OPERATIONAL AUDIT

Council on Law Enforcement Education and Training

For the period March 1, 2012 through June 30, 2016

Oklahoma State
Auditor & Inspector
Gary A. Jones, CPA, CFE

Audit Report of the Council on Law Enforcement Education and Training

For the Period March 1, 2012 through June 30, 2016

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Oklahoma State Auditor & Inspector

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November 15, 2016

TO THE COUNCIL ON LAW ENFORCEMENT EDUCATION AND TRAINING

This is the audit report of the Council on Law Enforcement Education and Training for the period March 1, 2012 through June 30, 2016. 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,

Gary A Jones

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

Background

The Council on Law Enforcement Education and Training (Agency) is a state agency established in 1963. The Agency supports Oklahoma law enforcement in serving its communities, including enhancing public safety by providing education and training which promotes professionalism and enhances competency within the ranks of Oklahoma law enforcement.

Oversight is provided by a thirteen member Council serving three-year terms.

Council members as of November 2016 are:

Sheriff John Whetsel .... Chairman
Chief Michael Robinson .... Vice-Chair
Dr. James W. Burke, Jr. .... Member
Sheriff John Christian .... Member
Chief Bill Citty .... Member
Director Stan Florence .... Member
Major Pat Mays .... Member
Chief Bob Ricks .... Member
Director John Scully .... Member
Chief Ike Shirley .... Member
Chief Jason Smith .... Member
Chief Randy Wesley .... Member
Sheriff Bobby Whittington .... Member

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

Chart 1 – Revenues by Category for FY 2015 & 2016

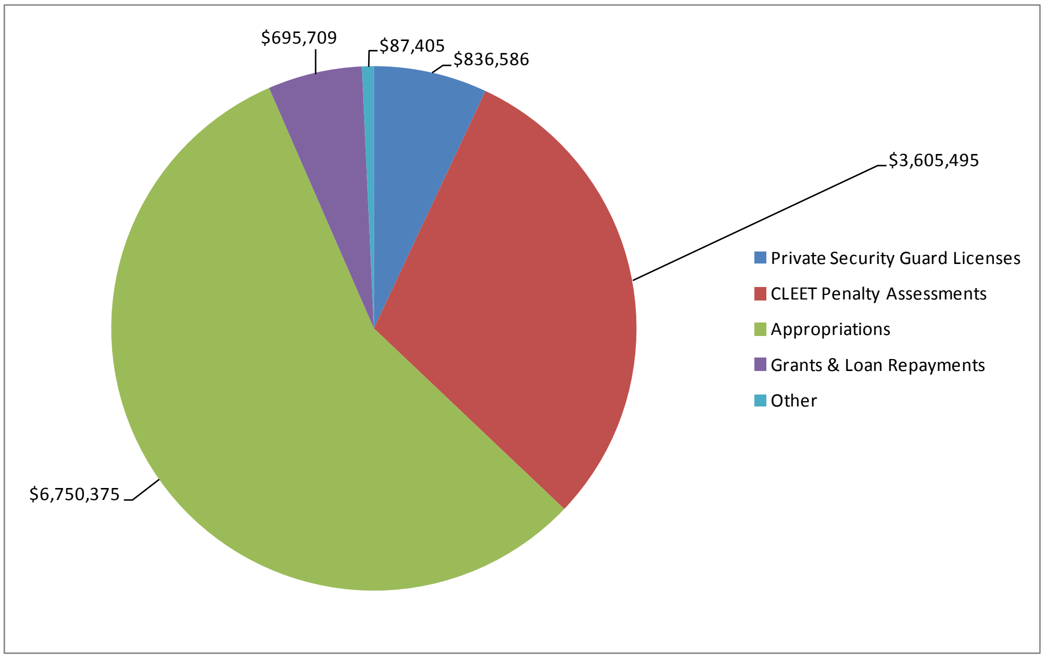
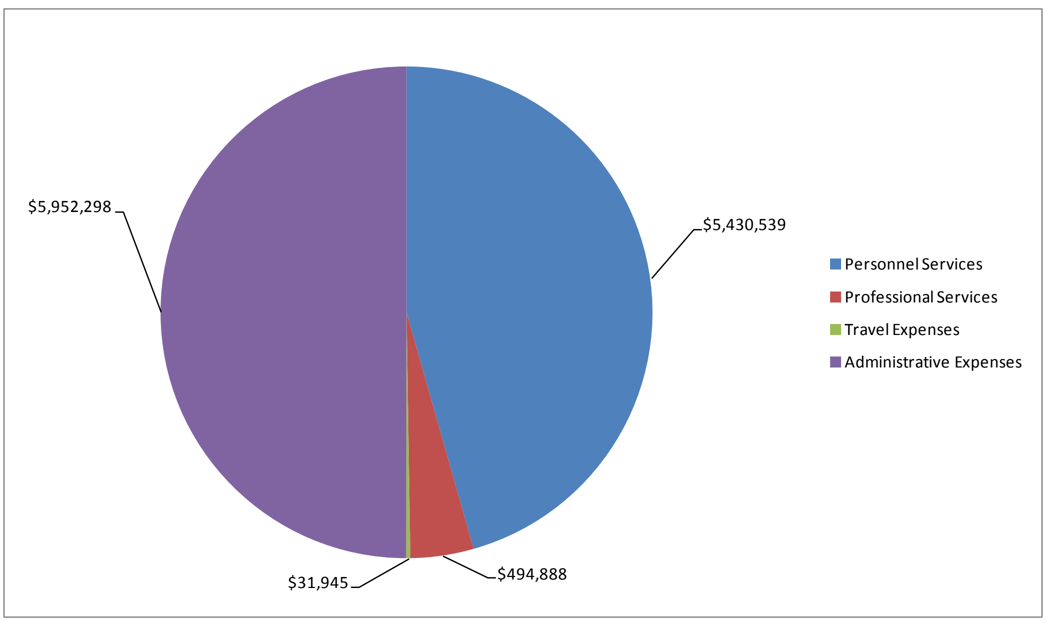


Chart 2 – Expenditures by Category for FY 2015 & 2016



[1] This information was obtained from the 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 March 1, 2012 through June 30, 2016. Detailed audit procedures focused on the period of July 1, 2014 through June 30, 2016, addressing the most current financial processes and providing the most relevant and timely recommendations for management.

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Agency operations. We utilized sampling of transactions to achieve our objectives. To ensure the samples were representative of the population and provided sufficient, appropriate evidence both the random sample as well as the haphazard sample methodology 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 (both miscellaneous and payroll), and inventory were accurately reported in the accounting records.

Conclusion

The Agency's internal controls provide reasonable assurance that expenditures (both miscellaneous and payroll) were accurately reported in the accounting records. However, the Agency's internal controls do not provide reasonable assurance that revenues or inventory were accurately reported in the accounting records.

FINDINGS AND RECOMMENDATIONS

Inadequate Segregation of Duties over Revenues

The United States Government Accountability Office's Standards for Internal Control in the Federal Government (2014 Revision)[2] states, "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."

Revenue duties are not properly segregated. One data entry clerk is responsible for opening and sorting mail and making a log of payments received. Because it is difficult for the Agency to accurately forecast how much revenue should be received each month and because not all revenue-generating activity is independently reconciled against deposits, the opportunity for the data entry clerk to misappropriate payments received by mail exists.

It appears management was not aware of the risks created by this arrangement of duties or the lack of appropriate reconciliation controls.

This arrangement of duties coupled with the absence of a detailed reconciliation process creates the risk that revenue could be misappropriated without detection. Payments received by check, money order, or cashier's check, that are at risk due to this deficiency represent approximately 86.8% of Agency revenues or $5.2 million, based on the Agency's FY 2016 deposits.

This deficiency also increases the risk that transfers to various agency funds and the state's general revenue fund required by 20 O.S. § 1313.2, 21 O.S. § 1290.14, 59 O.S. § 1350.10, and 59 O.S. § 1750.6, could be incomplete. This would place the agency out of compliance with state statute.

Recommendation

We recommend that management implement a process where two individuals, at least one of whom is independent of the receipting and deposit process, sort and open the mail together, create the mail log together, and both sign and date the mail log.

[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.

Views of Responsible Officials

Management recognizes that the security camera mounted at the reception desk is not an adequate control to safeguard payments received in the mail. Consequently, there is a need to prevent a single person from being solely accountable for the receipt of payments sent to CLEET through the mail. Management maintains that the reconciliation of funds accounted for through the existing process and subsequent controls are adequate to safeguard all items noted on the existing mail log.

In order to provide adequate segregation of duties and safeguard of payments received through the mail, policy was adopted and enacted by CLEET on October 25, 2016, which states in part:

> It shall be the policy of CLEET to ensure the morning mail is opened and witnessed by two members of the CLEET staff. The two divisions primarily responsible for the mail are Law Enforcement Records and Private Security. As such, a member from each department will remain in attendance until all the mail has been opened, and all monies received have been logged into the "Incoming Mail Log."Both witnessing employees shall place their initials into the appropriate box on the Incoming Mail Log. Their initials shall bear witness to the fact that both parties are confirming the record of any check, cash, or Money Order received by CLEET into the daily incoming mail log.

Inadequate Segregation of Duties over Inventory

The United States Government Accountability Office's Standards for Internal Control in the Federal Government (2104 Revision)[3] states that in order to safeguard assets, "Such assets should be periodically counted and compared to control records." It further states that "Management must 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 Agency has not segregated key duties related to inventory. The following conflicting conditions were identified:

- The Materials Management Specialist is responsible for maintaining the inventory listing, adding and deleting inventory items, and performing annual inventory counts.

[3] 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.

- Annual inventory counts were not conducted during the audit period. In addition, inventory policies are out of date and not being followed.
- Four out of forty items selected from the Agency's inventory listing could not be located. According to management, the following items were disposed of without proper documentation:
    - Two laptops and one projector were sent to surplus;
    - One 55 inch LCD television was damaged beyond repair and discarded.

Although annual inventory counts were being reported as having been completed, the counts were not actually performed and as a result, inventory records were inaccurate and incomplete.

The lack of adequate internal controls provides the opportunity for the inventory to be misstated or misappropriated without detection.

Recommendation

We recommend that management accomplish the following: segregate duties related to inventory; design and implement an inventory database with access and permission controls; in order to establish an accurate baseline of inventory, have someone independent from purchasing assets, maintaining inventory items and inventory records, and disposing of surplus assets conduct a comprehensive inventory count; and update policies and procedures and ensure compliance with such.

Views of Responsible Officials

Management recognizes the weaknesses of the controls available in the current inventory tracking software program utilized by the agency. Management further recognizes the need to segregate the duties related to (a) purchasing goods, (b) receiving goods, (c) recording qualifying items into the inventory database, and (d) physically verifying (counting) these items. Management is in the process of evaluating software options with better controls based on current funding levels. A complete physical inventory count was completed as of November 3, 2016, and records will be verified and updated as the software needs are addressed.

In order to adequately segregate duties related to inventory, the above four responsibilities will be assigned to different employees. Additionally, the physical count of inventory will be completed and verified annually. It is the intent of management to rewrite CLEET's existing Inventory Policy (located in CLEET's Fiscal Manual) to include these changes and implement this policy no later than January 1, 2017.

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