

OPERATIONAL AUDIT

OKLAHOMA ALCOHOLIC BEVERAGE LAWS ENFORCEMENT COMMISSION

For the period July 1, 2009 through June 30, 2011



*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, 2009 through June 30, 2011**



Oklahoma State Auditor & Inspector

2300 N. Lincoln Blvd. • State Capitol, Room 100 • Oklahoma City, OK 73105 • Phone: 405.521.3495 • Fax: 405.521.3426

June 28, 2012

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, 2009 through June 30, 2011. 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.

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones". The signature is fluid and cursive.

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

ABLE Commission Operational Audit

Background

The mission of the Oklahoma Alcoholic Beverage Laws Enforcement Commission (ABLE or the 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 a seven member commission appointed by the governor. No commissioner is permitted to hold an alcoholic beverage license or have any interest in the manufacture, sale, distribution or transportation of alcoholic beverages, and two commissioners are required to have law enforcement experience in this state. Each commissioner serves a term of five years.

Commission members are:

| | |
|-----------------------------|---------------|
| Jim Lowder | Chairman |
| Paul "P.D." Taylor | Vice Chairman |
| Desmond Sides. | Commissioner |
| Maxine McFalls | Commissioner |
| Randy Earhart. | Commissioner |
| Bryan Close. | Commissioner |
| Harry "Trey" Kouri III..... | Commissioner |

Table 1 summarizes the Agency's sources and uses of funds for state fiscal years 2011 and 2010 (July 1, 2009 through June 30, 2011)¹.

Table 1 - Sources of Funds for SFY 2011 and SFY 2010

| | 2011 | 2010 |
|---|--------------|--------------|
| Sources: | | |
| State Appropriations | \$ 3,376,647 | \$ 3,635,613 |
| Licenses, Permits and Fees | 391,100 | 4,250 |
| Alcoholic Beverage License | 17,291 | 16,701 |
| Alcohol Brand Fees | 2,075 | 4,075 |
| Federal Funds from Other State Agencies | 257,363 | 130,151 |
| Private Grants and Donations for Operations | 1,478 | 4,800 |
| Refunded Money | 49,339 | 274 |
| Other Grants, Refunds and Reimbursements | 16,570 | - |
| Seized Property | 121,749 | 80,519 |
| Credit Card Fees | 44,529 | 41,141 |
| Other | 11,487 | 6,524 |
| Total Sources | \$ 4,289,628 | \$ 3,924,048 |

¹ The increase in licenses, permits, and fees from fiscal year 2010 to 2011 is a result of a surcharge added by HB 3383.

ABLE Commission Operational Audit

Table 1 - Uses of Funds for SFY 2011 and SFY 2010

| | 2011 | 2010 |
|------------------------------------|--------------|--------------|
| Uses: | | |
| Personnel Services | \$ 3,179,743 | \$ 3,288,593 |
| Professional Services | 164,131 | 152,106 |
| Travel | 35,036 | 28,388 |
| Miscellaneous Administrative | 249,709 | 200,319 |
| Rent | 131,582 | 159,427 |
| Maintenance and Repair | 18,812 | 8,380 |
| Specialized Supplies and Materials | 74,565 | 68,489 |
| General Operating | 23,302 | 12,846 |
| Office Furniture and Equipment | 123,155 | 2,836 |
| Library Equipment and Resources | 11,904 | 9,621 |
| Refunds | 30,961 | 30,201 |
| Other | 7,953 | 3,748 |
| Total Uses | \$ 4,050,853 | \$ 3,964,954 |

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

The audit period covered was July 1, 2009 through June 30, 2011.

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 selected our samples in such a way that whenever possible, the samples are representative of the populations and provide sufficient evidential matter. 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 – Determine whether the Agency’s internal controls provide reasonable assurance that revenues, expenditures (including payroll), and inventory were accurately reported in the accounting records, and financial operations complied with 3A O.S. §§ 404 (F), 407 (D) and 425 (D), and 37 O.S. § 567 (A) as well as 37 O.S. § 600.11b.

Conclusion

The Agency’s internal controls:

- Provide reasonable assurance that revenues and miscellaneous expenditures were accurately reported in the accounting records.
- Generally provide reasonable assurance that payroll expenditures² were accurately reported in the accounting records; however, one area could be strengthened.
- Do not provide reasonable assurance that inventory was accurately reported in the accounting records.

Financial operations complied with the following statutes:

- 3A O.S. §§ 404 (F), 407 (D) and 425 (D), and 37 O.S. § 567 (A) – transfer of monies, including license fees and administrative fines, to the state’s general revenue fund.
- 37 O.S. § 600.11b – 35% payment of administrative fines to qualifying municipalities.

Methodology

To accomplish our objective, we performed the following:

- Obtained an understanding of internal controls related to the receipting, expenditure (including payroll) and inventory processes through discussions with Agency personnel, observation, and review of documents.
- Tested controls using the following procedures:
 - Reviewing a random sample of 60 deposits from the period (totaling \$1,381,500) to ensure:
 - Funds were deposited and posted to the PeopleSoft accounting system in a timely manner.
 - Processed bank receipt data agreed to internal accounting documentation.
 - Application and receipt data agreed to internal accounting documentation.
 - Ensuring 12 randomly selected clearing account reconciliations were accurate and reviewed by an employee independent of the receipting process.

² Management made changes to the payroll approval process after the last audit report issued by the State Auditor’s Office. As a result, this conclusion applies to the period April 2010 through June 2011.

ABLE Commission Operational Audit

- Reviewing a random sample of 60 expenditure claims from the period (totaling \$67,338) to ensure the invoice supported the payment and was properly approved, was mathematically accurate, and was reasonable given the Agency's mission.
 - Ensuring warrants are received by an employee independent of the posting process.
 - Reviewing payroll documentation from 12 months (nine were randomly selected and three were judgmentally selected) during the period April 2010 through June 2011 to determine whether the payroll documents were properly approved.
 - Reviewing a judgmental selection of five law enforcement agents' time records for one day in 12 randomly selected months to ensure the records were complete and approved.
 - Reviewing all 12 payroll changes that took place during the period to ensure the changes were properly approved and reflected in approved payroll documentation.
 - Determining written policies and procedures related to inventory had been established.
 - Determining the person responsible for inventory recordkeeping (office, seized property, and firearm inventories) is independent of initiating the transaction (purchasing, transferring, or deleting).
 - Determining periodic inventory counts (office and firearm) were performed.
 - Inspecting 25 randomly selected high appeal³ office items (20 from Oklahoma City, three from Tulsa, and two from McAlester) from the inventory report to ensure the items were present and their descriptions, asset tag numbers and serial numbers agreed to the inventory report. The same procedures were performed on 11 judgmentally selected items from the floor (Oklahoma City).
 - Inspecting 20 firearms randomly selected from the inventory report to ensure the serial numbers agreed. The same procedures were performed on 15 firearms haphazardly selected from the floor.
- Tested controls as well as compliance by:
 - Recalculating the amounts transferred to the state's general revenue fund to ensure compliance with 3A O.S. §§ 404 (F), 407 (D) and 425 (D), and 37 O.S. § 567 (A).

³ High appeal was defined as easily convertible to personal use or susceptible to the theft.

- Reviewing all expenditure claims to municipalities (totaling \$2,983.75) to ensure compliance with 37 O.S. § 600.11b.

Observation

Inadequate Approval of Law Enforcement Time Records

An effective internal control system provides for adequate management review of employee time records.

ABLE law enforcement agents complete daily activity reports online, and the information is automatically uploaded to a summary level report. Each district special agent in-charge (SAC) is responsible for reviewing and locking the daily activity reports to ensure that no unauthorized changes can be made and signing the summary level report monthly. Procedures performed indicate:

- 27 of 60 daily reports tested were not reviewed or locked by the SACs.
- 21 of 60 daily reports tested did not provide the requested information, including a description of activities performed or the county and city in which the activities were performed.
- Management could not provide 15 requested summary level reports.
- Three of the 45 summary level reports tested were not signed by the SAC. Two additional reports were signed by the SAC in months subsequent to the payroll being processed.

According to the director of enforcement, continuous improvements are made to the agent timekeeping system, and inconsistencies may occur due to the changes in this process. The three law enforcement districts set their own timekeeping requirements, and future effort may be made to establish uniformity among the districts. Misuse of time and resources may occur without the timely detection of management.

Recommendation

Written policy and procedures should be designed and implemented requiring uniform timekeeping requirements among the districts, and district SACs should review and lock each daily report. Their review should ensure that adequate details have been provided to describe the agents' activities and these activities agree with their assignments. If management determines it to be infeasible for the SACs to perform a detailed review of each daily report, the SACs should, at a minimum, lock each report to prevent subsequent changes from being made, and periodically review certain reports for the required information.

Views of Responsible Officials

Effective immediately: All SACs responsible for reviewing agents and ASACs time will lock out each agent's daily reports every month. The SACs will also make a periodic review of selected reports to ensure that the agents activity agree with their assignments.

Observation

Inaccurate Inventory Records

An effective internal control system provides for accurate inventory records.

The following was noted as a result of procedures performed on 36 selected office inventory items:

- Nine items, including one external modem, seven laptop computers, and one mobile printer, could not be located.
- One copier did not have an ABLE asset tag, nor was it included on the Agency's inventory listing.

According to the director of management and budget, the Agency recently re-located its office and the nine missing items may be in storage. The remaining issue was a result of a clerical error.

An opportunity exists for office inventory to be misappropriated and misstated without timely detection by management.

Recommendation

Management should locate the missing items and exercise diligence in ensuring all Agency office inventory is properly recorded in the inventory records.

**Views of Responsible
Officials**

The nine items listed in the Inadequate Record of Office Inventory as missing will most probably have one of two possible explanations. The agency move at the end of September 2011 took place immediately after the end of the physical inventory for FY2011. (1) In this move, I believe the items not found during the testing done by the audit staff were in fact in boxes or cabinets not marked correctly and will ultimately be found when the FY2012 physical inventory is completed. Our move was conducted in a 30 day period with movers performing most of the packing and all of the actual move and due to the rapid nature of the move, some dislocation was inevitable. (2) If we do not find the equipment (which was in storage at the Oklahoma City Offices when we moved) it will be reported as missing and lost (during the actual move) at the end of the FY2012 inventory since all items were physically located by the inventory for FY2011 just completed prior to the move.

The copier in question had lost its asset tag but was still counted by the personnel conducting the most recent physical inventory and just not reported as missing its tag. This is being remedied by issuing a new number to this item and cancelling the old number. The State Auditor and Inspector will be notified of our final results/conclusions as to this situation once the FY2012 Physical Audit is completed.

Observation

Inadequate Records of Seized Property Inventory

It is the responsibility of management to maintain an effective internal control system to ensure that seized property inventory is properly recorded.

Agents prepare inventory reports of all property they seize, and district evidence officers confirm this information before transferring the property to the Oklahoma City office. Once received, the assistant special agent in charge (ASAC) records the information into her inventory report but does not compare the items to the original agent's inventory report or record any of the details associated with the seizure (e.g. case number, destruction order date).

The ASAC felt her primary responsibility in the inventory process was to prepare seized property for auction, and that district evidence officers are responsible for ensuring that the appropriate seized property was transferred to the Oklahoma City office.

An opportunity exists for seized property to be misstated and misappropriated.

Recommendation

The ASAC should compare her inventory records of seized property to those prepared by district evidence officers, and an explanation should be obtained for any items that are missing or misstated. In addition, the ASAC should consistently record applicable information from the original agent's report (e.g. case number, destruction order dates) for each item on her inventory listing to ensure that all seized property is included for auction.

**Views of Responsible
Officials**

Agents will be required to present the owners with a detailed inventory within 10 days of the seizure. Because we are sensitive to the industry's ability to conduct business without ABLE agents spending (sometimes) hours in the establishments, the inventory of seized property is, in some cases, completed at the district offices. Most licensees do not want agents spending more time in the establishment than absolutely necessary. Additionally, district SACs, when delivering all unopened property to headquarters for evidence storage/disposition, will provide a copy of the original seizure inventory and detailed inventory and destruct order of all opened bottles already destroyed. The inventory supplied will be verified by the receiving personnel and discrepancies (if any) will be investigated and resolution documented prior to sale. All documentation will be maintained for the period required by the Records Control Act.

Other Items Noted

Although not considered significant to the audit objective, we feel the following issue should be communicated to management.

Observation

Online Applications Not Reviewed Before Issuing Licenses

An effective internal control system provides for an appropriate level of review.

The licensing manager stated license applications submitted online are not reviewed before issuing licenses. Rather, licenses are issued based on payment information processed by cashiers.

The licensing department was unaware of management's expectation that all applications, whether online or in paper form, be reviewed before a license is issued. It appears that an opportunity exists for licenses to be issued to unqualified applicants.

Recommendation

Licensing staff should continue ensuring the applicable licensing fees were receipted but also review the details of each application before processing a license.

**Views of Responsible
Officials**

This problem is the result of a misunderstanding between the Director of Management & Budget and the Licensing Department as a whole. The process has now been corrected and a review of licenses issued to employees, etc. during this period will be conducted and any discrepancies found will be appropriately dealt with. The policy of not printing the electronic applications is discontinued effective the earliest possible date (but not later than July 1, 2012) and all license applications will now be printed and folders prepared and maintained as with paper applications received via the mail or through walk-in clients. All applications will be reviewed and cross-checked by the Licensing Department against Cashier issued receipts and records to maintain full integrity to the licensing process. An internal review will be conducted on a monthly basis to ensure that applications are being printed off and compared to the Cashier's Receipts before a license is issued.



OFFICE OF THE STATE AUDITOR AND INSPECTOR

2300 N. LINCOLN BOULEVARD, ROOM 100

OKLAHOMA CITY, OK 73105-4896

WWW.SAI.OK.GOV