Agreement Form signed by the approving official and ensured a copy has been put in the personnel file;
- Examined the appointment letter submitted to the State Purchase Card Administrator appointing the Agency P-Card Administrator;
- Examined the agency’s internal purchasing procedures to ensure they were submitted to DCS for approval;
- Interviewed cardholder to determine whether training was provided related to the proper procedures for reporting a lost or stolen purchase card as well as whether training was provided related to the reconciliations process of the memo statement, transaction log, and supporting documentation;
- Determined whether the approving official completed required purchase card training.

Observations

Account Classifications

An effective internal control system provides an adequate review of supporting documentation.

One PikePass charge was incorrectly coded to account 532140, *Payment for rent of equipment and machinery used for and in the operation of a state agency*. The expenditure should be coded to 522110, Purchase of Transportation Costs – Agency Direct, which includes “PikePass toll collection fees for the Oklahoma Turnpike System.”

Effect: Expenditure reports may be unreliable for budgetary and fiscal decisions.

Recommendation: We recommend the Commission classify PikePass charges under expenditure code 522110, Purchase of Transportation Costs – Agency Direct, and to perform a periodic review of the classification of its expenditures.

View of Responsible Officials: Recommendations will be followed and discussed with OSF also a P&P will be written to reflect the procedure.

Inadequate Supporting Documentation – DCS Finding 07-446-05

The Commission’s Internal Purchasing Procedures Section 6 – Acquisition Procedure states, “All requests for supplies must be made to the agency procurement officer in print form or by email request.”

Of the fifteen purchase card transactions tested, eight purchase card transactions were not properly supported by an internal acquisitions form. Further, two of the purchase card transactions received approval by the former Executive Director through an email request. However, the approval was given after the items had already been purchased.

Effect: In the absence of an acquisitions form, an unauthorized purchase could be made.

Recommendation: We recommend the Commission provide training for the cardholders and approving officials on the acquisition requirements as outlined in their internal purchasing procedures.

View of Responsible Officials: The New employees that will be card holders and the approving official employee have been to P-Card training already. A review of P&P will be conducted.

P-Card Tracking Check List – DCS Finding 07-446-06

As the former Director of Operations has left the agency, the remaining employees do not know where the Check List is located. The Check List was created in order to ensure the Agency was following purchase card rules and procedures regarding processes such as opening and closing accounts.

Effect: Without a process in place to ensure all steps and procedures are followed, the Commission could be in noncompliance with their purchase card agreement.

Recommendation: We recommend the Commission create and follow a list of actions that outlines specific tasks to be completed when opening and closing cardholder accounts. List of tasks to be completed include: retrieving the purchase card from the cardholder and documenting when it was retrieved; and accessing Pathway Net system to close the cardholder account and documenting when the account was closed.

View of Responsible Officials: The Director of Operations will see that this P&P is followed.

Other Items Noted

\$20 Administrative Charge by Department of Central Services (DCS)

The Marginal Well Commission owns one vehicle, which was acquired through the Department of Central Services. In addition, the Commission is paying a \$20 monthly fee to the Fuel Management Division of DCS when it appears no monthly service is being provided.

Recommendation: We recommend that the Marginal Well Commission stop paying the monthly administrative fee to the Department of Central Services.

View of Responsible Officials: The Director of Operations will notify the Department of Central Services that the MWC will discontinue paying this fee.

Commission Should Develop Cell Phone Policy

The Commission had two cell phone holders during the audit period. There is not a policy in place related to the assignment or use of the cell phone.

Recommendation: We recommend that policy be developed and implemented which, at a minimum, includes:

- Personal (Allowable limitations, on frequency and reimbursement rates that will apply);
- Need of a phone based on job duties;
- Size of the plan (minutes, features required)

View of Responsible Officials: A cell phone Policy & Procedure will be written as recommended.



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