OPERATIONAL AUDIT

Oklahoma Department of Libraries

For the period March 1, 2012 through December 31, 2017

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

Audit Report of the Oklahoma Department of Libraries

For the Period March 1, 2012 through December 31, 2017

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 Prairie Collection (http://digitalprairie.ok.gov/cdm/search/ collection/audits), 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

July 17, 2018

TO THE OKLAHOMA DEPARTMENT OF LIBRARIES BOARD

This is the audit report of the Oklahoma Department of Libraries for the period March 1, 2012 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,

Gary A Jones

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

Background

The Oklahoma Department of Libraries (ODL) is the official state library of Oklahoma. They serve the information and records management needs of state government, assist with public library development, coordinate library and information technology projects for the state, and serve the general public through their specialized collections.

Oversight is provided by seven board members (Board) appointed by the governor and confirmed by the Oklahoma State Senate. Each member serves a term of six years.

Board members as of June 30, 2018 are:

Phil Moss .... Chair, Congressional District 4
Cynthia Vogel.. Vice-Chair, Member-At-Large
Annabeth Robin. .... Member, Congressional District 1
Mary Shannon .... Member, Congressional District 2
Lee Denney .... Member, Congressional District 3
Robert Dace.. Member, Congressional District 5
Jana Barker .... Member-At-Large

The following table summarizes the Agency's sources and uses of funds for fiscal years 2016 through 2017 (July 1, 2015 through June 30, 2017).

Sources and Uses of Funds for FY 2016 through FY 2017

	2016	2017
Sources:		
Appropriations	$ 4,854,020	$ 4,713,758
Licenses, Permits, Fees	$ 43,648	$ 44,008
Grants, Refunds, Reimbursements	$ 3,088,529	$ 2,767,230
Sales and Services	$ 11,623	$ 10,734
Total Sources	**$ 7,997,820**	**$ 7,535,730**
Uses:		
Personnel Services	$ 2,547,397	$ 2,297,166
Professional Services	$ 491,635	$ 623,702
Travel	$ 68,108	$ 54,049
Administrative Expenses	$ 1,776,090	$ 1,580,779
Property, Furniture, Equipment	$ 286,913	$ 311,077
Assistance, Payments to Local Govn'ts	$ 2,944,227	$ 2,715,946
Transfers and Other Disbursements	$ 66	$ 46
Total Uses	**$ 8,114,436**	**$ 7,582,765**

Source: Oklahoma Statewide Accounting system (unaudited, for informational purposes only)

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 March 1, 2012 through December 31, 2017.

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Oklahoma Department of Libraries operations. Further details regarding our methodology are included under our 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.

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 do not provide reasonable assurance that revenues, expenditures (both miscellaneous and payroll) and inventory were accurately reported in the accounting records.

Financial operations complied with the following laws and regulations:

- 74 O.S. §3601.2A – Salaries of Chief Executive Officers
- 65 O.S. § 3-112 – Petty Cash Fund

- OAC 405:25 – State Aid Funds

Objective Methodology

To accomplish our objective, we performed the following:

- Documented significant internal controls related to receipting, see results in related finding.
- Documented significant internal controls related to miscellaneous expenditures, see results in related finding.
- Documented significant internal controls related to payroll expenditures, see results in related finding.
- Documented significant internal controls related to inventory; see results in related finding.
- Determined Compliance with 74 O.S. §3601.2A – Salaries of Chief Executive Officers, which included:
  - Reviewing all data on the *HR All Actions* report and comparing it to approved salary ranges established by the Office of Management and Enterprise Services.
- Determined compliance with 65 O.S. § 3-112 – Petty Cash Fund, which included:
  - Documenting the agency's processes and controls related to their petty cash fund.
  - Performing a surprise cash count of the petty cash fund:
    - Verifying that receipts for expenditures plus the cash on hand equaled the total amount approved (no more than $300 according to 65 O.S. §3-112).
    - Verifying that the receipts were for postage or other minor purchases that did not exceed $25 and were not otherwise unallowable by statute.
    - Verifying that there were no employee or personal checks for cash.
    - Verifying that there were no notes for "loans" or advances.
  - Testing nineteen petty cash replenishment claims which was 100% of the population during our audit period.
  - Verifying that the agency used OMES Form 9 as required by the Statewide Accounting Manual for the replenishment of petty cash funds.
  - Verifying that the receipts were for postage or other minor purchases that did not exceed $25 and were not otherwise unallowable by statute.
  - Verifying that the replenishment requests met all other requirements regarding petty cash replenishment claims as required by the statewide accounting manual.
- Determined compliance with OAC 405:25 – State Aid Funds, which include:

- Documenting process and controls related to eligibility determinations, State Aid formula calculations, State Aid payment distributions, and State Aid recipient reporting.
- Verifying State Aid calculations for each complete fiscal year of our audit period.
- Obtaining a listing of state aid payments during each complete fiscal year of our audit period and:
  - Determining completeness and funding source.
  - Randomly selecting a sample of State Aid recipients (libraries) and:
    - Verifying amount received by the library agreed to the amount on the State Aid formula calculation
    - For each library selected above, obtaining annual financial reports required by OAC 405:25-1-3-A and verifying:
      - State Aid amount reported agreed to what was paid
      - Funds were not used for prohibited purposes (OAC 405:25-1-4)

FINDINGS AND RECOMMENDATIONS

The agency does not have proper segregation of duties related to receipts.

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*[1] (2014 Version) 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 business manager has the regular duties of preparing the daily deposits, preparing the monthly clearing account reconciliation, and has access to post deposits in the Statewide Accounting System. This creates the opportunity to misappropriate funds received and conceal the misappropriation by improperly recording or modifying deposit records and internal receipt logs prepared by division personnel and altering entries posted into the Statewide Accounting System. Additionally, the Archives and Records division administrative technician and the accounts payable clerk both independently open, process, and log

[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.

payments received. This creates an opportunity for either of these employees to misappropriate funds received and conceal the misappropriation by failing to record receipts and altering records.

The risks identified above are partially mitigated by the accounts receivable clerk's review and comparison of payments received to payments expected from invoiced customers (accounts receivable) which is recorded internally in QuickBooks. However, this review only includes accounts receivable which account for less than 6% of all cash and check payments received by the agency. Although the accounts receivable clerk does perform a limited monthly review of non-invoiced revenue, this review does not mitigate the risk that the administrative technician could misappropriate funds as there is no comparison to expected versus received revenue for that revenue source. Due to the nature of this revenue source, it may not be possible to perform a review or reconciliation that would mitigate this risk. In addition, there is a potential conflict of interest with this review due to the fact that the accounts receivable clerk is married to the Archives and Records administration technician. This conflict of interest could be mitigated if two people are present to open, log, and process non-invoiced revenue at all times.

The deputy director performs a review of deposit and transfer records to bank receipt records as part of a review of the monthly clearing account reconciliation. This includes a review of internal records such as daily receipt logs prepared by the Archives and Records division administrative technician and the accounts payable clerk. However, this review may not mitigate the risks of misappropriation of assets identified above due to the conflicting duties and access of the business manager, the absence of any reconciliation between expected and received revenue for the majority of cash and check revenue, and the fact that mail is opened and payments processed with only one employee present.

Recommendation
We recommend management segregate duties to ensure that individuals preparing the deposit do not have access to record payments or deposits. This could be accomplished by eliminating the business manager's access to post or alter deposit information in the Statewide Accounting System. Mail should be opened, and payments logged and processed, with at least two individuals present. All receipts should be reconciled by someone independent of the receipting process using reliable supporting documentation.

Views of Responsible Officials
Partially concur.

The operational audit of the Oklahoma Department of Libraries, January 1, 2009 through February 29, 2012, stated, "The Department's internal controls provide reasonable assurance that revenues, and expenditures (including payroll), were accurately reported in the accounting records." The agency has always strived to ensure that its business practices were adapted to be consistent with any audit recommendations. Changes have been made in business operations to align with these recommendations.

Loss of fiscal staff during the audit period has contributed to the issues related to segregation of duties. The full staffing level for the fiscal office has been four full-time employees. This number has fluctuated over time. Two full-time employees were lost to resignation and retirement in early 2016. Because of mandated budget reductions, the agency has been unable to fill these two full-time positions. We have managed to hire a part-time temporary contract employee to assist the remaining two full-time employees in this division.

There is no predictable flow of receipted income to the Oklahoma Department of Libraries (ODL). Major areas of this income include: 1) filing fees for corner records; 2) photocopy fees; and 3) lost or damaged library materials fees. Land surveyors may file corner records as they are created or wait until an entire area is surveyed. We cannot predict when library materials may be lost or damaged or the cost of a replacement. Consequently, there is no reasonable way to reconcile expected versus received revenue sources. Estimated annual receipts are: $45,000 for corner records filing fees; $7,500 for photocopying; and $2,000 for replacement of lost or damaged library materials. The agency's total revenue estimate for FY 2019 is $7,594,521. Revenue includes state appropriated funds, federal grants-in-aid, federal funds from other state agencies, private grants and donations, and revolving fund income.

In order to ensure that individuals preparing the deposit do not have access to record payments or deposits, an employee other than the business manager will be assigned to prepare agency deposits only. This employee is a Certified Procurement Officer in another division and will not have the capability to record payments or deposits. The business manager will then be able to record payments or deposits without processing the actual deposits.

In order to mitigate the potential conflict of interest between the receipt of payments from the Archives Administrative Technician and the Accounts Receivable Clerk, a procedure has been established to verify the receipt of these payments by two staff persons. Mail room staff will deliver checks to the Accounting Technician and observe the clerk opening the envelopes and receipting the checks. Mail room staff will then countersign the receipts.

The Accounts Receivable Clerk is not engaged in the receipting process. He reconciles all receipts with accompanying documentation, which may include: 1) deposit slip for total day's deposit; 2) copies of invoiced checks; or 3) check stubs.

AUDITOR RESPONSE: *The corrective action plan to reassign the duty of preparing the daily deposit to an employee other than the business manager is consistent with our recommendation, will strengthen internal controls, and reduce the risk of misappropriation related to inadequate segregation of duties. Although the accounts receivable clerk may technically not be engaged in the receipting process, the ability to rely on supporting documentation was questioned during the audit process due to the inadequate segregation of duties of the business manager. Revising procedures to have the mailroom staff present when mail is opened and receipted is consistent with our recommendation and will reduce the risk that the administrative technician could misappropriate funds without detection.*

The agency does not have proper segregation of duties over miscellaneous expenditures.

The GAO S*tandards* state in part, "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 business manager prepares purchase orders and receives warrants from OST once they have been processed as part of her regular duties. She also has access in the Statewide Accounting System to process vouchers. In addition, there is not a sufficient detailed and documented review of expenditures by someone independent of the expenditure process. Although the Board reviews a list of paid claims during their quarterly meetings, it is for informational purposes only and does not contain enough detailed information to give the Board the opportunity to discover or inquire about questionable purchases. The Board does not receive the 6-digit detailed expenditure report from CORE. The deputy director reviews the BARS (internal document) report monthly, and has access to the detailed expenditure report, but does not perform a documented review of the 6-digit detailed expenditure report. This creates the risk that the business manager could initiate, inappropriately authorize, process, and record an inappropriate expenditure without detection.

Recommendation

We recommend management segregate duties to ensure that a single individual would not be able to initiate, authorize, process and record an expenditure transaction. If the agency is unable to segregate key duties and operations remain the same, at a minimum someone independent of the expenditure process, such as a Board member or the Director, should perform and document a detailed review of the PeopleSoft 6-digit detailed expenditure report on a routine basis.

Views of Responsible Officials

Partially concur.

While the agency business manager prepares purchase orders, the deputy director signs the purchase order as part of the acquisition process. In the absence of the deputy director, the agency director signs purchase orders. Further, the business manager does not receive warrants from the Oklahoma State Treasurer. The mail room clerk receives the warrants and checks them against the warrant list for automatic payments and paper checks. The mail room clerk then mails the paper checks in envelopes prepared by the accounts payable clerk for checks requested by her. Checks for grants and professional services are delivered to the Administrative Assistant in the Office of Library Development for her to mail to the appropriate receiving entity.

The deputy director reviews and signs claims for purchases and services. She also reviews and signs off on P-Card transactions. She has no access to the PeopleSoft system.

The Oklahoma Department of Libraries recognizes the need for appropriate segregation of duties. The director of the agency has started to perform and document a review of the PeopleSoft 6-digit detailed expenditure report on a monthly basis.

AUDITOR RESPONSE: *Based on the information provided by agency personnel during the course of the audit, the risk remains that the business manager could prepare a purchase order for a fictitious vendor, forge the deputy director or director's signature of approval, and post the transaction to the Statewide accounting system without detection since there is no detailed review of expenditures such as the PeopleSoft 6-digit report. However, the agency's implementation of a detailed review by the director is consistent with our recommendation and will mitigate the risk of misappropriation associated with the inadequate segregation of duties.*

The agency has not adequately segregated key duties related to payroll.

The GAO *Standards* state in part, "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 executive assistant has the responsibility of posting payroll changes in PeopleSoft HCM and reviewing payroll reports to ensure that changes were made. In addition, payroll change approvals are not consistently documented by the agency director and there is no independent review of payroll reports to ensure only authorized changes were made.

Recommendation

We recommend management segregate duties to ensure that employees responsible for reviewing and approving payroll claims do not have the ability to make changes to payroll or personnel data in PeopleSoft HCM. All payroll change approvals should be properly documented as evidenced by the agency director's signature on appropriate forms. An independent review of payroll claims and detailed supporting documentation should be performed by someone other than the person posting payroll changes in PeopleSoft to provide assurance that only authorized payroll changes are made. This review should be documented.

Views of Responsible Officials

Partially concur.

The deputy director and director of the agency are the only staff responsible for reviewing and approving payroll claims. Neither of them have access to make changes to payroll or personnel data in PeopleSoft HCM.

Prior to June 30, 2011, all OPM Forms 14 were signed by the agency director, division manager, and HR manager. Effective July 1, 2011, all personnel transactions were entered directly into the PeopleSoft HCM module. This online form provides for HCM approval only. The Human Capital Management Division of the Office of Management and Enterprise Services must have additional documentation to effect a change submitted via the HCM Form 14. Additional documentation may include a letter from the agency director or a signed HCM Form 92, which requires multiple signatures, including the signature of the agency director. Executive Order 2015-06 and dated February 6, 2015, requires the HCM Form 92, Freeze Exemption, be signed by the agency's cabinet secretary for all personnel actions.

Henceforth, a paper copy of form HCM 14, signed by the agency director, will be included with documentation of payroll changes and filed in the affected employee's personnel file.

Payroll claims are reviewed by the deputy director or director of the agency. Neither has access to PeopleSoft HCM, so they are not able to make payroll changes in the system. Supporting documentation [payroll register] will be reviewed, dated, and signed by the person signing the payroll claim and accompany each payroll claim.

AUDITOR RESPONSE: *We agree with management's corrective action plan to appropriately document approval of payroll changes and review of those changes in the payroll reports. Based on information provided to us by agency staff, a detailed review of payroll changes and reports was not occurring during our audit period other than by the executive assistant who has access to make changes to payroll in PeopleSoft HCM. Based on information previously provided, prior review and approval of the payroll claim by the deputy director or director did not include a review of specific details or changes.*

The agency does not have proper segregation of duties over inventory.

The GAO *Standards* state in part, "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 *Standards* also state that "Management must establish physical control to secure and safeguard vulnerable assets. . . Management periodically counts and compares such assets to control records." Furthermore, *Standards* state that management should design "an internal control system to provide reasonable assurance regarding prevention or prompt detection and correction of unauthorized acquisition, use, or disposition of an entity's assets."

The accounting technician had the conflicting duties of maintaining inventory records and performing inventory counts. Further, during our audit period the business manager had conflicting abilities of purchasing and access to change inventory records. These conflicting duties create the opportunity for these individuals to misappropriate an inventory item and conceal it by misstating what was received or falsifying the inventory count.

In addition, the agency did not perform an annual inventory count during the audit period. While they did maintain an inventory listing that is required for state reporting, without a regular count and the above control deficiencies, there is a risk that inventory reports submitted to OMES as required by 74 O.S. §110.1and OAC 260:110-3-1 are inaccurate or incomplete. Also, without an inventory count to identify discrepancies, property may be lost or misappropriated without detection.

Recommendation

We recommend management segregate duties to ensure that no one individual can initiate purchases, authorize transactions, and modify inventory records. We also recommend that management ensure that a comprehensive annual physical inventory count is performed and documented by someone independent from purchasing assets, maintaining inventory items and inventory records, and disposing of surplus assets. The ability to edit electronic inventory records should be limited to as few employees as possible, based upon their inventory-related duties.

Views of Responsible Officials

Concur.

The Oklahoma Department of Libraries (ODL) recognizes the importance of segregation of duties in the inventory process. During a portion of the audit timeline, the business manager had full access permissions to the agency inventory. This occurred because of the vacancy in the accountant position. There were not enough staff members in the fiscal office to assign inventory duties to another person.

That situation was remedied in April 2013, when the business manager was assigned “read only” permissions and inventory access was assigned to the accountant. Sadly, the accountant position became vacant in January 2016 and has remain unfilled. Consequently, the business manager was again permitted access to the actual inventory records at that time.

Another contributing factor to less than optimal inventory control was the consolidation of state government IT services. The absorption of agency IT personnel by the Office of Management and Enterprise Services left ODL with no technical support for our unique inventory system.
A solution to the agency’s inventory issues was offered by OMES in August 2017. ODL was provided with a password protected Excel spreadsheet containing agency inventory records. The spreadsheet also contains a tab that provides a comparison of scanned inventory to itemized inventory.

The accounts receivable clerk has access to update inventory records. The business manager has “read only” rights to the agency inventory records. In order to further separate inventory duties, the mail room supervisor was assigned the task of conducting physical inventories, which he began in late March 2018.

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

WWW.SAI.OK.GOV