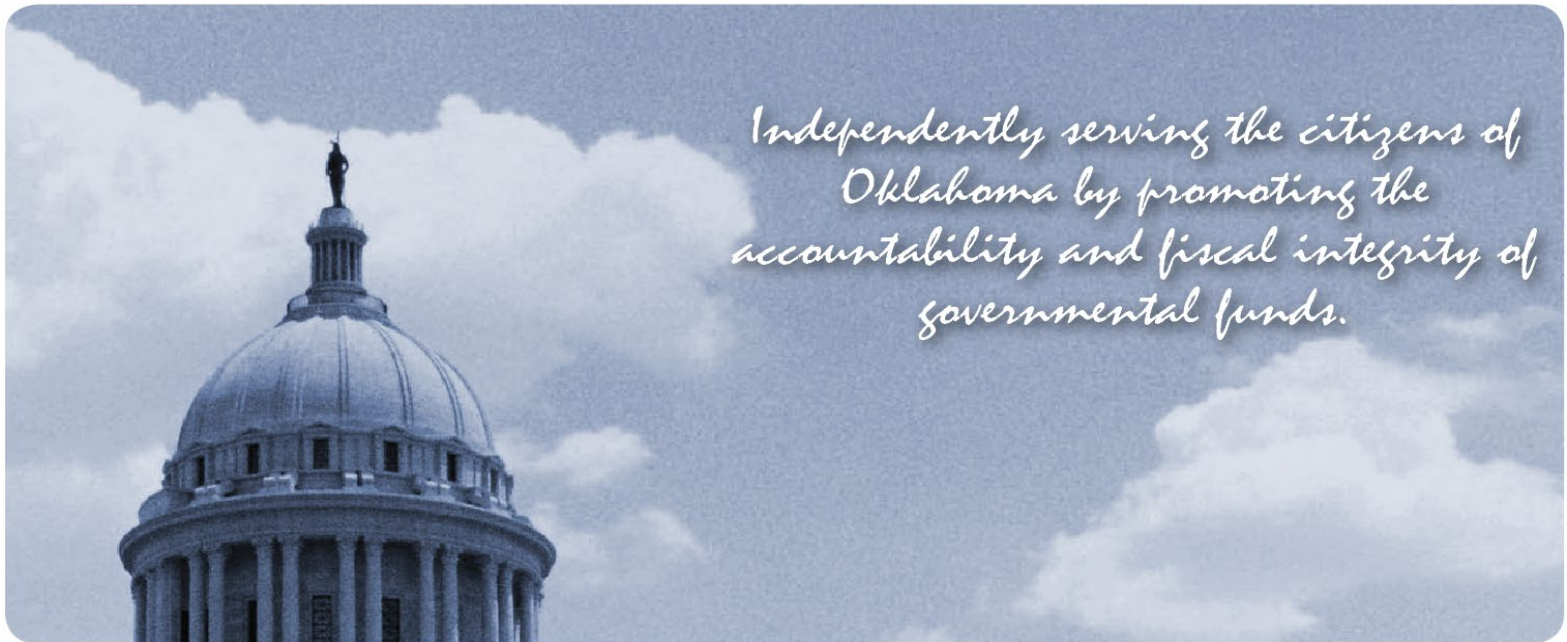


OPERATIONAL AUDIT

OKLAHOMA DEPARTMENT OF PUBLIC SAFETY

For the period July 1, 2015 through November 30, 2017



*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 Department of Public Safety**

**For the Period
July 1, 2015 through November 30, 2017**



Oklahoma State Auditor & Inspector

2300 N. Lincoln Blvd. • State Capitol, Room 123 • Oklahoma City, OK 73105 • Phone: 405.521.3495 • Fax: 405.521.3426

December 26, 2018

TO GOVERNOR MARY FALLIN AND THE OKLAHOMA DEPARTMENT OF PUBLIC SAFETY

We present the audit report of the Oklahoma Department of Public Safety for the period July 1, 2015 through November 30, 2017. 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'.

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

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Background

Established by statute in 1937, the Oklahoma Department of Public Safety (Agency) is a multi-service safety and law enforcement organization. The agency's mission is to provide a safe and secure environment for the public through courteous, quality, and professional services.

Oversight is provided by the Commissioner of Public Safety who is appointed by the Governor with the approval of the Oklahoma State Senate. During our audit period, Major General Michael Thompson was the Commissioner of Public Safety. In November 2017, Major Billy "Rusty" Rhoades was appointed Commissioner.

The following table summarizes the Agency's sources and uses of funds for fiscal years 2016 and 2017 (July 1, 2015 through June 30, 2017):

	2016	2017
Sources:		
Net Appropriations	88,642,721	83,541,038
Taxes	17,151,684	17,069,310
Licenses, Permits, Fees	1,685,744	3,957,238
Fines, Forfeits, Penalties	7,516,348	8,035,640
Income from Money and Property	94,848	80,008
Grants, Refunds, Reimbursements	44,559,422	48,913,942
Sales and Services	5,086,308	6,074,325
Non-Revenue Receipts	671,634	615,033
Total Sources	165,408,709	168,286,534
Uses:		
Personnel Services	128,063,697	125,716,448
Professional Services	7,479,413	6,001,303
Travel	509,946	453,910
Administrative Expenses	19,281,073	17,696,682
Property, Furniture, Equipment	13,393,643	9,006,118
Scholarships Refunds, Reimbursement, Litigation	2,294,103	1,149,241
Assistance, Payments to Local Govn'ts	2,923,616	3,009,296
Transfers and Other Disbursements	4,966	4,266
Total Uses	173,950,457	163,037,264

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Scope and Methodology

Our audit was conducted in response to Governor Fallin's request in accordance with 74 O.S. § 212.C and 213.2.B.

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, 2015 through November 30, 2017.

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of operations for the Oklahoma Department of Public Safety. 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 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 I

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

Conclusion

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

Financial operations complied with the following statutes:

- 74 O.S. §3601.2.A and 47 O.S. §2-105.4.A – establishment of the salary for the chief executive/Commissioner

**Objective
Methodology**

To accomplish our objective, we performed the following:

- Identified significant internal controls related to revenue; see results in related finding.
- Identified significant internal controls related to payroll expenditures; see results in related finding.
- Identified significant internal controls related to inventory; see results in related finding.

FINDINGS AND RECOMMENDATIONS

The agency does not have proper segregation of duties over revenue processes and does not systematically review and evaluate data maintained on the mainframe.

The United States Government Accountability Office's *Standards for Internal Control in the Federal Government* states (2014 Revision)¹, "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."

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."

¹ 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.

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

- The mail clerk opens mail, including payments remitted to the agency, without a second individual present. There is also no log of checks received maintained by the mail clerk. There is no reconciliation between funds received to funds deposited. This creates the risk that the mail clerk could intercept and misappropriate payments without detection.
- Reinstatement clerks for the Driver Compliance division receive payments from satellite locations (referred to internally as “field mail”) and generate a receipt number in the REIN system. They are also responsible for processing payments submitted by mail directly to the Oklahoma City office (referred to internally as “street mail”). For “street mail” payments, the reinstatement clerks also process the customer’s reinstatement in the REIN program and generate a receipt number. They then physically carry the payments to the cashiers’ window at the main DPS site where they are receipted in OASIS and processed. This creates the risk that the reinstatement clerks could intercept and misappropriate payments without detection.
- The Asset Forfeiture Coordinator receives funds, has physical custody over the assets, takes deposits to the bank to be converted to cashier’s checks, and physically carries the payments to the cashiers’ window at the main DPS site. There is no reconciliation between the Coordinator’s log of funds received to funds deposited or returned to ensure appropriate disposition of the funds. This creates the risk that the Asset Forfeiture Coordinator could intercept and misappropriate payments without detection.

The agency does have some reconciliation processes in place in addition to the OMES Form 11 reconciliation. However, those reconciliations, including any reconciliations of funds received to funds deposited, are primarily based on data maintained in the mainframe system. 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 mainframe. This creates the risk that data may be inaccurate, and employees could be inappropriately relying on reports produced by the system.

It appears management was not aware of the risk created by this arrangement of duties and lack of systematic review of data maintained on the agency’s mainframe.

Recommendation

We recommend agency management:

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- Segregate duties to ensure that employees who receive funds are not responsible for posting payments to agency records, processing client transactions (such as driver's license reinstatements) or maintaining physical custody of the funds.
- Ensure that at least two people are present when mail containing payments is opened and that a log of checks received be initialed by both people present. This information should then be reconciled to funds deposited to ensure that all funds received are deposited.
- For Driver Compliance payments received at satellite offices, consider changing the process so that those payments are deposited in the field (similar to the process utilized for Size and Weight permit payments) rather than being submitted to the Oklahoma City office for further processing and deposit. This would reduce the risk of misappropriation by the reinstatement clerks.
- Consider revising asset forfeiture procedures to include immediately depositing and holding seized currency in a non-interest-bearing account while awaiting final disposition of the associated court case. These funds should be regularly reconciled between receipts, court case disposition, and deposits to agency funds or the return of funds formerly subject to forfeiture.
- Systematically and routinely review and evaluate revenue calculations and data maintained on the mainframe. This evaluation and review should be documented so that it can be independently verified.

Views of Responsible Officials

Mail Room Response - DPS agrees with the finding that the Mail Room needs to have two people present when mail is open that may contain money or checks, and that a log of such items be maintained.

Mail Room Action Plan - In speaking with DPS' one Mail Clerk, it was ascertained that on Mondays she spends the majority of the day opening mail that includes only the DPS main address (no division) and on really busy days this may continue into Tuesday. Recommendation is that other divisions supply an employee each day while the mail is being opened. Once the mail containing checks or cash is identified and notated in a log, the two personnel deliver the opened mail to the designated personnel in Finance. Finance personnel would check the mail against the log, sign the log and accept the mail from the clerk. The Mail Clerk would maintain the signed logs according to DPS policy regarding document storage. The alternative is to hire additional personnel to staff the Mail Room.

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Driver Compliance Response – Partially Concur. The Driver Compliance Division agrees with the second recommendation pertaining to Driver Compliance. This second recommendation concerns having at least two employees present when mail containing payments is opened and that a log of checks received be initialed by both people present.

The Driver Compliance Division respectfully disagrees with the Operational Audit Report which recommends that Driver Compliance must segregate duties to ensure employees who receive funds are not responsible for posting to agency records or maintaining physical custody of the funds. The reason for Driver Compliance's disagreement is that Driver Compliance believes that it has adequate safeguards in place which were not fully brought to the Auditor's attention at the time of the audit.

Driver Compliance Action Plan (IT) – IT will provide a summary of the calculations from REIN to DPS. DPS will then validate and "signoff" on the calculations and data at the level of detail required. This will serve as the baseline. Going forward, a source code change management process was recently designed and will be implemented in January that will fully document, control and provide full auditability of any changes to the DPS REIN system. IT will develop any additional reports and/or data exhibits (that will be run and reviewed routinely) required by DPS to facilitate the systematic review of the data. DPS personnel will provide requirements for the reports and exhibits.

Auditor's Response: *We reviewed the information provided by Driver Compliance Division management and determined that the majority of it was not new information and had been considered during the course of our audit and documented in our workpapers. The "safeguard processes" discussed by management in their detailed response (not included here due to space limitations) did not sufficiently mitigate the risk related to the misappropriation of funds. This is largely due in part to their reliance on data or calculations on the agency's mainframe for which we have documented our concerns above.*

Asset Forfeiture (Troop Special Operations) Response – DPS concurs with the finding by SAI. Our office has not adequately segregated duties related to revenue processes or provided the appropriate oversight of the disposition of funds.

Asset Forfeiture (Troop Special Operations) Action Plan – Our plan moving forward is to divide the duties of the Asset Forfeiture Coordinator between the Special Operations Division and the Legal Division. When currency is seized in the field by a Trooper, dual custody is now mandated. The currency is to be counted in the field by two Troopers and the batch reports produced by the money counter will be initialed by

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both Troopers. The currency will then be placed in a lockable money bag with the key to the bag to be stored in the vault safe at Troop SO Headquarters. The vault requires two individuals to open. When the money arrives at Troop SO, two individuals with access to the vault safe will retrieve the key from the safe, unlock the money bag and count the currency. The individuals with access to the vault safe are the Troop Commander, the Troop Supervisors, one Trooper from the Evidence Division and the DPS Comptroller.

Any time the currency changes hands from one individual to another, a chain of custody receipt is signed, and copies are made for each individual's records, the case, and the original stays with the currency. When currency is placed into the vault safe for short time storage, a paper log is used to document the case information, the field count and the final office count. This information is also stored into OnBase. After the Treasurer's Office counts and deposits the currency into a non-interest-bearing account, the deposit will be recorded into the OnBase system. The Special Operations Division Administrative Assistant would then enter the information from the forfeiture and the final count information on the OASIS data base and a receipt would be printed for the Finance Division. The currency would then be transported by at least two individuals consisting of the Troop Commander, Troop Supervisors, a Trooper from the Evidence Division, or a representative from the Legal Division to the State Treasurer's Office for deposit into a holding account until final disposition is awarded by the Court. (Finance Division is requesting from OMES that a 7XX fund be opened for depositing/holding purposes.)

All batch receipts, chain of custody forms, confiscated property receipts, and disclaimers of ownership will be stored in three separate locations. One copy will be placed in the hard copy file maintained by Troop SO Administrative Assistant, another copy will be scanned and sent to the Legal Division, and the final copy will be given to the Trooper that seized the currency. The Special Operations Division Administrative Assistant will reconcile all records on a monthly basis.

The agency does not have proper segregation of duties over payroll processes and does not systematically review and evaluate data maintained on the mainframe.

GAO *Standards* state, “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.”

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 Human Resources Management Specialist II and the HR Payroll Manager currently have the following conflicting abilities and duties:

- Access to make payroll/personnel changes in PeopleSoft HCM
- Access to process payroll in PeopleSoft HCM
- Responsibility for detailed review of payroll reports

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. The lack of adequate internal controls provides the opportunity for payroll to be misstated or unauthorized payroll and personnel changes to be made without detection.

In addition, there is no systematic review and evaluation for accuracy and reliability of leave accrual calculations and balances maintained in the TIME system on the agency’s mainframe. This creates the risk that leave balances reported for employees may be inaccurate and employees could be inappropriately compensated for leave.

It appears management was not aware of the risk created by this arrangement of duties and lack of systematic review of leave accrual calculations and balances performed and maintained on the agency’s mainframe.

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

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process, perform a detailed and documented review of payroll claims and supporting documentation to provide assurance that only authorized payroll changes are made. In addition, we recommend that management systematically and routinely review and evaluate leave accrual calculations and leave balances in the TIME system. This evaluation and review should be documented so that it can be independently verified.

Views of Responsible Officials

Human Resources Response - DPS concurs Payroll personnel currently have access to make payroll and personnel changes in Peoplesoft.

Human Resources Action Plan - Access will be removed from DPS Payroll personnel so that they will only be able to process payroll and not make personnel changes. Duties were already segregated; however, access will no longer be made available. (Updated Forms 304 were processed and mailed on 12/26/18)

Information Systems (IT) will provide a summary of the calculations from TIME to DPS. DPS will validate and "signoff" on the calculations data at the level of detail needed. This will serve as the baseline. Source code management process was recently designed and will be implemented in January that will fully document, control and provide full auditability of changes to the DPS TIME system. IT will develop any additional reports and/or data exhibits (that will be run and reviewed routinely) required by DPS to facilitate the systematic review of the data. DPS personnel will provide requirements for these reports and exhibits.

Additionally, per Human Resources, a report will be downloaded from the DPS Mainframe on a monthly basis that will show missing timesheet information for DPS personnel.

The agency does not have proper segregation of duties over inventory and does not systematically review and evaluate data maintained on the mainframe. The agency is also relying on outdated, inadequate, and unsupported information systems to track inventory.

GAO *Standards* state, “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.”

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:

- Non-IT tangible assets ordered are received by the individual division or troop that originally requested the item. The only exception to this would be if an item was large enough to require unloading at the loading dock.
- IT assets ordered using a P-Card (costing less than \$500) are typically received directly by the individual who requested the item.
- Inventory records for IT assets costing more than \$500 are maintained by the same individual responsible for receiving those assets.
- Inventory records for weapons are maintained by the same individuals responsible for receiving those assets.
- Inventory records for radios, radars, and video equipment for law enforcement vehicles are maintained by the same individual responsible for receiving those assets.

In addition, the agency did not perform an annual inventory count during the audit period for any of the areas that we reviewed, and the agency’s internal policies do not currently address inventory count procedures and controls. The agency did maintain inventory listings as required for state reporting purposes; however, without a regular count,

and with the above noted control deficiencies, there is a risk that inventory reports submitted to OMES as required by 74 O.S. §110.1.F² and OAC 260:110-3-1³ are inaccurate or incomplete. Also, without an inventory count to identify discrepancies, assets may be lost or misappropriated without detection

Agency inventory records and reporting are largely based on data maintained in the mainframe system. There is no systematic review and evaluation for accuracy and reliability of data related to inventory that is maintained on the agency's mainframe. In some cases, the agency is also relying on outdated, inadequate, and unsupported information system applications to track inventory. This creates the risk that data may be inaccurate, and employees could be inappropriately relying on reports produced by the system.

It appears management was not aware of the risks created by this arrangement of duties and lack of systematic review of data maintained on the agency's mainframe.

Recommendation

We recommend agency management:

- Segregate duties to ensure that employees who receive assets are not responsible for maintaining inventory records and that assets are received by someone other than the individual requesting the item.
- Ensure additions, deletions, and any other adjustments made to the inventory listings are supported by proper documentation.
- Review and revise the agency's internal policy related to inventory control (Written Directive #650: Property Control) to ensure it (1) requires an annual inventory count for all agency assets, (2) defines the annual inventory count process and the individual tasks associated with that process, and (3) includes procedures and examples of completing and filing required documentation of inventory counts performed.
- Ensure an annual inventory count is performed for all assets and documented by personnel who do not have custody of assets and are not able to modify inventory records. Documentation of

² 74 O.S. § 110.1.F The Office of Management and Enterprise Services may make periodic checks of tangible assets of entities listed in subsection A of this section. All entities will make support personnel available to the Office of Management and Enterprise Services to report tangible asset acquisitions, assist with identification and update inventories on a periodic basis.

³ OAC 260:110-3-1 (a) All agencies must submit an annual report of current inventory of tangible assets owned by the agency as of June 30 of the preceding fiscal year to the Office by August 15.

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counts should be reviewed, and discrepancies resolved, by personnel independent of the count process.

- Systematically and routinely review and evaluate inventory data maintained on the mainframe. This evaluation and review should be documented so that it can be independently verified.
- Review and evaluate the sufficiency and reliability of information system applications currently used to track inventory throughout the agency.
- Consider creating an executive-level position of Inventory Control Officer. This position should have the authority and resources necessary to effectively oversee and manage the agency's complex inventory processes and ensure that assets are adequately safeguarded and accurately reported.

Views of Responsible Officials

Non-IT Inventory Response (includes weapons, radios, etc.) – Concur the department is lacking in inventory control.

Non-IT Inventory Action Plan – Excel Spreadsheets could be utilized; however, the Department should implement the Inventory module in Peoplesoft. During this same time period, the DPS' inventory control policy should be re-written; annual inventory counts would be a part of this process. During this time, provisions would be made to control any items purchased. Currently, some items ordered are shipped to other locations, bypassing Supply Division. If policy required items meeting the criteria for a DITT (or Inventory tag), to be shipped to Supply, maintaining inventory would be simplified. Supply personnel would be able to identify items requiring tracking, apply inventory tags and enter the item into inventory before the end user receives the item(s).

It is requested the agency move to a system similar to what the military uses for inventory maintenance. All Troop Commanders/Division Directors would sign a hand receipt for everything received within the troop/division then sub-receipt that to the pertinent employee(s). Hand receipts would be audited on an annual and/or change of command basis.

IT Inventory Response – Concur. Most inventory records are contained in Excel or Track-it and not the mainframe with the exception of those items received through Supply.

IT Inventory Action Plan – IT will provide a summary of the existing IT inventory records. DPS will conduct a physical audit to validate the data. Going forward, IT workstation purchases will be received by a designated employee that is separate from the employee that logs and tracks the hardware. It is requested a licensed/supported inventory

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control software package be implemented that would include all facets of IT inventory. Or, the existing software used to manage IT workstation assets will be upgraded and associated processes/reporting be redesigned to manage IT assets in excess of \$500 in value.

IT will develop any additional reports and/or data exhibits, to be run and reviewed routinely, required by DPS to facilitate the systematic review of the data. DPS personnel will provide requirements for these reports and exhibits.

OBJECTIVE II Analyze DPS travel and administrative expenditures for the Commissioner of Public Safety and determine whether they appear reasonable given the statutory responsibilities and mission of the agency.

Conclusion It appears travel and administrative expenditures for the Commissioner of Public Safety were reasonable given the statutory responsibilities and mission of the agency.

Objective Methodology To accomplish our objective, we performed the following:

- Reviewed the Commissioner’s travel and administrative expenditures to ensure they were reasonable given the statutory responsibilities and mission of the agency, which included:
 - Reviewing all payments made to the Commissioner during our audit period. There were four claims paid to the Commissioner during our audit period, all for travel. We requested and reviewed supporting documentation for each claim.

No findings were noted as a result of our procedures.



OFFICE OF THE STATE AUDITOR & INSPECTOR
2300 N. LINCOLN BOULEVARD, ROOM 123
OKLAHOMA CITY, OK 73105-4896

WWW.SAI.OK.GOV