



OKLAHOMA DEPARTMENT OF MINES

Operational Audit

For the Period July 1, 2015 through December 31, 2020

Cindy Byrd, CPA
State Auditor & Inspector

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

**For the Period
July 1, 2015 through December 31, 2020**



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June 14, 2021

TO THE OKLAHOMA DEPARTMENT OF MINES

We present the audit report of the Oklahoma Department of Mines for the period July 1, 2015 through December 31, 2020. 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



Background

The Oklahoma Department of Mines (the Department) enforces and implements various provisions of state and federally mandated programs in health, safety, mining, and land reclamation practices associated with surface and subsurface mining. The Department has programs to 1) safeguard human health and safety; 2) issue permits and inspect all mining operations for land reclamation; 3) minimize environmental impact to land, air, and water quality; and 4) regulate blasting of a mine site. The Department also conducts miner courses in first aid, mine safety, and accident prevention through the Oklahoma Miner Training Institute.

Oversight is provided by nine board members (the Board) appointed by the Governor. Each examiner serves a term of seven years.

Kurt Klutts	Chairman
John Curtis	Vice-Chairman
Mark Helm.....	Secretary
George Matthews.....	Member
Joshua Haven.....	Member
David Donoley	Member
Eddie Fields	Member
Tommy Caldwell	Member
Matthew Mercer.....	Member

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The following table summarizes the Department's sources and uses of funds for fiscal years 2019 and 2020 (July 1, 2019 through June 30, 2020).

Sources and Uses of Funds for FY 2019 and FY 2020

	2019	2020
Sources:		
Federal Grants and Refunds	\$ 1,340,878	\$ 1,368,258
Licenses, Permits, Fees	1,192,743	1,102,659
Appropriations	775,859	802,086
Escrow Deposits	248,235	217,701
Other Revenues	98,465	93,550
Mining Operations	94,039	85,892
Total Sources	\$ 3,750,219	\$ 3,670,146
Uses:		
Personnel Services	\$ 2,346,091	\$ 2,611,862
Professional Services	439,475	467,175
Administrative Expenses	283,129	298,841
Property, Furniture, Equipment	130,794	134,311
Assistance, Payments to Local Govn'ts	111,574	150,184
Travel	43,450	38,673
Total Uses	\$ 3,354,513	\$ 3,701,046

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

While it appears the Department's uses exceeded its sources in FY 2020, that year's figures may include previous year expenditures and the use of carryover funds.

**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.

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 finding and conclusion based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusion based on our audit objective.

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 July 1, 2015 through December 31, 2020. To assess risk and develop our audit objective, we held discussions with management, distributed surveys to the Department's personnel, and performed data analysis and prior audit follow-up. These procedures included:

- Reviewing revenue and expenditure data from the Statewide Accounting System and gathered information from Department personnel to assess the related financial processes and trends for any notable risks
- Reviewing inventory listings and discussing the inventory count process with staff
- Analyzing top vendors and expenditures by dollar amount and reviewed a selection of miscellaneous expenditures in detail
- Reviewing the Department's HR All Actions Report from the Statewide Accounting System to assess personnel changes that had a financial impact during the audit period
- Reviewing evidence of the director approving payroll reports from one month of each year in our audit period
- Reviewing payroll change records for payrate changes over 10% during our audit period to ensure they were properly approved

One objective was developed as a result of the procedures performed, as discussed in the next section. No other significant risks or findings were identified.

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.

Internal Control Considerations

The Government Accountability Office (GAO) emphasizes the importance of internal controls at all levels of government entities. Their *Standards for Internal Control*¹ outline the five overarching components of internal control: the control environment, risk assessment, information and communication, monitoring, and detailed control activities. Any component considered significant to our audit objectives is assessed during our procedures and included as appropriate in this report.

The *Standards for Internal Control* underscore that an internal control system is effective only when the five components of internal control are operating together in an integrated manner. They also stress that documentation is a necessary part of an effective internal control system and is required to demonstrate its design, implementation, and operating effectiveness.

¹ *Standards for Internal Control in the Federal Government*, or the "Green Book," sets standards and the overall framework for an effective internal control system in federal agencies and is treated as best practices for other levels of government. Last update 2014, accessible online at <https://www.gao.gov/products/GAO-14-704G>.

OBJECTIVE Determine whether effective internal control activities are in place to ensure all funds received by the Department are deposited, in line with GAO *Standards for Internal Control* and Oklahoma’s Statewide Accounting Manual.

Conclusion Effective internal control activities are not in place to ensure all funds received by the Department are deposited, in line with GAO *Standards for Internal Control* and Oklahoma’s Statewide Accounting Manual.

To accomplish our objective, we performed the following:

- Documented our understanding of the receipting and depositing processes. We spoke with management and staff members and reviewed relevant documentation to gain an understanding of their individual processes, the tracking system used for permits and production fees, and discussed the reconciliation occurring between receipts and deposits.
- Compared the Department’s process to governmental internal control standards outlined in the GAO *Standards for Internal Control* and Oklahoma’s Statewide Accounting Manual.

FINDINGS AND RECOMMENDATIONS

Permit and Production Fee Activity is Not Reconciled to Deposits

Repeat Finding

Production and permit fees are generally receipted and documented on an Excel mail log by the Accountant II, who also enters production fees in a production ledger and reconciles the deposit slips to the bank records at the end of the month. The Business Manager prepares the deposit and posts it to the Statewide Accounting System, while permits are issued and tracked by the Executive Assistant.

As discussed in previous audit reports, the Department does not have a process in place to reconcile deposits to permits issued or to production fees expected. All payments are received in physical form (cash or check). Without a reliable reconciliation, the Accountant II could misappropriate a payment and conceal the misappropriation by entering the fee into the Production Ledger as if it were deposited. The Business Manager also has the ability to misappropriate a payment, as there is no independent reconciliation between receipting records and deposits made to the bank.

The Department’s Management plans to work with OMES to implement a billing module for permits within the Statewide Accounting System. According to Management, however, the module would not work for production fees given the complexity of how the fees are calculated.

The GAO *Standards for Internal Control* state that management is responsible for designing control activities to achieve objectives and respond to risks. This includes segregating incompatible duties, and where such segregation is not practical, developing alternative control activities such as documented reviews. Management should remediate identified internal control deficiencies on a timely basis. In addition, the Office of Management and Enterprise Services (OMES) Statewide Accounting Manual highlights the importance of management being involved in documenting, reviewing and approving transactions, reports, and reconciliations.

Recommendation:

We recommend the Department consider moving to accept payments electronically, which would greatly decrease the risk involved in physically processing deposits while also likely improving efficiency in the receipting process.

Alternatively, or until this can be implemented, we recommend the Accountant II provide a copy of the mail log to the other staff members involved in the receipting process. The staff responsible for processing permits and production fees should ensure payment is listed on the mail log for any paperwork they receive, and the Business Manager should ensure the mail log agrees to the payments included in the deposit. In addition, a party independent from receipting and depositing funds should (at least on random occasions) reconcile the mail log to the deposits made to the bank. This review should be documented, for example with the reviewer's initials and the date.

Views of Responsible Officials:

The CFO informally reviews the bank deposits with the mail log and the production records. The daily check register and mail log is attached to the internal deposit slip and bank receipt. These documents are reviewed at the time of entry into the Production Ledger. Since mining operators do not generate the production reports before the fees are collected, the Department does not have a way to know in advance of payment how much is expected. The production report is matched to the fees reported and paid. Overages or shortages are reflected in the production spreadsheet.

Permit fees have an annual anniversary date. It would be easy to create a master accounts receivable for the permit fees due from mining operators. The Peoplesoft billing module could be used to track when the annual fee is due and when operators remit the permit fees. Currently, the finance staff is not reconciling the permit fees due with the minerals division staff.

The Department concurs that taking electronic payments and utilizing the billing module of Peoplesoft would assist in compliance with this internal control finding. The Department does concur that a reflection of random reconciliations with the mail log and production fees collected with the bank deposit source documents will be implemented immediately, such as initials and dates when the review takes place.

The Department of Mines continues to place the improvement of internal controls at the forefront of financial applications. All recommendations will be implemented in the future.

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