OKLAHOMA REAL ESTATE COMMISSION

**FOR THE PERIOD
JANUARY 1, 2007 THROUGH
DECEMBER 31, 2008**

OPERATIONAL AUDIT

Oklahoma State Auditor
& Inspector

Audit Report of the Oklahoma Real Estate Commission

For the Period January 1, 2007 through December 31, 2008

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May 18, 2009

TO THE OKLAHOMA REAL ESTATE COMMISSION

Following is the audit report of the Oklahoma Real Estate Commission for the period January 1, 2007 through December 31, 2008. The Office of the State Auditor and Inspector is committed to serving the public interest by providing independent oversight and by issuing reports that serve as a management tool to the State. Our goal is to ensure a government that is accountable to the people of the State of Oklahoma.

We wish to take this opportunity to express our appreciation to the agency's staff for the assistance and cooperation extended to our office during the course of our engagement.

Sincerely,

STEVE BURRAGE, CPA
STATE AUDITOR & INSPECTOR

Mission Statement

The mission of the Oklahoma Real Estate Commission is to safeguard the public interest by requiring high standards of knowledge and ethical practices of licensees; to discipline licensees who engage in dishonest, fraudulent, or criminal activities in the conduct of real estate transactions; and to facilitate the prosecution of any person who is found in violation of the Oklahoma Real Estate License Code.

Board Members

Mike Cassidy .... Chairman
Martin Van Meter .... Vice-Chairman
Charles Barnes. .... School Member
Pete Galbrath .... Broker Member
John Mosley.......... Broker Member
Stephen Sherman .... Lay Member
Randall Saunier.......... Broker Member

Key Staff

Anne M. Woody .... Executive Director
Lisa Hays .... Business Manager
Clifford Smith.......... Executive Assistant
Kathy Shelton .... Administrative Assistant

Background

The Oklahoma Real Estate Commission (Agency) regulates compliance with the Real Estate License Act. The Agency has the authority to issue licenses, conduct hearings on complaints, and make rulings on such complaints.

The Agency's operations are governed by 59 O.S. §§ 858-201 thru 858-605 as well as Oklahoma Administrative Code Title 605.

Oversight is provided by a seven member board appointed by the governor with consent of the Senate. Each member serves a term of three years. The Agency pays for its operations primarily through license fees.

Table 1 summarizes the Agency's sources and uses of funds for fiscal years 2007 and 2008.

Table 1-Sources and Uses of Funds for FY 2007 and FY 2008

	2007	2008
Sources:		
Real Estate License and Fee	$2,040,510	$1,799,174
Interest on Investments	120,401	143,775
Merchandise Sales	914	0
Total Sources	$2,161,825	$1,942,949
Uses:		
Personnel Services	$949,744	$1,049,435
Professional Services	221,970	196,273
Travel	78,669	61,794
Miscellaneous Administrative	91,883	101,040
Rent	90,842	80,464
General Operating	13,547	24,812
Office Furniture and Equipment	33,599	42,997
Other	39,448	13,947
Total Uses	$1,519,702	$1,570,762

Source: Oklahoma CORE Accounting System (unaudited - for informational purposes only)

Authority, Purpose, and Scope

This audit was conducted in response to 62 O.S. § 212, which requires the State Auditor and Inspector's Office to audit the books, records and accounts of self-sustaining boards created by statute to regulate and prescribe standards, practices, and procedures in any profession, occupation or vocation and 59 O.S. § 858-205, which requires an audit of the Agency's revolving fund.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This report is a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.

The audit period covered was January 1, 2007 through December 31, 2008.

Objective 1 - To determine if the Agency's internal controls provide reasonable assurance that revenues, expenditures, and inventory were accurately reported in the accounting records, and financial operations complied with 62 O.S. § 7.1.C.2.a, 62 O.S. § 7.1.E.1, 74 O.S. § 3601.2, 59 O.S. § 858-207, and 59 O.S. § 858-601 and 605.

Conclusion

The Agency's internal controls provide reasonable assurance that revenues and expenditures were accurately reported in the accounting records. However, the internal controls do not provide reasonable assurance that inventory was accurately reported.

Compliance procedures were performed with regards to five laws:

- The Agency appears to be in compliance with 62 O.S. § 7.1.C.2.a - adequate safekeeping of receipts awaiting deposit;
- The Agency appears to be in compliance with 62 O.S. § 7.1.E.1 - monthly transfers from the Agency's clearing account;
- The Agency appears to be in compliance with 74 O.S. § 3601.2 - limitation of executive director's salary;
- The Agency appears to be in compliance with 59 O.S. § 858-207 - 10% transfer of all license fees charged, collected and received to the state general revenue fund;
- The Agency appears to be in compliance with 59 O.S. §§ 858-601 and 605 – reimbursement to those negatively affected by a license holder during the course of a real estate transaction and/or real estate education purposes.

Methodology

To accomplish our objective, we performed the following:

- Documented internal controls related to the receipting, expenditure, and inventory processes;
- Tested controls which included:
    - Determining the person preparing the deposit is independent of the receipting process;
    - Randomly selecting 25 licensees to ensure the information presented on the identification labels attached to the licensees' initiating forms agreed to the accounting system report;
    - Determining the Agency's clearing account was reconciled on a monthly basis to the State Treasurer's Office by someone independent of the cash receipting process;
    - Reviewing a haphazard sample of five Office of State Finance (OSF) – form 11 reconciliations to ensure the reconciliations were mathematically accurate and agreed to supporting documentation;
    - Reviewing a random sample of 25 expenditure claims to ensure they were properly authorized. This included ensuring the invoice supported the payment, the invoice was mathematically accurate, the correct account code was used, and the expenditure was reasonable given the Agency's mission;
    - Determining if the employee receiving the warrants from OSF was independent of the posting and approval process;
- Determining receipts were stored in a secure location prior to deposit;

- Observed a PeopleSoft deposit report to ensure funds were transferred from the clearing account to the fund at least once per month as required by 62 O.S. § 7.1.E.1;
- Reviewed a random sample of six month's payroll information in the CORE accounting system to ensure the executive director's annual salary did not exceed the maximum limit set forth in 74 O.S. § 3601.2;
- Recalculated the amount transferred to the state's general revenue fund to ensure 10% of all the license fees charged, collected and received by the Agency were transferred as required by 59 O.S. § 858-207;
- Reviewed a random sample of 25 expenditure claims to ensure they complied with 59 O.S. §§ 858-601 and 605.

We selected our samples in such a way that whenever possible, the samples are representative of the populations and provide sufficient evidential matter. 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 identified specific attributes for testing each of the samples. When appropriate, we projected our results to that population.

Observation

<u>Inadequate Segregation of Duties Related to the Inventory Process</u>

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*[1] 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…".

- The administrative assistant is responsible for:
  - Purchasing items and adding them to the inventory records;
  - Surplusing items no longer needed by completing the DCS Form 001 as well as deleting items from the inventory listing.
- The inventory count is conducted by multiple employees who may not be independent. For example, a department supervisor is given a listing of items in their department to verify. If the supervisor has lost or stolen a digital camera, they could notify the administrative assistant the camera was accounted for.

Deficiencies such as these increase the risk that misappropriations of assets may occur.

Recommendation

We recommend:

- An employee without purchasing ability should be responsible for maintaining the Agency's inventory records;
- An employee without the ability to update inventory records should be responsible for completing the DCS Form 001;
- Physical inventory counts performed by the department supervisors should be discontinued. A designated employee(s) (excluding the administrative assistant) should perform this duty. If discrepancies are noted, the executive director or

[1] 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.

designee, other than the personnel involved in the physical count, should investigate and resolve. The Agency should also retain documentation to support who performed the actual count, when the count was performed, and any discrepancies noted during the count.

Views of Responsible Officials

The agency concurs as due to the size of the department it is necessary for employees to perform multiple jobs. The agency will review the current process and try to see if there is a possibility of reassigning an area of responsibility. However, the agency feels that it is important that this responsibility remain with the Administrative Services Division and as two of the three employees do have purchasing authorization some overlapping of areas is unavoidable. OREC strives to ensure that all assets are accounted for. The employee in charge of the inventory and an assistant are normally the employees who perform each annual inventory count. However, during this time period the employee responsible for the inventory was out of the office for most of the time and submitted notice of resignation in mid January 2008; therefore, assistance was required from all other supervisors in order to perform this task. Currently, there are no longer staffing and transmission issues so therefore it is anticipated that this process will again be performed by the correct employee.

Additional Procedures Performed

Methodology

As a result of the control deficiencies identified under objective 1 of this report, the following procedures were performed:

- Selected 15 high-appeal assets from the inventory listing and visually inspected the assets to ensure existence.

Observation

Inaccurate Records Related to Inventory

Oklahoma Administrative Code (OAC) 580:70-3-1(c) states in part, "The inventory report… shall include for each tangible asset…
(2) the asset tag number;
(3) the model and serial number…
(8) acquisition date and cost;
(9) any other information which may be requested by the Department to ensure the integrity of state inventory records.

To protect against misappropriation of assets, the internal control system should provide accurate records.

- The identity of one item (laptop computer - $2,785) could not be verified because the serial number identified on the listing did not agree to the serial number on the item;
- Two items (laptop computers - cost is unknown) were unable to be verified because there were no serial numbers or asset tag numbers located on the inventory listing.

It should be noted the three items mentioned above were not identified on the Agency's last inventory count sheet in January 2008. Their acquisition date is unknown due to the lack of information presented on the inventory report.

Deficiencies such as these increase the risk that misappropriations of assets may occur.

Recommendation

We recommend the Agency update their inventory records to reflect all the required elements of OAC 580:70-3-1(c). Additionally, procedures should be developed to ensure all applicable information is reported for acquisitions.

Views of Responsible Officials

The current inventory count system is an excel spreadsheet which has not been the main inventory system for the agency. The agency was using a WASP Mobile Asset control system which was used with the excel information being used for informational purposes and backup only. The asset control system did not have the ability to download to an excel system so the information had to be manually input into excel forms. The WASP system, which was only able to be accessed by two authorized employees, crashed and was out of warranty. As PeopleSoft Phase II will incorporate an asset control module which will be mandatory for all agencies, it is not financially feasible for the agency to expend funds to replace the current, non-working system. The agency will audit all assets in order to ensure that all information is current and correct on the current inventory document. The audit will also identify any items which have been lost or are missing a tag and that situation will be rectified. The information will be updated to reflect the required elements of OAC 580:70-3-1.

Other Items Noted

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

Observation

<u>Absence of Written Policies and Procedures Regarding Cell Phones</u>

A written policy regarding cell phone usage is necessary to prevent misuse of state assets and to ensure agency personnel are aware of what is expected addressing their cell phone usage. The Agency has one cell phone; however, there are no written policies and procedures related to its use.

Recommendation

We recommend the Agency develop and implement a cell phone policy which includes but is not limited to:

- Personal use (is it allowable, limitation on frequency, etc.);
- Need of a phone based on job duties;
- Type of phone required based on job duties;
- Size of plan (minutes/features required), who is to make this determination and what the determination should be based on;
- Required billing review procedures.

Views of Responsible Officials

The agency agrees with this finding and will work to develop written policies and procedures related to the use of any agency cell phone.

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