OPERATIONAL AUDIT

Oklahoma Bureau of Narcotics and Dangerous Drugs Control

For the period July 1, 2012 through December 31, 2014

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

Audit Report of the Oklahoma Bureau of Narcotics and Dangerous Drugs Control

For the Period July 1, 2012 through December 31, 2014

This publication, issued by the Oklahoma State Auditor and Inspector's Office as authorized by 74 O.S. § 212 has not been printed, but is available on the agency's website (www.sai.ok.gov) and in the Oklahoma Department of Libraries Publications Clearinghouse Digital Collection, pursuant to 65 O.S. § 3-114.

Oklahoma State Auditor & Inspector

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

April 28, 2015

**TO THE OKLAHOMA BUREAU OF NARCOTICS
AND DANGEROUS DRUGS CONTROL**

This is the audit report of the Oklahoma Bureau of Narcotics and Dangerous Drugs Control for the period July 1, 2012 through December 31, 2014. 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, CPA, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

Background

The mission of the Oklahoma Bureau of Narcotics and Dangerous Drugs Control is to enforce the Uniform Controlled Dangerous Substance Act as outlined in the Oklahoma Statute Title 63, train and assist local law enforcement agencies, and compile drug related statistics. The OBNDDC provides a leadership role for law enforcement throughout the state for the investigative effort directed toward the illegal use of controlled dangerous substances. The Oklahoma State Bureau of Narcotics and Dangerous Drugs Control is a law enforcement agency with 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 7 commission members appointed by the governor. Each commission member serves a term of seven years. The Commission is comprised of four lay members, one District Attorney, one active Sheriff, and one active Chief of Police.

Board members as of December 31, 2014 are:

Chief Brandon Clabes, Chairman .... Congressional District 5
Jan Miller, Vice-Chairman. .... Congressional District 1
Albert Gray. .... Congressional District 3
Gretchen Zumwalt Smith .... Congressional District 5
J. Greg Mashburn. .... Congressional District 4
Dr. Layne Subera... Congressional District 3
Sheriff Kenny Stradley .... Congressional District 4

The following charts illustrate the Agency's budgeted-to-actual revenues and expenditures and year-end cash balances.[1]

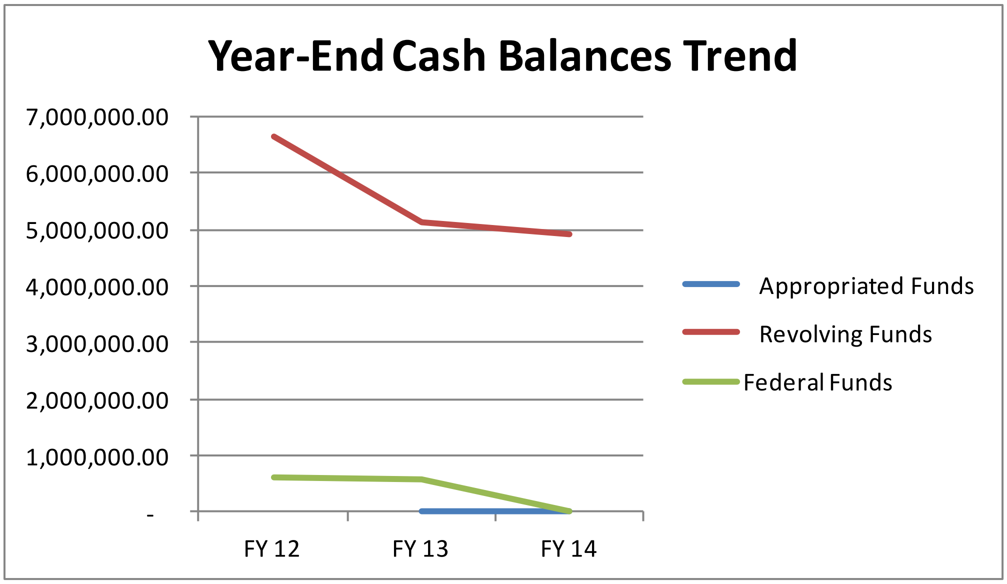
BUDGET TO ACTUAL COMPARISON

	FY 2013			FY 2014		
REVENUES	**Budgeted**	**Actual**	**Variance**	**Budgeted**	**Actual**	**Variance**
General Appropriations	3,616,418	3,616,418	-	3,616,418	3,616,418	-
Medical Professional			-			-
Physician License and Fee	2,130,540	2,373,739	243,199	2,198,980	2,328,757	129,777
Other Fines, Forfeits & Penalties	80,000	200,033	120,033	70,000	164,378	94,378
Federal Reimbursements	47,700	55,376	7,676	235,500	41,624	(193,876)
Federal Grants-In-Aid	486,000	217,068	(268,932)	218,000	46,501	(171,499)
Private Grants and Donations		22,000			6,000	6,000
Refunded Money Prev. Disb Gds&Svc		2,846			30,331	30,331
Reimbursements for Funds Expended		902			1,204	1,204
Sales of Services	500		(500)	500		(500)
Copies of Other Documents		430			35	35
Criminal Record Search		1,900			2,300	2,300
Contribs, Judgements & Forfeits	500,000	64,016	(435,984)	525,000	303,143	(221,857)
Seized Cash-State Judgements						-
Seized Cash-Federal judgements						-
Sale of Surplus Property		11,442		10,000	61,437	51,437
Sale of Debt and Investments	10,000		(10,000)			-
Intra Xfer from Optg Fund		205,000			150,000	150,000
Other Non-Revenue Receipts	5,000	16,871	11,871	5,000	48,924	43,924
Banking Commission	8,400,000	9,764,828	1,364,828	8,800,000	10,502,470	1,702,470
Other Banking Fees and Exams						-
Total Revenues	**15,276,158**	**16,552,869**	**1,276,711**	**15,679,398**	**17,303,521**	**1,624,123**
EXPENDITURES						
Personnel Services	11,660,213	11,156,499	(503,714)	11,997,575	11,651,319	(346,256)
Professional Services	706,888	603,787	(103,101)	932,095	693,709	(238,386)
Travel Expenses	316,593	375,420	58,827	400,030	369,269	(30,761)
Administrative Expenses	3,483,899	2,671,178	(812,721)	3,770,259	2,699,802	(1,070,457)
Office Furniture and Equipment	1,638,703	1,914,996	276,293	2,895,615	2,505,933	(389,682)
Buildings - Purchase, Construction, Renovation	377,001	1,102,474	725,473	31,741	124,772	93,031
Library Equipment-Resources	21,965	15,560	(6,405)	19,369	8,013	(11,357)
Refunds, Indemnities, Restitution		1,612	1,612		16,724	16,724
Loans, Taxes, Other Disbursements	1,567	60	(1,507)	3,871	484	(3,387)
Transfers	250,000	180,000	(70,000)	250,000	100,000	(150,000)
Payments to Local Govt. Subdivisions and Non-Profit Entities		14,134	14,134			-
Program Reimbursement, Litigation Costs					19	19
Other				36		(36)
Total Expenses	**18,456,829**	**18,035,720**	**(421,109)**	**20,300,591**	**18,170,043**	**(2,130,548)**
Expenditures Over (Under) Revenues		**1,482,851**			**866,522**	

Year-End Cash Balances: FY 12 - FY 14

	FY 12	**FY 13**	**FY 14**
Appropriated Funds		-	12,097
Revolving Funds	6,626,991	5,125,883	4,909,240
Federal Funds	619,578	590,183	21,176
Total Available Cash	7,246,569	5,716,066	4,942,513

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



Summary of agency responses to large budgeted-to-actual variances[2]

REVENUES:

The major reason for the variance between budgeted and actual revenues is due to a conservative approach taken during the budgeting process to avoid a revenue shortfall and ascertain the availability of sufficient funds to meet agency expenditures. Revenue projections are usually based on historical data and adjustments are made for any expected changes.

The large budgeted-to-actual variance is in the Banking Commission category which is for the Wire Transmitter Fees. This projection was based on the average ($8,366,510) of prior fiscal years and rounded ($8,400,000) in FY-13 and similarly the amount was increased by $400,000 in FY-14 bringing the total budgeted amount in this category to $8,800,000. It is difficult to forecast how much money will be actually transmitted and with the amount of monies transmitted being considerably high resulted in a higher collection compared to the revenue estimate in this category.

EXPENDITURES:

As a general rule, the agency usually budgets the expenditures at a higher level each FY for inflationary purposes as well as minimizing the submission of budget work program revisions throughout the fiscal year. Following are some of the large budgeted-to-actual variances:

1. **Personnel Services** – FY-13 difference is due to vacancies, estimated terminal leave, overtime, unemployment insurance & timing of agent promotions. FY-14 difference is due to the same reasons as in FY-13, however 44% of the difference is estimated pay-for-performance which was not implemented.

[2] This information is a summary of responses obtained from the Oklahoma Bureau of Narcotics. It is for informational purposes only and has not been audited. See budgeted-to-actual analysis on page 2 of this report.

2. **Professional Services** – FY-13 difference is the continuation of budgeting for the Meth Lab Clean-up from FY-12; however DEA took back the program in FY-13 and funding was no longer necessary. FY-14 difference was due to OMES IT contract position budgeted but not hired until FY-15, contract for new professional training development for the Prescription Monitoring Program budgeted but not completed at this time, increases based on FY-13 expenditures, agent physicals, increase for new bill boards, etc.

3. **Administrative Expenses** – In FY-13 the agency budgeted increased rent for the Woodward and Lawton District Offices but the actual move did not take place until May 2013 and July 2013. Also, increased maintenance for fleet had been budgeted for increased number of vehicles as a result of increase in Commissioned personnel plus unforeseen maintenance expenses for the acquired operations building and newly constructed administrative building, but such expenditures did not take place. In addition to the same reasons, in FY-14 the Marijuana Grant was considerably lower as compared to prior FYs and therefore the expenditures for the helicopter rental for eradication of Marijuana was curtailed. Also, fuel prices did not go as high as predicted in both FYs.

4. **Office Furniture & Equipment** – FY-13 difference is a direct result of delay in moving into the new Administrative Building which resulted in the delay with the purchase of office furniture & equipment.

5. **Buildings – Purchase, Construction, Renovation** – FY-13 difference is due to building expenses budgeted in FY-12 but paid in FY-13 (budget year 12). OMES reports pull these expenditures into FY-13 based on date paid. FY-14 same issues as in FY-13 pertaining to the expenses for the construction of the Memorial.

6. **Transfers** – This account is usually budgeted high in case of necessary Official Advance Funds needed for flash-roll for under-cover operations.

EXPENDITURES OVER (UNDER) REVENUES:

The overall variance between actual revenues and expenditures is due to the prior fiscal year expenditures being considered in current fiscal years e.g. FY-12 expenditures in FY-13 and FY-13 expenditures in FY-14. Also, the fiscal year-end-cash balances have not been added to the actual revenues on the budget to actual comparison report to arrive at total available cash for the fiscal year.

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 duties are 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, 2012 through December 31, 2014. 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. 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 & II

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

Conclusion

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

Financial operations complied with the following statutes:

- 63 O.S. § 2-107a – *Drug Education Revolving Fund*; and
- 63 O.S. § 2-103a – *Annual Salaries for Positions in the Oklahoma State Bureau of Narcotics and Dangerous Drugs Control*.

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)*[3], 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, 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 in order 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:

- The one employee with access to the weapons inventory 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 lack of adequate internal controls provides the opportunity for inventory to be misstated or misappropriated without detection.

[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.

Recommendation

We recommend management segregate duties to ensure that employees responsible for maintaining inventory records do not have authority to approve surplus property transactions. We also recommend that management ensure an annual inventory count is conducted and that the employee responsible for performing the annual physical inventory count does not have access to modify inventory records.

Views of Responsible Officials

We plan on implementing the following remedial measures for the audit findings pertaining to inadequate controls over inventory:

- **Weapons Inventory –** An additional level of review will be added to adequately segregate the duties pertaining to the weapons inventory. The property section will input the items into the inventory control system we currently use for all other inventory. Then when the AIC or the firearms instructor issues a weapon, the property section will check it into or out of the inventory system. This would allow for two people to be involved in the weapons issuing process.

- **Furniture -** An annual count will be conducted each year. We will provide the district offices with what our records show is in their office. They will verify what is there by OBN serial number and anything they have that may not have a number. That will provide an annual audit. We did a 100% audit of furniture in 2014.

- **Property –** An annual count will be conducted each year. We will have an AIC outside of the chain of property conduct 100% inventory of accountable items annually. The items over $2,500.00 are closely monitored and we report them annually via GAAP but we will now also inventory them.

- **IT Inventory –** First, the agency is looking into an inventory package which will allow us to use barcodes, iPhones and a more granular reporting machine. Next, the agency will divide the inventory audits into a two part annual audit. The first task of annual audit will be the AICs who will validate and sign off on each employee's IT assets (IT will provide the list), then the IT staff will be responsible for keeping the inventory current. This will also provide the segregation of duties.

The software evaluations process has already begun and will start the physical audit shortly after going into production (approximately 60 days).

OFFICE OF THE STATE AUDITOR & INSPECTOR
2300 N. LINCOLN BOULEVARD, ROOM 100
OKLAHOMA CITY, OK 73105-4896

WWW.SAI.OK.GOV