

OPERATIONAL AUDIT

# OKLAHOMA WATER RESOURCES BOARD

For the period July 1, 2014 through December 31, 2016



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



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

**Audit Report of the  
Oklahoma Water Resources Board**

**For the Period  
July 1, 2014 through December 31, 2016**



# Oklahoma State Auditor & Inspector

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December 14, 2017

## TO THE OKLAHOMA WATER RESOURCES BOARD

This is the audit report of the Oklahoma Water Resources Board for the period July 1, 2014 through December 31, 2016. The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

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

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

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones".

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

# Oklahoma Water Resources Board Operational Audit

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## Background Information

The Oklahoma Water Resources Board (OWRB, the Agency) has maintained responsibility for managing and protecting the state’s water since its creation in 1957. The mission of the OWRB is to protect and enhance the quality of life for Oklahomans by managing and improving the state’s water resources to ensure clean and reliable water supplies, a strong economy, and a safe and healthy environment. The board administers a number of programs related to water management, including financial assistance for water treatment projects and improvements, water use appropriation and permitting, the water well drillers licensing program, dam safety, floodplain management programs, water supply planning, water resource mapping, the Clean Lakes program, and promulgating state water quality standards.

The agency is overseen by a nine-member board (the 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. Each serves a term of seven years and together they represent all geographic areas of the state and diverse groups of water users.

Board members as of October 2017 are:

Ford Drummond.....	Chairman
Jason Hitch.....	Vice-Chairman
Stephen Allen .....	Secretary/Treasurer
Charles Darby .....	Member
Tom Buchanan.....	Member
Bob Drake .....	Member
Linda Lambert .....	Member
Robert Melton, Sr. ....	Member
Robert Stallings .....	Member

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The following table summarizes the Agency's sources and uses of funds for fiscal years 2015 and 2016 (July 1, 2014 through June 30, 2016).

### Sources and Uses of Funds for FY 2015 and FY 2016

	2015	2016
<b>Sources:</b>		
Net Appropriations	\$ 5,138,312.34	\$ 2,122,576.44
Taxes	2,627,709.75	1,722,897.34
Licenses, Permits, Fees	913,897.81	747,015.32
Income from Money and Property	182,743.77	226,684.49
Grants, Refunds, Reimbursements	44,444,963.45	30,375,913.38
<b>Total Sources</b>	<b><u>\$ 53,307,627.12</u></b>	<b><u>\$ 35,195,086.97</u></b>
<b>Uses:</b>		
Personnel Services	\$ 8,282,840.67	\$ 8,391,926.72
Professional Services	4,211,968.92	2,691,749.23
Travel	264,216.00	207,506.22
Administrative Expenses	1,127,307.46	1,245,666.34
Property, Furniture, Equipment	453,980.03	387,074.31
Assistance, Payments to Local Govn'ts	5,843,901.70	5,554,277.61
Transfers and Other Disbursements	32,250,993.40	21,714,201.90
<b>Total Uses</b>	<b><u>\$ 52,435,208.18</u></b>	<b><u>\$ 40,192,402.33</u></b>

*Source: Oklahoma PeopleSoft accounting system (unaudited, for informational purposes only)*

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## Scope and Methodology

This audit is being performed to satisfy the governor's request per 74 O.S. § 212(C) and § 213.2(B) which state that, "Whenever called upon to do so by the Governor, it shall be the duty of the State Auditor and Inspector to examine the books and accounts of any officer of the state or any of the officer's predecessors," and that the Performance Division may examine the books and accounts of all public officers, institutions, and other governmental entities specified in statute upon the request of the governor, entity CEO, or pursuant to a joint or concurrent resolution of the legislature.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessment of materiality and risk for the period July 1, 2014 through December 31, 2016.

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Oklahoma Water Resources Board operations. We utilized sampling of transactions to achieve our objectives. To ensure the samples were representative of the population and provided sufficient, appropriate evidence, the random sample methodology was used. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

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## OBJECTIVE

Determine whether the Agency's internal controls provide reasonable assurance that revenue, expenditures (both miscellaneous and payroll), and inventory were accurately reported in the accounting records.

## Conclusion

The Agency's internal controls generally provide reasonable assurance that payroll expenditures were accurately reported in the accounting records. The Agency's internal controls do not provide reasonable assurance that revenues, miscellaneous expenditures, or inventory were accurately reported in the accounting records.

Financial operations complied with the following statutes:

- 62 O.S. § 2003 – significant REAP program requirements
- 82 O.S. § 1085.7A – expenditures for the purpose of the Community Water Infrastructure Development Revolving Fund
- 74 O.S. § 3601.2 – salary of the chief executive officer

However, financial operations were not in compliance with 82 O.S. § 1085.7, which requires specific approvals for expenditures from the Water Resources Board Fee Revolving Fund. Regarding 82 O.S. § 1020.16, the Agency complied with most significant aspects of this statute governing the Well Drillers and Pump Installers program but did not comply with threshold requirements. See discussion in related findings.

## FINDINGS AND RECOMMENDATIONS

### Revenues at Risk Due to Inadequate Segregation of Duties

The United States Government Accountability Office's *Standards for Internal Control in the Federal Government*<sup>1</sup> (GAO Standards) state that, "Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling and related assets. No one individual should control all key aspects of a transaction or event."

The receptionist is responsible for receiving payments; no receipt book or mail log is maintained. This creates an opportunity for this individual to potentially misappropriate funds received.

In addition, the Administrative Services Chief and Finance Manager share responsibility for receipting revenues, preparing the deposit, posting revenues to the state's accounting system, and taking deposits to the bank. The Finance Manager also performs the monthly clearing

<sup>1</sup> Although this publication addresses controls in the federal government, this criterion can be treated as best practices. The theory of controls applies uniformly to federal or state government.

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account reconciliations and fund transfers. This creates the opportunity for either of these individuals to potentially misappropriate funds received and to conceal the misappropriation by improperly recording or modifying deposit records or reports.

No reconciliation of revenue-related activity to bank deposits is performed to mitigate these risks.

### **Recommendation**

We recommend management segregate duties and implement reviews as necessary in order to ensure that all revenues received by the agency are included in the bank deposit.

One potential arrangement of duties follows. The receptionist should issue a receipt for each payment received using a prenumbered receipt book and provide a copy of the receipt to the customer. The receptionist should then give the receipt book along with any payments received that day to the Finance Manager, who compiles a spreadsheet while processing the payments. The deposit should then be prepared by the Administrative Services Chief, who should compare the total of cash and checks received to the spreadsheet compiled by the Finance Manager and the receipt book, denoting this review by signing the spreadsheet. The Administrative Services Chief or other independent party should then take the deposit to the bank, and copies of the deposit slip and bank receipt should be attached to the daily spreadsheet. The Finance Manager should then post the deposits to PeopleSoft daily, ensuring the bank deposit receipt total matches the supporting documents.

Receipt books should be reconciled regularly to account for missing receipts or voids. Alternatively, a receipt log or "mail log" could be used. *In general, a reliable list of payments received should be tied to the deposit receipt by a party independent from processing and posting receipts.*

### **Views of Responsible Officials**

Oklahoma Water Resources Board management agrees.

The agency has no electronic receipting system; therefore payments are handled manually. The audit suggestion of the receptionist issuing receipts for each payment could be a workable solution throughout most of the year. However, during the agency's renewal period for file maintenance fees, the volume of checks coming in is far too large to be handled by one person; currently, it takes four to five employees during this period.

The agency will need to develop a strategy for control during normal periods and an alternate strategy for the renewal period. Controls of this



type will take additional time and labor. As the budget climate improves, the agency will continue to add web-based applications for automated online payments and develop a more streamlined manual receipting system. The agency will work toward better controls during the interim.

**Unauthorized  
Payments May  
Occur Due to  
Inadequate  
Segregation of  
Duties**

The GAO Standards state, “Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.”

The certified purchasing officer (CPO) is responsible for creating purchase orders, adding new vendors, purchasing items or services, and paying invoices using the state’s accounting system. During the audit period there was no documented review of detailed expenditures in place subsequent to payment. This could allow the CPO to make an unauthorized payment.

The Administrative Services Chief reports performing a detailed review of expenditures before and after they are made, which would mitigate the risk created by this arrangement of duties. However, the review was not formalized until after our audit period and, therefore, could not be relied upon in our procedures.

**Recommendation**

We recommend management continue the detailed expenditure review process, ensuring it is properly documented by signing, dating, and retaining a copy of the warrant report in either print or electronic form.

**Views of Responsible Officials**

Oklahoma Water Resources Board management agrees.

Additional staff would make segregation of duties easier, but that is not an option for the agency at this time. As mentioned, the Administrative Services Chief reviews non-payroll expenditures at the claim level before the expenditures are made. This is followed by a review of the warrant register for those same items. This includes a form signed by the Chief. This step has been evolving and will be formalized for audit purposes. The Chief will also prepare a standard operating procedure for this practice.

**Inventory at Risk Due to Inadequate Segregation of Duties and Lack of Counts**

The GAO Standards state that, "Management must establish physical control to secure and safeguard vulnerable assets. . . . Management periodically counts and compares such assets to control records." Furthermore, GAO Standards state that management should design "an internal control system to provide reasonable assurance regarding prevention or prompt detection and correction of unauthorized acquisition, use, or disposition of an entity's assets."

The agency does not perform an annual inventory count. While they do maintain an inventory listing that is required for state reporting, without a regular count this listing may be inaccurate or incomplete. In addition, without an inventory count to identify discrepancies, property may be lost or misappropriated without detection.

The individual responsible for inventory duties during the audit period is no longer with the agency and her duties do not appear to have been successfully transitioned to the current staff. As a result, we were unable to obtain a detailed understanding of the agency's audit period inventory process. We will provide some general recommendations for management below, for use as they redevelop the process going forward.

**Recommendation**

We recommend that management ensure a comprehensive annual physical inventory count is performed and documented, and that the employees responsible for performing the count do not have access to modify inventory records.

The results of each inventory count, and any resulting modifications to inventory records, should be reviewed and approved by management, and documentation of the review should be maintained. After a full inventory count has been performed to confirm the current records are accurate and complete, each year the reviewer should compare the results of the count to the previous year, ensuring that any significant purchases are reflected in the records and that any items removed are supported by approved surplus documentation.

In addition, we recommend management segregate duties to make certain that employees responsible for maintaining or with access to inventory records are not responsible for purchasing, performing inventory counts, or approving surplus property transactions.

**Views of Responsible Officials**

Oklahoma Water Resources Board management agrees.

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Currently, inventory lists are distributed yearly to divisions for update. The lists are then submitted to the Administrative Services Chief and then to the Office of Management and Enterprise Services (OMES).

In the future, any actual count of inventoried items should be verified by either two members of the submitting division, or by Administrative Services staff with assistance from the division. Administrative Services is researching the possibility of utilizing the State's inventory system which will provide a more uniform approach to inventory management, and would lend itself to better audit records.

Administrative Services has been in contact with another agency using the state inventory system to see how it has benefited that agency and whether it would be a good fit for the Water Resources Board.

### **Fund Balance Over Threshold, Not Compliant with Statute**

82 O.S. § 1020.16 requires that once the OWRB Well Drillers and Pump Installers Remedial Action Indemnity Fund reaches \$50,000, fees and penalties be deposited to a separate account in the Water Resources Board Revolving Fund designated as the Well Drillers and Pump Installers Regulation Account.

The Agency's current process is to occasionally transfer funds in excess of \$50,000 from the Indemnity Fund to the Regulation Account; they do not deposit money directly into the separate account once the Indemnity Fund reaches \$50,000.

During the audit period, funds were transferred out to the Regulatory Account 2 times (January 2015 and July 2015). The Indemnity Fund was over \$50,000 in 27 of 30 audit period months and the balance at the close of the audit period, December 31, 2016 was \$84,660. Records show that the account reached \$85,135 before a transfer was made in March 2017. As a result, the Agency is out of compliance with statute and the Regulatory Fund balance does not consistently reflect available funds.

### **Recommendation**

We recommend management review the Indemnity Fund balance monthly when performing clearing account transfers, and deposit funds in excess of \$50,000 directly into the Regulatory Account as required by statute.

### **Views of Responsible Officials**

Oklahoma Water Resources Board management agrees.

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The balance in the Well Drillers and Pump Installers Regulation Account (Regulation Account) hasn't been in jeopardy due to monies not being transferred in order to sustain it. However, the audit finding is correct. The Administrative Services Division accommodates this requirement through the practice of periodic transfer to the Well Drillers and Pump Installers Regulation Account. It is the understanding of the agency that this practice satisfies the requirement; although, these transfers need to be made more often in order to keep the balance at the \$50,000 threshold on a more regular basis.

The agency has already started monthly transfer of these funds, and a standard operating procedure will include this as a required monthly activity.

### **Expenditure Claims Not Approved as Required by Statute**

82 O.S. § 1085.7 requires that claims paid from the Water Resources Board Fee Revolving Fund be approved by the Oklahoma Water Resources Board and the Director of OMES.

The Agency does not currently seek the approval of the Board or the director of OMES for payments from this fund. While this technically places the agency out of compliance with state statute, the requirement for such high-level approval appears unusual given our experience with state agencies and given the relatively low dollar value of expenditures from the fund.

### **Recommendation**

We recommend management seek legal advice regarding updating this statutory requirement. Because this could be a lengthy process, we recommend that in the meantime management seek written authority from the Board and director of OMES to make purchases below an agreed-upon threshold.

### **Views of Responsible Officials**

Oklahoma Water Resources Board management agrees.

This is a little known and overly complicated procedure that has never been practiced to current staff's knowledge. With assistance from the agency's General Counsel new language for the statute will be proposed to bring these payment authorizations more in line with generally accepted practices. Until the statute's language can be changed, the agency will establish a best practice for meeting the statutory requirement that will still allow the agency to conduct day-to-day operations without interruption.



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