

OKLAHOMA BUREAU OF NARCOTICS AND DANGEROUS DRUGS CONTROL

JULY 1, 2005 THROUGH
DECEMBER 31, 2007

OPERATIONAL AUDIT



Oklahoma State Auditor
& Inspector

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

**For the Period
July 1, 2005 through December 31, 2007**



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Steve Burrage, CPA
State Auditor and Inspector

July 17, 2008

**TO THE COMMISSION OF THE OKLAHOMA BUREAU
OF NARCTOICS AND DANGEROUS DRUGS CONTROL**

Pursuant to 74 O.S. § 212, transmitted herewith is the audit report for the Oklahoma Bureau of Narcotics and Dangerous Drugs Control for the period July 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,

A handwritten signature in blue ink that reads "Michelle R. Day".

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

Mission Statement

Committed to honor, integrity, and excellence, the Oklahoma Bureau of Narcotics will serve the citizens of Oklahoma in the quest for a drug free state.

Commission Members

Tim Harris	Chairman
Phil Cotton.....	Co-Chairman
Pete Cordova	Member
Kenny Stradley	Member
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**STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR**

Steve Burrage, CPA
State Auditor and Inspector

**TO THE COMMISSION OF THE OKLAHOMA BUREAU
OF NARCOICS AND DANGEROUS DRUGS CONTROL**

We have audited the Oklahoma Bureau of Narcotics and Dangerous Drugs Control (Agency) for the period July 1, 2005, through December 31, 2007. The objectives of this audit were to determine if:

- The Agency's internal controls provide reasonable assurance that revenues, expenditures, and inventory were accurately reported in the accounting records, and financial operations complied with applicable finance-related laws and regulations;
- The Agency complied with the Department of Central Services' Purchase Card Procedures;
- The Agency'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, Esq.
Deputy State Auditor and Inspector

July 16, 2008

Background

The Oklahoma Bureau of Narcotics and Dangerous Drugs Control (Agency) is responsible for criminal investigations of violations of the Uniform Controlled Dangerous Substance Act, registration and regulation of all persons who legitimately manufacture, prescribe, dispense, or handle controlled dangerous substances prior to delivery to the ultimate consumer; and coordination of the dissemination of information about the abuse of controlled dangerous substances. The Agency's operations are governed by 63 O.S. § 2-101 through 2-560 and Title 475 of the Oklahoma Administrative Code.

Table 1 summarizes the Agency'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

Sources:	2006	2007
State Appropriations	\$5,389,593	\$6,320,763
Physician License	725,824	1,033,941
Seized Cash - State Judgments	2,654,166	2,123,028
Seized Cash - Federal Judgments	43,953	198,034
Interest on Investments	8,806	98,673
Federal Grants-In-Aid	35,506	320,750
Federal Reimbursements	1,646,562	843,701
Other	<u>531,675</u>	<u>611,768</u>
Total Sources	<u>\$11,036,085</u>	<u>\$11,550,658</u>
Uses:		
Personnel Services	\$6,016,946	\$6,731,373
Professional Services	19,290	34,942
Travel	263,582	189,613
Miscellaneous Administrative	536,810	543,543
Rent	338,753	419,373
Maintenance and Repair	635,046	372,102
Office Furniture and Equipment	1,117,184	741,346
Other	<u>369,326</u>	<u>767,071</u>
Total Uses	<u>\$9,296,937</u>	<u>\$9,799,363</u>

SOURCE: Oklahoma CORE Accounting System

Objective 1 – Determine if the Agency's internal controls provide reasonable assurance that revenues, expenditures, 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 generally provide reasonable assurance that revenues, expenditures, and inventory were accurately reported in the accounting records; however, two issues were noted in which the controls need to be strengthened. Additionally, the Agency is in compliance with 63 O.S. § 2-103a (salary requirements for various positions).

Methodology

To accomplish our objective, we performed the following:

- Reviewed 62 O.S. § 7.1 (timely deposits);

- Documented internal controls related to the receipting, expenditure, and inventory processes;
- Tested controls which included:
 - Determining if checks were endorsed upon receipt;
 - Determining if the person preparing the deposit was independent of the receipting process;
 - Reviewing deposits from the period to ensure the deposit was supported with the appropriate "Payment Report and Daily Transaction Report";
 - Determining if funds were stored in a secure location prior to deposit;
 - Reviewing 40 deposits to ensure the bank deposit date was within one day of when the funds were received;
 - Reviewing 40 deposits to ensure the deposit was posted into CORE within one day of being deposited at the bank;
 - Reviewing three Office of State Finance (OSF) Form 11 reconciliations and three OSF Form 11A reconciliations to ensure the preparer and reviewer were independent of each other and the reconciling items were adequately supported and appeared reasonable;
 - Reviewing 25 deposits comprised of seized funds (money recovered by a narcotics agent during an arrest) to ensure the deposit was supported with adequate documentation;
 - Reviewing 15 transfers from the seized funds account to the Agency's revolving fund to ensure the transfers were supported by a court order;
 - Reviewing 40 expenditure claims to ensure they were properly approved, the correct account code was used, and were reasonable given the Agency's mission;
 - Determining if the employee responsible for receiving warrants from OSF was independent of the posting and approval process;
 - Determining if vouchers were maintained in a secure location;
 - Determining if vouchers were pre-numbered and the sequence of the numbers was monitored;
 - Reviewing 20 expenditure claims from the Agency's "Official Advance Fund" account (used by narcotics agents in undercover operations) to ensure they were officially approved, supported by the approved "Request for Official Advance Funds" form as well as the "Monthly Statement of Official Advance Fund" account form with applicable receipts;
 - Reviewing 10 expenditures from the seized funds account to ensure they were approved and supported by a court order authorizing the release of funds;
 - Determining if there was adequate segregation of duties in the inventory process;
 - Determining an annual physical inventory count was conducted;
 - Determining if surplus property forms were completed and approved;
- Reviewed a CORE deposit report for the period to ensure funds were transferred from the Agency's clearing account to their revolving funds at least once per month;
- Agreed 8 assets from the inventory listing (4 from the information technology listing and 4 from the property listing) to the floor to ensure their existence, they were identified as property of the State, and the inventory tag number and serial number agreed to the listing;
- Agreed 21 assets from the floor to the inventory listing (11 from the information technology listing, five from the property listing, and five from the furniture listing) to ensure their inclusion on the listing, they were identified as property of the State, and the inventory tag number and serial number agreed to the listing;
- Tested 20 timesheets from various employees in March 2007 to ensure the timesheet was signed by the employee and a supervisor;
- Tested the salaries of the Director and 11 various employees from January 2007 and December 2007 to ensure compliance with 63 O.S. § 2-103a.

Observations

Inadequate Segregation of Duties Related to Expenditures

An effective internal control system provides for adequate segregation of duties. Based on conversation with the Accountant, she is responsible for posting disbursements into the CORE accounting system, receiving warrants from OSF, and mailing warrants to the vendors.

Without adequate segregation of duties, misappropriation of assets could occur.

Recommendation: We recommend someone other than the Accountant receive the warrants from OSF, match them to the appropriate invoice/ purchase order, and mail them to the vendors.

Views of Responsible Officials: The Fiscal Office was in compliance with recommendation until August, 2006 (FY-2007). During that time there were three (3) employees in the Fiscal office to comply with these controls. Currently the Fiscal Division is in compliance with this recommendation due to the increase in FTE to five (5) in FY-2008 allowing this Division the ability to adequately segregate these duties.

Approval of Inventory Counts Should be Noted

An effective internal control system provides for periodic physical inventory of Agency assets. A physical count of the Agency's inventory occurs annually; however, the person who conducted or approved the count is not identified.

Deficiencies such as these may lead to misappropriation of assets.

Recommendation: We recommend documentation of the count be maintained, signed and dated by the employee performing the count, as well as signed and dated by management to indicate their formal approval. The employee and approving official should be independent of the purchasing process.

Views of Responsible Officials: The last OBN inventory was produced in FY-2006. Due to changes in Property and IT employment, the Office of State Finance Data Processing and Department of Central Services exempted and allowed OBN to submit the current inventory August 15, 2008. The inventory software has been upgraded and in compliance with Office of State Finance and Department of Central Services requirements. A completed signed, approved and dated inventory will be submitted to both departments prior to August 15, 2008.

Objective 2 – Determine if the Agency complied with the Department of Central Services' (DCS) Purchase Card Procedures.

Conclusion

Based on procedures performed, it appears the Agency is not in compliance with DCS's Purchase Card Procedures.

Methodology

To accomplish our objective, we performed the following:

- Reviewed DCS's Purchase Card Procedures;
- Reviewed 15 purchase card transactions.

Observations

Section 6.7.1 of DCS's Purchase Card Procedures states in part, "...The receiving document should be annotated "Received" and signed and dated by the receiving employee..."

Section 6.9.2 of DCS's Purchase Card Procedures states in part, "...To indicate concurrence with the reconciled statement, the State Entity Approving Official shall sign and date the memo statement..."

Based on the 15 transactions tested and conversation with management, the following was noted:

- Three transactions' receiving documents were not annotated "received", signed or dated by the receiving employee;
- Five transactions' receiving documents were not dated by the receiving employee;
- One transaction's receiving document was not annotated "received" by the receiving employee;
- One transaction's receiving document was not annotated "received" or dated by the receiving employee;
- Three memo statements were not signed by an approving official.

Recommendation: We recommend the p/card holders and the p/card approving official review the DCS Purchase Card Procedures and attend p/card training provided by the DCS to ensure they understand how to comply with these requirements.

Views of Responsible Officials: The P/Card holders and P/Card approving officials have reviewed the DCS Purchase Card Procedures and have recently attended training provided by DCS. OBN is currently in compliance with these requirements. The three transactions occurred during the time one (1) FTE retired leaving one (1) FTE responsible for the Property Division. The five transactions also occurred during this time; these were signed but not dated. One transaction receiving document was not annotated "received" by the receiving employee, however effective January 1, 2008 according to P-Card rule 6.6.1 this is not a requirement if goods or services are received at the time of purchase. One transaction receiving document was not annotated "received" or dated by the receiving employee. As stated above the annotated "received" is no longer a requirement. Three memo statements were not signed by an approving official. Two of the claim vouchers were signed by approving officials authorized but under normal circumstances would not sign the claims. In FY-2007/2008 OBN hired an additional FTE (Certified Procurement Officer) allowing professional knowledge of current State of Oklahoma purchasing Laws and Procedures.

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

Conclusion

Based on review of the report issued by the State Auditor and Inspector's Office on April 20, 2006, there were no reportable conditions noted. Therefore, there was no need to perform procedures related to this objective.



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