

OPERATIONAL AUDIT

# OKLAHOMA DEPARTMENT OF LIBRARIES

January 1, 2009 through February 29, 2012



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

**Audit Report of the  
Oklahoma Department of Libraries**

**For the Period  
January 1, 2009 through February 29, 2012**



# Oklahoma State Auditor & Inspector

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August 28, 2013

## **TO THE MEMBERS OF THE OKLAHOMA DEPARTMENT OF LIBRARIES' BOARD**

This is the audit report of the Oklahoma Department of Libraries for the period January 1, 2009 through February 29, 2012. 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 that reads 'Gary A. Jones'.

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

# Oklahoma Department of Libraries Operational Audit

## Background

The Oklahoma Department of Libraries (hereinafter referred to as the Department) 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. Passage of the Oklahoma Library Code in 1967 created the Oklahoma Department of Libraries. Succeeding legislatures have increased the duties and scope of the Department.

The Department is governed by a seven-member board of directors appointed by the Governor and confirmed by the State Senate.

### **Board members as of July 1, 2013 are:**

|                               |            |
|-------------------------------|------------|
| Jon Douthitt.....             | Chair      |
| Don Evans.....                | Vice-Chair |
| Hannibal Johnson.....         | Member     |
| Ann Ritchie.....              | Member     |
| Jana Barker.....              | Member     |
| Judy Haught.....              | Member     |
| Congressional District 3..... | Vacant     |

Table 1 summarizes the agency's sources and uses of funds for state fiscal years 2010 and 2011 (July 1, 2009 through June 30, 2011).

**Table 1-Sources and Uses of Funds for SFY 2011 and SFY 2010**

|                                | 2011                 | 2010                |
|--------------------------------|----------------------|---------------------|
| <b>Sources:</b>                |                      |                     |
| State Appropriations           | \$ 6,342,529         | \$ 6,756,280        |
| Federal Grants-In-Aid          | 3,240,741            | 2,883,042           |
| Other                          | 948,895              | 348,424             |
| Total Sources                  | <u>\$ 10,532,165</u> | <u>\$ 9,987,746</u> |
| <b>Uses:</b>                   |                      |                     |
| Personnel Services             | \$ 3,344,552         | \$ 3,467,490        |
| Professional Services          | 422,138              | 424,821             |
| Miscellaneous Administrative   | 1,262,798            | 1,385,167           |
| Travel                         | 121,801              | 116,452             |
| Rent Expense                   | 176,008              | 196,622             |
| Office Furniture and Equipment | 292,327              | 83,477              |
| Pmt-Local Gov't, Non-Profits   | 3,697,771            | 3,506,986           |
| Other                          | 817,074              | 794,136             |
| Total Uses                     | <u>\$ 10,134,469</u> | <u>\$ 9,975,151</u> |

*Source: Oklahoma CORE Accounting System (unaudited; for informational purposes only)*

# Oklahoma Department of Libraries Operational Audit

## 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 January 1, 2009 through February 29, 2012. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Department’s operations. We also tested a sample 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 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 Department’s internal controls provide reasonable assurance that revenues, expenditures (including payroll), and inventory were accurately reported in the accounting records, and financial operations complied with significant laws and regulations.**

## Conclusion

The Department’s internal controls provide reasonable assurance that revenues, and expenditures (including payroll), were accurately reported in the accounting records. However, the Department’s internal controls over inventory could be strengthened.

Financial operations complied with the following statutes:

- **65 O.S. § 3-107** which states in part, “The Department may receive and use appropriations, gifts, bequests or grants from any source, public or private, and may take such action as may be necessary to receive such funds.”
- **65 O.S. § 3-112** which states in part, “A petty cash fund of not more than Three Hundred Dollars (\$300.00) is authorized... The fund may be used for postage due payments and for the purchase of minor items and services that

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cost less than twenty five dollars (\$25.00) each. The fund shall be audited by the State Auditor and Inspector as are other accounts of the Department.”

- **OAC 405:25-1-4** which states, “State aid funds cannot be used for construction, remodeling, land, vehicles, or items that will become a permanent part of the building, such as carpet or air conditioners.”
- **OAC 580:70-3-1** which 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 year to the Department by August 15...”

### FINDINGS AND RECOMMENDATIONS

#### **Inadequate Segregation of Duties in the Inventory Process**

Segregation of duties over capital asset custody and investigation of discrepancies is an important element of effective internal control over the State’s assets.

The Accounts Receivable Technician enters items in the inventory system, performs the inventory, and initiates surplus transactions. The business manager is responsible for purchasing yet has full access to the inventory records as well.

This lack of segregation of duties could result in misappropriation of assets that may not be detected in a timely manner.

#### **Recommendation**

We recommend the business manager have read-only access to the inventory listing. In addition, an employee without the authority to update inventory records should be responsible for performing the inventory count and initiating surplus transactions.

#### **Views of Responsible Officials**

The Oklahoma Department of Libraries 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 an extended vacancy in the Accountant position, as well as extended leave of the individual who was eventually hired for the Accountant position. There were not enough staff members in the Fiscal Office of the Oklahoma Department of Libraries to assign inventory duties to another person. This situation was remedied on April 24, 2013. The Business Manager was assigned “read only” permissions and inventory access was assigned to the Accountant.

In order to further segregate inventory duties, the Accountant will enter items in the inventory system. The Accounts Receivable Technician will work with division managers during the physical inventory process to perform the inventory count. Division Managers will initiate surplus requests and forward these requests to the Accountant for action.

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### **Inventory is not Performed Annually**

A component objective of an effective internal control system is to provide adequate reporting of capital assets.

According to **OAC 580:70-3-1**, “All agencies must submit an annual report of current inventory of tangible assets owned by the agency as of June 30 of the preceding year to the Department by August 15...”

The Department is required to perform an inventory count every year. The last inventory count was performed on March 15, 2012 (which is outside our audit period) and the one prior was conducted January 2008.

Not performing an inventory count on a regular basis could result in misappropriation of assets and difficulty locating items due to passing of time.

### **Recommendation**

A periodic inventory count should be performed every year to support compliance with **OAC 580:70-3-1**.

### **Views of Responsible Officials**

The Oklahoma Department of Libraries recognizes the importance of effective internal control systems to provide adequate reporting of capital assets.

The Oklahoma Department of Libraries submits an annual report of inventory to the Division of Capital Assets Management of the Office of Management and Enterprise Services in accordance with OAC 580:70-3-1. The most current submission occurred on August 13, 2013. The rule is silent as to the frequency of a physical inventory of assets.

The Oklahoma Department of Libraries has historically performed its physical inventory of assets on a biennial basis. Plans were underway to perform this physical inventory during the summer of 2010. The resignation of the Accountant and extended leave of the subsequently hired Accountant interrupted these plans and delayed the physical inventory of assets until the spring of 2012.

The Oklahoma Department of Libraries will implement an annual physical inventory of assets in order to comply with the recommendation of the audit and provide an effective internal control system to report adequately on capital assets of the agency.



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