

**OKLAHOMA TAX COMMISSION  
MOTOR VEHICLE DIVISION  
PRORATE SECTION  
SPECIAL REPORT  
FOR THE PERIOD OCTOBER 1, 2002 THROUGH MARCH 31, 2003**

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OKLAHOMA TAX COMMISSION, MOTOR VEHICLE DIVISION  
PRORATE SECTION SPECIAL REPORT  
FOR THE PERIOD OCTOBER 1, 2002 THROUGH MARCH 31, 2003

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**JEFF A. McMAHAN**  
STATE AUDITOR AND INSPECTOR

June 25, 2003

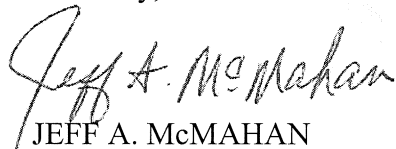
**TO THE COMMISSIONERS OF THE  
OKLAHOMA TAX COMMISSION**

Transmitted herewith is the Oklahoma Tax Commission, Motor Vehicle Division - Prorate Special Report for the period October 1, 2002 through March 31, 2003.

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

The Office of the State Auditor and Inspector is committed to serving the public interest by providing independent oversight and 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,

  
JEFF A. McMAHAN  
State Auditor and Inspector

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**Commission Members**

Thomas Kemp - Chairman

Jerry Johnson - Vice Chairman

Don Kilpatrick - Secretary-Member (Until February 2003)

Constance Irby – Secretary – Member (Effective March 1, 2003)

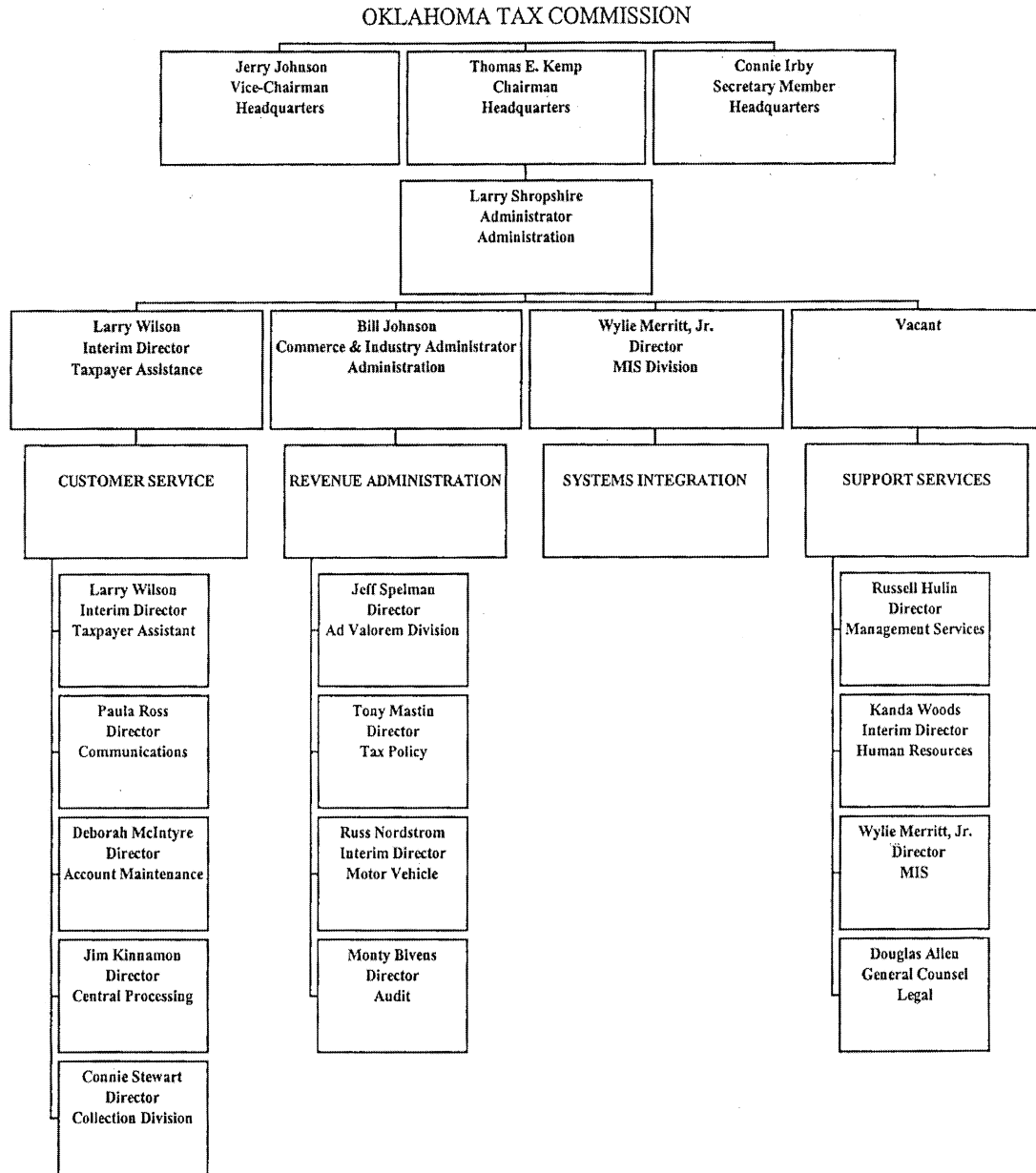
**Administrator**

Larry Shropshire

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This organizational structure has been in effect since September 1, 1995. However, some of the employees in these positions have changed through the years.

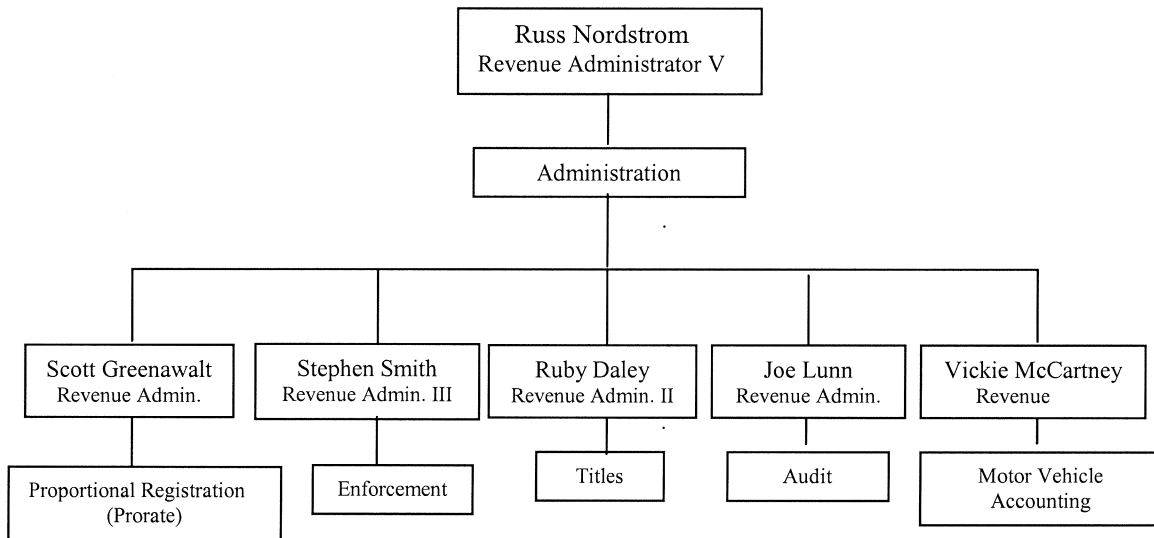


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Effective October 1, 2002

MOTOR VEHICLE DIVISION

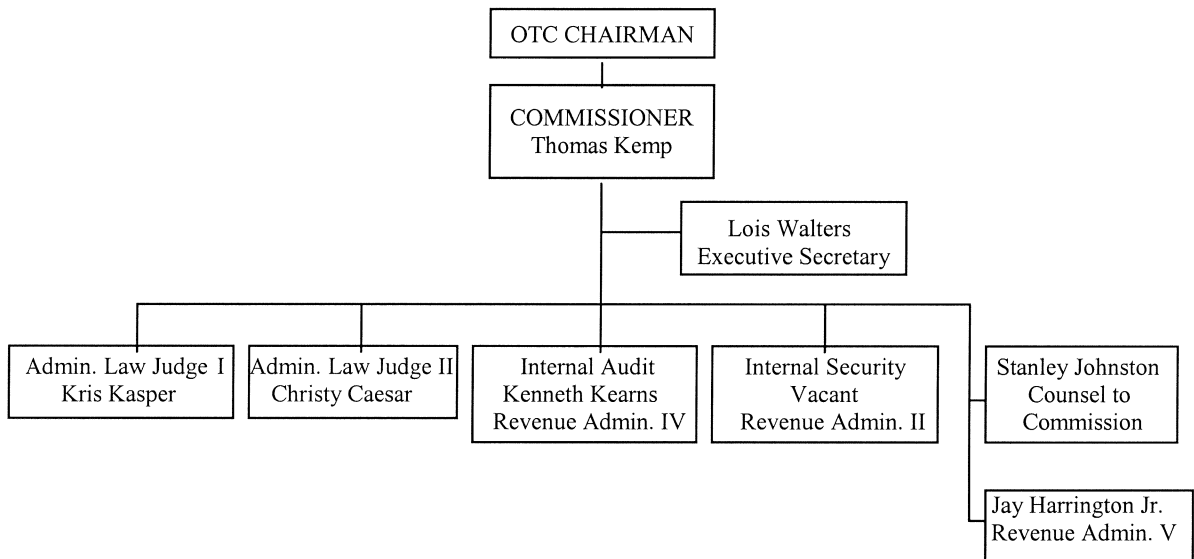


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**Effective October 1, 2002**

OKLAHOMA TAX COMMISSION  
HEADQUARTERS



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**Acronyms**

**OTC** – Oklahoma Tax Commission

**IRP** - International Registration Plan

**MIS** - Management Information Services

**DLN** – Document Locator Number

**OR** – oral recognizance

**MVD** – Motor Vehicle Division

**MVE** – Motor Vehicle Enforcement

**VIN** – Vehicle Identification Number



## **Background**

The Oklahoma Tax Commission (OTC) Motor Vehicle Division (MVD) is charged with collecting revenue relative to the ownership and operation of motor vehicles within the State of Oklahoma. The MVD Prorate Section (Prorate) is responsible for administering the provisions of the International Registration Plan (IRP). IRP is a registration reciprocity agreement among states of the U.S. and provinces of Canada providing for the payment of license fees on the basis of total distance operated in all jurisdictions. The parties to this agreement are known as member jurisdictions; Oklahoma became a member jurisdiction on January 1, 1978. The member jurisdictions have agreed to be bound by the provisions of the agreement and the approved exceptions incorporated into the agreement.

Prorate is responsible for registering motor vehicles that qualify for apportioned registration, collecting registration fees for multiple jurisdictions, and remitting the fees that belong to other jurisdictions. Even though license fees are paid to the various jurisdictions in which fleet vehicles are operated, only one license plate and one cab card are issued for each fleet vehicle registered under the plan. A fleet vehicle is known as an apportionable vehicle, and so far as registration is concerned, may operate intra- or interjurisdictionally.

Certain steps in the registration process have been compromised and abused, resulting in a loss of registration revenues to the State of Oklahoma and other member jurisdictions. To date, several former OTC employees and trucking agents or their employees have been indicted. Seven have pleaded guilty and two have been sentenced.

## **Scope**

In response to the abuses that have taken place, OTC has implemented new control procedures to reduce the risk of fraud. OTC contracted with the State Auditor and Inspector to document and identify areas of control risk relevant to the registration process. We were engaged to identify current weaknesses in the controls that increase the risk of errors and irregularities, as well as communicate those weaknesses and recommend corrective action to management.

### **Objectives:**

1. To gain an understanding of the laws, contractual provisions, and OTC rules that apply to the registration process.
2. To identify existing weaknesses in internal control for Prorate considering the abuses that have occurred.
3. To develop and communicate recommendations regarding internal controls that should be considered by Prorate management, which would reduce the risk of fraud and safeguard assets against loss.

### **Methodology:**

Through inquiry and observation, we determined the statutes, contractual provisions, and OTC rules that apply to Prorate in administering the apportioned registration process. We obtained an understanding of the methods by which Prorate receives and processes the different types of applications/transactions and the procedures whereby operating credentials are issued. We performed tests to determine whether certain controls were in place and operating as represented for the following areas:

- Prorate Application Process
- Temporary Registration
- 72-Hour Trip Permits
- Prorate Enforcement

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Weaknesses were identified in the following areas: Prorate application process, temporary registration, electronic filing, 72-hour trip permits, internal audit department, and enforcement.

**Item Recommended for Further Study:** Management, with the assistance of the Management Information Services Division, should review the access each Prorate employee has to determine whether such access is necessary to perform his/her duties. MVD management should ascertain whether functions are adequately segregated to limit the risk of errors and irregularities.

## SCHEDULE OF FINDINGS AND RECOMMENDATIONS

### PRORATE APPLICATION PROCESS

#### Prorate Computer Applications

**Criteria:** According to the standards of the Information Systems Audit and Control Association (CobiT, Delivery and Support 11), transaction data entered for processing should be subject to a variety of controls to check for accuracy, completeness and validity.

**Condition:** No edit exists in the computer system that ensures registration fees have been paid before allowing subsequent transactions. No control is designed to ensure whether a bill is generated for all appropriate transactions.

**Effect:** A greater risk exists that errors and irregularities may occur and not be detected in a timely manner. The Tax Commission may not bill and collect registration fees for all vehicles proportionally registered. Such a weakness would allow an employee to register trucks without the registration fees being paid and would allow such an action to continue to be undetected.

**Recommendation:** We recommend that the Tax Commission make programming changes to Prorate computer applications so that a paid field will be displayed for each truck or trailer with a current paid registration. The processing of subsequent transactions should not be allowed unless the original registration fees have been paid. We also recommend that a report be generated monthly showing vehicles in the system for which registration fees have not been paid. A person independent of the registration process should make a determination of the facts and propriety for each vehicle on the report.

**Management Response:** A computer listing of accounts that have not been billed is generated each month and forwarded to the Prorate Section Administrator. There is also a computer report of paid/unpaid bills. A second level of scrutiny to ensure accounts are billed and unpaid bills receive the proper collection efforts is being initiated.

Additionally, a program change is being implemented to display only the most current (paid) registration information on a vehicle or trailer. For an existing account, i.e., a renewal, if a current bill is not paid, only the prior year information can be displayed indicating expired credentials.

Anticipated completion of these changes is July 1, 2003.

### Security of Incoming and Outgoing Mail

**Criteria:** Internal controls should provide reasonable assurance that assets are safeguarded against theft and loss.

**Condition:** Cab cards and tags placed in incoming or outgoing mail are not secure.

**Effect:** The risk is increased that cab cards and/or tags could be misappropriated.

**Recommendation:** We recommend that steps be taken to secure the cab cards and tags in the mail.

**Management Response:** Effective immediately all cab cards, both blank and printed, will be kept in a secured room. Only authorized individuals will deliver cab cards and tags to the mailroom for mailout.

### Inventory Control Procedures for Prorate Tags

**Criteria:** Internal controls should provide reasonable assurance that assets are safeguarded against theft and loss.

**Condition:** No control is in place to document or account for the Prorate tags taken from the warehouse and received at the Motor Vehicle Division.

**Effect:** The risk is increased that tags could be misappropriated.

**Recommendation:** We recommend policies and procedures be developed to provide a method of accounting for Prorate tags. These policies and procedures should encompass requirements for both Prorate and the warehouse. We recommend these policies and procedures include the following:

- Specific individuals should be designated by the MVD management to obtain tags from the warehouse.
- A document listing the numbers of the tags obtained should be signed by the designated individual from the MVD. Warehouse employees should retain this document.
- The inventory of tags on hand should be reconciled with inventory records annually.

**Management Response:** We concur with the auditor's finding and have taken corrective action. An inventory system is scheduled for completion July 1, 2003. Upon completion of these program changes, Prorate tags coming into Motor Vehicle, and various tag agencies as well, will be consigned to those locations. Annual inventory audits are conducted at motor license agencies, and an inventory audit of the Prorate tag room will be included by the Audit Section.

### Stop Flag Notation

**Criteria:** According to the standards of the Information Systems Audit and Control Association (CobiT, Delivery and Support 11), management should establish appropriate procedures to ensure that data input is performed only by authorized staff.

**Condition:** The stop flag used to alert reviewers and encoders of a delinquency is susceptible to change, alteration, or deletion by anyone with Motor Vehicle Prorate "A" (MVPA) update access.

**Effect:** Cab cards could be released without payment of required fees.

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**Recommendation:** We recommend that access be limited to only those individuals who need to perform this function. Consideration should be given to the proper segregation of accounting functions to limit the risk of errors and irregularities.

**Management Response:** A program change scheduled for implementation July 1, 2003 will have a “stop flag” field added to the prorated computer system. The new stop flag will not allow any changes to be made to an account that has a code in the stop flag field. Various sections of the Motor Vehicle Division will be responsible for placing appropriate stop flags on prorated accounts. To segregate duties and establish effective controls, only selected lead, supervisory or system employees will have the capability to remove a stop flag. Those employees who can create a stop flag do not have the capability to remove it. Conversely, those individuals who can remove a stop flag from an account do not have the capability to create a stop flag.

### Security of Surrendered Tags

**Criteria:** Internal controls should provide reasonable assurance that assets are safeguarded against theft and loss.

**Condition:** Oklahoma apportioned tags are permanent tags and must be displayed on every proportionally registered vehicle. If the truck registration is not renewed, the tag is surrendered. Surrendered tags are not properly safeguarded.

**Effect:** Surrendered tags could be misappropriated.

**Recommendation:** We recommend that procedures be designed and implemented to safeguard surrendered tags from unauthorized use.

**Management Response:** When prorated tags are turned in, OTC employees immediately update Motor Vehicle records, making the tag obsolete. An inquiry by any enforcement jurisdiction will then display the tag as invalid.

Surrendered tags are now maintained away from the counter area until they can be recorded in the computer. They will be boxed up and taken directly to the mailroom until transportation to the OTC warehouse occurs.

### Delete for Credit Procedures

**Criteria:** According to the standards of the Information Systems Audit and Control Association (CobiT, Delivery and Support 11), management should ensure that source documents are properly prepared by authorized personnel who are acting within their authority and that an adequate segregation of duties is in place regarding the origination and approval of source documents (transactions).

**Condition:** Anyone with encoding access could build in a fictitious truck registration and then, delete the fictitious registration for a credit.

**Effect:** The bogus credit could then be used to offset the actual cost of registering a truck by allowing a registrant to pay less registration fees.

**Recommendation:** We recommend a policy be developed and implemented that will apply whenever a registrant seeks to offset the cost of registration fees with a credit. Before allowing the use of any credit, the reviewer should determine whether the registration fees were actually paid on the truck that is being deleted.

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**Management Response:** A program change is being implemented to display only the most current (paid) registration information on a vehicle or trailer. For an existing account, i.e., a renewal, if a current bill is not paid, only the prior year information can be displayed indicating expired credentials. Once the bill is paid the commercial file will display the new registration information. Only then can a Delete for Credit be processed on that vehicle.

This project will also ensure that enforcement officers will only be able to view paid account information. Until the account is paid, the registration information will not be displayed, giving the enforcement officers a more reliable resource.

### **Prorate Fees**

**Criteria:** According to the IRP, section 306 Fee Change Notification:

Each member jurisdiction shall notify the IRP Repository of any proposed fee changes regarding apportioned registration by that member jurisdiction at least 120 days prior to the effective date. Upon timely notification of proposed fee changes, each member jurisdiction shall implement and collect proper fees due by the effective date. Any member jurisdiction failing to implement the proposed fee changes within the 120-day time frame will be responsible for any re-bill or credit adjustment resulting from the time delay.

According to 21 O.S. § 590 A:

Every state governmental entity shall, for a period of two (2) years, maintain accurate and complete records, as defined in Section 203 of Title 67 of the Oklahoma Statutes, reflecting all financial and business transactions, which records shall include support documentation for each transaction. No such records shall be disposed of for three (3) years thereafter, except upon a unanimous vote of the members of the Archives and Records Commission pursuant to Section 306 of Title 67 of the Oklahoma Statutes, or upon a majority vote of the members of the Commission for records more than five (5) years old. The disposition of such records shall be in accordance with the provisions of Sections 305 through 317 of Title 67 of the Oklahoma Statutes, provided all state or federal audits have been completed, unless such audits request such records to be maintained for some given period of time.

**Condition:** Five OTC Proration Statements were tested and the following exceptions were noted:

1. For Account # OK54596:
  - A \$1 fee is included in the total fee for Tennessee. However, according to the Prorate Division Administrator, this fee is no longer in effect and should be removed from the calculation.
  - The mileage for Illinois was recorded as estimated when it should have been recorded as actual. This error affected the percentage factor for all states based on actual mileage.
  - Effective July 1, 2002, a new fee schedule went into effect for New Jersey. The OTC has not updated its system to reflect the new fee schedule.
  - The summary effect of the above noted errors is an overpayment of fees by the registrant of approximately \$73 that has resulted in an underpayment/overpayment of fees to Oklahoma and various other states.

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2. For Account # OK75951:
  - A \$1 fee is included in the total fee for Tennessee. However, according to the Prorate Division Administrator, this fee is no longer in effect and should be removed from the calculation.
  - Effective July 1, 2002, a new fee schedule went into effect for New Jersey. The OTC has not updated its system to reflect the new fee schedule.
  - The summary effect of the above noted errors is an underpayment of fees by the registrant of approximately \$113 that has resulted in an underpayment of fees to New Jersey and an overpayment of fees to Tennessee.
3. For Account #OK62415:
  - A \$1 fee is included in the total fee for Tennessee. However, according to the Prorate Division Administrator, this fee is no longer in effect and should be removed from the calculation.
  - According to the mileage logs for each vehicle, the mileage recorded for some states was not accurate. This situation affected the percentages used to calculate the rate for Georgia, Maryland, Pennsylvania, Tennessee, and Texas.
  - Effective July 1, 2002, a new fee schedule went into effect for New Jersey. The OTC has not updated its system to reflect the new fee schedule.
  - The summary effect of the above noted errors is an underpayment of fees by the registrant of approximately \$17 that has resulted in an underpayment/overpayment of fees to various states.
4. For Account #OK100503:
  - A \$1 fee is included in the total fee for Tennessee. However, according to the Prorate Division Administrator, this fee is no longer in effect and should be removed from the calculation.
  - Effective July 1, 2002, a new fee schedule went into effect for New Jersey. The OTC has not updated its system to reflect the new fee schedule.
  - The rate charged for Indiana is not supported by a fee schedule. It was not possible to determine the fee calculation method. A variance of \$.16 was noted.
  - The summary effect of the above noted errors is an underpayment of fees by the registrant of approximately \$.25 that has resulted in an underpayment/overpayment of fees to Indiana, New Jersey and Tennessee.
5. For Account #OK89193:
  - A \$1 fee is included in the total fee for Tennessee. However, according to the Prorate Division Administrator, this fee is no longer in effect and should be removed from the calculation.
  - The rate charged for Indiana is not supported by a fee schedule. It was not possible to determine the fee calculation method. A variance of \$1.69 was noted.
  - The summary effect of the above noted errors is an underpayment of fees by the registrant of approximately \$1.67 that has resulted in an underpayment/overpayment of fees to Indiana and Tennessee.

**Effect:** Registrants have been either undercharged or overcharged registration fees that has subsequently resulted in underpayment/overpayment of fees to the State of Oklahoma and other states.

**Recommendation:** We recommend that any errors detected in fees charged be corrected in a timely manner with supervisory follow-up to ensure the Prorate system is adjusted as appropriate. We also recommend that personnel perform a periodic review to verify the accuracy of the Prorate system information.

**Management Response:** During the period of review, fee schedules from the various jurisdictions were transmitted manually through the mail.

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Currently fee schedules are transmitted to Oklahoma via e-mail from member jurisdictions through the IRP, Inc. who posts them to their web site. We encode annual fee changes received from the various jurisdictions into our system and then reconcile those fees back to those posted to the IRP web site. We also check the IRP web site monthly to detect fee schedule changes that may not have been timely e-mailed to Oklahoma. Using this process, fee schedule errors are detected when encoded rather than when collected fees are transmitted to the member jurisdictions. This verification process significantly reduces the likelihood that fee schedules are encoded into our system incorrectly.

### **Prorate Bill Deletion List Not Maintained**

**Criteria:** Internal controls should provide reasonable assurance that assets are safeguarded against theft and loss. Internal controls also help achieve desired results through effective stewardship of public resources. Additionally, all transactions and other significant events should be clearly documented, and the documentation should be readily available for examination.

**Condition:** The MVD does not maintain a list of deleted Prorate bills. Therefore, no unusual deletion activity will be detected.

**Effect:** Errors or irregularities could cause loss of revenue.

**Recommendation:** We recommend the MVD establish and implement the process of maintaining a list of deleted Prorate bills. We further recommend that the list include such entries as the date of application, application number, name of applicant, account number, amount, date of deletion, and reason for deletion.

**Management Response:** Currently, Prorate bills are not deleted. They are flagged for removal from the billing system and written to a journal file in the computer system. This process is similar to making the bill obsolete.

Prorate bill obsolescence is currently a two step process:

There are two individuals in the Prorate Section authorized to obsolete a bill. The computer security access for these two individuals does not allow them to obsolete the bill. They fill out the necessary paperwork and forward to the Motor Vehicle Accounting Section.

Accounting personnel may perform the bill obsolescence as signed off on by one of the two authorized Prorate Section employees.

The Prorate Section currently receives two printouts each month that are related to this issue; a list of paid/unpaid bills and a list of applications on file that have not created a bill. We are in the process of generating a bills obsolescence list, in addition to the two listings identified above. This listing will be reconciled by Accounting Section personnel, exceptions investigated and appropriate action taken.

The anticipated completion date is July 1, 2003.

### **IRP Application Process**

**Criteria:** A basic objective of internal control is to provide accurate and reliable information. Management should monitor the effectiveness of internal controls during the normal course of operations.

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**Condition:** In testing 40 IRP Applications and supporting documentation, the following items were noted:

- Five Original/Renewal checklists did not contain a reviewer's signature or initials to indicate who reviewed the applications.
- The goldenrod copy or other documentation stamped with a tracking number indicating the bill had been paid could not be located for two applications.
- The goldenrod copies for two paid bills were not stamped with a tracking number.
- One application did not contain an account number.
- One original application was recorded as a supplemental on the Excel spreadsheet provided by OTC.

**Effect:** Tags and cab cards may be issued to applicants who have not been properly approved. Without reliable and accurate information, improprieties could occur and not be detected in a timely manner.

**Recommendation:** We recommend the Commission adopt and implement policies and procedures specifying that all Original/Renewal checklists be signed by the person reviewing the application. Policies and procedures should also be adopted and implemented that require all goldenrod copies of paid bills to be stamped with a tracking number.

**Management Response:** Management concurs with the recommendation. The following controls have been instituted.

A P.C. based application tracking system has been in use since December 2002. Applications and supplements are logged and tracked throughout the review process to include denial and resubmission of applications.

A computer program enhancement was implemented May 1, 2003, which provides the Prorate payor with a computer generated receipt that must be presented at the Prorate counter before cab cards or tags can be issued. One copy of the receipt is attached to the application and filed.

A reviewer to check quality control will be designated. This person, as a part of their duties, would sample work of the section and note discrepancies. Errors would be noted in a tracking system and later used to identify areas for corrective action, training, etc.

### **Inadequate Segregation of Duties**

**Criteria:** In designing an effective system of internal control, management must identify and analyze risks relevant to achievement of its objectives, including risks posed by related individuals. Management must determine how these risks should be managed.

**Condition:** The Supervisor of the Motor Vehicle Audit Department and the Program Supervisor for the MVD are husband and wife. The Motor Vehicle Audit Department Supervisor has access to everything that is related to Prorate bills in the MVD. The Supervisor can create, print, and delete a Prorate bill. The Program Supervisor has access to all Prorate files.

**Effect:** Access to the same records that can be created, changed, or deleted by each of the related parties presents an environment of control risk where errors, fraud, misuse, or unauthorized alteration could occur and not be detected in a timely manner.

**Recommendation:** We recommend OTC evaluate the risk regarding these two related individuals and their combined computer access.

**Management Response:** We have evaluated the risk and appropriate changes to computer access have been implemented.



### Unsecured Cab Cards

**Criteria:** Internal controls should be designed to provide reasonable assurance regarding the prevention of or prompt detection of unauthorized acquisition, use, or disposition of OTC assets.

**Condition:** During the walk-through of the internal controls related to the issuance of cab cards, it was noted that the blank stock of cab cards was not maintained with limited access in a secure area. The box of cab card stock was attached to a printer in an unsecured location. It was also noted that the cab card stock was not pre-numbered.

**Effect:** Lack of physical control over vulnerable assets could result in their theft or misappropriation. Illegal or fraudulent issuance of misappropriated cab card stock could result in a significant loss of registration fee revenue.

**Recommendation:** We recommend OTC establish and implement controls to provide for the security of the blank cab card stock. We recommend OTC consider the centralized printing of cab cards. We recommend the use of a control number on the cab card stock and that cab card stock be issued and accounted for in blocks of numbers. The number series should be reconciled periodically.

**Management Response:** To provide tighter controls over these assets, blank cab cards and cab card printers will be moved into a secure area. A coded security lock has also been planned to provide an added level of security and prevent unauthorized access.

The completion date is anticipated to be June 1, 2003.

## TEMPORARY REGISTRATION

### Monitoring of Temporary Registration

**Criteria:** IRP § 8030 states: "Each member jurisdiction that provides a means of temporary vehicle registration must insure fees are collected for all jurisdictions listed on the issued temporary registration within 60 days of the issuance of the temporary registration...."

A basic accounting control is the segregation of duties. Duties should be segregated to reduce the risk of errors and irregularities.

**Condition:** No one monitors or reviews the issuance of temporary registrations to verify whether an approved complete application is on file. The approved application should include the correct effective date. Additionally, a concentration of duties exists in the temporary registration process: the same individuals issue, authorize, record, and mail or transmit the temporary registrations.

**Cause:** The following may be contributing factors: the IRP Audit Procedures Manual does not address temporary registration. The IRP peer review report dated October 7, 2002, contained no findings or comments related to the issuance of temporary registration.

**Effect:** The concentration of accounting functions in one individual increases the risk that errors and irregularities may occur and not be detected in a timely manner.

**Recommendation:** We recommend that the accounting function be removed from the reviewers and reassigned to someone outside the review process. A possible solution would involve others putting the information into the computer system and printing the temporary registrations. Programming changes

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would be required. Programming changes could also be made to facilitate the monitoring process. The monitoring process should also include searching the self-issue database for duplicate vehicle identification numbers (VINs). Any duplicate VINs found for supplementals, originals, or renewals should be investigated.

**Management Response:** To properly monitor the process, segregate the duties, redesign the system and provide adequate computer backup we will have to significantly change duty assignments, process flows, and computer programs and notify industry. These changes are being implemented and will be completed as soon as possible.

### Self-Issue Temporary Registration - Segregation of Duties

**Criteria:** Internal controls should ensure adequate segregation of duties. No one individual should control all key aspects of a transaction or event.

**Condition:** The accounting functions for the administration of self-issue temporary registration are concentrated in one position. The accounting functions consist of:

- printing.
- distributing.
- posting to the system.
- monitoring.
- assessing penalties.
- receiving penalty payments.

**Effect:** The concentration of accounting functions in one position increases the risk that errors and irregularities may occur and not be detected in a timely manner.

**Recommendation:** We recommend that the individual printing, distributing, and monitoring for the self-issue temporary registrations be prohibited from collecting any of the penalty payments. It would also strengthen internal control if some other person, possibly in the motor vehicle audit department, would post the document locator number (DLN) for each penalty payment received. It should be emphasized to the participating companies that all penalty payments must be remitted to the Connors Building.

**Management Response:** To properly monitor the process, segregate the duties, redesign the system and provide adequate computer backup we will have to significantly change duty assignments, process flows, and computer programs and notify industry. These changes are being implemented and will be completed as soon as possible.

Until design analysis and program changes are complete, we will take the following interim steps to provide segregation of duties:

Individuals mailing notices requiring the remittance of fees or penalties will include a return envelope, or remittance instructions, to the Central Processing Division.

DLN's for payments received will be posted by the Accounting Section.

### Self-Issue Temporary Registration Accountability/System Design

**Criteria:** According to the standards of the Information Systems Audit and Control Association (CobiT, Acquisition and Implementation 2), management's system development life cycle methodology should require that adequate mechanisms exist for defining and documenting the input requirements for each information system development or modification project.

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**Condition:** The computer application, designed in-house to account for the self-issue temporary registration, is not being used to identify how many penalty fees were assessed or the amount of penalty fees collected. The DLN is not being recorded which makes it difficult to trace penalty fees collected to deposit records. Summary information regarding self-issue transactions, other than that used in the annual report has not been generated and reviewed by management.

**Effect:** A higher risk exists that errors and irregularities may occur and not be detected in a timely manner.

**Recommendation:** The employee(s) assigned to this area should be given additional instruction on how to enter different types of information so that meaningful summary information can be generated. Summary information regarding the self-issue temporary registrations issued and penalty fees collected should be periodically generated and reviewed by management. The DLN should be entered into the database for each payment received.

**Management Response:** To properly monitor the process, segregate the duties, redesign the system and provide adequate computer backup we will have to significantly change duty assignments, process flows, and computer programs and notify industry. These changes are being implemented and will be completed as soon as possible.

### Accountability and Enforcement

**Criteria:** Oklahoma Administrative Code Title 710, Chapter 60, subsection 4-11 provides: "Vehicles apprehended for improper registration credentials may be subject to arrest and fine in the jurisdiction in which the violation occurs". Accurate and reliable information should be available for law enforcement personnel to properly enforce the code.

**Condition:** The Prorate Section does not enter temporary registration information on the network. As a result, temporary registration information is not readily available to enforcement officers.

**Effect:** An increased risk of abuse exists. Truckers may operate using invalid temporary registration. As a result, taxing jurisdictions would not have the opportunity to collect all registration fees due.

**Recommendation:** OTC should consider putting temporary registration information on the network. Whenever an enforcement officer working at a scalehouse makes contact with a trucker, the officer could query the database to determine if the registration fees have been paid. If the registration fees have not been paid, the officer would then need to verify the temporary registration. To facilitate that process, the VIN, expiration date, and application identifier could be added to the temporary registration log and the log could be entered into the computer system.

**Management Response:** A program change is being implemented to display only the most current (paid) registration information on a vehicle or trailer. For an existing account, i.e., a renewal, if a current bill is not paid, only the prior year information can be displayed indicating expired credentials. Once the bill is paid, the commercial file will display the new registration information. Only then can a Delete for Credit be processed on that vehicle.

This project will also ensure that enforcement officers will only be able to view paid account information. Until the account is paid, the registration information will not be displayed, giving the enforcement officers a more reliable resource.

### Computer Backup

**Criteria:** According to the standards of the Information Systems Audit and Control Association (CobiT, Delivery and Support 11), management should ensure that regular periodic backups are performed in accordance with the defined backup strategy and the usability of back-ups should be regularly verified.

**Condition:** The PC-based computer application used to administer self-issue temporary registration is not backed up on a regular basis.

**Cause:** Although MIS put a batch file routine on the PC to back up the database to the server, it is not an automatic process. The backup of the computer database must be manually initiated. Prorate administration believed MIS was automatically backing up the computer.

**Effect:** Loss of effort and information could occur without proper controls in place.

**Recommendation:** We recommend that the self-issue temporary registration database be backed up on a regular basis.

**Management Response:** To properly monitor the process, segregate the duties, redesign the system and provide adequate computer backup we will have to significantly change duty assignments, process flows, and computer programs and notify industry. These changes are being implemented and will be completed as soon as possible.

## ELECTRONIC FILING

### Electronic Filing Segregation of Duties

**Criteria:** Internal controls should ensure adequate segregation of duties.

**Condition:** A single reviewer in electronic filing is in control of all the discretionary parts of the electronic registration process.

**Effect:** Trucks could be registered and cab cards obtained without registration fees being paid.

**Recommendations:** We recommend OTC develop and implement procedures to properly segregate accounting functions to reduce the risk of errors and irregularities.

**Management Response:** To properly segregate these responsibilities, all cab cards, both blank and printed, will be kept in a secured room. Only authorized individuals will deliver cab cards and tags to the mailroom for mail out. This will eliminate the reviewer's access to cab cards prior to payment.

## 72-HOUR TRIP PERMITS

### Monitoring of Contractors

**Criteria:** Internal controls should ensure assets are safeguarded against theft and loss.

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**Condition:** OTC sells official 72-hour trip permit numbers to four wire service companies who, in turn, sell them to trucking companies. While the companies send screen prints of the permits they issue, OTC does not use them to monitor or verify the permits actually sold by these four companies.

**Effect:** It appears these companies could reuse legitimate permit numbers or sell permits with unauthorized numbers with little chance of being detected.

**Recommendations:** We recommend OTC design a procedure to monitor the permits sold by these companies.

### **Monitoring of 72-Hour Permits**

**Criteria:** Internal controls should provide reasonable assurance that assets are safeguarded against theft and loss.

**Condition:** A reconciliation of permits/permit numbers sold to revenue deposited is not performed. Document locator numbers are not posted for this type of transaction.

**Effect:** Loss of revenue could occur without proper controls in place.

**Recommendation:** We recommend that the DLN be posted to the system. We also recommend OTC perform a reconciliation of permits issued to revenue received.

### **Segregation of Duties**

**Criteria:** Internal controls should ensure adequate segregation of duties. The same individual should not have the responsibilities of receiving cash, executing transactions, approving transactions, and maintaining custody of assets.

**Condition:** The same person fills the order, enters accounting information, and sometimes collects the funds. When selling a permit, the same person also prints and distributes the permit.

**Effect:** The concentration of accounting functions in one-position increases the risk that errors and irregularities may occur and not be detected in a timely manner.

**Recommendation:** We recommend OTC develop and implement procedures to properly segregate accounting functions to reduce the risk of errors and irregularities.

**Management Response to all Comments Regarding 72-Hour Trip Permits:** A tracking system is being designed to provide proper accounting for 72-hour trip permits. To provide a proper segregation of duties, separate personnel will be made responsible for sales of permit numbers, collection of remittance and reconciliation of wire service permit number inventories.

Anticipated completion of the system is 90 days.

## INTERNAL AUDIT

### Internal Audit

**Criteria:** Internal audit departments are used to monitor various processes and significant controls over those processes to help ensure that the goals and objectives of management are accomplished.

Title 74 O.S. 228 requires OTC to ensure that all internal audits are conducted in accordance with, "Standards for the Professional Practice of Internal Auditing" developed by the Institute of Internal Auditors (IIA). The standard provides:

- The purpose, authority, and responsibility of the internal audit activity should be formally defined in a charter.
- The chief audit executive should report to a level within the organization that allows the internal audit activity to fulfill its responsibilities.
- The chief audit executive should establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals.

**Condition:** OTC has not developed and adopted a charter that would define the purpose, authority, and responsibility of the Internal Audit Department. Until February 2003, the Internal Audit Department was not organizationally independent. The Director of the Internal Audit Department had not developed and implemented a risk-based audit plan to determine the priorities of the internal audit activity. OTC has neither complied with the Standards for the Professional Practice of Internal Auditing developed by the IIA nor complied with Title 74 O.S. 228.

The Internal Audit Department has not conducted any audit procedures in the Prorate Section since 1996; yet, the Prorate registration process is an area of **high risk**.

**Effect:** There is a greater risk that errors and irregularities could occur and not be detected in a timely manner.

**Recommendation:** OTC should comply with the Standards for the Professional Practice of Internal Auditing as mentioned above. OTC should assign additional responsibility to the Internal Audit Section to monitor various processes in the Prorate division. Such monitoring should include the performance of periodic tests of documentation, transactions, and recording. This would ensure that management objectives are being achieved regarding the accuracy of reporting, effectiveness and efficiency of operations, as well as, the safeguarding of assets. The practice of monitoring would also ensure compliance with commission rules, contractual provisions, and state statutes.

**Management Response:** Effective August 2002, the activities of the Internal Audit Department were placed directly under the Commissioners. Effective February 2003, the Commission selected a new Chief of Internal Audit, who is both a Certified Public Accountant (CPA) and Certified Internal Auditor (CIA). The CIA certification is administered by the Institute of Internal Auditors (IIA). All Tax Commission Internal Auditors are members of the IIA.

The Internal Audit Department has developed a new Internal Audit Charter, which will be presented to the Commission for adoption on July 1, 2003. This Charter defines the purpose, authority, and responsibility of the internal audit activity. The charter also (a) establishes the internal audit activity's position within the Tax Commission; (b) authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and (c) defines the scope of internal audit activities. The section "Standards of Audit Practice" of the charter states, "The internal audit department will meet the *Standards for the Professional Practice of Internal Auditing* of the Institute of Internal Auditors."

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The Motor Vehicle Prorate Section will be included in Internal Audit's annual audit plan, until it is determined there is reasonable assurance about the effectiveness of the internal controls, and that the Prorate Section is no longer considered an area of high risk. Internal Audit will evaluate the adequacy and effectiveness of controls encompassing the Prorate Section's governance, operations, and information systems. This will include:

- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations.
- Safeguarding of assets.
- Compliance with laws, regulations, and contracts.

The internal control systems of the Prorate Section will be monitored, a process that assesses the quality of the system's performance over time. This will be accomplished through ongoing monitoring activities and separate evaluations. Ongoing monitoring will occur in the course of daily operations. It will include regular management and supervisory activities, and other actions personnel take in performing their duties. The scope and frequency of separate evaluations, performed by Internal Audit, will depend primarily on Internal Audit's assessment of risks and the effectiveness of ongoing monitoring procedures.

Internal Audit is currently in the process of obtaining Professional Internal Audit Services, to help evaluate the Tax Commission's overall internal control structure, based on the internal control framework established by the Committee of Sponsoring Organizations (COSO), and to conduct an entity-level and activity level risk assessment of the Oklahoma Tax Commission. This evaluation and risk assessment will be used to develop a recommended internal audit plan. From this point forward, Internal Audit will develop a flexible annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by management.

## **ENFORCEMENT**

### **Enforcement Section – Monitoring of Citations**

**Criteria:** Internal controls should provide reasonable assurance that assets are safeguarded against theft and loss.

**Condition:** No accounting procedure is in place at the central office that considers all citations assigned to enforcement officers. Current practice at the central office is to enter into the database whatever citations are submitted. No periodic reconciliation is performed that considers whether all citations assigned, less those issued, equals those still in the possession of enforcement officers.

**Effect:** Without controls in place to account for all tickets assigned to enforcement officers, greater risk is evident that fraud and irregularities could occur.

**Recommendation:** A periodic accounting of citations assigned should be performed. Any citations assigned but not shown as issued should still be in the possession of enforcement officers. The computer system can be used to provide information regarding the tickets that have been issued.

**Management Response:** Computer systems currently provide only for statistical and inventory accounting of enforcement and citation information. A two step solution to address the audit recommendation is as follows:

The Motor Vehicle Division Director has requested that MIS make the required program enhancements.

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Effective immediately, and until the program enhancements are completed, the Motor Vehicle Audit Section will perform a monthly inventory audit of citations and citations issued. The inventory audit of citations will be provided to the Motor Vehicle Division Director by memo, and continue until program enhancements are complete.

**Enforcement Section – Segregation of Duties and  
Reconciliation of Collections to Deposits**

**Criteria:** The segregation of duties is a basic accounting control. Duties should be segregated to reduce the risk of errors and irregularities. Governments must be able to demonstrate proper accountability for public funds.

**Condition:** The same individual(s) receives the citations and the corresponding checks and money orders, posts the citation information on the computer, and posts the document locator number that shows when and where the payment was deposited. No reconciliation of fines collected to fines actually deposited is being performed. Enforcement officers restrictively endorsing the checks and money orders they send to the central office mitigate this condition.

**Effect:** Due to the concentration of duties in single position and the lack of accounting procedures to reconcile citations collected to deposits, a greater risk exists that errors and irregularities may occur and not be detected in a timely manner.

**Recommendation:** We recommend OTC develop and implement procedures to properly segregate accounting functions to reduce the risk of errors and irregularities. The critical issue is segregating the collection of funds from the accounting function. We recommend that a different person post the document locator number and reconcile collections to deposits.

**Management Response:** To properly separate these duties, we have assigned another employee to the Enforcement Section; therefore, the responsibility for entering citations and entering payments will be separated.

The inventory audit of citations will be conducted and reconciled with deposits, and continue until program enhancements are complete. This information will be provided to the Motor Vehicle Division Director by memo.

Computer systems currently provide only for statistical and inventory accounting of enforcement and citation information. A two step solution to address the audit recommendation is as follows:

A project request for required program enhancements is being submitted to MIS for needed changes.

The Motor Vehicle Audit Section has been instructed to perform a monthly inventory audit of citations and citations issued until program enhancements are complete.

**Utilization of Electronic Information**

**Criteria:** Management is responsible for the design and implementation of internal controls that will provide sufficient oversight of the various functions of OTC. The proper implementation of internal controls is dependent upon management's communicating the methods and procedures by which the control will be accomplished.

**Condition:** Certain computer-generated reports that would be useful in accounting for issued tickets, reconciling collections to deposits, and monitoring the enforcement function, are not being produced.



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**Cause:** The availability of such computer-generated reports has not been communicated to the Enforcement section.

**Effect:** Electronic information could be used to monitor the enforcement function more efficiently and effectively.

**Recommendation:** We recommend Enforcement, MVD Systems Analyst, and MIS define and address the informational needs of the Enforcement Section. We recommend that MVD management determine the pre-programmed reports available, the different sort options, and the variable criteria that must be provided in the request for such reports. MVD management should communicate such information to the Enforcement Section.

**Management Response:** Current computer systems provide only for statistical and inventory accounting of enforcement and citation information. A project request for required program enhancements is being submitted to MIS for needed changes. Both the new reports and other information available will be communicated to the Enforcement Section.

### **Clerical Errors on Enforcement Report**

**Criteria:** A basic objective of internal control is to provide accurate and reliable information.

**Condition:** During testing of approximately 1,700 tickets, the following 56 exceptions were noted:

- For 16 of the tickets issued, differences in date, officer number, and check number were noted between the ticket and the spreadsheet provided by the MVD, due to clerical errors.
- For 6 of the tickets issued, the date recorded on the spreadsheet and the ticket did not correspond with the date stamp on the ticket.
- 34 tickets had not been entered in the computer system. Of the 34 tickets, 4 had not been submitted to the OTC. The officer had voided 3 tickets and 1 ticket had not been filled out. The tickets were placed in the back of the officer's ticket book.

OTC also is not monitoring the numerical sequence of tickets issued.

**Cause:** OTC does not have a system in place, manual or electronic, to properly account for the numerical sequence of tickets issued. No one is monitoring the numerical sequence of the tickets issued to ensure a proper accounting of all tickets.

**Effect:** Errors or irregularities could occur and not be detected in a timely manner.

**Recommendation:** We recommend OTC establish and implement controls to ensure records and reports are accurate and reliable. We further recommend that the computer system be updated to properly account for all tickets issued and that a monthly inventory of tickets be performed.

**Management Response:** Computer systems currently provide only for statistical and inventory accounting of enforcement and citation information. A two step solution to address the audit recommendation is as follows:

The Motor Vehicle Division Director has requested that MIS make the required program enhancements.

Effective immediately, and until the program enhancements are completed, the Motor Vehicle Audit Section will perform a monthly inventory audit of citations and citations issued.

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The inventory audit of citations will be provided to the Motor Vehicle Division Director by memo, and continue until program enhancements are complete.

### **Voided Enforcement Tickets**

**Criteria:** According to 21 O.S. § 590 A., “Every state governmental entity shall, for a period of two (2) years, maintain accurate and complete records as defined in Section 203 of Title 67 of the Oklahoma Statutes, reflecting all financial and business transactions, which records shall include support documentation for each transaction. No such records shall be disposed of for three (3) years thereafter, except upon a unanimous vote of the members of the Archives and Records Commission pursuant to Section 306 of Title 67 of the Oklahoma Statutes, or upon a majority vote of the members of the Commission for records more than five (5) years old. The disposition of such records shall be in accordance with the provisions of Sections 305 through 317 of Title 67 of the Oklahoma Statutes, provided all state or federal audits have been completed, unless such audits request such records to be maintained for some given period of time.”

A basic objective of internal control is to provide accurate and reliable information.

**Condition:** For 24 out of 43 voided tickets tested, the following were noted:

- 1 voided yellow copy enforcement citation ticket was not retained.
- 12 voided white original enforcement citation tickets were not retained.
- 2 enforcement citation tickets were missing and neither the yellow copy nor white original was found by OTC.
- 12 enforcement citation tickets had no explanation as to why the ticket was voided.

**Cause:** OTC does not retain all copies of voided enforcement tickets. According to a MVD employee, the white original is thrown away. Usually, only the yellow copy is retained due to the volume of paper in the files.

**Effect:** OTC is not in compliance with state statute. As a result, inadequate documentation could allow for misappropriation of funds.

**Recommendation:** We recommend MVE retain all copies (white, yellow, and pink) of voided tickets, document the reason for the void on the ticket, and attach any supporting documents.

**Management Response:** Division management concurs with the recommendation set forth in the audit report. Effective immediately the Enforcement Section is instructed to ensure all copies of voided citations are properly accounted for and filed, along with any accompanying documentation. Voided citations must be accompanied with an explanation by the issuing officer. Responsible party is the Administrator of the Enforcement Section.

### **Oral Recognizance Tickets**

**Criteria:** A basic objective of internal control is to provide accurate and reliable information.

**Condition:** A listing of issued but unpaid oral recognizance (OR) tickets is not maintained. The ORs are kept in a file until they are paid.

**Cause:** OTC does not have a system in place, manual or electronic, to properly account for the OR tickets issued.

**Effect:** Errors or irregularities could occur and not be detected in a timely manner.

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**Recommendation:** We recommend OTC establish and implement controls to provide accurate and reliable information of all OR tickets issued. We further recommend that the computer system be updated to properly account for all tickets issued.

**Management Response:** Computer systems currently provide only for statistical and inventory accounting of enforcement and citation information. A two-step solution to address the audit recommendation is as follows:

The Motor Vehicle Division Director has requested that MIS make the required program enhancements.

Effective immediately, and until the program enhancements are completed, the Motor Vehicle Audit Section will perform a monthly inventory audit of citations and citations issued.

The inventory audit of citations will be provided to the Motor Vehicle Division Director by memo, and continue until program enhancements are complete.