

OPERATIONAL AUDIT

OKLAHOMA MOTOR VEHICLE COMMISSION

For the period July 1, 2011 through June 30, 2013



*Independently serving the citizens of
Oklahoma by promoting the
accountability and fiscal integrity of
governmental funds.*



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

**Audit Report of the
Oklahoma Motor Vehicle Commission**

**For the Period
July 1, 2011 through June 30, 2013**



Oklahoma State Auditor & Inspector

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May 15, 2014

TO THE OKLAHOMA MOTOR VEHICLE COMMISSION

This is the audit report of the Oklahoma Motor Vehicle Commission for the period July 1, 2011 through June 30, 2013. 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 "Gary A. Jones". The signature is fluid and cursive, with the first name "Gary" being the most prominent.

GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

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Background

The Oklahoma Motor Vehicle Commission (OMVC or the Agency) was established by the Legislature in 1953 for the purpose of licensing and regulating the new motor vehicle industry to benefit the people of Oklahoma. The functions of the Commission are to license new motor vehicle dealers, salespersons, manufacturers, distributors, factory branches, distributor branches, and their representatives; regulate licensees by requiring compliance with laws and regulations relating to advertising, sales practices, and distribution; promote a positive experience for the consumer and dealer by providing helpful information in the sales transaction; investigate and assist consumers regarding complaints against any licensee; and provide hearings before the Commission according to OMVC statutes and rules.

Oversight is provided by a commission of nine members appointed by the governor with the advice and consent of the Senate. Each member serves for a term of six years.

Commission members as of March 2014 are:

Dick Reynolds.....	Chairman
Carol Carver	Vice Chair
Gene Chumbley.....	Secretary
Fred Harlan.....	Member
Dan Mullins	Member
Leonard Northcutt.....	Member
Greg Cable	Member
Hal Steinke.....	Member
Eric Stuteville.....	Member

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The charts below illustrate how the agency is primarily funded, and where the funds are expended.¹

Chart 1 - Revenues by Category July 1, 2011 through June 30, 2013

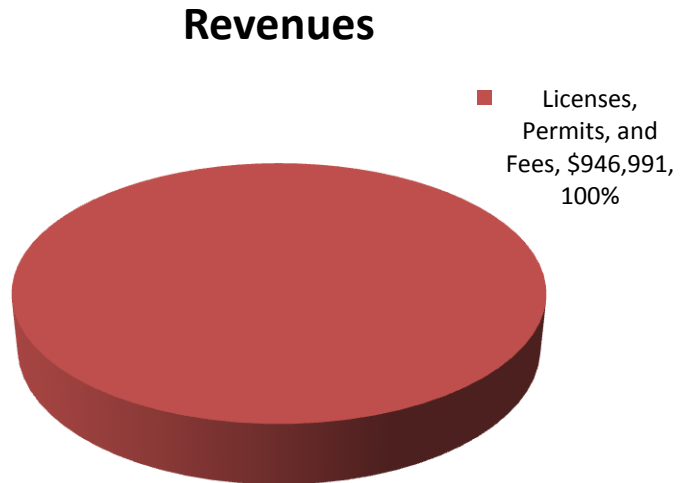
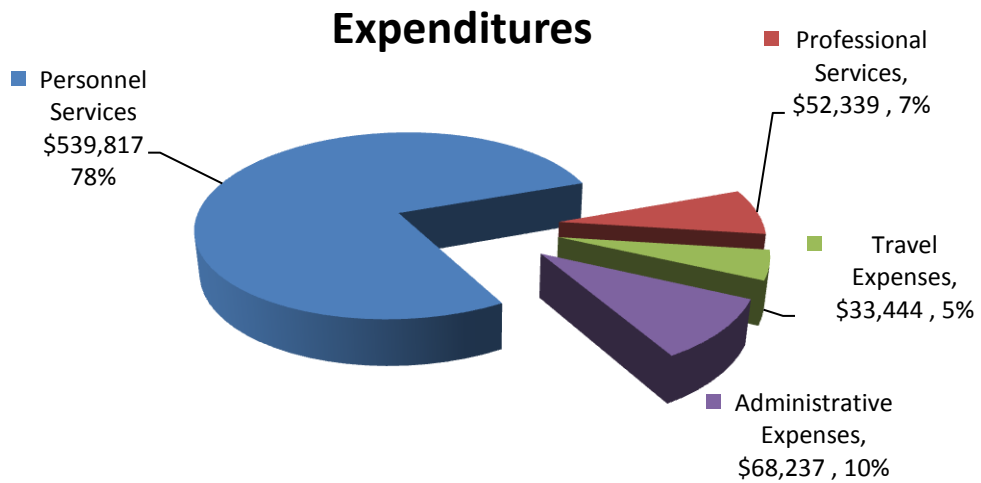


Chart 2 - Expenditures by Category July 1, 2011 through June 30, 2013



¹ This information was obtained from Oklahoma PeopleSoft accounting system. It is for informational purposes only and has not been audited.

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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 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 focused on the major financial-related areas of operations based on assessment of materiality and risk for the period July 1, 2011 through June 30, 2013. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Oklahoma Motor Vehicle Commission’s operations. We also tested a sample of transactions to achieve our objectives. To ensure the samples were representative of the population and provided sufficient, appropriate evidence, the random sample methodology was used. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

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.

OBJECTIVE

Determine whether the Agency’s internal controls provide reasonable assurance that revenue and miscellaneous expenditures were accurately reported in the accounting records, and financial operations complied with significant laws and regulations.

Conclusion

The Agency’s internal controls provide reasonable assurance that miscellaneous expenditures were reported accurately in the accounting records and generally provide reasonable assurance that revenues were reported accurately. However, two areas were noted in which the revenue process could be strengthened.

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Financial operations complied with 74 O.S. § 3601.2, which limits the executive director's salary, and with the transfer requirements of 47 O.S. § 563.G, relating to the 10% transfer of Agency revenues to the state general revenue fund.

FINDINGS AND RECOMMENDATIONS

Revenue Accounting System Weakness

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*² states in part that information systems used by entities should be "designed to help ensure completeness, accuracy, authorization, and validity of all transactions during application processing. . . ."

We noted several aspects of the agency's electronic revenue accounting system that represent weaknesses and should be strengthened:

- The Deputy Director has the ability to issue licenses and to delete records in the Agency's revenue accounting system, which, in concert with the position's other responsibilities, could present the opportunity for someone in this position to misappropriate payments while still issuing or renewing a license.
- Deposit dates are entered manually, which could allow backdating. This could potentially aid a user in concealing theft by allowing unauthorized license issuances or renewals.
- Deposit batch IDs, which identify groups of deposits entered together, can be deleted and reused. This could also aid a user in concealing misappropriation.

Recommendation

We recommend management consider implementing the following improvements to its revenue accounting system:

- Eliminate the ability of any employee other than the Executive Director to delete records without the approval of the Executive Director. Alternatively, the Executive Director should have the ability to run reports listing edited or deleted records.

² Even though this publication addressed 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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- Eliminate the ability for users to manually enter the date received for deposits. The system should auto-populate the date of a newly created deposit batch.
- Each deposit ID should be unique and remain in the records, regardless of whether or not the associated deposit batch was deleted. The system should identify that batch as deleted, rather than reusing the deposit ID. As recommended earlier, the executive director should approve all record deletions.

Risk related to revenue could be further reduced if the Agency moved to accept online payments.

Views of Responsible Officials

The OMVC will work with its database consultant/developer to discuss the feasibility of implementing the recommended improvements to the revenue accounting system.

Safeguarding and Timely Deposit of Funds

An effective internal control system provides for adequate safeguarding of assets. In addition, 62 O.S. § 34.57.C requires that receipts greater than \$100 be deposited on the same banking day as received and receipts of less than \$100 are subject to adequate safekeeping, to be deposited when funds received equal \$100 or after held for five business days.

The Agency has a locking filing cabinet where they keep funds received overnight or after the daily deposit has been taken to the bank. Often, funds in excess of \$100 are kept in the cabinet overnight. During license renewal season, there are days when workload prevents a staff member from making the daily deposit.

Retaining funds at the agency for extended periods increases risk of misappropriation and conflicts with the requirements of 62 O.S. § 34.57.C.

Recommendation

Funds in excess of \$100 should be deposited the day received. It may be necessary for the Agency to wait to deposit funds until later in the day to ensure that payments delivered by mail in the afternoon are deposited in a timely manner.

Views of Responsible Officials

The OMVC is committed to depositing all funds as quickly as possible. There are a couple of factors that make it impossible to always wait for the mail to come before making a deposit: 1) the time of delivery of our mail is very erratic, it may come as early as noon, and yet sometimes it doesn't come until after we have closed - there is no regular pattern; and, 2) before we deposit the funds, we verify that the amounts paid are correctly matched with the applications received. We make every effort to protect any checks that may remain in the Agency overnight. We will strive to continue improving our processes to expedite deposits and to maximize the safeguarding of all assets.



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