

OKLAHOMA DEPARTMENT OF LIBRARIES

FOR THE PERIOD
JANUARY 1, 2007 THROUGH
DECEMBER 31, 2008

OPERATIONAL AUDIT



Oklahoma State Auditor
& Inspector

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

**For the Period
January 1, 2007 through
December 31, 2008**

STATE AUDITOR AND INSPECTOR

STEVE BURRAGE, CPA
State Auditor

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May 12, 2009

**TO THE BOARD OF THE OKLAHOMA
DEPARTMENT OF LIBRARIES**

Pursuant to 74 O.S. § 212, transmitted herewith is the audit report for the Oklahoma Department of Libraries for the period January 1, 2007 through December 31, 2008. 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, reading "Steve Burrage", is positioned above the printed name.

STEVE BURRAGE, CPA
STATE AUDITOR & INSPECTOR

Mission Statement

The Mission of the Oklahoma Department of Libraries is to serve the people of Oklahoma by providing excellent services and by preserving unique government information resources.

Board Members

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Susan McVey.....	Executive Director
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Oklahoma Department of Libraries Operational Audit

Background

The Oklahoma Department of Libraries (Agency) is the official state library of Oklahoma. A portion of the Agency's responsibilities include:

- providing information and records management services to state officials and the public;
- assisting public library development in the state; and
- coordinating information technology projects.

Oversight is provided by seven board members who serve six-year staggered terms and are appointed by the governor with approval of the Oklahoma Senate. Operations are governed by 65 O.S. § 3-101 through 3-115 and the Oklahoma Administrative Code-Title 405.

Table 1 summarizes the Agency's sources and uses of funds for fiscal years 2007 and 2008.

Table 1-Sources and Uses of Funds for FY 2007 and FY 2008

Sources:	2007	2008
State Appropriations	\$6,847,728	\$7,294,584
Federal Grants-In-Aid	1,980,663	1,746,085
Federal Funds From State Agencies	607,112	565,270
Other	<u>202,616</u>	<u>195,140</u>
Total Sources	<u>\$9,638,119</u>	<u>\$9,801,079</u>
Uses:		
Personnel Services	\$3,585,997	\$3,495,757
Professional Services	196,241	176,989
Miscellaneous Administration	1,542,167	1,468,696
Rent	216,438	199,219
Library Equipment Resources	595,357	640,385
Payments to Local Government	3,957,475	3,571,301
Other	<u>375,421</u>	<u>368,673</u>
Total Uses	<u>\$10,469,096</u>	<u>\$9,921,020</u>

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

Authority, Purpose, and Scope

This audit was conducted in response to 74 O.S. § 212, which requires the State Auditor's Office to audit the books and accounts of state officers 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. 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.

The audit period covered was January 1, 2007 through December 31, 2008.

Objective 1 – Determine if the Agency’s internal controls provide reasonable assurance that receipts, expenditures, and inventory were accurately reported in the accounting records, and financial operations complied with 62 O.S. § 7.1 C. 2. a. and E. 1.

Conclusion

The Agency’s internal controls generally provide reasonable assurance that receipts, expenditures, and inventory were accurately reported in the accounting records. However, four issues were noted that should be strengthened.

Financial operations complied with 62 O.S. § 7.1.E.1 (transfers from the clearing account); however, they did not comply with 62 O.S. § 7.1 C. 2.a (safeguarding of funds).

Methodology

To accomplish our objective, we performed the following:

- Reviewed 62 O.S. § 7.1 - depositing requirements for agency clearing accounts;
- Determined if transfers from the Agency’s clearing account to their funds occur at least monthly as required by 62 O.S. § 7.1.E.1;
- Documented internal controls related to the receipting, expenditure, and inventory processes;
- Tested controls which included:
 - Determining if receipts were stored in a secure location prior to deposit;
 - Determining if the person who prepared the deposit was independent of the receipting process;
 - Reviewing a random sample of 40 deposits to ensure:
 - The deposit amount agreed to the summary of receipts and/or daily receipt log;
 - The deposit was entered into the PeopleSoft accounting system within one working day.
 - Determining the Agency’s clearing account was reconciled on a monthly basis to the State Treasurer’s Office by a person independent of the cash receipting process;
 - Reviewing a sample of five haphazardly selected Office of State Finance (OSF) - Form 11 reconciliations to ensure the reconciliations were reviewed by someone other than the preparer, the reconciliations were mathematically accurate, agreed to supporting documentation, and the reconciling items appeared reasonable;
 - Determining if the Agency’s clearing account records are reconciled to OSF’s PeopleSoft accounting records;
 - Reviewing a random sample of 40 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 was reasonable for the Agency’s mission;
 - Determining if the employee responsible for receiving warrants from OSF was independent of the posting and approval process;
 - Determining if the employee responsible for inventory records was independent of the purchasing and disposal functions;
 - Determining periodic physical inventory counts were conducted;

**Oklahoma Department of Libraries
Operational Audit**

- Agreeing a sample of 15 (judgmentally selected) high-appeal assets from the inventory listing to the floor to ensure they exist, were identified as property of the State, and the inventory tag numbers and serial numbers agreed to the listing.
- Agreeing a sample of 15 (judgmentally selected) high-appeal assets from the floor to the listing to ensure they were maintained on the inventory records by matching the inventory tag numbers and serial numbers from the assets to the listing.

We selected our samples in such a way that whenever possible, the samples are representative of the populations and provide sufficient evidential matter. Sample methodologies can vary and are selected based on the audit objective and whether the total population of data was available. Random sampling is the preferred method; however, we may also use haphazard sampling (a methodology that produces a representative selection for non-statistical sampling), or judgmental selection when data limitation prevents the use of the other two methods. We identified specific attributes for testing each of the samples. When appropriate, we projected our results to that population.

Observation

Safeguarding and Reconciliation of Funds Should Occur

62 O.S. § 7.1 C. 2. A states “Each state agency that has custody of receipts of less than One Hundred Dollars (\$100.00) shall provide adequate safekeeping of such receipts.”

An effective internal control system provides for adequate safeguarding of funds.

Both cash and checks are receipted at the Agency’s main office receptionist’s desk. Prior to deposit, the funds are secured by the receptionist in a box capable of locking in her desk. During lunch time, another Agency employee will perform the receptionist’s duties which may include receipting funds. Seven different employees are in this rotation. The receptionist does not count the funds in the lock box prior to or after lunch. Misappropriation of assets could occur and not be detected in a timely manner.

Recommendation

We recommend the receptionist identify funds in the lock box prior to and after breaks. A receipt or entry into the “daily log” should support any funds which were received while the receptionist is away from her desk.

Views of Responsible Officials

A daily log has been prepared and will be used beginning April 1, 2009 by receptionist personnel to log the dollar amount of funds in the cash box prior to and after breaks. Any change in the amount will be verified by the receptionist by comparing receipts written during the break periods.

Observation

Inadequate Segregation of Duties related to Expenditures

An effective internal control system provides for adequate segregation of duties.

The business manager has the ability to post disbursements to PeopleSoft and is responsible for receiving warrants from OSF.

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

**Oklahoma Department of Libraries
Operational Audit**

Recommendation We recommend an employee without the ability to create expenditures in the PeopleSoft accounting system receive warrants from OSF.

Views of Responsible Officials Warrants will now be received and verified by the director's secretary or in her absence, the customer service representative.

Observation

Segregation of Duties Related to Inventory

An effective internal control system provides for adequate segregation of duties.

The following were noted:

- The business manager is responsible for purchasing yet has access to the inventory records;
- The accounting technician initiates surplus transactions and is also responsible for updating the inventory records.

Deficiencies such as this may lead to misappropriations of assets.

Recommendation We recommend:

- The business manager have read-only access to the inventory listing;
- An employee without the authority to update inventory records is responsible for completing the DCS Form 001. The accounting technician could review the form and update the records.

Views of Responsible Officials

Access to the inventory listing by the business manager has been changed from "full" to "read only" effective 3-25-09. Also, any DCS form 001 Surplus Property Transfers will be completed by either the business manager or an accounting technician who does not have access to update inventory records.

Observation

Agency Should Develop Policy Related to Ethical Behavior

An effective internal control system has in place policies and procedures that reduce the risk of errors, fraud, and professional misconduct within an organization. A key factor in this system is the environment established by management. Management's ethics, integrity, attitude, and operating style become the foundation of all other internal control components.

The Agency has not developed and implemented an official written policy addressing ethical behavior in the workplace. Without a written policy and procedure in place, employees may not be aware of management's expectations regarding ethical behavior thus affecting the Agency's control environment risks.

Recommendation We recommend the Agency develop a written policy regarding ethical behavior in an effort to reduce the possibility of unethical behavior occurring. Once developed, the policy should be distributed to all current employees and procedures should be implemented to provide the policy to all new employees.

**Views of Responsible
Officials**

An employee ethics policy is under development for presentation to and adoption by the Board of the Oklahoma Department of Libraries.

Other Items Noted

Although not considered significant findings, we feel the items noted below should be communicated to management.

Observation

Vehicle Logs Should be More Specific

An effective internal control system provides for adequate documentation of vehicle use.

The Agency leases six vehicles through the Department of Central Services. Employees utilizing the vehicles are required to complete a log; however, the logs do not indicate the mileage accrued during a specific trip, the vehicle which was used, or the purpose of the use.

Recommendation

We recommend the Agency revise their vehicle logs to include but not be limited to:

- beginning and ending odometer reading for each use;
- vehicle number;
- detailed purpose of the trip.

The log should be reconciled by an independent party to the monthly fuel statement and the monthly *PIKEPASS* statement.

**Views of Responsible
Officials**

The Oklahoma Department of Libraries will implement the use of DCS/FLEET MGT – FORM 020 (06/2007) for each vehicle leased by the agency.

Agency Should Seek Revisions to Petty Cash Fund Statute

65 O.S. § 3-112 states in part

A petty cash fund of not more than Three Hundred Dollars (\$300.00) is authorized. It shall be established and replenished by claims against appropriations. The fund may be used for postage due payments and for the purchase of minor items and services that cost less than Twenty-five Dollars (\$25.00) each...

The Agency maintains a petty cash fund for the purposes of supplying small change related to the various types of fees received; however, their statutory authority does not appear to address maintaining cash for the purpose of supplying change.

Recommendation

It appears reasonable the Agency has a petty cash fund for the purpose of making small change; therefore, we recommend management contact OSF to determine the appropriate course of action for submitting legislation to modify their petty cash authority.

**Views of Responsible
Officials**

The Oklahoma Department of Libraries will seek guidance from the Office of State Finance to implement this recommendation.



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