OKLAHOMA PARDON AND PAROLE BOARD

SEPTEMBER 1, 2005 THROUGH
DECEMBER 31, 2007

OPERATIONAL AUDIT

Jeff A. McMahan

Oklahoma State Auditor
& Inspector

Audit Report of the Oklahoma Pardon and Parole Board

For the Period September 1, 2005 through December 31, 2007

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STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Jeff A. McMahan
State Auditor and Inspector

April 15, 2008

TO THE EXECUTIVE DIRECTOR OF THE OKLAHOMA PARDON AND PAROLE BOARD

Pursuant to 74 O.S. § 212, transmitted herewith is the audit report for the Oklahoma Pardon and Parole Board for the period September 1, 2005 through December 31, 2007. The Office of the State Auditor and Inspector is committed to serving the public interest by providing independent oversight and by issuing reports that serve as a management tool to the State. Our goal is to ensure a government that is accountable to the people of the State of Oklahoma.

We wish to take this opportunity to express our appreciation to the agency's staff for the assistance and cooperation extended to our office during the course of our engagement.

Sincerely,

Michelle R. Day

Michelle R. Day, Esq.
Deputy State Auditor and Inspector

Mission Statement

The mission of the Pardon and Parole Board as a vital part of the criminal justice system is to determine the best possible decision, through a case-by-case investigative process and to protect the public while recommending the supervised released of adult felons. Although in recent years the Board has been mandated to assist with alleviating prison overcrowding, it remains our goal to maintain a low revocation and recidivism rate for the State of Oklahoma.

Board Members

Richard L. Dugger ..... Chairperson
Lynnell Harkins ..... Vice Chairperson
Clinton Johnson ..... Member
James M. Brown, Sr. ..... Member
Susan B. Loving ..... Member

Key Staff

Terry Jenks ..... Executive Director
Cathy Duncan ..... Business Manager

STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Jeff A. McMahan
State Auditor and Inspector

TO THE EXECUTIVE DIRECTOR OF THE OKLAHOMA PARDON AND PAROLE BOARD

We have audited the Oklahoma Pardon and Parole Board (Board) for the period September 1, 2005 through December 31, 2007. The objectives of this audit were to determine if:

- The Board's internal controls provide reasonable assurance that expenditures and inventory were accurately reported in the accounting records, and financial operations complied with applicable finance-related laws and regulations;
- The Board complied with 57 O.S. § 332.1A and 57 O.S. § 332.4;
- The Board's corrective actions for reportable conditions noted in prior year's report were implemented.

As part of our audit we obtained an understanding of internal controls significant to the audit objectives and considered whether the specific controls have been properly designed and placed in operation. We also performed tests of certain controls to obtain evidence regarding the effectiveness of the design and operation of the controls. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We also obtained an understanding of the laws and regulations significant to the audit objectives and assessed the risk that illegal acts, including fraud, violation of contracts, grant agreements, or other legal provisions could occur. Based on this risk assessment, we designed and performed procedures to provide reasonable assurance of detecting significant instances of noncompliance with the laws and regulations. However, providing an opinion on compliance with these laws and regulations was not an objective of our audit and accordingly, we do not express such an opinion.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances.

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.

Michelle R. Day

Michelle R. Day, Esq.
Deputy State Auditor and Inspector

April 9, 2008

Background

The Oklahoma Pardon and Parole Board (Board) is responsible for making recommendations to the Governor regarding the supervised released of adult felons. The Board's operations are governed by Article 6 § 10 of the Oklahoma Constitution, 57 O.S. § 332.1 through 332.20, and Title 515 of the Oklahoma Administrative Code. Oversight is provided by a five-member board. Three of the members are appointed by the Governor, one by the Presiding Judge of the Court of Criminal Appeals, and one by the Chief Justice of the Supreme Court. The Board pays for its operations through state appropriations.

Table 1 summarizes the Board's sources and uses of funds for fiscal years 2006 and 2007.

Table 1-Sources and Uses of Funds for FY 2006 and FY 2007

	2006	2007
Sources:		
State Appropriations	$2,304,962	$2,555,017
Uses:		
Personnel Services	$2,091,905	$2,269,282
Professional Services	22,826	41,072
Travel	33,473	34,324
Miscellaneous Administrative	40,407	19,020
Rent	61,686	83,851
Office Furniture and Equipment	21,911	26,759
Other	30,343	7,777
Total Uses	$2,302,551	$2,482,085

Source: Oklahoma CORE Accounting System

Objective 1 – Determine if the Board's internal controls provide reasonable assurance that expenditures and inventory were accurately reported in the accounting records, and financial operations complied with applicable finance-related laws and regulations.

Conclusion

The Board's internal controls do not provide reasonable assurance that expenditures and inventory were accurately reported in the accounting records; however, the Board's financial operations did comply with applicable finance related laws.

Methodology

To accomplish our objective, we performed the following:

- Documented internal controls related to the expenditure and inventory process;
- Tested controls which included:
  - Reviewing 67 expenditure claims to ensure they were properly authorized. This included ensuring the invoice supported the payment, the invoice was mathematically accurate, the correct account code was used, and the expenditure appeared reasonable given the Board's mission;
  - Determining if the employee responsible for receiving warrants from OSF is independent of the posting and approval process;
  - Determining if there is adequate segregation of duties in the inventory process;
  - Determining an annual physical inventory count is conducted;
  - Determining if surplus property forms are completed and approved.

Observations

Review of Invoices Prior to Processing

An effective internal control system provides an adequate review of supporting documentation.

21 O.S. § 590 A. states in part, " Every state governmental entity shall, for a period of two (2) years, maintain accurate and complete records… reflecting all financial and business transactions, which records shall include support documentation for each transaction. No such records shall be disposed of for three (3) years thereafter…"

62 O.S. § 7.1 E. states in part, "At least once each month each state agency shall transfer monies deposited in agency clearing accounts to the various funds or accounts, subdivisions of the state, or functions as may be provided by statute and no money shall ever be disbursed from the agency clearing account for any other purpose, except in refund of erroneous or excessive collections and credits…"

Of the 67 expenditures tested, the following was noted:

- One claim's supporting documentation was inadequate;
- One claim had no supporting documentation;
- One claim had the incorrect account code identified;
- One claim was coded as being paid from the Board's clearing account;
- 12 claims and the corresponding supporting documentation could not be provided by the Board. However, we were able to test these claims by obtaining them through the Department of Libraries.

In December 2006, the Office of State Finance (OSF) began handling the Board's accounts payable functions. However, invoices are not reviewed/approved by Board management prior to being sent to OSF for processing.

These types of issues may lead to inappropriate payments occurring.

Recommendation: The deficiencies identified in the period September 1, 2005, through November 30, 2006, appear to have been addressed by the Board contracting with OSF to perform their accounts payable function. However, we recommend the appropriate level of management review and formally approve invoices prior to sending them to OSF.

View of Responsible Officials: As the audit points out our accounts payable functions are now performed by the Office of State Finance. While invoices were always reviewed, this process will now be formalized by having the Business Manager initial and date all invoices.

Incomplete Data on Inventory Listing

An effective internal control system provides for accurate and reliable records.

OAC 580: 70-3-1(a) states in part, " 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 Department by August 15…"

The following was noted as a result of the procedures performed:

- An annual physical inventory count is not performed. Each employee is provided a listing of their assets based on previous history and they are to confirm the assets' existence and report any necessary changes to the business manager;
- From the June 30, 2006 and June 30, 2007 inventory reports prepared in accordance with OAC 580: 70-3-1(a), we determined which items, if any, were sent to surplus during fiscal year 2007. There were none according to our review of the reports (items on the 2006 report also appeared on the 2007 report). However, management provided us a DCS Form 001 for items surplused on June 12, 2007. Seven items

on this form with a presumed value of $500 or more were not identified on the June 30, 2006 inventory report.

- Five out of five assets selected from the June 30, 2007 inventory listing did not agree to the applicable asset on the floor. Because of this, we sorted the Board's expenditure report for the period by account code, extracted code 541120 (data processing equipment), and reviewed all 18 claims. From these claims and corresponding invoices, we determined there were 16 computers purchased which we attempted to trace to the floor using the "service tag" number from the invoice. However, many of the computers are located in the Board's satellite offices and Board staff does not have a mechanism in place for determining who the computers are assigned to based on the data provided on the invoices.
- Conversation with management indicates the Board owns a digital camera; however, based on review of the latest inventory report, the camera is not identified. The Board does not use a reporting limit amount for assets; therefore, it appears reasonable to assume the camera should have been identified.

Deficiencies such as these may to lead to misappropriation of assets.

Recommendation: We recommend the following:

- A physical count of the inventory should be conducted as soon as possible by an employee independent of the receiving or purchasing process. The inventory report should then be revised to accurately reflect the Board's inventory. Documentation of the count should be maintained, signed and dated by the employee performing the count as well as signed and dated by management to indicate their formal approval.
- Board management should develop a process which would enable them to link equipment from their inventory listing to its originating invoice. Preferably, the unique identifying number assigned by the vendor and reported on the invoice should be recorded by management on their inventory listing.
- Board management should establish and implement procedures to ensure physical inventory records are updated as soon as changes occur.

View of Responsible Officials: A physical count of the inventory will be undertaken which will be supervised by the Deputy Director. Equipment will be linked from the inventory to the originating invoice and formally approved by the employee performing the count and management. Inventory will be updated in a timelier manner.

Objective 2 – Determine if the Board complied with 57 O.S. § 332.1A and 57 O.S. §332.4.

Conclusion

The Board is in compliance with 57 O.S. § 332.1A and 57 O.S. §332.4.

Methodology

To accomplish our objective, we performed the following:

- Reviewed 57 O.S. §332.1A (each Board member is required to have at least six hours of training annually);
- Reviewed Board meeting agendas for the period identifying the type of training and hours provided in connection with 57 O.S. §332.1A as well as the corresponding discussion in the minutes addressing the training agenda items;
- Reviewed 57 O.S. §332.4 (Board member salaries);
- Reviewed Board minutes for the period to ensure Board members were present;
- Selected six months from the period and ensured all Board members were paid the correct salary.

Objective 3 – Determine if the Board's corrective actions for reportable conditions noted in prior year's report were implemented.

Conclusion

The Office of the State Auditor's report issued November 4, 2005, included five findings which were considered significant to this engagement. Corrective action on three of the findings has been implemented, while corrective action on the two remaining findings related to inventory and expenditure claims has not been implemented or has been partially implemented.

Methodology

We:

- Interviewed Department of Central Services' fleet management personnel to confirm the Board staff no longer leases vehicles through the State.
- Documented internal controls related to the expenditure and inventory process (performed under Objective 1 of this report);
- Tested controls which included:
  - Reviewing 67 expenditure claims to ensure they were properly authorized. This included ensuring the invoice supported the payment, the invoice was mathematically accurate, the correct account code was used, and the expenditure appeared reasonable given the Board's mission (performed under Objective 1 of this report);
  - Determining if an annual physical inventory count is conducted (performed under Objective 1 of this report);
- Reviewed the Board's employee handbook addressing employee time records as well as working overtime;
- Reviewed a listing of employees who accrued compensatory time during the period;
- Tested 38 timesheets from various employees for various months throughout the period to ensure:
  1) The timesheet was signed by the employee and a supervisor;
  2) Total compensatory time accrued/used was identified;
- Interviewed management and reviewed data from the PathwayNet system (purchase card system) to determine the Board no longer has purchase cards.

NOTE: The Office of the State Auditor's report issued on November 4, 2005, should be read in conjunction with the observations noted below. The report may be accessed at www.sai.state.ok.us.

Observations

Policy on Compensatory Time Needs Clarification

Section 2.9 of the Board's Employee handbook states in part, "All employees will record and submit all time worked and leave taken on the P&PB's monthly time report…"

Section 7.3 of the Agency's employment handbook states in part, **"**…**Authorized overtime** worked by employees in non-exempt positions (Fair Labor Standards Act) shall have the choice of being compensated as required by law at time and half worked or the choice of workweek adjustment within the regular week….Compensatory time will not be given to non-exempt employees."

An effective internal control system provides for accurate and reliable time records.

The following was noted as a result of procedures performed:

- There was an inconsistency noted in section 7.3 of the policy. The last sentence of section 7.3 states "Compensatory time will not be given to non-exempt employees." However, the first portion of this section addresses non-exempt employees accruing compensatory time.

- On 38 various employees' timesheets, one had not been signed by either the employee or supervisor and two had not been approved by a supervisor.

Without an appropriate review of timesheets, misuse of time could occur and go undetected.

Recommendation: We recommend management clarify the employee handbook and as well as implement a formal policy requiring written approval for compensatory time above a specified amount (as determined by management). Further, we recommend management modify their existing policy to require a supervisor's approval on each employee's timesheet. Modifications in policy should be formally communicated to all staff.

View of Responsible Officials: The Agency has developed and implemented more extensive policies regarding compensatory time and approval of timesheets incorporating the recommendations of the audit.

Other Items Noted

Securing Sensitive Data

The State of Oklahoma's Information Security Policy, Information and Guidelines states in part: "…The confidentiality of all information created or hosted by a State Agency is the responsibility of that State Agency…The objective of the owning State Agency is to protect the information from inadvertent or intentional damage, unauthorized disclosure or use…" This policy includes "any data or knowledge collected, processed, stored, managed, transferred or disseminated by any method." Based on conversation with management, sensitive data is maintained in hard copy format within the Board's office and may not be adequately secured after business hours. We found no evidence to suggest sensitive data had been compromised, but the lack of safeguarding the information makes it a risk.

Recommendation: We recommend management explore options for adequately securing sensitive data after business hours.

Views of Responsible Officials: The Agency has adopted and implemented a policy addressing this issue.

Board Should Develop Cell Phone Policy

The Board had four cell phones during our period. There is no policy in place related to the assignment and use of the phones; however, management stated employees were clear the phones were for business use only. We reviewed two claims paid to a cell phone vendor and noticed several calls and data transfers occurred during non-business hours (Saturday and Sunday as well as Monday thru Friday 6:00 PM to 6:00 AM).

Recommendation: We recommend policy be developed and implemented which, at a minimum, includes:

- Personal use (allowable, limitations on frequency);
- Need of a phone based on job duties;
- Size of plan (minutes/features required).

Views of Responsible Officials: The Agency is developing a policy concerning this issue that will deal with the points raised by the audit.

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