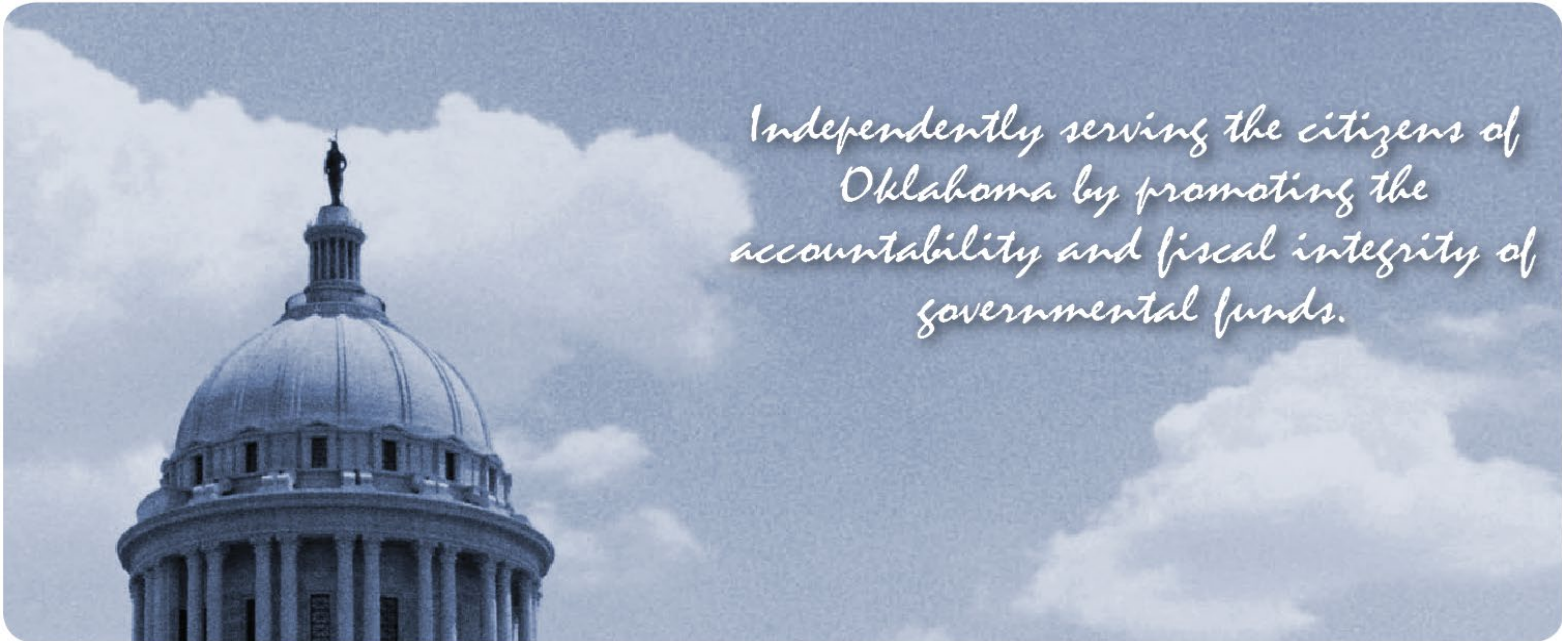


OPERATIONAL AUDIT

OKLAHOMA BUREAU OF NARCOTICS AND DANGEROUS DRUGS CONTROL

For the period January 1, 2015 through December 31, 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 Bureau of Narcotics and Dangerous Drugs Control**

**For the Period
January 1, 2015 through December 31, 2017**



Oklahoma State Auditor & Inspector

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January 2, 2019

TO THE OKLAHOMA BUREAU OF NARCOTICS AND DANGEROUS DRUGS CONTROL

We present the audit report of the Oklahoma Bureau of Narcotics and Dangerous Drugs Control for the period January 1, 2015 through December 31, 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". The signature is fluid and cursive.

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

Oklahoma Bureau of Narcotics and Dangerous Drugs Control Operational Audit

Background

The mission of the Oklahoma Bureau of Narcotics and Dangerous Drugs Control (the Agency) is to enforce the Uniform Controlled Dangerous Substance Abuse Act as outlined in the Oklahoma Statutes Title 63, train and assist local law enforcement agencies, and compile drug related statistics. The Agency provides a leadership role for law enforcement throughout the state in the investigative effort directed toward the illegal use of controlled dangerous substances, and has a goal of minimizing the abuse of controlled substances through law enforcement measures directed primarily at drug trafficking, illicit drug manufacturing, and major suppliers of illicit drugs.

Oversight is provided by seven commission members (the Commission) appointed by the governor. Each commission member serves a term of seven years. The Commission is composed of four lay members, one District Attorney, one active Sheriff, and one active Chief of Police.

Board members as of November 2018 are:

Greg Mashburn, Chairman	District 4
Larry Rhodes, Vice Chairman/Sheriff.....	District 4
Phillip Cole, Chief of Police.....	District 5
Layne Subera, D.O., Lay Member.....	District 3
Gretchen Zumwalt-Smith, Lay Member.....	District 2
Jan Miller, Lay Member.	District 1
T. Hastings Siegfried, Lay Member	District 1

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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:		
Licenses, Permits, Fees	\$ 15,380,548	\$ 15,036,219
Net Appropriations	3,498,917	1,091,293
Seized Cash and Property	2,923,490	4,311,548
Federal Grants, Reimbursements	526,051	839,146
Fines, Forfeits, Penalties	96,551	70,786
Sale of Surplus Property	56,307	98,386
Donations, Refunded Money, Reimb	6,273	14,005
Record Search and Copies	4,792	3,750
Other Non-Rev Receipts	97,470	139,304
Total Sources	\$ 22,590,399	\$ 21,604,437
Uses:		
Personnel Services	\$ 12,275,961	\$ 12,399,030
Administrative Expenses	2,924,345	2,490,164
Professional Services	1,039,537	827,613
Property, Furniture, Equipment	617,992	741,684
Travel	227,501	171,873
Assistance, Payments to Local Govn'ts	15,104	198,283
Transfers and Other Disbursements	14	49
Total Uses	\$ 17,100,454	\$ 16,828,696

Source: Oklahoma PeopleSoft accounting system (unaudited, for informational purposes only)

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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 January 1, 2015 through December 31, 2017.

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Oklahoma Bureau of Narcotics and Dangerous Drugs Control 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 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.

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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 payroll expenditures were accurately reported in the accounting records and generally provide reasonable assurance that revenues were accurately reported in the accounting records. However, they do not provide reasonable assurance with regards to miscellaneous expenditures (including ASA expenditures) and inventory.

Financial operations complied with the following statutes:

- 63 O.S. § 2-107a- Bureau of Narcotics Drug Education Revolving Fund;
- 74 O.S. § 3601.2 - Executive Pay for the period of January 1, 2015 through December 31, 2017.

Objective Methodology

To accomplish our objective, we performed the following:

- Identified significant internal controls related to receipting and tested those controls, which included:
 - Reviewing a random sample of 60 deposits (15% of the total population of physical deposits) to ensure the deposit agreed to supporting documentation and was properly reviewed.
 - Reviewing a random sample of nine clearing account reconciliations to ensure they agreed to supporting documentation and were properly approved.
 - Reviewing a selection of 21 seized cash deposits (18 randomly selected and three judgmentally selected for a total of 19% of seized cash deposits) to ensure the appropriate parties were identified as present in the incident report, and the incident report agreed to deposit documentation. See finding below.
- Identified significant internal controls related to miscellaneous expenditures, including ASA expenditures. See finding below.
- Identified significant internal controls related to payroll expenditures and tested those controls, which included:
 - Reviewing a random sample of nine months' payroll claims and supporting documentation to ensure employees' time was properly reported and approved.
 - Reviewing a random sample of 18 payroll change transactions with a financial impact to ensure the changes

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were properly documented, approved, and reflected in subsequent payroll reports.

- Reviewed significant internal controls and process factors related to a prior year inventory finding still in the process of being corrected; see repeat finding below.
- Reviewed the statewide accounting system 6-Digit Expenditure Detail report and Summary of Receipts and Disbursements to ensure all three expenditures from the Drug Education Fund 215 during the audit period complied with 63 O.S. § 2-107a.
- Reviewed statewide accounting system salary data to ensure the director's salary did not exceed the maximum limit set forth in 74 O.S. § 3601.2.

FINDINGS AND RECOMMENDATIONS

Inadequate Controls over Inventory - Repeat Finding

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government (2014 Revision)*¹, provides 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 and 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 also provide that to safeguard vulnerable assets, such assets should be periodically counted and compared to control records.

The agency has not adequately segregated key duties related to inventory. The following conflicting conditions were identified in the previous audit and had not been corrected during the time frame of the current audit:

- The one employee with access to weapons inventory assets has the ability to add or remove items from the inventory listing.
- Inventory counts of the Agency's assets (both IT and non-IT) are not conducted annually.

The following is management's response when asked for the status of the prior year finding, "*Steps were taken to implement the corrective action as described in the management response to the finding. Inventory software was purchased to accommodate the necessary changes. However, after months of discussions with the software provider, the software proved incapable of providing all the features we required to fully implement the needed changes. We*

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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are currently in the process of obtaining usage rights to the OSBI inventory control program. Once that process is complete, we will have implemented all of the remedial measures identified with the inventory finding in the last audit."

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

Recommendation

Management should ensure that duties related to receiving and maintaining inventory records are segregated from those who perform regular inventory counts and that the employee responsible for performing the annual physical inventory count does not have access to modify inventory records. Management should also review the inventory records to ensure additions, deletions, and any other adjustments are appropriate. Furthermore, employees responsible for maintaining inventory records should not have the authority to approve surplus property transactions. Once a software program is in use, management should continue to evaluate the segregation of duties.

Views of Responsible Officials

The Oklahoma Bureau of Narcotics and Dangerous Drugs Control is in agreement with this finding. We have implemented changes to correct the deficiency based on the recommendations from the State Auditor and Inspector's office. New policy and procedures have been written to identify responsibilities within the inventory process which we believe provide adequate segregation of duties. Leadership positions within the agency have been assigned responsibilities to ensure implementation of the new policy and procedures and ongoing review of the process to continue to evaluate the segregation of duties. Inventory counts of both IT and non-IT assets will be conducted annually. We have executed an agreement to obtain the usage rights to the inventory system currently in use by the Oklahoma State Bureau of Investigation and will begin using that system in the very near future.

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Improved Review Needed to Mitigate Accountant's Conflicting Expenditure Duties

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."

Purchase requisitions are approved by the Director and purchase orders are approved by the CFO; however, the accountant has the ability to make purchases, post expenditures to the statewide accounting system in order to have them paid and is also responsible for preparing the monthly 6-Digit Expenditure Detail report from the statewide accounting system for the finance officer for review.

This could allow the accountant to make an unapproved payment without detection. While the finance officer is reportedly performing a detailed review of the expenditures after they are made, which could mitigate the risk created by this arrangement of duties, the accountant is responsible for providing the expenditure report for review in Excel format, which could be altered to remove any unapproved expenditures. In addition, documentation of the finance officer's expenditure review was not retained.

Recommendation

The finance officer or someone not involved in the expenditure process should regularly perform a detailed review of the line-item expenditures, as reportedly occurred during the audit period. The format of the line-item detailed expenditure report should be difficult to manipulate or run directly by the reviewer; for example, a PDF version of the 6-digit detail of expenditure report from the statewide accounting system.

If such a review is highly cumbersome, it could be performed on a random basis, or delegated to multiple parties who are knowledgeable about authorized expenditures and independent of expenditure posting (such as department heads). Additionally, the review should be documented by signing, dating, and retaining a copy of the report in either print or electronic format.

Views of Responsible Officials

The Oklahoma Bureau of Narcotics and Dangerous Drugs Control is in agreement with this finding. We have implemented changes to correct the

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deficiency based on the recommendations from the State Auditor and Inspector's office. The finance officer will run the 6-digit detail of expenditure report from the statewide accounting system and review expenditures on a monthly basis. A copy of the signed reports will be retained after review. This report will be ran as a pdf from the statewide accounting system, therefore difficult to manipulate.

Improved Reviews Needed for Official Advance Fund Expenditures

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 Agency is authorized to manually process its own checks for the Agency's Official Advance Fund (Fund 700). The Agency uses the fund for undercover operations such as illegal narcotic purchases from suspects, confidential informant payments, and clothing items for agents in undercover operations.

The accountant has access to the locked safe where 700 fund checks are maintained and is responsible for posting expenditures to the statewide accounting system and performing monthly reconciliations of Advance Fund checks.

While the finance officer is reportedly performing a review of the Advance Fund balance monthly, it would not mitigate the risk of the accountant being able to take a warrant from the safe and forge the required signatures on the warrant without timely detection. In addition, the finance officer's review was not documented during the audit period.

Recommendation

The finance officer or someone who does not have access to the Advance Fund checks and is not involved in writing or approving the checks should regularly perform a review of the Advance Fund expenditures and supporting documentation after payment. For example, the review could consist of ensuring the internal check listing and reconciliation agree to statewide accounting system records, and the payments trace to properly approved Advance Fund request for funds forms. Such a review could be performed on a random basis, or individual payments could be selected at random each month. Documentation of the review should be identified by reviewer signature and retained for future reference.

Views of Responsible Officials

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The Oklahoma Bureau of Narcotics and Dangerous Drugs Control is in agreement with this finding. We have implemented changes to correct the deficiency based on the recommendations from the State Auditor and Inspector's office. The accountant that performs the monthly reconciliations of Advance Fund checks no longer has access to the locked safe where 700 fund checks are maintained. Additionally, the accountant is no longer responsible for writing the checks or for posting expenditures to the statewide accounting system. These duties have been reassigned to another accountant who also does not have access to the locked safe. Documentation of a monthly review will be signed by the reviewer and retained for future reference.

Incident Reports Not Located for Two Cash Seizures

GAO Standards state, "Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. Documentation and records are properly managed and maintained." Additionally, "Effective documentation assists in management's design of internal control by establishing and communicating the who, what, when, where, and why of internal control execution to personnel."

The Agency receives cash when agents seize money as part of a narcotics investigation and arrest. Incident reports are completed by the agents that give detailed accounts of the seizure as well as information related to the chain of custody of the seized cash prior to deposit.

We randomly selected twenty-one seized cash deposits from the audit period for review. For two of the seized cash deposits, the agency was unable to provide the incident report and therefore, we were unable to determine if the total cash seized was deposited.

Without effective internal controls evidenced by proper documentation, in this case the incident report, errors or irregularities in the deposits of seized cash could go undetected.

Recommendation

Management should ensure that the incident report related to the seizure of cash is completed, maintained, and contains the proper information related to the chain of custody, parties involved, and deposit details.

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Views of Responsible Officials

The Oklahoma Bureau of Narcotics and Dangerous Drugs Control is in agreement with this finding. We have implemented changes to correct the deficiency based on the recommendations from the State Auditor and Inspector's office. The Agent In Charge (AIC) of the Property Unit has been assigned the responsibility to review all seizures to ensure that the incident report related to the seizure is completed, maintained, and contains the proper information related to chain of custody, parties involved, and deposit details. This AIC will ensure details of these reports are received by the appropriate staff, i.e. Legal.



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