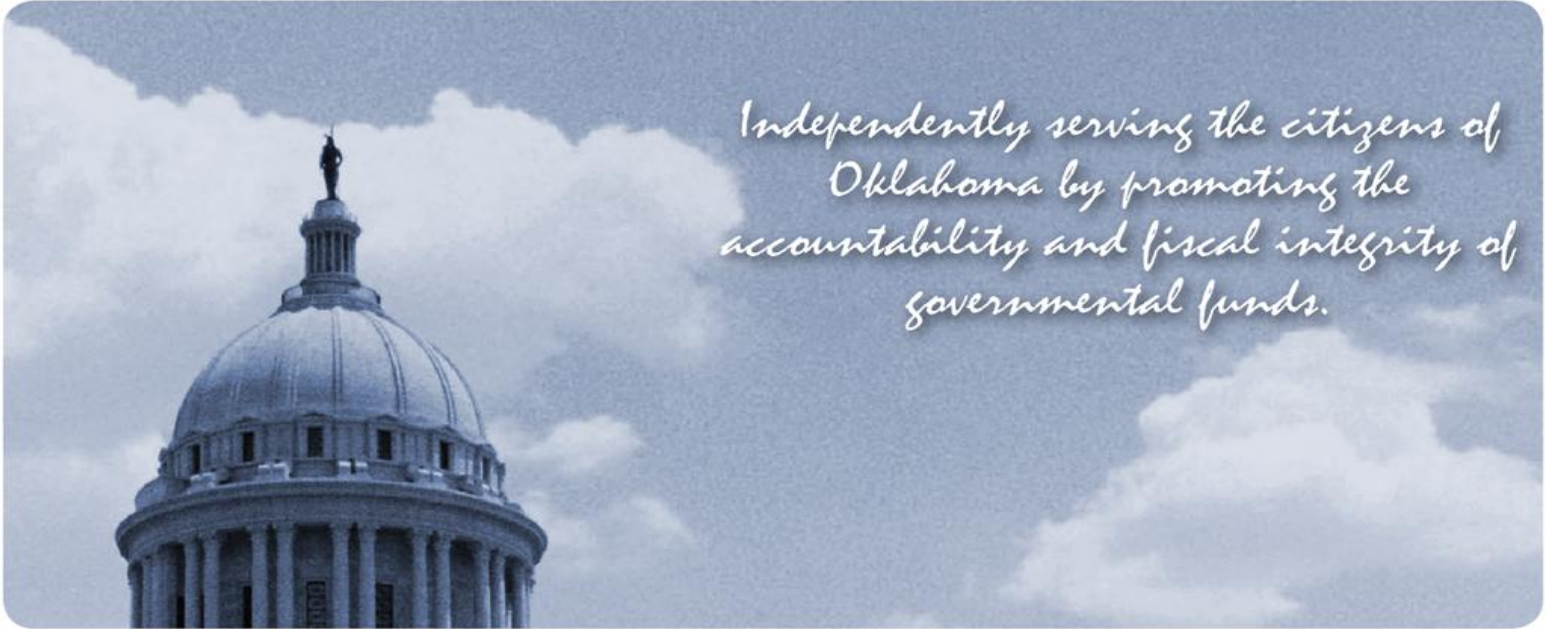


OPERATIONAL AUDIT

OKLAHOMA ALCOHOLIC BEVERAGE LAWS ENFORCEMENT COMMISSION

For the period July 1, 2011 through June 30, 2013



*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 Alcoholic Beverage Laws Enforcement Commission**

**For the Period
July 1, 2011 through June 30, 2013**



Oklahoma State Auditor & Inspector

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August 26, 2014

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, 2011 through June 30, 2013. 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". The signature is fluid and cursive, with a long horizontal stroke at the end.

GARY A. JONES, CPA, CFE
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.

Board members as of August 2014 are:

- Devin S. Graves Chairman
- Bryan Close Vice-Chairman
- Randy Earhart Commissioner
- Harry Kouri III Commissioner
- James Maisano Commissioner
- Maxine McFalls Commissioner
- Paul Taylor Commissioner

The following charts illustrate the Agency’s primary funding sources, and where those funds are expended.¹

Chart 1 - Revenues by Category for FY 2012 and FY 2013

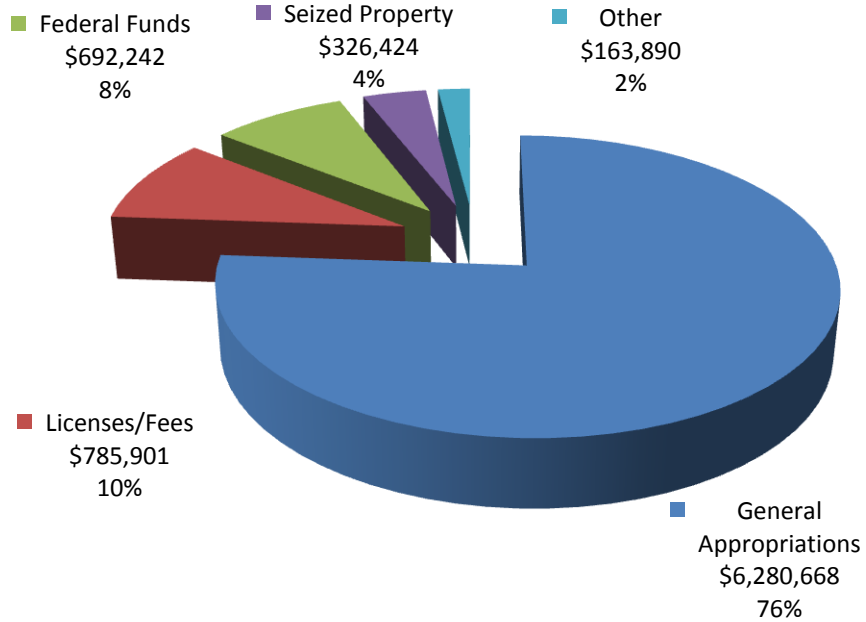
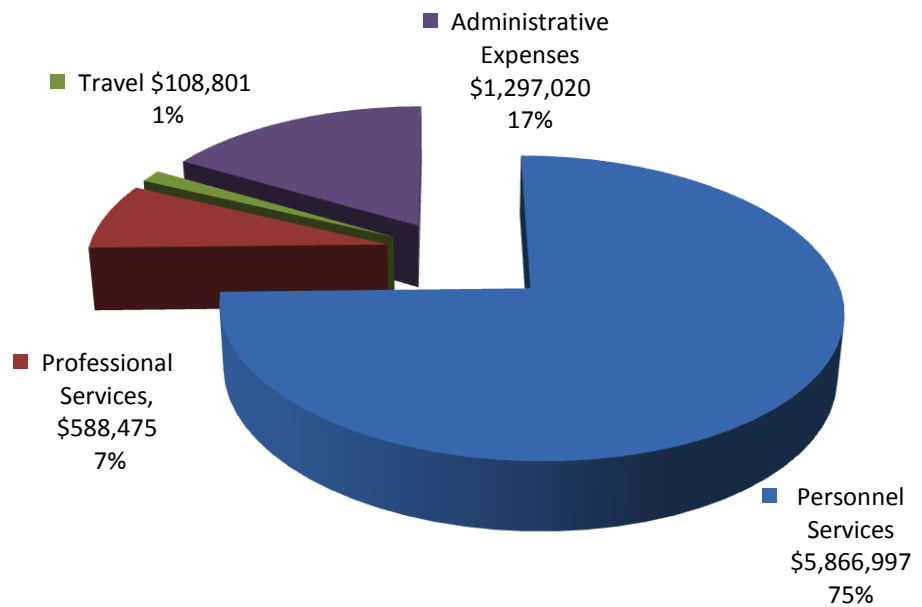


Chart 2 - Expenditures by Category FY 2012 and FY 2013



¹ This information was obtained from Oklahoma PeopleSoft accounting system. It is for informational purposes only and has not been audited.

**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, 2011 through June 30, 2013. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Alcoholic Beverage Laws Enforcement Commission operations. We also tested a sample of transactions to achieve our objectives. To ensure the samples were representative of the population and provided sufficient, appropriate evidence, both random sample and judgmental sample methodologies were 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.

OBJECTIVE

Determine whether the Agency's internal controls provide reasonable assurance that revenue, expenditures (including payroll), and inventory were accurately reported in the accounting records, and whether financial operations complied with significant laws and regulations.

Conclusion

The Agency's internal controls provided reasonable assurance that revenue and expenditures, including payroll, were accurately reported in the accounting records. The Agency's internal controls did not provide reasonable assurance that inventory was accurately reported in the accounting records.

Financial operations complied with the following statutes:

- 3A O.S. §§ 404, 407 & 425 – transfer of all license fees and administrative fines for violations collected in congruence with the Oklahoma Charity Games Act into the State General Revenue Fund.
- 37 O.S. § 567 – transfer of all surcharges paid concurrent with the licensee's annual licensing fee into the ABLE Revolving Fund; and
- 37 O.S. §600 – remittance of 35% of agency fines collected for violations of the Prevention of Youth Access to Tobacco Act that occur in a municipality that has adopted ordinances prohibiting and penalizing such conduct.

We were unable to conclude whether financial operations complied with the following statute due to a lack of sufficient supporting documentation:

- 37 O.S. § 539 – proper division of proceeds from the sale of seized property between ABLE and the State General Revenue Fund.

FINDINGS AND RECOMMENDATIONS

**Inadequate
Segregation of
Duties Related to
Inventory and
Lack of Regular
Inventory Counts**

The United States Government Accountability Office's *Standards for Internal Control in the Federal Government*² states 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 any related assets. No one individual should control all key aspects of a transaction or event." In addition, the *Standards* state that in order to safeguard vulnerable assets, "Such assets should be periodically counted and compared to control records."

General office inventory is maintained by the Director of Management and Budget who is also responsible for approving purchases, tagging inventory items, and, in conjunction with the Office of Management and Enterprise Services, authorizing the disposal of surplus inventory.

- This creates the risk that the employee in this position could remove inventory without detection.

Weapons inventory is maintained by a Special Agent in Charge (SAC), who is also responsible for the control of unissued weapons and the disposal of weapons. While it is the Agency's policy that an independent staff member performs regular physical inventory procedures on unissued weapons, the Agency was unable to provide documentation of this count being performed during the audit period.

- This creates the risk that the employee in the SAC's position could remove an unissued weapon and manipulate the inventory listing to avoid detection.

Seized property inventories are kept on paper (non-electronic). In addition, seized property inventory marked for disposal is maintained by the SAC who is also responsible for the physical disposal of seized property. Periodic inventory counts are not performed on seized property.

- Paper inventories may be tampered with, increasing the risk of removal of assets without detection.

² 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.

- Having one employee in charge of maintaining the inventory to be auctioned as well as physically disposing of auctioned property creates the risk that inventory designated for auction could be removed without detection.
- Without periodic inventory counts, damaged or misappropriated assets may go undetected for long periods of time.

In each case, the lack of segregation of duties provides the opportunity for inventory to be misstated or misappropriated without detection.

Recommendation

- **General office inventory:** the individual maintaining the inventory listing should not be involved in the purchase, tagging, or disposal process.
- **Weapons inventory:** the individual maintaining the inventory listing should not have access to the weapons safe or be involved in the disposal of weapons. In addition, someone independent of maintaining the inventory records should perform a regular count of unassigned weapons.
- **Seized property:** the inventory list of items to be auctioned should 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.

Views of Responsible Officials

Management agrees that inventory controls must be properly maintained as follows:

The general office inventory will be created new and maintained by an individual independent from the business office. This individual will conduct a monthly review of all paid vouchers to determine if purchases are to be added to the inventory. A copy of any inventory disposition record (provided by surplus property) will be provided so that disposed items can be removed from the inventory.

On the first work day of January the designated individual will provide the inventory list to the business office. The business office will conduct a physical inventory and by the last work day of March report the results to the Director.

The weapons inventory and physical control of unissued weapons is to be maintained by the SAC. A copy of the inventory is to be maintained by the Assistant Director. A physical count is to be made the first working day of January (and reported to the Director by the last day of February), by the Assistant Director or his designated employee.

The seized liquor and an inventory of the seized liquor is to be maintained by each district SAC. A copy of the inventory is to be maintained by the Assistant Director. A physical count is to be made the first working day of January (and reported to the Director by the last day of February), by the Assistant Director or his designated employee.

Seized liquor, to be destroyed, will be inventoried and the destruction will be witnessed by a second individual. The destroyed liquor inventory list will be signed by the two people involved and provided to the district SAC and the Assistant Director.

Seized liquor transferred from the district offices to Oklahoma City will include an inventory list. The person receiving the inventory will sign as received. The signed list will be returned to the district office, a copy provided to: the person who received the liquor, the SAC in Oklahoma City responsible for the inventory, and the Assistant Director.

The SAC in Oklahoma City, in possession of the seized liquor, will provide an inventory of the liquor to be sold to the business office. The business office will provide this inventory to the Assistant Director. The Assistant Director will compare this inventory of seized liquor to be sold with the inventory in his possession. After the Assistant Director approves the inventory list, the business office will complete the sale.

**Inadequate
Supporting
Documentation**

An effective internal control system provides for accurate and reliable records and adequate review of supporting documentation. State statute 37 O.S. § 539 authorizes the Agency to retain revenue from the sale of seized property up to Agency costs directly tied to the investigation associated with the seized property. The Agency could not provide complete detailed supporting documentation regarding the division of revenue stemming from seized property. Because the accuracy of the division of seized property revenues could not be determined, we were unable to conclude as to whether the agency complied with 37 O.S. § 539.

We reviewed documentation related to forty audit period bank deposits. The Agency could not provide bank deposit receipts (mailed to the

Agency by the bank) for two of the forty deposits tested. Subsequent Treasurer's Activity Statements confirmed the deposit amounts were correct; however, using the Treasurer's Activity Statement for deposit verification could result in a lengthy delay between the deposit and the identification of any potential problems with deposits. This provides the opportunity for bank deposit errors to occur and not be detected in a timely manner.

It appears that after the retirement of the Director of Management and Budget, who maintained many of the Agency's accounting records, documentation could not be located because records were not retained or because they were not organized in a reasonable manner.

Recommendation

- **37 O.S. § 539 requirements:** the Agency should record the calculations used to determine the division of all funds stemming from seized property between the Agency and the State, and maintain these records.
- **Deposit receipts:** the Agency should implement procedures to confirm that bank deposit receipts are reviewed on a timely basis.
- **Overall record keeping:** the Agency should implement a structured file plan (or filing system) in order to assure that records are readily available and easily located.

Views of Responsible Officials

Management agrees that supporting documents must be properly maintained as follows:

The transfer of funds, to the general and revolving fund, from the sale of seized property must include a summary of the supporting documents. The supporting documents must be maintained by the Director of Management and Budget.

Each day's close out report (maintained by the cashier) must be held aside as incomplete until the bank deposit receipt is received from the bank and attached. Only after the deposit receipt is attached can the close out report be considered as complete and filed.

A structured filing plan must be implemented so that records are easily located. This will include labeling each file drawer so that contents can be determined without searching the drawer.



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