



OKLAHOMA CORPORATION COMMISSION

Performance Audit

For the period July 1, 2015 through June 30, 2018

Cindy Byrd, CPA
State Auditor & Inspector

Oklahoma Corporation Commission

Performance Audit Report

**For the Period
July 1, 2015 through June 30, 2018**

November 15, 2019

**TO THE OKLAHOMA CORPORATION COMMISSIONERS AND DIRECTOR OF
ADMINISTRATION**

Pursuant to your request and in accordance with the requirements of 74 O.S. § 213.2(B), we performed an audit with respect to the Oklahoma Corporation Commission for the period July 1, 2015 through June 30, 2018.

The objective of our audit was to determine if the Oklahoma Corporation Commission information systems can provide the necessary information to perform independent reconciliations between services provided, revenue received, and revenue deposited to ensure that the reporting internal control system is operating effectively. The results of this audit are presented in the accompanying report.

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



Cindy Byrd, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR





Oklahoma Corporation Commission

Performance Audit Report

Executive Summary

Objective

The objective of this audit was to determine if the Oklahoma Corporation Commission information systems can provide the necessary financial information in order to perform independent reconciliations between services provided, revenue received, and revenue deposited to ensure that the reporting internal control system is operating effectively.

Engagement Background

This audit was conducted at the request of the Commissioners of the Oklahoma Corporation Commission (OCC), pursuant to 74 O.S. § 213.2(B). We focused on the information systems used throughout the agency and their ability to generate independent reports to be used during the reconciliation process:

- Oil and gas drilling and production (Oil and Gas Conservation Division or OGCD)
- Motor carrier, rail, and pipeline transportation (Transportation Division)
- Petroleum storage tanks (Petroleum Storage Tank Division - PSTD)
- Public utilities and telecommunications (Public Utilities Division - PUD)
- Administrative, Judicial, and Legislative Services (AJLS)

What We Found

- **The Agency's Reconciling Process Does Not Include Independent Records - Information Systems Do Not Contain Adequate Information**

Not all divisions are utilizing respective information systems to perform reconciliations of services provided and associated receipts to Finance deposit records. Either a process is not in place or the information system does not contain adequate information. The Commission cannot be assured that all funds collected are deposited.

- **No Systematic Review of the Case Management System (CASE)**

All agency financial data related to revenue is maintained in the Agency's Case Management System (CASE). Financial information is extracted from CASE on a daily basis and is used in the reconciliation process to ensure receipts posted are deposited. No systematic review and evaluation of the accuracy and reliability of calculations and data creates the risk that system data may be inaccurate.

• **Agency Policies and Procedures Lack Significant Accounting Detail**

OCC currently has no written procedures in place incorporating the expectation that each division independently reconcile services provided to revenue received and revenue deposited. Formalizing this requirement in Agency procedures will assist in providing assurance that all payments posted in the Agency's multiple databases are deposited.

What We Recommend

We recommend management make a concerted and prompt effort to develop policies and procedures that clearly and concisely detail the following:

- 1) the designation of qualified staff in each division who will generate an independent financial report and perform a reconciliation with Finance to ensure the Agency is collecting and depositing all funds that are due.
- 2) a requirement to ensure systematic and routine reviews are performed by an IT professional to evaluate the accuracy of the data maintained in CASE.
- 3) each division's responsibility to compare a monthly financial activity report to all services provided, revenue received, and deposits posted.

**Oklahoma Corporation Commission
Performance Audit**

Background

Established in 1907 by Article IX of the Oklahoma Constitution, the First Legislature granted the Oklahoma Corporation Commission (OCC or Agency) authority to regulate public service corporations, businesses whose services are considered essential to the public welfare.¹ Numerous changes in state and federal laws over the years have altered and expanded the OCC’s regulatory authority, but the basic rate-making and anti-monopoly authority mandated under Article IX has remained intact.

OCC exercises a unique combination of executive, legislative, and judicial powers, with broad authority over several critical sectors of Oklahoma’s economy as wide-ranging as telecommunications, transportation, transmission of electricity and natural gas, and natural resource extraction. The complex nature of OCC’s authority is further illustrated in the Overview section (page 6), where descriptions of each division’s responsibilities and relevant economic and industry information are presented.

This vast and diverse regulatory authority lends itself to complex operations that require specific expertise, resulting in isolated regulatory jurisdictions. The challenge is in developing communication and information systems that successfully integrate the regulatory and adjudicatory functions of the Agency to ensure the efficient and effective regulation of industries representing, directly or indirectly, roughly half of the state’s gross state product.

The Corporation Commission is comprised of three commissioners who are elected by statewide vote to serve six-year terms. The terms are staggered so one commissioner vacancy occurs every two years.

As of August 2019, OCC Commissioners include:

- Todd Hiatt.....Chairman
- Bob Anthony.....Vice-Chairman
- Dana Murphy.....Commissioner

¹ The legal principle for such regulation was established in 1877 when the United States Supreme Court ruled in *Munn v. Illinois*, 94 U.S. 113 (1877), that when a private company’s business affects the community at large, it becomes a public entity subject to state regulation.

Oklahoma Corporation Commission Performance Audit

Scope and Methodology

Our audit was requested by OCC in accordance with 74 O.S. § 213.2(B), which authorizes the State Auditor and Inspector to examine all books and accounts of all public entities specified by statute, upon receiving a written request by the chief executive officer of the governmental entity or another authorized requestor.

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.

In planning and conducting our audit we obtained an understanding of the Agency's revenue collection process and the individual information system utilized for receipting and reconciling revenue for the period July 1, 2015 through June 30, 2018.

Our procedures included inquiries of appropriate personnel, inspections of documents and records, observation of Corporation Commission operations, and review of relevant state laws, Oklahoma Administrative Code, Commission administrative procedures, information systems and corresponding data. Further details regarding our scope and methodology are included throughout the report.

We utilized sampling of transactions to achieve our objective. To ensure the samples were representative of the population and provided sufficient, appropriate evidence, the random sample methodology was used.

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.

Oklahoma Corporation Commission Performance Audit

OBJECTIVE

Determine if the Oklahoma Corporation Commission's information systems can provide the necessary financial information to perform independent reconciliations between services provided, revenue received, and revenue deposited to ensure that the reporting internal control system is operating effectively.

Conclusion

The Agency's overall reporting internal control system is not operating effectively to ensure all revenue is received and deposited for the services provided.

The Petroleum Storage Tank Division (PSTD) generates independent financial reports from the Petroleum Information Management System (PIMS) and reconciles receipts to services on a monthly basis to ensure that services provided agree to revenue received, and deposited. In addition, Administrative, Judicial and Legislative Services (AJLS)-Mineral Owners Escrow Account (MOEA) section utilizes financial activity reports from the MOEA database along with deposits recorded in CASE to perform monthly independent reconciliations to what is deposited per the Office of State Treasurer (OST) Activity Report.

However, the Transportation and Oil and Gas Conservation divisions cannot provide the necessary financial information from their various information systems (databases) to perform independent reconciliations between services provided, revenue received, and deposits made.

Although, the Public Utility Division (PUD) is capable of generating independent financial reports for fee assessments, no process is in place to reconcile deposits to the issued PUD fee assessment invoices.

Because, each division is not utilizing its respective information system to perform reconciliations of services provided and associated receipts to Finance deposit records, the Commission cannot be assured that services provided have an associated fee collected and that all funds collected are deposited.

Objective Methodology

To accomplish our objective, we performed the following:

- Identified each division within OCC that receives revenue, the services provided for the revenue received, and the information systems used for maintaining the applicable service and financial information.
- Gained an understanding of the related revenue processes.
- Evaluated significant internal controls and process factors related to the receiving of revenue by division.

- Gained an understanding of division information systems to determine if each has the capability to generate financial activity reports to be used as an independent record in the reconciliation process.
- Randomly selected financial activity reports from each division (PSTD, MOEA, Transportation and PUD) and examined to determine if reports contained the necessary information to perform an independent reconciliation of services provided and revenue received to finance records.
- Evaluated PSTD and MOEA reconciliation process.
- Randomly selected monthly reconciliations from PSTD and MOEA and examined to determine if independent financial reports were used during the reconciliation process.

**Overview of
OCC and Each
Division that
Receives
Revenue**

The OCC is the primary regulatory authority over several sectors of the state’s economy and possesses wide discretion to implement and enforce authority over specified jurisdictional areas through a unique combination of executive, legislative, and judicial powers. Divisions within the Agency that receive revenue for various services provided are as follows:

- Oil and Gas Conservation Division
- Transportation Division
- Petroleum Storage Tank Division
- Public Utilities Division
- Administrative, Judicial, and Legislative Services

For each of these divisions, a breakdown of the services provided, and revenue collected for fiscal year (FY) 2018 will be detailed.

Oil and Gas Conservation Division (OGCD)

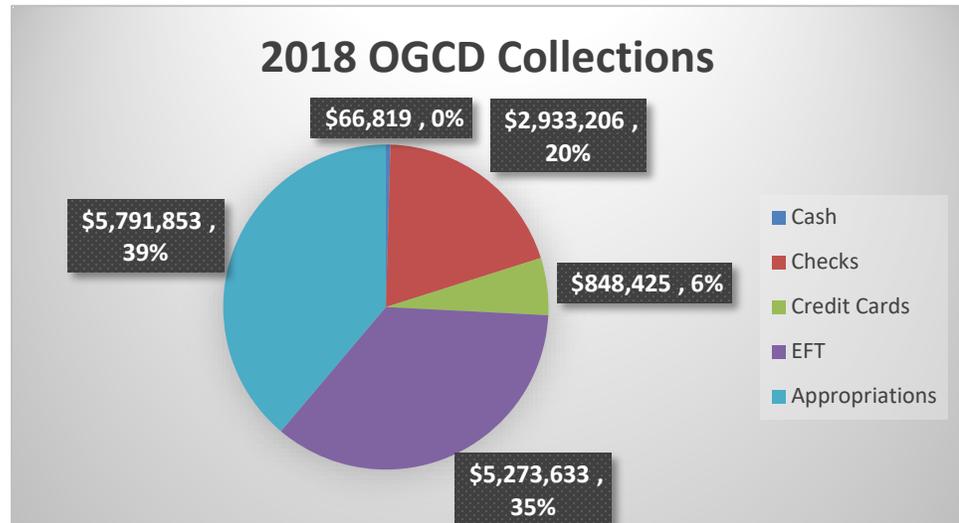
The Oil and Gas division provides information, permitting, investigation, and compliance services to the oil and gas industry, mineral interest owners, landowners, and the general public to develop the oil and gas resources of the State while protecting the environment and ensuring public safety².

During FY 2018, the OGCD completed technical reviews on 2,625 applications to drill, recomplete, and re-enter wells; reviewed 11,676 spacing, location exception, increased density and other related applications and orders; and reviewed 644 applications for other forms of

² Oklahoma Corporation Commission Annual Report 2018

Oklahoma Corporation Commission Performance Audit

technical relief.³ The associated revenue deposited for these services is illustrated in the chart below:



Source: 2018 OCC Financial Revenue Report

*EFT category includes apportioned revenue received from the legislature for petroleum and natural gas excise tax oil and gas operations and well pluggings, along with some Federal grants.

The OGCD utilizes three information systems: Risk Based Data Management System (RBDMS)⁴, Access database, and Excel spreadsheets. The RBDMS is a client/server data information system for tracking oil, gas, injection wells, and source water protection activities for regulatory agencies to use in managing and analyzing oil and gas program data and water resources management information. Currently, Oklahoma is one of approximately twenty-two states whose regulatory agency has adapted the RBDMS to incorporate federal guidelines and customize based on state laws and regulations.

Other fines, forfeitures, and permits are tracked in CASE, an Access database as well as an internal Excel spreadsheet.

The Agency has spent approximately \$750,000 on enhancements to the RBDMS, which is unable to generate financial reports.

Petroleum Storage Tank Division (PSTD)

In 1989, the Oklahoma Legislature established a one cent per gallon assessment on gasoline, diesel fuel, and blending materials to fund the Petroleum Storage Tank Indemnity Fund (Indemnity Fund). The Indemnity fund was established to help petroleum storage tank owners

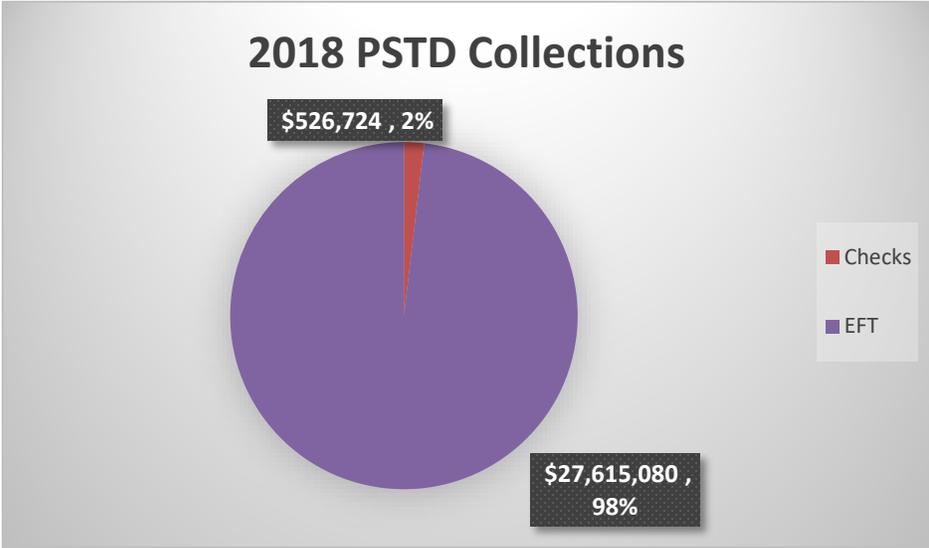
³ Oklahoma Corporation Commission Annual Report 2018

⁴ RBDMS developed by the Ground Water Protection Council through grant funding from the Department of Energy.

Oklahoma Corporation Commission Performance Audit

meet a \$1.5 million liability insurance requirement for damages that leaking regulated storage tank systems cause and to reimburse owners and operators for corrective action costs. PSTD is responsible for the administration of the federal Underground Storage Tank (UST) program in Oklahoma and has jurisdiction over aboveground and underground tanks containing antifreeze, aviation fuel, diesel, gasoline, kerosene, motor fuel, and motor oil.⁵ The UST program protects human health, safety, and the environment when a leak from a petroleum storage tank system disrupts vital services and/or contaminates soil and/or groundwater in Oklahoma. The PSTD is responsible for maintaining the storage tank program, including inspections at storage tank facilities, enforcement of rules, conducting risk assessments to determine the potential effects of exposure after a leak has occurred and recommend corrective actions, and administering the Indemnity Fund to assist storage tank owners and operators to meet a federal financial responsibility requirement.

Funds collected during FY 2018 from assessments and licensing and permit fees are as follows:



Source:2018 OCC Financial Revenue Report

*EFT category mostly consists of motor fuel revenue assessed from the legislature, and some Federal grants.

The PSTD utilizes the Petroleum Information Management System (PIMS) database to collect the division’s statistical data to track transactions and generate financial reports.

⁵ Oklahoma Corporation Commission Annual Report 2018

Oklahoma Corporation Commission Performance Audit

Transportation Division

The Transportation Division administers, enforces, and promotes federal and state laws, interstate and international compacts, and Oklahoma Corporation Commission rules related to motor carriers, non-consensual towing, commercial motor vehicles, pipeline safety, and rail-crossing safety throughout the State.⁶

Revenue is collected by the Transportation Division for both the International Registration Plan (IRP) and the International Fuel Tax Agreement (IFTA). Payments are posted directly into the IFTA/IRP System. The IRP is an agreement authorizing apportioned registration of Commercial Vehicles and providing for the recognition of such registrations in participating jurisdictions. The IFTA is a base jurisdiction agreement authorizing fuel tax licensing and reporting, providing for the recognition of such licenses and the transmittal of such fuel tax among the participating jurisdictions.

Reports are generated daily and monthly to perform reconciliations. Monthly, IFTA and IRP reports are generated from the IFTA/IRP system to perform separate monthly transfers to the IRP and IFTA National Clearinghouses.

Transmissions to the IRP and IFTA National Clearinghouse included approximately \$167 million in total revenues during fiscal year 2018.⁷ The Transportation Database (TDB) is used for citations, and most of TRN (Transportation) requirements. IFTA decals and registrations, along with IRP registrations and trip permits are tracked in the IFTA/IRP system.

During FY 2018, the Transportation Division processed the following applications, and issued the following permits, and citations⁸:

- 8,133 Motor Carrier Operating Oklahoma Intrastate Authority and Permits
- 6,311 Unified Carrier Registration Applications
- 19,284 IRP Applications
- 392 Deleterious Substance Transport permits
- 45,700 Citations

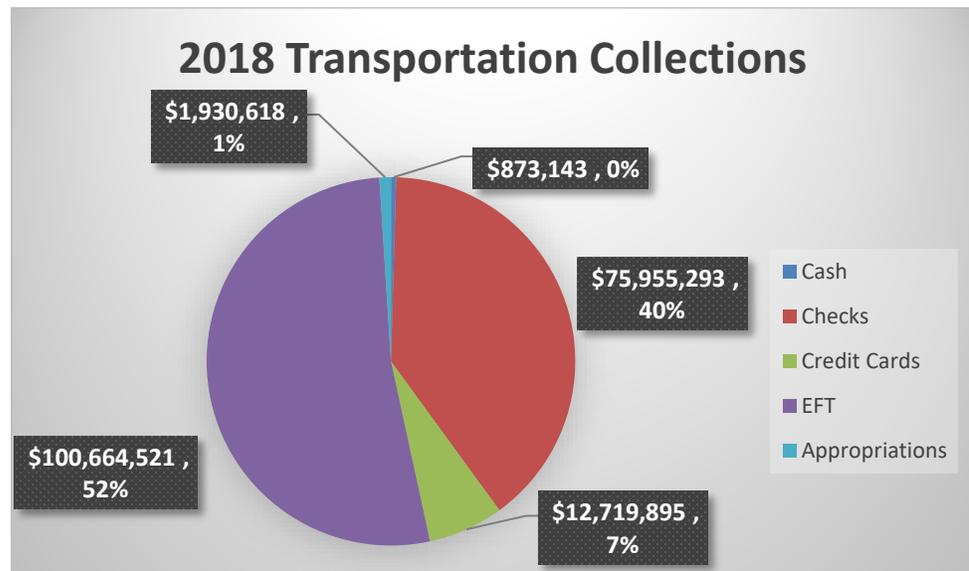
⁶ 47 O.S. § 161A thru 180m, § 230.1 et seq., §230.21 et seq., and § 230.34 (General); 68 O.S. § 607 (International Fuel Tax Agreement); 47 O.S. § 1120 (International Registration Plan); Oklahoma Constitution, Article IX, § 18 (Railroad); 17 O.S. § 61 thru 116.9; and 66 O.S. § 1 et seq. (Railroad).

⁷ Oklahoma Corporation Commission Annual Report 2018

⁸ Oklahoma Corporation Commission Annual Report 2018.

Oklahoma Corporation Commission Performance Audit

Revenue collected is not available by service type but rather in total. See breakdown of revenue collected by receipt type in the pie chart below:



Source:2018 OCC Financial Revenue Report

*EFT category consists of IFTA/IRP jurisdiction payments, Unified Carrier Registration (UCR), and Federal grants.

To track revenue collected for services provided and citations and permits issued, the Transportation Division utilizes the Transportation Database, CASE, internal Excel spreadsheets, the (UCR) third party processor, and the IFTA/IRP system. The finance module of IFTA/IRP is designed solely for Finance staff to enter and process information.

Public Utility Division (PUD)

The Public Utility Division ensures safe and reliable utility service at fair, just, and responsible rates. The PUD administers and enforces federal law, state statutes, Agency rules, and orders involving electric, gas, water, cotton gin, and telecommunications service providers. An annual fee is assessed upon each regulated entity to provide funding to the PUD for timely and expeditious reviews, completion of rate cases, and increased responsiveness to consumer needs and assistance to the regulated community.

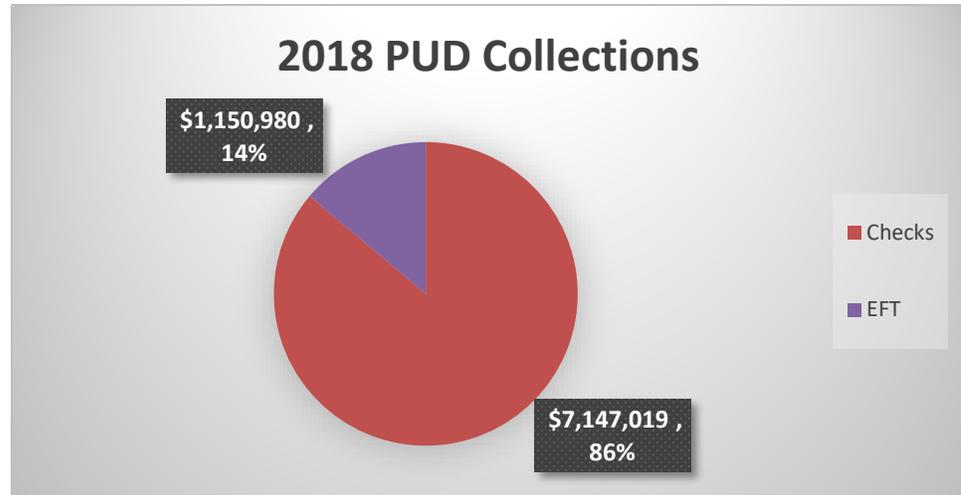
The PUD Oklahoma Universal Service Fund (OUSF) administration department is responsible for managing the legislative OUSF as acting Fund Administrator pursuant to 17 § 139.107(B).⁹ To ensure statutory

⁹ 17 § 139.107.B: The Corporation Commission shall establish the Oklahoma Lifeline OLF assessment and the OUSF assessment at a level sufficient to recover costs of administration and payments for OUSF and OLF requests for

Oklahoma Corporation Commission Performance Audit

compliance, the department, along with a third-party contractor, GVNW Consulting Inc.¹⁰, inputs monthly service provider funding requests and processes payments that are wire transferred.

Although OCC PUD is the fund administrator and responsible for review and final approval of public utility funds, they are not responsible for collecting and receiving the funds. Therefore, we did not perform detailed procedures on the revenue process.



Source:2018 OCC Financial Revenue Report

*EFT consists of OUSF reimbursements for travel and payroll related expenses.

17 O.S. § 180.11(A). states, “the Corporation Commission is hereby authorized to assess a fee upon each public utility to provide adequate funding to the Public Utility Division of the Corporation Commission for the regulation of public utilities in this state and for providing for timely and expeditious reviews and completion of rate cases, and increased responsiveness to the needs of consumers and the regulated community.” The PUD assessment fee is invoiced to each public utility either annually or quarterly. Assessment payment is made via check and collected by Finance. The payment is then recorded in the PUD database and coded as assessment revenue in CASE processing. All revenue coded to assessments in CASE are the transferred monthly to the 220 fund, after the clearing account reconciliation is complete. Per the 2018 OCC Quarterly Report, \$6,502,185 PUD assessment fee was collected with the remaining \$644,834 received for PUD enforcement actions and refunds during fiscal year 2018.

funding as provided for in the Oklahoma Telecommunications Act of 1997. The administration of the OLF and OUSF shall be provided by the Public Utility Division of the Commission.

¹⁰ OUSF Fund Manager responsible for tracking contributing telecommunications providers contributions to the OUSF.

Oklahoma Corporation Commission Performance Audit

Administrative, Judicial, and Legislative Services

To increase Agency efficiency, Administrative, Judicial, and Legislative Services (AJLS) was formed July 1, 2017, consolidating the Finance department, which has the custody of the Mineral Owners Escrow Account (MOEA), the Human Resources department, the Office of Administrative Proceedings, and the General Counsel's office. The director of administration serves as AJLS Director.

JLS

The Judicial and Legislative Services (JLS) component consists of the OCC court clerk, administrative law judges, attorneys, court reporters, and administrative staff. The JLS is responsible for fulfilling OCC's constitutional and statutory court of record duties on all legislative and judicial matters.

Administrative Services

The Administrative Services (AS) component consists of Finance, Human Resources, and the Mineral Owners Escrow Account (MOEA).

Finance

Finance is responsible for executing all the Agency's financial transactions in accordance with the various state statutes, federal regulations, and governmental accounting and reporting standards. Nearly 60 percent of the Agency's transactions with customers are manually performed, meaning an employee processes cash or a check from the customer. Larger transactions are processed using a credit card or electronic funds transfer (EFT).

Finance functions include central processing, revenue tracking, fund accounting, budget allocation, procurement, accounts payable, asset management, and general services such as printing, receiving, and inventory tracking.

CASE is utilized agency wide for all revenue accounting and financial reporting. CASE is the Agency's repository for court documents and related payments, and other financial transactions where current antiquated systems lack the functionality required to perform receipting and financial reporting. Finance tracks division payments by revenue distribution code to ensure receipts are applied to each division correctly, including court filings, miscellaneous payments, and citation payments, among others. When payments are received via mail, walk in, credit card (on-site and e-citations), information is entered in CASE.

CASE is not a comprehensive system for revenue receipting and tracking, nor was it designed to be one; thus, the need for the Agency's current development project to design and build an overall system to properly

Oklahoma Corporation Commission Performance Audit

track all financial transactions, along with sufficient reporting capabilities is in progress.

Since November 2013, OCC has tried to improve its receipting and accounting functions. Initially, OCC tried to develop a system using in-house IT staff members. After multiple attempts, the Agency decided to contract with Iron Data in hopes of a new agency-wide CASE Processing tracking system. To no avail, the Agency spent \$3,356,077 over the time period of November 26, 2013 to April 05, 2016, and the vendor was unable to deliver on a new system. In 2017, OCC contracted with OMES and My Consulting for a new comprehensive revenue receipting and tracking system. The contract is a multi-phase effort that began in April 2018 and will expand through January 2022. Phase one planning of the project was completed during this audit and included a review of prior audit findings and recommendations from SA&I.

Human Resources

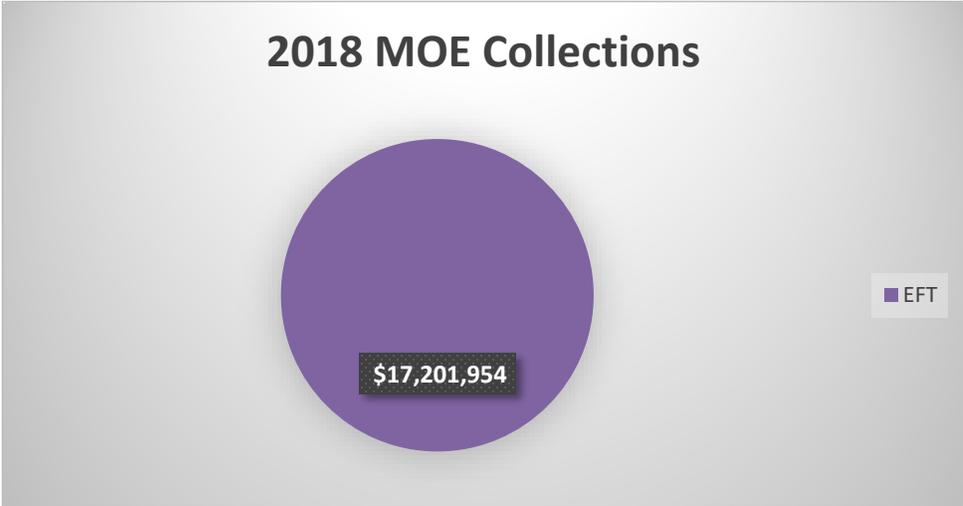
Human Resources is responsible for recruitment, development, support, retention, and safety of the Agency's workforce. Services include benefits, classification and compensation, employee wellness, recruitment, retirement, training and development, workforce planning, grievance management, and safety.

Mineral Owners Escrow Account (MOEA)

MOEA maintains records of monies owed to unknown or unlocated royalty mineral owners as a result of a Commission oil and gas forced-pooling order. The money is collected and deposited into an interest-bearing account by the Oklahoma State Treasurer's office (OST), where the funds are held in escrow until the unknown or unlocated royalty mineral owner is found or a maximum of five years. After the five years, any unclaimed monies are transferred to the Unclaimed Property section of OST.

During fiscal year 2018¹¹, the OCC MOEA department collected and deposited \$17,201,954, with reimbursements to OST on behalf of the located royalty mineral owners or their heirs totaling \$5,855,474 and the five-year transfer to OST for unclaimed property totaling \$6,480,044. At the end of Fiscal year 2018, the MOEA fund balance totaled \$67,592,590.

¹¹ The 2018 Oklahoma Corporation Commission Annual Report



Source:2018 OCC Financial Revenue Report

*EFT category consists of all monies deposited into the agency’s clearing account, then later transferred into the Mineral Owners Escrow Account.

Previous SAI Findings and Recommendations Related to Receipting and Reconciling

Since 2011, SAI has reported multiple issues with systems and reconciliation processes, and recommendations for addressing the lack of internal controls over revenues.

OCC Performance Audit July 1, 2008 through December 31, 2011

Issue noted in report: Receipting functions have not been centralized, thus increasing the risk of receipt theft or misappropriation. All funds should be initially received through the finance division, specifically the cashier's window. The cashier should then forward the appropriate documentation to the various Agency divisions. At month's end, each division should ensure the appropriate amount of funds was deposited to agree with the division's processed documentation. If these procedures are not feasible, management should consider alternative measures to reduce receipting risks.

Current Status per Management: Finance is and has been making every possible effort to maintain one central location to receive ALL mail since finding was written.

OCC Performance Audit July 1, 2008 through December 31, 2011

Issue noted in report: The Agency seems to risk significant opportunity cost by failing to take advantage of the technology available to establish a modernized version of this CASE management system. Such a system could create an information network spanning across divisions to more effectively and efficiently fulfill OCC's constitutional and statutory mandate through the sharing and integration of information with a more user-friendly interface.

Current Status per Management: The Commission is fully committed to the continual improvement of its information and communication systems. The agency will include an assessment of the effectiveness of these systems and the opportunities for their improvement as a critical component of the strategic planning process upon which the agency is about to embark. Effective January 30, 2018, OCC is in contract with OMES/My Consulting for Information Management System expansion to modernize their antiquated CASE management system and financial processing systems across all OCC divisions to perform revenue tracking and accountability, licensing, reporting, and customers able to execute online self-service transactions.

OCC - OGCD Audit July 1, 2013 through June 30, 2015

Issue noted in report: The Oil and Gas Administrative Assistant is responsible for receiving payments and posting operator information into the Risk Based Data Management System (RBDMS) for Intent to Drill permits. This creates an opportunity for someone in this position to misappropriate funds received and to conceal the misappropriation by improperly recording receipts. In addition, management does not perform an independent reconciliation sufficient to ensure all payments received by the Agency are deposited. Although the finance division performs fund reconciliations, there is no comprehensive reconciliation of payments received to permits issued.

Although the Finance Accountant IV performs a clearing account reconciliation, there is no comprehensive reconciliation of payments deposited to surety activity in the RBDMS. Also, no complete surety listing is maintained to enable analytical procedures on the test data, resulting in a lack of assurance that all funds collected were actually deposited.

Current audit procedures indicate there is still no independent reconciliation of services provided to receipts received, and revenue deposited.

Current Status per Management: The Commission has identified surety as a critical component to be addressed in IMS Phase 1 set to deploy July of 2020, with further development in Phase 3, which is scheduled to begin in Spring 2020. Surety tracking in IMS will include the complete listing of surety held in escrow, including all category A and B financial instruments, used by operators to obtain applications to drill. Phase 1 will provide the agency's financial record of collections and deposits for reporting purposes. Later in Phase 3, development will occur to allow for electronic submission of all surety applications and payments, which will then create the reconciliation record needed to match services provided to payments received, or funds held by other financial instruments.

Findings and Recommendations

**Reconciling
Process Does
Not Include
Independent
Records -
Information
Systems Do
Not Contain
Adequate
Information**

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (2014 Revision)¹² states, "Management obtains relevant data from reliable sources in a timely manner based on identified information requirements. Reliable internal and external sources provide data that are reasonably free from error and bias and faithfully represent what they purport to represent. Management evaluates both internal and external sources of data for reliability. Sources of data can be operational, financial, or compliance related. Management obtains data on a timely basis so that they can be used for effective monitoring."

CASE is the Agency-wide repository for court documents and related payments, including other financial transactions where other applications lack the functionality required to perform receipting and financial reporting. Finance tracks division payments by revenue distribution code to help ensure receipts are applied to the correct funds. CASE is also considered the Agency's system of record.

Due to the numerous information systems (databases) utilized by the various Agency divisions, and lack of integration between those systems and the CASE system, not all services provided are associated with revenue collected.

Although the Agency has tried to implement controls to ensure all revenue collected is first received by Finance central receipting, there are still several areas of the Agency where funds are received by a division prior to being distributed to the Finance division.

While the Finance division performs monthly fund reconciliations at the summary level, there is no comprehensive reconciliation of payments received and deposited to services provided. Monthly reconciliations performed during the audit period were between funds received and posted to the Agency's CASE management system and funds deposited per the Oklahoma State Treasurer's records.

PSTD and the MOEA are the only areas where independent financial reports can be generated and are used as part of the financial reconciliation process. However, the PUD division is capable of generating PUD fee assessment independent financial reports but does

¹² Although this publication (GAO standards) 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.

not have a process in place to reconcile deposits to the issued PUD fee assessment invoices. Additionally, the Transportation and Oil and Gas divisions could not provide independent financial reports for each revenue source for reconciling purposes.

As discussed in the overview section above (page 6), the Agency relies on inadequate, and unsupported information system applications to track revenue. In addition, no systematic review and evaluation for accuracy and reliability of calculations and data related to revenue is maintained on the Agency's CASE management system; see further discussion in the following finding. The lack of appropriate reconciliation controls creates the risk that data may be inaccurate, and management could inappropriately rely on reports produced by the system.

Recommendation

Management should ensure there are adequate and reliable financial records of services provided along with the associated receipts received for each Agency division which can be used as the independent record when reconciling. This process should be included in the Agency's policies and procedures as discussed later in this report (page 20) to ensure that a monthly reconciliation is conducted of all services provided to revenue receipted, and deposits posted. This reconciliation should include (but not be limited to) independent records from the divisions, the CASE management system, and the Oklahoma Treasury Statement. The policies and procedures should provide guidance to those who are responsible, and it should be a collaborated effort between the divisions and finance to ensure the Agency is collecting and depositing all funds that are due.

Management Response

Since the 2011 audit, the Commission has prioritized the need for a financial revenue tracking system. In 2017, it was decided to build, in phases, an agency-wide enterprise data management system. The financial module is Phase 1 being developed in the Agency's enterprise Information Management System (IMS) and is set to go-live July 2020. The system will become the agency-wide solution to account for all monies received by the Commission through detailed invoicing and receipting, along with the functionality needed to provide reports to the core divisions to reconcile the services provided to monies collected and deposited by Administrative Services-Finance.

Core division staff will generate invoices within their own applications, when possible, that will electronically pass to IMS through programmed application programming interface (API's). For those applications unable to generate invoices, IMS will allow divisions to enter invoices directly.

Oklahoma Corporation Commission Performance Audit

Upon immediate receipt of funds, Administrative Services-Finance will be responsible for entering the data into IMS, which will properly categorize the monies to ensure correct deposit to the agency's clearing accounts within the statutory mandated 24 hours. The core division staff will then review the payments and apply them to the available invoices. Once an invoice is satisfied and the payment method has cleared and posted, the money will then be moved to the appropriate OCC fund and realized as revenue.

Reconciliations will be completed by Administrative Services to secure that all monies receipted were deposited timely and accurately and match the records of the Office of the State Treasurer. Administrative Services-Finance will also perform additional reconciliations on outstanding invoices and receipts. Independent reconciliations will be completed by core division staff to ensure that the monies receipted by the agency reconcile to the services provided. Many reconciliations and verifications will be programmed into the IMS system to safeguard that these measures have occurred, including supervisory approvals. Upon completion of Phase 1, OCC will develop policy and procedures to address financial revenue tracking.

The IMS system will be expanded by modules such as CASE management (expected go-live Spring, 2021), surety, MOEA, and other divisions.

Inadequate System Review

As discussed previously, the GAO *Standards for Internal Control* emphasize the importance of management obtaining relevant and accurate data from reliable sources to enable effective monitoring.

Records are stored in various databases throughout the Agency divisions. The Agency places its primary financial reliance on the CASE processing system. Financial information is extracted from CASE on a daily basis and is used in the reconciliation process to ensure receipts posted are deposited.

No systematic review and evaluation of the accuracy and reliability of calculations and data related to revenue is maintained in the Agency's CASE management system. This creates the risk that data or calculations may be inaccurate, and management could inappropriately rely on reports produced by the system.

Recommendation

Management should ensure systematic and routine reviews are performed by an IT professional to evaluate the accuracy of the data maintained in CASE; this evaluation should be documented so that it can be independently verified. Also, this requirement should be documented in agency policy and procedures manual.

Management Response

IMS Phase 1 will deploy in July 2020. The new case management system, IMS Phase 2, will replace CASE, which was never designed to be used as a primary financial tool. The recommendation to evaluate the accuracy of data maintained in CASE will be met by implementation of IMS Phases 1 and 2.

With the development of the new IMS system, a maintenance contract will be established on an annual basis. OCC anticipates including language in the contract to perform system reviews to ensure that the data being maintained and transferred to other applications is being calculated correctly and stored appropriately.

OCC will discuss with the vendor options on how to track the reviews electronically to show activity and history, along with any potential/found issues or concerns.

**Agency Policies
and Procedures
Lack
Significant
Details**

Internal controls are policies and procedures put in place to ensure the continued reliability of accounting systems. Accuracy and reliability are paramount in the accounting world. Without accurate accounting records, management cannot make fully informed financial decisions, and financial reports can contain errors.

Currently, OCC has no written procedures in place incorporating the expectation that each division independently reconcile services provided to revenue collected, and deposits posted. Formalizing this requirement in Agency procedures will assist in providing assurance that all payments posted in the Agency's multiple databases are deposited.

The GAO *Standards for Internal Control* as referenced earlier, emphasize the necessity that, "Management is responsible for designing the policies and procedures to fit an entity's circumstances and building them in as an integral part of the entity's operations," and stresses the necessity that "management periodically reviews policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity's objectives or addressing related risks. If there is a significant

change in an entity's process, management reviews this process in a timely manner after the change to determine that the control activities are designed and implemented appropriately."

Written policies and procedures are necessary to inform employees about the Agency's expectations and practices, to provide direction in the correct way of processing transactions, and to serve as reference material for new and existing employees. Without them, employees may not fully understand the procedures.

Recommendation

We recommend management make a concerted and prompt effort to develop Agency policies and procedures that clearly and concisely detail each division's responsibility to compare a monthly activity report of all services provided and fees collected to deposits receipted and posted. This reconciliation should include (but not be limited to) independent records from each division, the CASE management system, and the Oklahoma Treasury Statement. The policies and procedures should provide guidance as to ensure qualified staff in each division generate an independent financial report to perform the reconciliation with Finance.

Management Response

OCC concurs that formalizing the independent reconciliation requirement in Agency procedures will provide clarity, transparency, as well as assurance that payments posted in the Agency's multiple databases are being deposited. Measures have already been taken internally to provide core division staff training and access to PeopleSoft financial reporting. IMS is being developed with view-only access security roles, so division staff can access reports at any time to perform the necessary reconciliations.

With the IMS invoice functionality being performed by core division staff, this also promotes accountability by allowing the division to apply the payment after receipt is generated by Administrative Services-Finance. This process will require each monetary transaction to be reviewed by the subject-matter experts before services are provided or credentials are released. By implementing a centralized processing unit within Administrative Services-Finance, that shifts the responsibility for all tracking and receipting of incoming payments away from the divisions, which should allow time for new processes, such as payment application.

The Commission is cognizant of the critical need for policy and procedures regarding financial transactions and reporting. It is the intention of the Agency, to develop these procedures parallel with the

Oklahoma Corporation Commission Performance Audit

IMS system and to adequately train OCC personnel in their use, with the same execution time of the go-live date for IMS-Phase 1.

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