



OKLAHOMA
CORPORATION COMMISSION
PETROLEUM STORAGE TANK
DIVISION INDEMNITY FUND

Operational Audit

For the period July 1, 2021 through June 30, 2022

Cindy Byrd, CPA
State Auditor & Inspector

**Audit Report of the
Oklahoma Corporation Commission
Petroleum Storage Tank Division Indemnity Fund**

**For the Period
July 1, 2021 through June 30, 2022**



November 30, 2022

**TO THE OKLAHOMA CORPORATION COMMISSION AND PETROLEUM STORAGE
TANK DIVISION**

We present the audit report of the Oklahoma Corporation Commission, Petroleum Storage Tank Division Indemnity Fund, for the period July 1, 2021 through June 30, 2022. 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 "Cindy Byrd".

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

Background

The Petroleum Storage Tank Division (PSTD) enforces state and federal regulations that pertain to aboveground and underground storage tanks that contain antifreeze, motor oil, motor fuel, gasoline, kerosene, diesel, and aviation fuel. The division administers the Petroleum Storage Tank Indemnity Fund, created by the Legislature in 1989 to assist storage tank owners to meet a requirement for financial responsibility associated with petroleum storage tanks and leaking tanks. PSTD Fuel Inspectors check the calibration of fuel pumps to ensure customers are receiving the accurate amount of fuel at each purchase. Inspectors also check octane levels and assist tank owners with proper release detection methods.

PSTD is overseen by a director, who is appointed by the director of administration of the Oklahoma Corporation Commission (OCC). In addition, the PSTD director hires an administrator for the Indemnity Fund as required by 17 O.S. §322(C)(2)(f).

FY 2022 Indemnity Fund Sources & Uses¹

Fund	Fund #	Revenue	Expenses
PST Indemnity Fund	8185F	\$ 24,778,164	\$ 21,698,525

The Petroleum Storage Tank Indemnity Fund (fund 8185F) is primarily funded through a penny per gallon assessment on gasoline, diesel, and blending materials at the distributor level, as well as license and permit fees. These funds are used for claims processing, regulatory expenses, and administrative expenses. Claims reimbursements totaled \$15,412,537 for FY 22.

Fund 205 is the operating expense fund for the Petroleum Storage Tank Indemnity Fund. To ensure only actual payroll and operating expenditures are paid, funds are transferred in from the Indemnity Fund following the director's approval of the expenses. Operating expenses totaled \$4,811,414 for FY 22 and are included in Indemnity Fund expenses in the table above.

¹ All dollar figures in this section are derived from OCC PSTD internal financial and check detail reports, which have been reconciled to statewide accounting system data.

**Scope and
Methodology**

Our audit was conducted in response to 17 O.S. § 325(E), which requires the State Auditor and Inspector’s Office to “conduct an independent audit of the books, records, files and other such documents of the Corporation Commission pertaining to, and which relate to, the administration of the Petroleum Storage Tank Indemnity Fund.” In addition to fulfilling this statutory mandate, we strive to make our audits efficient and to provide in our reports a helpful resource for those charged with governance of the division.

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 of July 1, 2021 through June 30, 2022. To assess risk and develop our audit objective, we held discussions with management and performed data analysis and prior audit follow-up. These procedures included:

- Reviewing revenue, expenditure, and asset-related data from the statewide accounting system and information gathered from Agency personnel to assess the related financial processes and trends for any notable risks.
- Gaining an understanding of the division’s fund structure and reviewing examples of monthly financial reconciliations of internal records to the Statewide Accounting System.
- Gaining an understanding of the expenditure processes, reviewing relevant written procedures, and reviewing examples of monthly detailed expenditure reconciliations.
- Reviewing pertinent statutes and regulations and assessing related risks.

One objective related to expenditures was developed, as discussed in the next section. No other significant risks or findings were identified as a result of these procedures.

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.

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.

Internal Control Considerations

The Government Accountability Office (GAO) emphasizes the importance of internal controls at all levels of government entities. Their *Standards for Internal Control*² outline the five overarching components of internal control: the control environment, risk assessment, information and communication, monitoring, and detailed control activities. Any component considered significant to our audit objectives is assessed during our procedures and included as appropriate in this report.

The *Standards for Internal Control* underscore that an internal control system is effective only when the five components of internal control are operating together in an integrated manner. They also stress that documentation is a necessary part of an effective internal control system and is required to demonstrate its design, implementation, and operating effectiveness.

² *Standards for Internal Control in the Federal Government*, or the "Green Book," sets standards and the overall framework for an effective internal control system in federal agencies and is treated as best practices for other levels of government. Last update 2014, accessible online at <https://www.gao.gov/products/GAO-14-704G>.

OBJECTIVE Determine whether effective internal controls were in place to ensure expenditures from the Indemnity Fund, including payroll, complied with 17 O.S. § 324 and 17 O.S. § 327.3.

Conclusion Effective internal controls were in place to ensure expenditures from the Indemnity Fund, including payroll, complied with 17 O.S. § 324 and 17 O.S. § 327.3.

**Objective
Methodology**

To accomplish our objective, we performed the following:

- Documented our understanding of the claims reimbursement process through discussion with management and review of documentation.
 - Selected a sample of 25 reimbursement claims (2% of claims) totaling \$238,608.39 and reviewed supporting documentation by case number to ensure the eligibility review checklist was reviewed and approved by the Indemnity Fund Administrator, reflecting the claims' compliance with 17 O.S. § 327.3.
- Documented our understanding of the expenditure processes through discussion with management and review of documentation.
 - Selected a sample of 27 operating expenditure claims (15% of claims) totaling \$921,035 and tested to ensure the expenditure and the funding was reviewed and approved by the Director and the expenditure was allowable according to 17 O.S. § 324.
 - Selected a sample of three months (25% of the population) expenditure reconciliations and tested to ensure there was a review of line-item detailed expenditures performed by the Comptroller.
 - Tested all 12 operating expenditure transfers from Fund 8185F to Fund 205 (100% of the population) to ensure they were approved by the Director and the transfer amounts matched the approval documentation.
- Documented our understanding of the payroll processes through discussion with management and review of documentation.
 - Selected a random sample of 9 (20% of the population) full-time Petroleum Storage Tank Division staff directly paid from the operating expense fund (fund 205) and ensured they were in fact PSTD employees.
 - Evaluated the FY 2022 formula and the cost allocation process for indirect personnel at the Corporation Commission and

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verified the indirect payroll expenses paid for PTSD did not exceed the approved allocation amount.

No findings were noted as a result of our procedures.

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SAI
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