

**OKLAHOMA DEPARTMENT OF CONSUMER CREDIT  
INTERNAL CONTROL REPORT  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2003**

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STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN  
State Auditor and Inspector

August 13, 2004

**TO THE HONORABLE BRAD HENRY  
GOVERNOR OF THE STATE OF OKLAHOMA**

Transmitted herewith is the Oklahoma Department of Consumer Credit Internal Control Report for the fiscal year ended June 30, 2003. By its nature, this report focuses on weaknesses in controls. This focus should not be understood to mean there are not also various strengths and accomplishments.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during the course of the engagement.

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 to ensure a government, which is accountable to the people of the State of Oklahoma.

Sincerely,

A handwritten signature in black ink that reads "Jeff A. McMahan".

JEFF A. McMAHAN  
State Auditor and Inspector

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**BOARD MEMBERS**

|   |                      |   |
|---|----------------------|---|
| Timothy S. Clark                          | <b>Chairman</b>      | Tulsa, OK                                     |
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STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN  
State Auditor and Inspector

**TO THE OKLAHOMA DEPARTMENT OF CONSUMER CREDIT**

We have applied the procedures enumerated below to certain aspects of internal control for the period July 1, 2002 through June 30, 2003.

1. We reviewed management's internal controls over financial records and operations, and performed a walk-through of controls to determine whether they have been designed as represented by management.
2. We reviewed procedures for remitting required portions of fees to the State of Oklahoma and tested a sample of remittances for adherence to these procedures.
3. We reviewed the Oklahoma Department of Consumer Credit's policies and procedures and tested compliance with such policies and procedures.

The purpose of these procedures was to identify the internal controls designed or developed by the Oklahoma Department of Consumer Credit, make recommendations in certain areas, and determine whether stated controls were operating as represented to us or if additional controls were necessary to reduce the risk of errors and irregularities.

Our procedures were more limited than would be necessary to express an opinion on any of the items referred to above or to express an opinion on the effectiveness of the Oklahoma Department of Consumer Credit's internal control or any part thereof. Accordingly, we do not express such opinions. Alternatively, we have identified the procedures we performed and the findings resulting from those procedures. Had we performed additional procedures or had we made an audit of the effectiveness of the Oklahoma Department of Consumer Credit's internal control, other matters might have come to our attention that would have been reported to you.

Our findings resulting from the above procedures are included in the attached comments and recommendations section of this report.

Sincerely,

A handwritten signature in cursive script that reads "Jeff A. McMahon".

JEFF A. McMAHAN  
State Auditor and Inspector  
August 10, 2004

**COMMENTS AND RECOMMENDATIONS**

### Comment 2003-350-001

**Criteria:** According to 62 O.S. 2003 § 7.1c (2c) Public Finance, “All checks received must be restrictively endorsed immediately upon receipt.”

**Condition:** During our review, we noted the Department was not endorsing checks immediately upon receipt.

**Effect:** The Commission is not in compliance with Oklahoma State Statutes.

**Recommendation:** We recommend the Oklahoma Department of Consumer Credit restrictively endorse checks immediately upon receipt.

#### **Management’s Corrective Action Plan**

**Contact Person:** Cindy Barrett & Heather Underwood

**Anticipated Completion Date:** Immediately

**Corrective Action Planned:** We now assure all checks received are endorsed upon receipt. All staff are instructed of this requirement.

### Comment 2003-350-002

**Criteria:** According to 74 O.S. Supp. 2002 § 110.1. Inventory by Department of Central Services:

- A. The Department of Central Services shall maintain a current inventory of tangible assets owned by state boards, commissions, institutions, agencies and the institutions comprising The Oklahoma State System of Higher Education and the University Hospitals Authority.
- B. The Director of Central Services shall have authority to promulgate rules to implement the provisions of this section.
- E. Rules that the Director of Central Services promulgates shall cause all tangible assets to be properly coded, tagged, or marked in such a manner that they may be readily identified as property of the State of Oklahoma and that statistical records may be maintained.

According to the OAC 580: 70-3-3 Missing, stolen and destroyed tangible assets:

- (a) Asset loss reports. An agency shall report a loss to the state inventory control officer within thirty (30) days of discovery that a tangible asset is missing, stolen or destroyed by vandalism.
- (b) Asset loss documentation. A report of missing, stolen or destroyed tangible assets shall be accompanied by:
  - (1) A copy of the notice reporting the loss submitted to the insuring entity; and,
  - (2) A copy of a report from a law enforcement agency made by the agency to report the loss, theft or vandalism.
- (c) Director notification of loss. The state inventory central officer shall complete a list and report all missing tangible assets to the Director.

**Condition:** We judgmentally selected 18 claims for fixed assets to compare to the Department’s inventory listing.

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During the course of our testwork, we noted the following:

- One server could not be located and was not listed on the Department's inventory listing.
- One laptop computer could not be located and was not listed on the Department's inventory listing.

**Effect:** The Department is not properly accounting for fixed assets. As a result, the Department is in violation of 74 O.S. Supp. 2002 § 110.1 and OAC 580: 70-3-3 Missing, stolen and destroyed tangible assets. If items are not properly recorded and accounted for, these items may be more susceptible to theft.

**Recommendation:** We recommend the Oklahoma Department of Consumer Credit develop, document, and implement policies and procedures to ensure proper accountability for assets and compliance with state statutes. In addition, missing, stolen, or destroyed tangible assets should be reported in accordance with the procedures noted above.

**Management's Corrective Action Plan**

**Contact Person:** Jean Settle

**Anticipated Completion Date:** September 1, 2004

**Corrective Action Planned:** The Dept. of Consumer Credit will develop new policies and procedures regarding assets to comply with state statutes. Additionally, the Agency will report any missing, stolen or destroyed tangible assets according to the procedures in OAC 580:70-3-3. The policies and procedures will be drafted and submitted to the Administrator within 30 days of this report.

**Comment 2003-350-003 (Repeat Finding)**

**Criteria:** According to 74 O.S. Supp. 2002 § 110.1. Inventory by Department of Central Services.

- A. The Department of Central Services shall maintain a current inventory of tangible assets owned by state boards, commissions, institutions, agencies and the institutions comprising The Oklahoma State System of Higher Education and the University Hospitals Authority.
- B. The Director of Central Services shall have authority to promulgate rules to implement the provisions of this section.
- E. Rules that the Director of Central Services promulgates shall cause all tangible assets to be properly coded, tagged, or marked in such a manner that they may be readily identified as property of the State of Oklahoma and that statistical records may be maintained.

According to the OAC 580: 70.3.1 Inventory Report:

- (a) Report due date. All agencies must submit an annual report of current inventory of tangible assets owned by the department as of June 30 of the preceding fiscal year to the Department by August 15. The report shall include all tangible assets based upon the threshold stated in 580:70-1-3(a).
- (c) Inventory report contents: The inventory report shall be signed by the inventory control officer and shall include for each tangible asset:
  - (1) the department number;
  - (2) the asset tag number;
  - (3) the model and serial number, if any;



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- (4) the manufacturer;
- (5) the description;
- (6) product name;
- (7) physical location;
- (8) acquisition date and cost;
- (9) any other information, which may be requested by the Department of Central Services to ensure the integrity of state inventory records.

(d) Supporting documents. A department shall maintain supporting documents to identify tangible assets. Document types include acquisition, digital photographs or images and other documents that may provide pertinent tangible assets identification information

**Condition:** We noted the Department had the following deficiencies regarding Fixed Assets:

- 1.) The Department could not verify an inventory report had been submitted to DCS or the date of the last inventory of on fixed assets.
- 2.) The fixed asset listing was not complete and did not contain all required elements.
- 3.) Adequate source documentation has not been maintained for fixed assets.

We judgmentally selected 40 items from the Department's inventory list to identify, locate, and verify item information as compared to the information recorded on the inventory listing. We noted the following discrepancies:

- 1.) 5 of the 40 items inventoried could not be located at the time of our testwork.
- 2.) 1 of the 40 items inventoried was not listed on the department's fixed asset listing.
- 3.) 9 of the 40 items inventoried were not tagged properly.

**Effect:** Errors or irregularities have occurred in the recording, processing, summarizing, and reporting of the Department's fixed asset listing. The Department's fixed asset listing is incomplete and can not be supported by adequate source documentation. As a result, items are not properly accounted for and may be susceptible to theft.

**Recommendation:** We recommend the Oklahoma Department of Consumer Credit document and implement procedures regarding fixed assets. Further, we recommend the Department ensure items are properly tagged and listed on the inventory listing. We also recommend the Department ensure adequate source documentation be maintained for all fixed assets.

***Management's Corrective Action Plan***

**Contact Person:** Jean Settle

**Anticipated Completion Date:** September 15, 2004

**Corrective Action Planned:** The agency is proactive in its effort to comply with the above referenced exception. Implementation of better tracking policy will include two agency personnel sharing the tracking and double checking duties.

**Comment 2003-350-004 (Repeat Finding)**

**Criteria:** Effective internal controls include adequate segregation of duties to reduce the opportunity for any person(s) to both perpetrate and conceal errors and irregularities in the normal course of business practices. Agency policies and procedures should be written and communicated to all employees.

**Condition:** During our review, we noted the same person:

- Posts expenditures and reconciles expenditures with the Office of State Finance.
- Performs the physical inventory count of fixed assets, receives fixed assets, documents fixed assets, and maintains the records for fixed assets.

**Effect:** Errors or irregularities could occur in the recording, processing, summarizing, reporting, and reconciling of the Department's expenditures and fixed assets.

**Recommendation:** We recommend the Oklahoma Department of Consumer Credit implement procedures to ensure proper segregation of duties.

**Management's Corrective Action Plan**

**Contact Person:** Janice Hendricks/Jean Settle

**Anticipated Completion Date:** September 15, 2004

**Corrective Action Planned:**

- The Business Manager (Janice Hendricks) posts expenditures and reconciles expenditures with OSF with Administrator's approval. Due to the size of the agency it is difficult to separate some of these duties, but we are trying to separate some of these duties further and will attempt to re-work the agency's procedures to help ensure this practice.
- The Administrative Technician (Jean Settle) performs the physical inventory count of fixed assets as well as receives, documents and maintains records for the same assets. We will separate some of these duties to ensure there is at least one other person involved in this process.
- Administrator Hardin is developing a strategic plan that will incorporate agency-wide separation of duties.

**Comment 2003-350-005 (Repeat Finding)**

**Criteria:** The Oklahoma Constitution, Article 10 section 23, states:

“The state shall never create or authorize the creation of any debt or obligation, or fund or pay any deficit, against the state, or any department, institution or agency thereof, regardless of its form or the source of money from which it is to be paid...”

In addition, effective accounting procedures are necessary to ensure stewardship and accountability of public funds.

**Condition:** During the FY-01 Financial Review, we noted that the agency had unauthorized credit cards with vendors. The credit cards had a line of credit, which places the Department in debt or obligation.

During our follow-up on prior year findings, we noted the Department could not provide us with cancellation letters to confirm that unauthorized credit card accounts had been closed.

**Effect:** We could not verify that the unauthorized credit card accounts had been closed. If the unauthorized credit cards have not been cancelled, the Department may have created or authorized a debt or obligation against the Department. The Department may not be in compliance with the Oklahoma Constitution, Article 10, Section 23.

**Recommendation:** We recommend the Oklahoma Department of Consumer Credit destroy unauthorized credit cards, close the related accounts, and obtain and retain documentation verifying that the accounts have been closed.

***Management's Corrective Action Plan***

**Contact Person:** Janice Hendricks

**Anticipated Completion Date:** Immediately

**Corrective Action Planned:** Business Manager (Janice Hendricks) will confirm all credit card accounts from previous years have been terminated and cards destroyed. An analysis will be completed and submitted to the Administrator for his review. All unauthorized credit cards were destroyed approximately 2 years ago.