

PERFORMANCE AUDIT

OKLAHOMA WATER RESOURCES BOARD COMPREHENSIVE WATER PLAN

July 1, 2006 through June 30, 2012



*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

**OKLAHOMA WATER RESOURCES BOARD -
OKLAHOMA COMPREHENSIVE WATER PLAN
JULY 1, 2006 THROUGH JUNE 30, 2012**



Oklahoma State Auditor & Inspector

2300 N. Lincoln Blvd. • State Capitol, Room 100 • Oklahoma City, OK 73105 • Phone: 405.521.3495 • Fax: 405.521.3426

May 2, 2013

TO THE OKLAHOMA WATER RESOURCES BOARD

This is the audit report of the Oklahoma Water Resources Board for the Comprehensive Water Plan for the period July 1, 2006 through June 30, 2012. The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

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

Sincerely,

A handwritten signature in blue ink, appearing to read "Gary A. Jones".

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

Introduction

Pursuant to the request of the Oklahoma Water Resources Board (OWRB) and in accordance with the requirements of 74 O.S. § 213.2, we performed procedures related to expenditures associated with Oklahoma Comprehensive Water Plan for the period of July 1, 2006 through June 30, 2012.

The primary objective of our audit was to determine the expenditures associated with preparing the Water Plan and evaluate their accuracy. 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 objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusion based on our audit objective.

Sample methodologies can vary and are selected based on the audit objective and whether the total population of data was available. Random sampling is the preferred method; however, we may also use haphazard sampling (a methodology that produces a representative selection for non-statistical sampling), or judgmental selection when data limitation prevents the use of the other two methods. We selected our samples in such a way that whenever possible, the samples are representative of the populations and provide sufficient evidential matter. We identified specific attributes for testing each of the samples. When appropriate, we projected our results to that population.

In planning and conducting our audit, we obtained information on the Water Plan from a multitude of sources, including the financial and personnel records of the OWRB, OWRB board minutes, interviews of OWRB employees, and interviews of vendors with whom the OWRB contracted to perform work on certain aspects of the Water Plan. We obtained an understanding of internal controls related to the expenditure and payroll processes through discussions with Agency personnel, observation, and review of documents.

This report is a public document pursuant to the Oklahoma Open Records Act (51 O.S. §24.A.1 et seq.), and shall be open to any person for inspection and copying.

**Background
Information**

The OWRB has maintained responsibility for managing and protecting the state's water since its creation in 1957. The agency is overseen by a nine-member board, with five members representing the state's congressional districts and the rest representing the state at-large. All board members are appointed by the Governor. The board administers a number of programs related to water management, including financial assistance for water treatment projects and improvements, water use permits, the water well drillers licensing program, dam safety, floodplain management programs, the Clean Lakes program, and promulgating state water quality standards.

One of the OWRB's most significant charges is the Oklahoma Comprehensive Water Plan (the Water Plan), a multi-year compilation of technical data, information, and recommendations regarding the management of the state's water supply over the next fifty years. Though the OWRB had originally planned to produce such a Water Plan report once a decade, inadequate funding for the effort has yielded only two such reports: an initial 1980 Water Plan and a subsequent 1995 Water Plan Update. In 2006, however, the Legislature dedicated a portion of the revenue generated by gross production taxes specifically for the purpose of updating the Water Plan.¹ This funding, which represented approximately \$1.3 million in annual revenue, enabled the OWRB to undertake an effort of such scope as to analyze the water usage and future needs for 82 water planning basins across the state.

Though the OWRB has a department devoted solely to the Water Plan, all divisions contribute to the plan either directly or indirectly. Work initially undertaken in other divisions may eventually be used as part of the Water Plan, or employees may be asked to temporarily aid on a Water Plan project.

¹ 68 O.S. §1004 – Apportionment and Use of Proceeds of Tax; 82 O.S. §1085.7A – Community Water Infrastructure Development Revolving Fund

Results

Internal control deficiencies identified in this report, in conjunction with the nature of the expenditures in the 'federal' and 'other' categories below, preclude determination of comprehensive total expenditures of the Water Plan. However, in response to management's request, we have prepared a summary of information derived from data provided through the state's accounting system (PeopleSoft), project contracts, and multiple interviews with OWRB management and vendors/contractors and made adjustments as needed.

The following table shows estimated expenditures on the Water Plan by category, with details on each category provided below:

Oklahoma Comprehensive Water Plan Expenditures²

<u>Source</u>	<u>Amount</u>
State	\$ 9,605,465
Federal	3,768,399
<u>Other</u>	<u>2,932</u>
Total	\$ 13,376,796

State Expenditures

Expenditures in this category include:

- 1) Internal OWRB expenses, including those related to personnel salaries and benefits, equipment, travel, and supplies;
- 2) OWRB payments to *all* contractors from PeopleSoft, coded to particular projects, departments, and funds;³ and
- 3) Matching funds provided by three state contractors for services ranging from public outreach efforts to climate studies.⁴

The vast majority of Water Plan expenditures were funded by one revenue source - the agency's dedicated Gross Production revenue, which

² For a categorically detailed spreadsheet, see Appendix I.

³ For a summary of payments to Water Plan contractors, see Appendix II.

⁴ State vendors included the Oklahoma Department of Agriculture, Food and Forestry, the University of Oklahoma, and Oklahoma State University. Additional vendor expenditures are the sole claims of the vendors and are unaudited.

was deposited into OWRB's Fund 250. However, expenditures could be made from funds other than Fund 250, as long as they were attributed to the Water Plan by the proper project code.

To obtain reasonable assurance of the accuracy of the data, we determined it was necessary to examine the agency's internal controls over expenditures and payroll. We began by interviewing agency personnel regarding their processes and practices, and then we performed certain procedures through random and judgmental sampling.⁵

Federal Expenditures

OWRB contracted with three federal agencies to perform technical assistance and studies which were incorporated into the Water Plan.⁶ Though OWRB's payments to these vendors are included under 'State Expenditures,' many of the contracts contained provisions for matching funds to be provided by the vendors. This category of expenditures includes such matching funds, as well as certain expenditures for which the vendors did not claim reimbursement.

Other Expenditures

OWRB contracted with seven private or non-profit entities for services related to the Water Plan.⁷ This category includes expenditures for which vendors did not claim reimbursement.

Finding & Recommendation

An effective internal control system provides for accurate and reliable accounting records. A key concept is to provide a mechanism to verify that transactions and activity are for the correct purpose and amount.

We discovered that OWRB budgets and expends Water Plan funds (Fund 250) on personnel based on estimates provided by division chiefs at the beginning of the fiscal year of how much time employees will devote to the Water Plan. According to OWRB, employees record their time by project code, but at no point does the agency reconcile salaries budgeted to the Water Plan to actual time spent on the project. OWRB justified this

⁵ For a detailed explanation of procedures performed, see Appendix III.

⁶ Federal contractors included the United State Bureau of Reclamation, the United States Army Corps of Engineers, and the United States Geological Survey.

⁷ Other contractors included CDM Smith, C.H. Guernsey, Intera Inc., Dr. Lindsay Robertson, the Oklahoma Municipal League, the Oklahoma Rural Water Association, and Terri Sparks of Sparks Write Inc.

method of budgeting and expending by stating that, given the scope of the project, the amount of time devoted to Water Plan functions (and the associated salary expense) exceeded the amount which was budgeted and expended.

To verify OWRB's assertion, we first compared timesheets for seven random employees (among those paid from Fund 250) for the entire audit period and the corresponding portion of their salaries to the amount expended on those employees from Fund 250. The result was that time spent on the Water Plan (according to the project codes and hours recorded by the individual employees) *did not* exceed the amount of those employees' salaries as budgeted and expended by the OWRB. We then judgmentally selected a second sample of all employees from one division known to have budgeted personnel costs from Fund 250 (includes four additional employees not reviewed in the previous sample), and likewise compared timesheets to amounts expended from Fund 250, with the same result. We concluded that, with respect to the items tested, OWRB's payroll expenditures do not accurately reflect employees' time spent on the project.

Recommendation OWRB should periodically reconcile employees' timesheets to the amount budgeted for personnel from Fund 250 to ensure funds are being properly spent.

Our procedures relating to the agency's expenditure processes also revealed two matters of concern. The first involves applying the proper department codes to Water Plan expenditure claims. An effective internal control structure provides an appropriate review of expenditure claims prior to payment. Management indicated that Water Plan expenditures were paid from fund 250 (with the exception of early in fiscal year 2007) and could be coded to departments 703130, 705040, 202030, or 202040. An electronic analysis of expenditure data of this population revealed 10 claims (totaling \$18,375) coded to department 703130 were budgeted for Fund 250, but paid from other funds. Additionally, one claim of \$14,932 was paid from Fund 250, but was unrelated to the Water Plan. Management reviewed claims prior to payment partially to ensure correct coding. The effect of this issue is that Water Plan expenditures may be improperly included or excluded due to miscoding of claims.

Recommendation Management should reemphasize the importance of ensuring accurate funding and coding is applied prior to the approval of expenditure claims.

**Views of
Responsible
Officials**

OWRB was informed in March 2013 by the Office of Management Enterprise Services (OMES), which administers the Human Capital Management (HCM) payroll system, they will have the capability to enter actual time attributed to projects rather than budgeted time using the Grants, Projects and Contracts module upgrades. Prior to the development of this new functionality, the OWRB, like most other state agencies that pay employees on a monthly basis, had no option but to pay employees in an anticipatory manner in order to satisfy the requirements and constraints of the State payroll process. Similarly, the agency's former time accounting system would not facilitate such actual time accounting and ultimate reconciliation. The OWRB is currently testing the improved functionalities of the new HCM payroll system on a few departments and, if successful, will expand to other departments as necessary in the next fiscal year (2014). Once this function is finalized, it will enable the OWRB to reconcile employees' actual time every month for each employee, thus resolving the problems associated with previous payroll systems.

Regarding the second recommendation, In addition to reviewing the expenditure coding prior to the actual expenditure being made and receiving a "budget to actual" report each month, the manager of the Oklahoma Comprehensive Water Plan and other Division Chiefs will be provided as appropriate, the six digit detail expenditure report for review to ensure accuracy and reasonableness.

**Finding &
Recommendation**

The second matter involves the agency's invoice payment process. The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*⁸ states in part, "Key duties and responsibilities need to be...segregated among different people to reduce the risk of error or fraud....No one individual should control all key aspects of a transaction...".

According to OWRB, once a department receives and approves an invoice, that invoice is then routed to the Accounts Payable department, where the accountant reviews the invoice for proper signatures and a purchase order number, then enters the information into PeopleSoft for payment. This same individual also receives the warrants that are returned to OWRB and mails them to the vendors.

⁸ 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.

Improper payments could occur and not be detected in a timely manner. OWRB does not appear to have any controls in place to reduce the risks associated with this process.

Recommendation Management should either ensure the employee responsible for posting invoices into the PeopleSoft accounting system is not responsible for receiving the related warrants, or design other safeguards to reduce this risk. For example, management could review PeopleSoft's six digit detail expenditure report each month for fund 250 expenditures to ensure they appear reasonable.

**Views of
Responsible
Officials**

Despite the numerous checks and balances already in place to ensure that multiple staff members are involved in detecting inaccurate or improper payments, and notwithstanding the extreme budget limitations faced by the OWRB particularly in its administrative functions, agency management will determine if there is an employee other than the Accountant that can take on the duty of receiving and mailing warrants.

APPENDICES

APPENDIX I: Water Plan Expenditure Details by Category:

Expenditure Category	Expenditure Detail	Expenditure Amount
State	Contractual	\$ 6,754,988
	Salary & Fringe	2,146,960
	Travel	49,939
	Supplies	48,541
	Equipment	67,968
	Other	234,094
	Adjustment I ¹	421,015
	Adjustment II ²	(118,040)
	<i>Subtotal, State Expenditures:</i>	9,605,465
Federal		3,768,399
Other		2,932
Total Expenditures		\$ 13,376,796

Note 1: Adjustment was made to include payments that were attributable to the Water Plan but were made from funds other than Fund 250.

Note 2: Adjustment was made to exclude payments that were made from Fund 250 for projects unrelated to the Water Plan.

APPENDIX II: Summary of Water Plan Contract Expenditures

<u>Contract Expenditure Detail</u>					
Contractor Category	Contractor	Direct Payments from OWRB to Vendor	Total Amount Matched by Contractor	Amounts Contractors incurred above the contract amount	Total Cost of Work
State	OK Dept of Environmental Quality	\$ 126,874.00	-	-	\$ 126,874.00
	OK Dept of Agriculture	-	\$ 50,000.00	-	50,000.00
	University of Oklahoma	329,704.39	24,217.00	-	353,921.39
	OK State University	1,527,041.00	1,620,858.37	-	3,147,899.37
		\$ 1,983,619.39	\$ 1,695,075.37		\$ 3,678,694.76
Federal	U.S. Bureau of Reclamation	\$ 10,000.00	\$ 335,000.00	-	\$ 345,000.00
	U.S. Army Corps of Engineers	1,015,000.00	2,874,992.00	-	3,889,992.00
	U.S. Geological Survey	669,750.00	539,750.00	\$ 18,657.00	1,228,157.00
		\$ 1,694,750.00	\$ 3,749,742.00		\$ 5,463,149.00
Other	CDM Smith	\$ 469,147.00	-	-	\$ 469,147.00
	Guernsey	379,656.00	-	-	379,656.00
	Intera	100,000.00	-	\$ 2,932.00	102,932.00
	Dr. Lindsay Robertson	27,345.00	-	-	27,345.00
	OK Municipal League	57,500.00	-	-	57,500.00
	OK Rural Water Association	47,000.00	-	-	47,000.00
	Terri Sparks	285,962.00	-	-	285,962.00
		\$ 1,366,610.00	\$ -		\$ 1,369,542.00
TOTALS		\$ 5,044,979.39	\$ 5,444,817.37	\$ 21,589.00	\$ 10,511,385.76

APPENDIX III: Internal Control Methodology

Miscellaneous Expenditures

We did not test the operating effectiveness of expenditure controls due to the deficiencies mentioned in the body of this report. However, the nature of our objective warranted the review of a selection of claims. We therefore randomly selected a sample of 60 claims (totaling \$3,243,072) from throughout the audit period to ensure expenditures were properly approved, properly coded (703130, 705040, 202030, or 202040) related to the Water Plan, were mathematically correct, and that the amount invoiced matched the amount on the payment voucher. One adjustment to the expenditure amount was made (see note 2 in Appendix I) as a result of these procedures.

Payroll

We initially tested the design and implementation of payroll controls by reviewing a sample of employee timesheets (one random employee from each of 21 months throughout the period) to ensure they were approved by the Division Chief or appropriate manager prior to payment processing. However, it was subsequently determined this control was not relevant for our purposes and there was no control to detect or prevent unauthorized time being captured as part of the CWP. This deficiency is noted in the body of the report. However, due to the nature of our objective, we felt it was relevant to perform additional procedures related to payroll to determine if salaries and fringe budgeted to the CWP exceeded actual payroll expenditures from fund 250. We randomly selected a sample of seven employees' timesheets from the entire audit period, and compared the amount of time and salary *actually attributable* to the Water Plan with the amount of the employees' salary that had been paid from Fund 250. We subsequently reviewed a judgmentally-selected sample of employees' timesheets from one division. The division selected included one employee from the previous sample and four additional employees. Again, the timesheets reviewed were from the entire audit period, and the same procedures were performed.



OFFICE OF THE STATE AUDITOR & INSPECTOR
2300 N. LINCOLN BOULEVARD, ROOM 100
OKLAHOMA CITY, OK 73105-4896

WWW.SAI.OK.GOV