OKLAHOMA
STATE AUDITOR & INSPECTOR

OKLAHOMA ALCOHOLIC BEVERAGE LAWS ENFORCEMENT COMMISSION

Operational Audit

For the period of July 1, 2013 through June 30, 2018

Cindy Byrd, CPA
State Auditor & Inspector

Audit Report of the Oklahoma Alcoholic Beverage Laws Enforcement Commission

For the Period July 1, 2013 through June 30, 2018

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May 20, 2019

TO THE OKLAHOMA ALCOHOLIC BEVERAGE LAWS ENFORCEMENT COMMISSION

We present the audit report of the Oklahoma Alcoholic Beverage Laws Enforcement Commission for the period July 1, 2013 through June 30, 2018. 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,

Cindy Byrd

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

Background

The Oklahoma Alcoholic Beverage Laws Enforcement Commission (Agency) was created by the Twenty-Eighth Amendment to the Oklahoma Constitution. The Commission was established for the protection, welfare, health, peace, temperance, and safety of the people of the state through the enforcement of the laws pertaining to alcoholic beverages, charity games, and youth access to tobacco.

Oversight is provided by a seven-member commission (Commission) appointed by the governor and subject to the advice and consent of the Oklahoma Senate. Five of the members are at-large members representing the lay citizenry. The remaining two members are persons with law enforcement experience in the State. Members of the Commission are appointed for a term of five years.

Commission members as of April 2019 are:

Harry "Trey" Kouri III .... Chairman
Joseph Forrest .... Vice Chairman
James Weger .... Commissioner
Devin S. Graves .... Commissioner
Dee Collins. .... Commissioner
James Williyard. .... Commissioner
Vacant. .... Commissioner

The following table summarizes the Agency's sources and uses of funds for fiscal years 2017 and 2018 (July 1, 2017 through June 30, 2018).

Sources and Uses of Funds for FY 2017 and FY 2018

	2017	2018
Sources:		
Appropriations	$ 2,555,823	$ 2,459,180
Licenses, Permits, Fees	$ 383,613	$ 915,520
Fines, Forfeits, Penalties	$ 2,486	$ -
Federal Funds	$ 538,237	$ 321,492
Interagency Grants	$ -	$ 31,250
Credit Card Fees	$ 57,419	$ 60,005
Other	$ 18,870	$ 415
Total Sources	**$ 3,556,448**	**$ 3,787,862**
Uses:		
Personnel Services	$ 2,954,868	$ 2,858,183
Professional Services	$ 495,567	$ 396,712
Travel	$ 10,130	$ 7,433
Administrative Expenses	$ 283,502	$ 268,947
Property, Furniture, Equipment	$ 60,416	$ 7,091
Assistance, Payments to Local Govn'ts	$ 20,956	$ 12,740
Transfers and Other Disbursements	$ -	$ -
Total Uses	**$ 3,825,439**	**$ 3,551,106**

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

Scope and Methodology

Our 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 all state agencies whose duty it is to collect, disburse, or manage funds of the state.

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, 2013 through June 30, 2018. Additional detailed audit procedures were performed on the receipting process for the limited time period of July 1, 2016 through June 30, 2018.

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Oklahoma Alcoholic Beverage Laws Enforcement Commission operations. Further details regarding our methodology are included under each conclusion.

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.

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.

OBJECTIVE I

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

Conclusion

The Agency's internal controls do not provide reasonable assurance that revenue, expenditures (Miscellaneous and Payroll), and inventory were accurately reported in the accounting records.

Financial operations complied with the following statutes:

- 3A O.S § 404, 407, and 425: Oklahoma Charity Games Act
- 37 O.S. § 539: Search and Seizure – Forfeiture of Liquors

Financial operations did not comply with the following statutes:

- 37 O.S. 600.11b Renumbered 63 O.S. § 1-229.24: Prevention of Youth Access to Tobacco Act – 35% remittance to municipalities

Objective Methodology

To accomplish our objective, we performed the following:

- Identified significant internal controls related to receipting and tested those controls; see results in related finding. Due to the significant control weakness identified in the revenue controls, we performed additional procedures which included:
    - Comparing revenues from the OST Activity Statement to the Total number of licenses issued obtained from agency management;
    - Testing 4 total weeks judgmentally selected from 2 randomly selected months during fiscal years 2017 and 2018 for a total of 20 deposits reviewed and reconciled to the agency's licenses issued reports. All payments for each license issued during the time periods we selected to test agree to and were located in the agency's deposit/closeout reports.
- Identified significant internal controls related to miscellaneous expenditures and tested those controls, see results in related finding.
- Identified significant internal controls related to payroll expenditures and evaluated those controls, which included:
    - Selecting and testing a random sample of 25 payroll claims (42%) from a population of 60 to ensure they were properly approved and reflected in the payroll reports;
    - Selecting and testing a random sample of 25 payroll transactions with a financial impact from a population of 138 transactions with a financial impact that appear in the HR All Actions Report to ensure they were properly documented and approved;
- Determined Compliance with 74 O.S. §3601.2A – Salaries of Chief Executive Officers, which included:
    - Reviewing all data on the *HR All Actions* report and comparing it to approved salary ranges established by the Office of Management and Enterprise.
- Identified significant internal controls and process factors related to inventory; see results in related finding.

FINDINGS AND RECOMMENDATIONS

The agency does not have proper segregation of duties over revenues

The United States Government Accountability Office's *Standards for Internal Control in the Federal Government* (2014 version)[1] states that in designing control activities to achieve objectives and respond to risks, "Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event."

The GAO Standards further require that "Management considers segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, designs alternative control activities to address the risk."

As it relates to reliable data, the *Standards* state, "Management obtains relevant data from reliable internal and external sources in a timely manner based on the identified information requirements. Reliable internal and external sources provide data that are reasonably free from error and bias and faithfully represent what they purport to represent. Management evaluates both internal and external sources of data for reliability."

Receipting

The audit period cashier supervisors and cashiers receive and receipt payments for licenses, fines, and other fees, enter application and payment information to the ABLE Receipt System to generate and print receipts and they are also responsible for preparing daily deposits and posting deposits to the Statewide Accounting System. This is an inappropriate segregation of duties which creates the risk that funds could be misappropriated and not detected.

Reconciling

The audit period program administrative assistant II/cashier supervisor performs a daily reconciliation; however, this reconciliation is not documented. This creates the risk that there could be discrepancies between online payments received, agency records and OST records.

While the licensing employees are performing a review and comparison of printed licenses to the business office reports to ensure the licenses they are releasing match the reports, the lack of documentation of this

[1] Although this publication (GAO Standards) 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.

review and comparison, as well as the deficiencies noted above does not provide reasonable assurance that their review is truly independent of the receipting process.

Although the agency does have some reconciliation processes in place in addition to the OMES Form 11 reconciliation, those reconciliations are largely based on data maintained in the internal mainframe system (IMS). There is no systematic review and evaluation for accuracy and reliability of calculations and data related to revenue that is maintained on the agency's internal mainframe system. This creates the risk that data may be inaccurate, and employees could be inappropriately relying on reports produced by the system.

Impact on Statutory Compliance
This deficiency also increases the risk that transfers to the state's general revenue fund as required by 37 O.S. §539 could be incomplete. While we were able to verify that fees deposited were paid to the general fund as required by the statute, properly designed and implemented controls are not in place to ensure all funds received were deposited. Any receipts not included in the deposit would not be subject to transfer, placing the Agency out of compliance with state statute.

Recommendation
We recommend agency management take steps to ensure all funds received are deposited. An example scenario follows: One party who does not perform licensing duties (such as the cashiers) open the mail and receipt payments, logging all forms of payments in a revenue log that no other individual has access to. The payment information could then be disseminated to the necessary persons for processing licenses. The administrative assistant II could then prepare the deposit. A separate party independent from receipting, processing, and deposit preparation (such as the CFO or executive director) should then compare the revenue log to the deposit receipt to ensure the deposit was complete. *The keys to segregation in the scenario are that the party compiling the revenue log and the party comparing that log to the completed deposit are independent of processing licenses.*

In addition, management should systematically and routinely review and evaluate revenue calculations and data maintained on the internal mainframe system. This evaluation and review should be documented so that it can be independently verified.

Views of Responsible Officials
The agency concurred with the finding. See detailed response and corrective action plan at Appendix A.

The agency does not have proper segregation of duties over miscellaneous expenditures

As previously stated, the GAO Standards state that in designing control activities to achieve objectives and respond to risks, "Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event."

The GAO Standards further require that "Management considers segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, designs alternative control activities to address the risk."

The agency has not adequately segregated key duties related to expenditure processes in the following areas:

- Expenditures are not properly and independently approved before payment. The majority of purchasing requests during the audit period were made verbally, with informal and undocumented approval prior to the purchase.
- The administrative programs officer and the business office accountant have the conflicting duties of generating purchase orders and posting expenditures in the Statewide Accounting System.

The lack of documented and independent approval and the conflicting duties create the risk that funds could be misappropriated through unauthorized expenditures and go undetected. Further, there is no independent and documented detailed review of agency expenditures which could mitigate those risks.

Recommendation

The agency should establish proper segregation of key duties related to the expenditures process to ensure that a single individual would not be able to initiate, authorize, process and record an expenditure transaction. If the agency is unable to segregate key duties, at a minimum, someone independent of the expenditure process, such as a Commission member or the Director, should perform and document a detailed review of the PeopleSoft 6-digit detailed expenditure report on a routine basis. We also recommend the agency update their purchasing policies and procedures to reflect present expenditure workflow approvals.

Views of Responsible Officials

The agency concurred with the finding. See detailed response and corrective action plan at Appendix A.

There is no documented review of final reports prior to payroll distribution which includes ensuring all payroll changes are properly reflected

As previously stated, the GAO Standards state that in designing control activities to achieve objectives and respond to risks, "Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event."

The GAO Standards further require that "Management considers segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, designs alternative control activities to address the risk."

The Standards also state, "Management obtains relevant data from reliable internal and external sources in a timely manner based on the identified information requirements. Reliable internal and external sources provide data that are reasonably free from error and bias and faithfully represent what they purport to represent. Management evaluates both internal and external sources of data for reliability."

The agency has not adequately segregated key duties related to payroll processes. The person in charge of Human Resources and Brand Registration currently has the following conflicting abilities and duties:

- Access and responsibility to make payroll/personnel changes in PeopleSoft HCM
- Access and responsibility to process payroll in PeopleSoft HCM

There is also no detailed and documented independent review of payroll and personnel changes after payroll is processed to verify that only authorized changes were made. This type of review if properly performed and documented could mitigate the risks associated with the inadequate segregation of duties. The lack of adequate internal controls creates the risk for unauthorized payroll and personnel changes to be made without detection.

In addition, there is no systematic, independent, and documented review and evaluation for accuracy and reliability of leave accrual calculations and balances maintained in Excel. This creates the risk that leave balances reported for employees may be inaccurate and employees could be inappropriately compensated for leave.

Recommendation

We recommend management segregate duties to ensure that employees responsible for processing payroll do not have the ability to make changes to payroll or personnel data in PeopleSoft HCM. We also recommend that agency management, independent from the payroll process, perform a detailed and documented review of payroll claims and supporting documentation, or an independently obtained detailed report of payroll changes from the PeopleSoft HCM system, to provide assurance that only authorized payroll changes are made.

In addition, management should systematically and routinely review and evaluate leave accrual calculations and balances maintained in the Excel database.

Views of Responsible Officials
The agency concurred with the finding. See detailed response and corrective action plan at Appendix A.

The agency does not have proper segregation of duties over inventory
Repeat Finding

As previously stated, the GAO Standards state that in designing control activities to achieve objectives and respond to risks, "Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event."

The GAO Standards further require that "Management considers segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, designs alternative control activities to address the risk."

The *Standards* also state that "Management must establish physical control to secure and safeguard vulnerable assets. . . Management periodically counts and compares such assets to control records." Furthermore, the *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 *Standards* also state, "Management obtains relevant data from reliable internal and external sources in a timely manner based on the identified information requirements. Reliable internal and external sources provide data that are reasonably free from error and bias and faithfully represent what they purport to represent. Management evaluates both internal and external sources of data for reliability."

The agency has not adequately segregated key duties related to inventory processes in the following areas:

- The administrative programs officer has the conflicting duties and responsibilities to order and receive items, tag items, perform annual physical counts, track inventory "transactions" as well as updating the inventory report sent to OMES annually, filling out surplus documentation and updating the related inventory file entry.
- The business office accountant has the conflicting duties of ordering and receiving items at the agency.
- The chief agent has the conflicting duties of performing inventory counts and maintaining inventory records. There has not been a documented inventory count performed by an employee independent of record keeping during the audit period. This was an issue noted in the previous audit.

We also noted the following:

- The agency does not have documentation for reconciled inventory records.
- Seized property inventory counts are not performed on a regular basis. Property set to be auctioned and delivered to the main office are not compared to original seizure case documents and inventory forms. This was an issue noted in the previous audit.

The above control deficiencies create the risk that inventory could be misappropriated without detection. They also create the risk that inventory reports submitted to the Office of Management and Enterprise Services (OMES) as required by Oklahoma Administrative Code 260:110-3-1 and 74 O.S. § 110.1 A and 74 O.S. § 110.2, prior to inventory being reported on the OMES Assets Management system, are inaccurate or incomplete.

Recommendation

Our recommendations from the previous audit stand. We recommend:

- Management segregate duties to ensure that no one individual can initiate purchases, authorize transactions, process payments, receive assets ordered, and modify inventory records.
- The individual maintaining the weapons inventory listing not have access to the weapons safe or be involved in the disposal of weapons.
- The inventory list of items to be auctioned be reconciled against the inventory lists of transferred property from each district by someone uninvolved in that process. Management should also consider performing regular inventory counts of seized property.

- Someone independent of maintaining the inventory records should perform a regular and documented count of unassigned weapons.

- Management ensure that a comprehensive annual physical inventory count is performed and documented by someone independent from purchasing assets, maintaining inventory items and inventory records, and disposing of surplus assets.
- The ability to edit electronic inventory records be limited to as few employees as possible, based upon their inventory-related duties.

Views of Responsible Officials
The agency concurred with the finding. See detailed response and corrective action plan at Appendix A.

The agency is not in compliance with 37 O.S. 600.11b Renumbered 63 O.S. § 1-229.24: 35% remittance to municipalities

37 O.S. 600.11b Renumbered 63 O.S. § 1-229.24 states: For violations of the Prevention of Youth Access to Tobacco Act which occur in a municipality that has adopted ordinances prohibiting and penalizing conduct under provisions of the Prevention of Youth Access to Tobacco Act, thirty-five percent (35%) of each administrative fine imposed by the ABLE Commission pursuant to the Prevention of Youth Access to Tobacco Act shall be remitted to such municipality.

The agency is not making 35% payments to municipalities as required by 37 O.S. § 600.11b Renumbered 63 O.S. § 1-229.24. Since ceasing to make these payments in fiscal year 2016, the agency has deposited $27,875.00 of tobacco fine revenue. The agency potentially failed to make payments of $9,756.25 (27,875 X .35) to municipalities in which the fine occurred.

By not performing the required 35% remittance per statute, the agency is not in compliance with 37 O.S. § 600.11b Renumbered 63 O.S. § 1-229.24.

Recommendation
The agency should establish policies and procedures to make the required 35% payments to eligible municipalities per statute at least annually. In addition, the agency should review their records for audit period and make any retroactive payments to eligible municipalities that should have been made during that time period.

Views of Responsible Officials
The agency concurred with the finding. See detailed response and corrective action plan at Appendix A.

Appendix A

A KEITH BURT
DIRECTOR AND
SECRETARY TO THE COMMISSION

J. KEVIN STITT
GOVERNOR

STATE OF OKLAHOMA
ALCOHOLIC BEVERAGE LAWS ENFORCEMENT COMMISSION

May 10, 2019

Ms. Cindy Byrd, CPA
Oklahoma State Auditor and Inspector
2300 N. Lincoln Blvd., Suite 123
Oklahoma City, Oklahoma 73105

Dear Ms. Byrd,

Please let this letter serve as the Oklahoma Alcoholic Beverage Laws Enforcement (ABLE) Commission response to the Audit Report for the period of July 1, 2013 through June 30, 2018. I would like to begin by thanking you for your office's hard work in conducting this audit, and note the staff assigned to perform the audit were incredibly professional and pleasant to work with throughout the process.

As an introductory matter it should be noted that during the audit period the Commission, like many state agencies, experiences multiple budget cuts. As a result, the agencies compliment of employees dwindled to below 30. In turn, the Commission was required to ask more of its remaining staff in taking on additional duties, some of which were next to impossible to segregate.

Thankfully, the Commission was fortunate enough to receive a budgetary increase for Fiscal Year 2019, and is hopeful for a flat budget in Fiscal Year 2020. Consequently, two additional full time employees were hired in the business office. These individuals will be helpful in segregating work duties at issue during the audit period.

The following are our formal responses to the findings contained in the Audit Report. Based on verbal guidance of Mr. Eric Meigs, our responses are intended to brief and to the point.

Finding No. 1: The Agency does not have proper segregation of duties over revenues.

Response No. 1: The Commission has taken steps to comply with and adhere to the recommendations of this finding by separating the receipt of payments function, preparation of deposit function, and the comparing of the payments and deposit functions. Additionally, the Commission has taken steps to implement a periodic review of revenue calculations by an individual not associated with any of the processes.

Finding No. 2: The Agency does not have proper segregation of duties over miscellaneous expenditures.

Response No. 2: The Commission has now implemented a three step expenditure process, which require a written request, written approval by the Commission Director, and finally the actual purchase transaction by the purchasing officer. The Commission has already updated its purchasing policies and procedures to reflect current expenditure workflow approvals, and based on the verbal guidance of the auditor performing the audit would ask your office to acknowledge this issue as remedied.

Finding No. 3: There is no documented review of final reports prior to payroll distribution includes ensuring all payroll changes are properly reflected.

Response No. 3: As of April 1, 2019, the Commission has segregated the access and responsibility to make payroll and/or personnel changes and the processing payroll function in PeopleSoft HCM. In the instance of any payroll of personnel change, a report is generated in PeopleSoft HCM which is then given to the Director of Management and Budget and placed within that month's payroll documentation. The payroll administrator will run a Job Data Report in HCM in order to verify the proper changes have been made prior to running payroll. This report will be compared with the Personnel Actin Form also generated in HCM by the Commission Director. Lastly, the duties of systemically reviewing and evaluating leave accrual balances has been assigned to the Administrative Service Assistance. We believe these changes reflect and adhere to the recommendations contained in the Audit Report.

Finding No. 4: The Agency does not have proper segregation of duties over inventory.

Response No. 4: As of Fiscal Year 2019, the Commission has partnered with OMES Division of Central Accounting and Reporting (DCAR) in order to maintain inventory of all reportable items. Any purchase which qualifies as inventory is automatically uploaded into the list maintained by OMES. Additional changes include the business office accountant maintaining all surplus and inventory lists. This is confirmed by either the Administrative Program Officer (APO) or Director of Management and Budget. Inventory shall be completed annually by the accountant, and will assist the Assistant Director in maintaining and/or performing inventory counts.

Seized property inventory is counted by the agent in charge and then confirmed by the Administrative Assistant to the Director. This data is given and maintained by the Director of Management and Budget.

Finding No. 5: The Agency is not in compliance with 37 O.S. §600.11(b) Renumbered 63 O.S. §1-229.24: 35% remittance to municipalities.

Response No. 5: A violation of the Prevention of Youth Access to Tobacco Act requires evidence of two elements, a tobacco product was furnished to, or in the possession of a person, and that the person is in fact a minor prohibited from possessing or being provided a tobacco product. The State, by statute, is not required to make a formal finding of the location the violation took place. The State will begin making formal findings as to the location of such violation for purposes of compliance with 63 O.S. §1-229.24. Additionally, verbal guidance from the State Auditor's Office to the Commission provided that the agency shall post a message and link to all pertinent information regarding the 35% remittance to municipalities on the agency website. Any municipality participating in the Prevention of Youth Access to Tobacco Act can then contact the ABLE Commission to be added to a list, which shall be utilized moving forward after April 25, 2019. Such municipalities must provide a copy of their applicable ordinance to the Commission in order to receive such remittance.

Conclusion

Based on the forgoing responses, the Commission is confident it has addressed or has plans to address the *Findings* stated above, and through following the recommended changes will have greater controls in place to mitigate the risk factors found during the audit period. The Commission is thankful that despite the risk factors identified because of job duties being condensed rather than segregated according to GAO standards, no malfeasance or other inappropriate conduct was detected during the audit period.

Respectfully,

A. Keith Burt

A. Keith Burt
Director

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