OKLAHOMA ALCOHOLIC BEVERAGE LAWS ENFORCEMENT COMMISSION

**FOR THE PERIOD
JULY 1, 2007 THROUGH
JUNE 30, 2009**

OPERATIONAL AUDIT

Oklahoma State Auditor & Inspector

Audit Report of the
Oklahoma Alcoholic Beverage
Laws Enforcement Commission

For the Period
July 1, 2007 through June 30, 2009

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STATE AUDITOR AND INSPECTOR

STEVE BURRAGE, CPA
State Auditor

MICHELLE R. DAY, ESQ.
Chief Deputy

2300 N. Lincoln Boulevard State Capitol, Room 100 Oklahoma City, OK 73105-4801 Phone (405) 521-3495 Fax (405) 521-3426 www.sai.ok.gov

April 29, 2010

TO THE OKLAHOMA ALCOHOLIC BEVERAGE LAWS ENFORCEMENT COMMISSION

This is the audit report of the Oklahoma Alcoholic Beverage Laws Enforcement Commission for the period July 1, 2007 through June 30, 2009. 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

STEVE BURRAGE, CPA
STATE AUDITOR & INSPECTOR

Background

The mission of the Oklahoma Alcoholic Beverage Laws Enforcement Commission (ABLE or Agency) is to protect the public welfare and interest in the enforcement of the laws pertaining to alcoholic beverages, charity games and youth access to tobacco.

Oversight is provided by seven commission members (Commission) appointed by the governor serving five year terms. Five members represent the citizenry at-large. The remaining two are required to possess experience in law enforcement. The state constitution directs that no more than four of the Commission members shall be from the same political party and no more than two of the members shall be from the same federal congressional district. In addition, the Constitution prohibits any Commission member from holding any alcoholic beverage license or having any interest in the manufacture, sale, distribution, or transportation of alcoholic beverages.

Commission members are:

Maxine McFalls .... Chairman
Harry Kouri III .... Vice-Chair
Desmond Sides .... Member
Rob Stratton .... Member
Jim Lowder (June 2009 to present) .... Member
Brian Close .... Member
Pat Ponder .... Member
Joe Perkins (until June 2009) .... Member

Table 1 summarizes the Agency's sources and uses of funds for state fiscal years 2008 and 2009 (July 1, 2007 through June 30, 2009).

Table 1 - Sources and Uses of Funds for SFY 2008 and SFY 2009

	2008	2009
Sources:		
Appropriations	$ 3,925,200	$ 3,920,307
Federal Funds from other State Agencies	30,000	60,000
Credit Card Fees	-	25,172
Sale of Equipment	18,180	13,005
Other	58,513	57,619
Total Sources	$ 4,031,893	$ 4,076,103
Uses:		
Salary Expense	$ 2,297,570	$ 2,278,723
Related Payroll Expense	934,901	937,875
Professional Services	329,678	186,257
Travel Expense	38,329	65,152
Miscellaneous Administrative Expense	156,346	181,864
Rent Expense	150,547	157,463
Maintenance and Repair Expense	49,149	16,460
Production , Safety, Security Expense	19,468	6,550
Specialized Supplies and Material Expense	76,044	67,778
General Operating Expense	22,045	29,742
Office Furniture	90,493	12,718
Refunds	136,185	96,923
Other	17,635	24,235
	$ 4,318,390	$ 4,061,740

Source: Oklahoma PeopleSoft Accounting System (unaudited, for informational purposes only)

Purpose, Scope, and Sample Methodology

This audit was conducted in response to 74 O.S. § 212, which requires the State Auditor and Inspector's Office to audit the books and accounts of state officers whose duty it is to collect, disburse or manage funds of the state.

The audit period covered was July 1, 2007 through June 30, 2009.

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.

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.

Objective 1 - Determine if the Agency's internal controls provide reasonable assurance that revenues, expenditures (including payroll), and firearm inventory were accurately reported in the accounting records.

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 firearm inventory and payroll were accurately reported.

Methodology

To accomplish our objective, we performed the following:

- Documented internal controls related to the receipting, expenditure (including payroll), and firearm inventory processes which included discussions with Agency personnel, observation, and review of documents;
- Tested controls which included:
  - Determining whether the Agency's duties were properly segregated by ensuring the person who:
    - Initiated the refunds was independent of the cash receipting and recordkeeping functions;
    - Processed license and fine paperwork was independent of the cash receipting function;
    - Handled inquiries from the general public was independent of the claim posting process; and
    - Received the warrants was independent of the claim posting process.

- Determining funds are adequately safeguarded by properly securing cash prior to deposit and making deposits in a timely manner as required by 62 O.S. § 7.1.C[1];
- Testing 40 randomly selected deposits ($668,438) to ensure they were supported by accounting records. This included ensuring the recorded receipts listed per the *Cash Log* and *Closeout Report* agreed to the amounts per the deposit slip and the deposit slip amount matched the depositing bank's records;
- Observing the receipting process software program's controls to ensure a receipt could not be generated unless the appropriate information was first input into the system;
- Testing 20 randomly selected *Closeout Reports* (totaling $233,812) and haphazardly selecting two line items from each *Closeout Report* and tying the amounts back to the underlying source documentation as well as tracing the disbursement through to PeopleSoft ensuring that it was properly posted;
- Ensuring monthly reconciliations were performed throughout the audit period comparing Office of the State Treasurer (OST) and Agency records to PeopleSoft records;
- Testing three randomly selected sets of monthly reconciliations to ensure they were mathematically accurate, agreed to supporting documentation, reconciling items appeared reasonable, and the *OSF Form-11* was signature approved by the chief financial officer (CFO); and
- Testing 40 randomly selected claims (totaling $21,936) to ensure they were properly and independently approved. This included ensuring the payment was supported by a mathematically accurate and signature approved invoice and claim jacket, the correct account code was used, and the expenditure was reasonable given the Agency's mission.

Observation **<u>Inadequate Segregation of Duties for the Payroll Process</u>**

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*[2] 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 payroll accountant obtains the director's signature stamp from another division in order to approve the payroll. As a result, the payroll accountant is responsible for:

- Processing payroll (recordkeeping function);
- Stamping the director's signature on the processed payroll records prior to submission (authorization function).

Deficiencies such as these increase the risk that unauthorized payroll transactions could occur and not be detected in a timely manner.

Recommendation We recommend an employee other than the payroll accountant be responsible for reviewing and approving the payroll. We recommend that the chief financial officer review and approve payroll prior to certifying it with the director's signature stamp.

[1] 62 O.S. § 7.1.C requires receipts of $100 or more to be deposited on the same banking day as received. Receipts of less than $100 may be held until accumulated receipts equal $100 or five business days, whichever occurs first. Receipts of less than $100 shall be adequately secured.

[2] 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.

Views of Responsible Officials

The payroll accountant has **not** been responsible for review and approval of the payroll process; however, that individual has evidently managed to circumvent some steps in the payroll process in a desire for speedy and efficient processing of the payroll. These steps were set in place to ensure that review and approval of the payroll was clearly being performed by either the Director of the Agency or the Chief Financial Officer. We are in the process of reviewing any payroll which was stamped and not personally signed by the Director and this review should be completed within the week.

We shall do the following to ensure that does not happen in the future.

The requirement that payrolls must be reviewed and approved by either the Agency Director or the Chief Financial Officer (the Director of Management & Budget) remains.

A complete copy of each payroll with all details will be presented to the approving officer at the time a signature is requested and no signature will be appended to the payroll without this procedure being followed. Claims presented for signature without all required documentation being present will be returned to the Payroll Officer without signature. One of three procedures will be followed in ensuring that the entire payroll process is properly maintained.

1) The Agency Director must approve and manually sign and date the payroll, or
2) The Director of Management and Budget must approve and manually sign & date the payroll, or
3) The Director of Management and Budget will approve and stamp the payroll with the Agency Director's signature stamp and then initial and date that payroll.

The Agency Comptroller will audit the signature or stamp on all payroll claims and initial and date his audit (on the claim itself and in memo form) and verify that one of the above procedures have been followed and will bring any discrepancies to the attention of the Director and the Deputy Director of this agency.

The Director will issue a memo as a reminder to all personnel that they shall not use or allow to be used the Director's signature stamp to sign/approve any agency claim; whether it is a payroll or other claim. This procedure is restricted to the Director of Management & Budget and whenever that officer does use the Director's signature stamp on a claim that individual will initial and date the stamped signature.

Observation

Inadequate Segregation of Duties for the Firearm Inventory Process

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*[2] 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…"

Management was unaware of the risks created by not ensuring that there was adequate segregation of duties. As a result, the assistant special agent in charge is responsible for:

- Maintaining the firearm inventory listing and all other associated firearm documentation;
- The custody of all unissued firearms; and
- The physical inventory count. It appears that a complete physical inventory count is not consistently being performed at least once a year. However, a partial inventory count is being performed twice a year that includes agent issued firearms only.

Deficiencies such as these increase the risk that misappropriation of assets may occur and not be detected in a timely manner.

Recommendation

We recommend an employee other than the assistant special agent in charge perform an annual physical inventory count of all firearms rather than just agent issued firearms. Any changes noted as a result of the physical inventory count should be reviewed and approved by someone other than the person who performed the count.

Views of Responsible Officials

The Firearms Instructors will perform a physical inventory at least once per year and report in writing to the Assistant Director as to the status of all firearms issued by the agency to all personnel. A Firearm's Instructor will perform a physical inventory on all un-issued firearms owned by the agency at least once per year and provide a written report to the Assistant Director on the status of those firearms (their location and their condition). The Assistant Director will review all such reports and initial and date them to indicate they have been reviewed and approved. In the absence of the Assistant Director, the Chief Agent will perform this function until the Assistant Director is again available. Any shortages or other discrepancies will be reported immediately to the Agency Director.

The assistant special agent in charge will maintain the enforcement division written inventory of all firearms and will continue to maintain all un-issued firearms in a secure vault and will remain responsible for them until they are disposed of or issued.

Objective 2 - Determine whether the Agency transferred all revenues received to the state's General Revenue fund as required by 37 O.S. § 567.

Conclusion

With respect to the items tested, the Agency appears to have complied with 37 O.S. § 567. This statute requires that all monies collected under the provision of the Oklahoma Alcoholic Beverage Control Act by the Agency be deposited into the state's General Revenue fund.

Methodology

To accomplish our objective, we tested three haphazardly selected months to determine fees received were transferred to the state's General Revenue fund as required by 37 O.S. § 567.

Objective 3 – Determine whether thirty-five percent (35%) of each administrative fine collected by the Agency in relation to the Youth Access to Tobacco Act was paid to the appropriate municipality as required by 37 O.S. § 600.11b.

Conclusion

With respect to the items tested, the Agency appears to have complied with 37 O.S. § 600.11b. This statute requires the Agency to pay municipalities thirty-five percent of each administrative fine imposed related to the Prevention of Youth Access to Tobacco Act (the Act). In order for the municipalities to be eligible to receive the funds, they must have an ordinance prohibiting conduct under the Act.

Methodology

To accomplish our objective, we tested 20 randomly selected Prevention of Youth Access to Tobacco fines collected by the Agency (in the amount of $1,650) to ensure 35% of the administrative fine was remitted to eligible municipalities.

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

WWW.SAI.OK.GOV