

OPERATIONAL AUDIT

OKLAHOMA USED MOTOR VEHICLE AND PARTS COMMISSION

January 1, 2008 through February 29, 2012



Oklahoma State
Auditor & Inspector
Gary A. Jones, CPA, CFE

**Audit Report of the
Oklahoma Used Motor Vehicle and Parts Commission**

**For the Period
January 1, 2008 through February 29, 2012**



Oklahoma State Auditor & Inspector

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June 25, 2013

TO THE OKLAHOMA USED MOTOR VEHICLE AND PARTS COMMISSION

This is the audit report of the Oklahoma Used Motor Vehicle and Parts Commission for the period January 1, 2008 through February 29, 2012. 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

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Background

The Oklahoma Used Motor Vehicle and Parts Commission was established by the Legislature in 1953 to license and regulate used motor vehicle dealers, wholesale motor vehicle dealers, automotive dismantlers, rebuilders, manufactured home dealers, manufactured home manufacturers, and manufactured home installers; to create an atmosphere of fair competition among equally regulated dealers; and to protect the interests of the consuming public.

Oversight is provided by ten (10) independent Commissioners appointed by the governor. Each Commissioner serves a term of six (6) years.

Board members as of May 30, 2013 are:

John Longacre.....	Chairman
Julian Coddling.....	Commissioner
Jim Davis.....	Commissioner
James Holman.....	Commissioner
John Holt.....	Commissioner
Norm Latham.....	Commissioner
Ralph Rooks.....	Commissioner
Steve Ross.....	Commissioner
Kerry Seigfried.....	Commissioner
Terry Shreve.....	Commissioner

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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:		
Mobile Home License	\$64,647	\$71,482
Used Motor Vehicle Dealer License	438,075	458,483
Used Motor Vehicle Salesman License	57,461	51,944
Auto Dismantler/Recyclers License	37,620	40,568
Other Licenses, Permits & Fees	85,001	65,698
Other Fines, Forfeits, Penalties	67,025	30,115
Copies of Other Documents	1,796	1,862
Total Sources	<u>\$751,625</u>	<u>\$720,152</u>
Uses:		
Personnel Services	\$540,557	\$559,057
Professional Services	59,034	40,876
Travel - Reimbursements	54,680	50,573
Travel - Agency Direct	1,836	875
Misc. Administrative	15,185	22,773
Rent Expense	32,917	33,582
Maintenance & Repair	1,288	4,778
Production, Safety, Security	700	21
General Operating Expenses	10,341	9,819
Office Furniture & Equipment	1,501	9,293
Library Equipment - Resources	137	0
Total Uses	<u>\$718,176</u>	<u>\$731,647</u>

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

**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 February 29, 2012.

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

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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 if the Agency's internal controls provide reasonable assurance that revenues, and expenditures (including payroll) were accurately reported in the accounting records, and financial operations complied with 62 O.S. § 211 and 74 O.S. § 3601.2 A.3.

Conclusion

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

Financial operations complied with the following statutes:

- **62 O.S. § 211** - Financial operations materially¹ complied with 62 O.S. § 211, which requires the transfer of 10% of all gross fees charged, collected, and received to the state's general revenue fund. Please note that the lack of segregation of duties in the revenue process, as discussed in the observation below, may impact the funds transfer process. If any funds received were not deposited, they also would not have been transferred. Our testwork was designed to determine whether the appropriate percentage of the funds ultimately deposited was transferred and our testwork reflected only that 10% of fees deposited were materially transferred as required by 62 O.S. § 211.
- **74 O.S. § 3601.2 A.3** – The salary of the incumbent chief executive officer shall not be increased if the officer's salary exceeds the maximum range.

Methodology

To accomplish our objective, we performed the following:

¹ For our purposes, materially was defined as a variance of 3% or less.

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- Obtained an understanding of internal controls related to the receipting and expenditure processes which included discussions with Agency personnel, observation, and review of documents;
- Tested internal controls using the following procedures:
 - Reviewing a random sample of 60 expenditure claims from the period to ensure the invoice/travel claim was properly approved, was supported by appropriate documentation, was mathematically accurate, was coded correctly, and that the disbursement was properly approved and agreed with the invoice/travel claim amount.
 - Reviewing a random sample of 12 monthly payroll claims and supporting documentation to ensure that the payroll claims were reviewed and approved by the executive officer or the Administrative Supervisor.
 - Reviewing a random sample of 24 monthly employee payroll records to ensure that the employee payroll records (timesheets and leave reports) agreed with the amounts recorded in the monthly payrolls.
 - Reviewing a random sample of 9 payroll change forms for changes which took place during the audit period to ensure the forms were properly approved, properly supported, and accurately reflected in the payroll records.
- Recalculated the amount transferred to the State's general revenue fund to ensure 10% of all the fees ultimately deposited by the agency were transferred as required by 62 O.S. § 211;
- Reviewed payroll information in the CORE accounting system to ensure the executive director'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."

It appears that the Administrative Supervisor and other office staff are responsible for the following in the revenue process:

- Receiving checks;

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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- Making copies of the front of the check only and placing the copy of the check in the dealers file;
- Placing the checks in the safe; and
- Issuing licenses using the MS Access Database system.

In addition, it appears that when checks are placed in the safe, no log is kept of the check numbers or amount and that the information entered into the access database does not include any financial information (i.e. the check number, amount received, deposit ID number, or date of deposit).

It also appears that the executive director is responsible for the following in the revenue process:

- Retrieving checks from the safe;
- Preparing the deposit;
- Calculating the total deposit using an adding machine and having another office staff member initial and date the tape indicating the total agrees with the deposit slip;
- Taking deposits to the bank; and
- Preparing/Reviewing the monthly clearing account reconciliation.

Management indicated that they felt they had adequate segregation of duties in place because the checks were received by someone other than the person preparing the deposit. Management also stated that small staff size prohibited them from a complete segregation of duties.

Based on our observations of the receipting process, we have determined that it is possible for members of the office staff receiving the mail and processing applications to copy the front of the check, include the copy of the check in the dealers manual file, update the MS Access database to issue or renew a license and never physically place the check in the safe. It is also possible for the person preparing the deposits to not include all checks in the deposit because a log is not kept of checks received. Because the MS Access Database does not include financial information including payment information, the total agency deposits cannot be reconciled to the MS Access Database records of the number of licenses issued/renewed and, therefore, management has no assurance that funds received are ultimately deposited.

Recommendation

To minimize the risk associated with this deficiency, either of the following procedures could be implemented:

- Checks received could be recorded in a log as they are received, by someone other than the Executive Director (or person preparing the deposit) and used as supporting documentation in the review of the fund deposit report.

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- Financial information (i.e. check number, amount, deposit ID) could be entered into the MS Access Database by the office staff and someone other than the office staff (executive director or deputy director) could perform periodic reconciliations between the deposits and number and type of licenses issued/renewed which are recorded in the MS Access Database.

If management decides not to implement these recommendations, other mitigating controls should be implemented.

Views of Responsible Officials

The observation that this agency fails to adequately segregate duties in the revenue process does not look at the results, but only whether the current process meets the Auditor's suggested standard. The GAO standard, as stated is: "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. "

It is respectfully submitted that this agency meets that standard. First, this agency does not accept cash. Second, no one individual is always in charge of opening the mail, or receiving applications and checks over the counter. The individual who opened the mail may not be the person who makes a copy of the check. The person who audits the application file is generally not the person who opened the mail or copied the check. There is an institutional randomness in the performance of these tasks. Therefore it is highly unlikely that fraud could occur in any of this process.

The preparation of the deposit and independent verification of the amount of the deposit is the methodology the Auditor's office recommended in a previous report. There is no reason to assume that procedure is inadequate now.

The scenario set forth in page five, while arguably possible, begs the issue of fraud occurring before the process begins. The only way to take a check, made out to the Used Motor Vehicle and Parts Commission, would be to get it before the processing procedure. The safeguard the Auditor's office proposes does not prevent this from happening either. The Auditor's office included in the audit a review of the process used and found no irregularities.

It would be impossible to reconcile a deposit or deposits with the number of licenses issued. The license may never be issued if the applicant fails to meet requirements, and the applicant is generally allowed the entire calendar year within which to complete requirements. To create a log to record checks as they are received would require the employment of additional personnel during the license renewal period. This would allow a short term employee first access at the checks that come in. This would impose the opportunity for fraud and / or error rather than decrease it.

Therefore, it is the agency management's position, that absent some proof of fraud or error actually occurring, the Auditor's suggestion of additional safeguards is without merit.

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Auditor's Response The agency's current procedures do not provide for adequate controls over the revenue process. Independent verification of the deposit should ensure that all checks received are included in the deposit. This is not possible if the individual preparing the deposit is the only one totaling the funds received even if several other individuals are responsible for opening mail and placing checks in the safe. The individual preparing the check log or calculator tape of the checks received should be separate from the individual preparing the deposit. After the deposit is prepared, the total on the check log or calculator tape should be verified against the deposit total by someone other than the individual preparing the deposit.

While we are cognizant of the fact that the small number of agency employees poses a hindrance to full segregation of duties and that it is not possible to provide 100% assurance that no fraud or misappropriation of assets will occur, it is still reasonable for an agency of this size to implement adequate mitigating controls over the revenue process. Based on our observations, it appears that having an individual independent of the deposit preparation process prepare a check log which is reconciled to the deposit would be reasonably possible with the present number of employees. It is also reasonably possible to include financial information (i.e. check number, amount, deposit ID) in the MS Access Database at the time the license information is recorded. The addition of financial information in the licensee's electronic file would serve as an independent verification of the funds received and could be used to determine if funds remitted were actually deposited.

Absent the agency either implementing the procedures recommended by our office or establishing other mitigating controls, management has no assurance that funds received are ultimately deposited.

Other Items Noted

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

Observation

Expenditures – Record Retention

A good internal control system provides for proper record retention as required under the Oklahoma Administrative Code § 580:16 5-9. *Retention of state agency acquisition records* which stipulates that the agency should retain all documents for acquisitions independently processed by the agency for a period of seven years following completion and/or termination of the acquisition, and the agency should retain all acquisition documents submitted to Central Purchasing Division for processing for one year after all audits have been completed and all applicable audit reports have been accepted and resolved by the agency.

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Beginning in July 2011, the agency procedure was to shred all original invoices, receipts, and packing slips after the Office of Management and Enterprise Services (previously Office of State Finance) Agency Business Services (ABS) had approved and paid the invoice. Only copies of the documentation were retained in the agency files. Therefore, the agency was out of compliance with OAC § 580:16 5-9 for the period of July 1, 2011 to February 29, 2012.

Recommendation Management should ensure that the agency has properly documented procedures in place with regard to the retention of original documents and that the procedures are enforced.

Views of Responsible

Officials The observation on expenditures records retention fails to recognize that this issue had already been addressed at the time of this audit. Personnel no longer with this agency was responsible for the procedure complained of. The present administrative supervisor corrected this practice, which should have been noted in the Auditor's report.

Auditor's Response The agency did not maintain records in accordance with the Oklahoma Administrative Code § 580:16 5-9., *Retention of state agency acquisition records*, for a period of eight months during the audit period.



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