

OPERATIONAL AUDIT

# OKLAHOMA STATE BUREAU OF INVESTIGATION

For the period July 1, 2009 through June 30, 2014



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

**Audit Report of the  
Oklahoma State Bureau of Investigation  
For the Period  
July 1, 2009 through June 30, 2014**



# Oklahoma State Auditor & Inspector

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February 10, 2015

## TO THE OKLAHOMA STATE BUREAU OF INVESTIGATION COMMISSION:

This is the audit report of the Oklahoma State Bureau of Investigation for the period July 1, 2009 through June 30, 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,

A handwritten signature in blue ink, appearing to read "Gary A. Jones".

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

# Oklahoma State Bureau of Investigation Operational Audit

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## Background

The Oklahoma State Bureau of Investigation (OSBI) was created by statute in 1925. On July 1, 1976, the agency, by law, was removed from the Governor's Office and placed under the newly created OSBI Commission, whose members are appointed by the governor and confirmed by the Oklahoma Senate. The OSBI is the general investigative agency of Oklahoma and provides services in support of law enforcement throughout the state. Its statutory duties are to:

1. Maintain scientific laboratories to assist all law enforcement agencies in the discovery and detection of criminal activity;
2. Maintain fingerprint and other identification files;
3. Operate teletype, mobile and fixed radio for other communication systems;
4. Conduct schools and training programs for the agents, peace officers and technicians of the state charged with the enforcement of law and order and the investigation and detection of crime;
5. Assist all law enforcement officers and district attorneys when such assistance is requested, and according to policy determined by the OSBI Commission;
6. Investigate and detect criminal activity as directed by the governor;
7. Maintain a Uniform Crime Reporting system; collect and correlate information; compile statistics on the volume and nature of crime and the administration of criminal justice within the state.

The agency's stated mission is that every OSBI member is to ensure the safety and security of the citizens of Oklahoma.

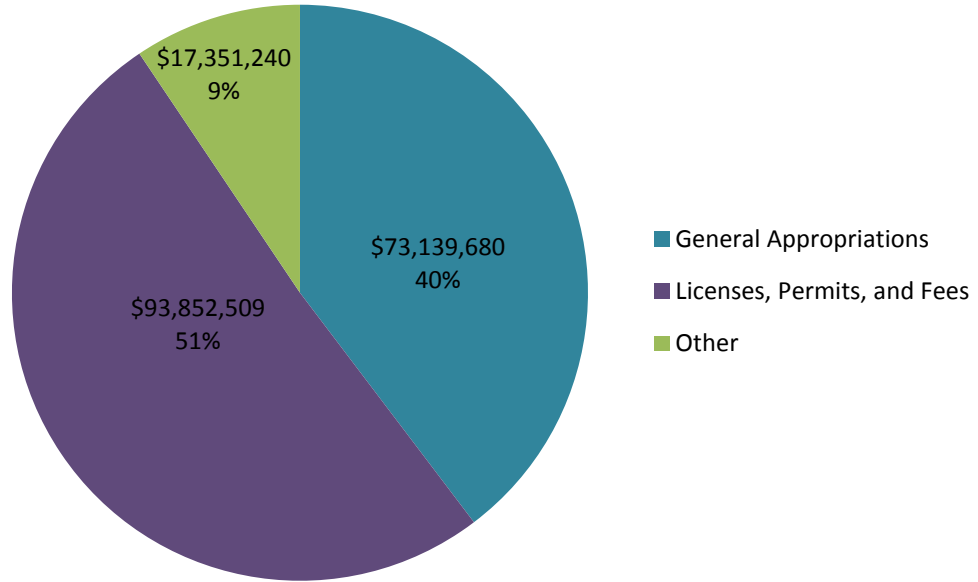
Commission members as of June 30, 2014 are:

Russell Noble..... Chairman  
Rick Stephens..... Vice-Chairman and Lay Member  
Mike Boring ..... D.A. Member  
Stanley Glanz..... Sheriff Member  
Keith Humphrey..... Chief Member  
W. Roger Webb..... Lay Member  
Jeb Boatman..... Lay Member

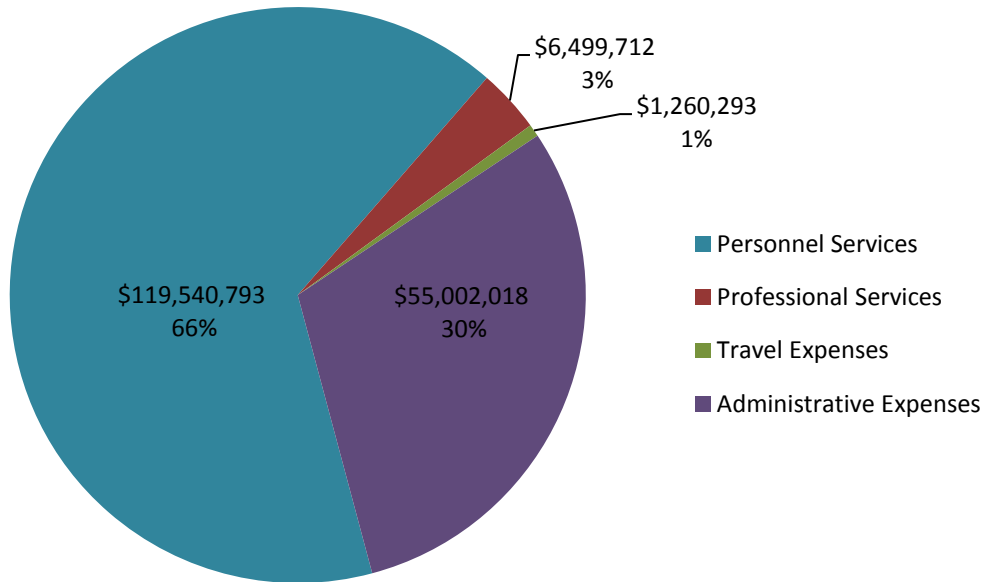
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The following charts illustrate the Agency's primary funding sources, and where those funds are expended.<sup>1</sup>

**Chart 1 - Revenues by Category (July 1, 2009 through June 30, 2014)**



**Chart 2 - Expenditures by Category (July 1, 2009 through June 30, 2014)**



<sup>1</sup> This information was obtained from Oklahoma PeopleSoft accounting system. It is for informational purposes only and has not been audited.

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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 July 1, 2009 through June 30, 2014. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Oklahoma State Bureau of Investigation 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.

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## OBJECTIVE

Determine whether the Agency's internal controls provide reasonable assurance that receipts, expenditures (miscellaneous), and inventory were accurately reported in the accounting records, and financial operations complied with applicable finance-related laws and regulations.

## Conclusion

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

Financial operations complied with the following statutes:

- 62 O.S. § 34.57, *Monthly transfer from clearing account*;
- 74 O.S. § 150.29, *Petty Cash Funds*;
- 74 O.S. § 150.30, *Audits related to Petty Cash funds*; and
- OAC 580:70-3-1, *Agency inventory requirements*.

## FINDINGS AND RECOMMENDATIONS

### Inadequate Segregation of Duties over Receipts

The United States Government Accountability Office's *Standards for Internal Control in the Federal Government*<sup>2</sup>, 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."

The agency has not segregated key duties related to receipts. The following conflicting conditions were identified:

- The head cashier has the ability to receipt funds, record payments into the Cash Control Database (POS system), prepare the deposit, and record the deposit in PeopleSoft.
- Cashiers have the ability to void receipts in the POS system.

<sup>2</sup> 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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- Payments are not immediately receipted and deposited upon being received by the agency. Payments are routed along with applications or orders to functional departments (SDA, Legal, etc.) for verification of completeness prior to being returned to the cashier for receipting and depositing. In some cases, payments and applications are routed through multiple departments (SDA applications) before they are receipted and deposited. In addition, a receipt number is not required in most cases to process orders and applications. For processes that do require a receipt number (SDA applications), there are insufficient controls to ensure that it is a valid receipt number.
- There is no reconciliation of payments deposited and licenses issued and/or orders processed. In addition, daily reconciliations of deposits to payments posted are prepared by the head cashier and reviewed by the accounting supervisor who both receive and post payments.

Due to a lack of proper segregation of duties and a reconciliation of receipts deposited to licenses issued and/or orders processed, the following conditions could occur and go undetected:

- The head cashier could misappropriate payments, void transactions in the internal database (voided receipts are maintained in the system), and conceal the misappropriation by not including it in the deposit amount recorded in CORE.
- Because they are able to void receipts, the cashiers could post a payment, print a receipt and forward it to the functional areas (SDA, Legal, etc.) with the application to be processed, void the receipt in the system, and misappropriate the payment.
- Failure to immediately receipt and deposit payments when they are received by the agency, and instead routing them to various departments for an initial review of the application/request, increases the risk of theft or misappropriation of payments.
- The daily reconciliation between payments posted and deposited does not serve as an adequate mitigating control because of the lack of segregation of duties between employees performing the reconciliation and receiving and posting payments. In addition, it does not encompass the agency's outputs which could be processed without the associated payment being receipted and deposited.



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## Recommendation

We recommend the following:

- **Voiding Receipts:** management implement controls to prevent cashiers from voiding receipts without management approval and develop a mitigating control such as having an independent person review and approve a report of all edited or deleted records.
- **Timely Receipting:** management implement a process to immediately receipt and deposit payments when they are received by the agency, rather than routing them to various departments for an initial review of the application/request, to reduce the risk for theft or misappropriation of payments.
- **Segregation of Duties:** management implement changes to ensure that there is proper segregation of duties related to receipts or that a mitigating control is operating to help detect any misappropriation that could occur as a result of conflicting duties. Examples of mitigating controls could include, but not be limited to: (1) reconciling deposits to licenses issued or applications processed (2) system controls that would require application/licensing systems receive positive confirmation directly from the receipting system that proper payment had been made and posted before permitting an application to be processed or license issued.

## Views of Responsible Officials:

The Oklahoma State Bureau of Investigation is in general agreement with the findings, conclusions, and recommendations of the State Auditor and Inspector. Management recognizes the potential risks associated with a few current practices, believes them to be negligible, can accept these slight risks as part of established procedures, and has confidence in the integrity of our staff and business operations. Staffing, space, and operational constraints necessitate we conduct the business of the agency in the best way possible with limited resources. However, when possible, we will strive to find reasonable ways and means to improve operations and practices to mitigate any potential risks associated with the identified transactions, including consideration of recommendations contained in the audit report. We commend the professionalism, thoroughness, and competency of the Auditor and Inspector's staff performing the review and thank them for the recommendations.



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