Agreed-Upon Procedures Report

Oklahoma Department of Libraries

July 1, 2005 Through December 31, 2006

Office of the Oklahoma State Auditor and Inspector

Jeff A. McMahan, CFE

Oklahoma Department of Libraries

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For the Period
July 1, 2005 Through December 31, 2006

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STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Jeff A. McMahan
State Auditor and Inspector

May 21, 2007

TO THE OKLAHOMA DEPARTMENT OF LIBRARIES

Transmitted herewith is the agreed-upon procedures report for the Oklahoma Department of Libraries. 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,

Jeff A. McMahan

JEFF A. McMAHAN
State Auditor and Inspector

Mission Statement

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

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STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Jeff A. McMahan
State Auditor and Inspector

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

We have performed the procedures enumerated below, which were agreed to by management of the Oklahoma Department of Libraries, solely to assist you in evaluating your internal controls over the receipt and disbursement process, the safeguarding of capital assets, and in determining whether selected receipts and disbursements are supported by underlying records for the July 1, 2005 through December 31, 2006. This agreed-upon procedures engagement was conducted in accordance with standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We compared the Oklahoma Department of Libraries' internal controls over receipts and disbursements with the following criteria:
   - Accounting duties were segregated by functions into those who initiate or authorize transactions; those who execute transactions; and those who have responsibility for the asset, liability, expenditure, or revenue resulting from the transaction;
   - Receipts were issued for cash and/or checks received;
   - Incoming checks were restrictively endorsed upon receipt;
   - Receipts not deposited daily were safeguarded;
   - Voided receipts were retained;
   - Receipts and disbursements were reconciled to Office of State Treasurer and Office of State Finance records;
   - Disbursements were supported by an original invoice;
   - Timesheets were prepared by employees and approved by supervisory personnel.

   A component objective of a good internal control system is to provide adequate segregation of duties and a proper approval process. The Department of Libraries does not obtain approval of the monthly Agency Clearing Account Reconciliations. Without the approval of reconciliations, errors and improprieties could occur and not be detected in a timely manner. We recommend the Department of Libraries implement procedures requiring monthly Agency Clearing Account Reconciliations be approved by someone other than the preparer.

   Management Response: The agency implemented a new procedure in April 2007. The Business Manager now forwards the monthly Agency Clearing Account Reconciliation, as well as supporting documentation, within five (5) working days of the reconciliation to the Director or Deputy Director for final review and approval.

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 person who maintains capital assets and performs physical inventories also investigates any discrepancies. Without adequate segregation of duties, errors and improprieties could occur and not be detected in a timely manner. We recommend that someone other than the person who performs physical inventories investigate any discrepancies.

Management Response: The Accounting Technician is responsible for performing the agency's physical inventory. He scans bar codes placed on inventoried equipment. The MIS Division staff then imports the data from the scanner into a spreadsheet and merges it with the master inventory list. A checkmark appears next to equipment on this merged list to indicate that the item has, indeed, been physically identified.

The Accountant then reviews this list for "unchecked" items. The Accountant searches for unchecked items. The Accountant is assisted by the Accounting Technician who may sometimes clarify the location of various items. Missing items are reported to the Business Manager who then notifies the Director.

Performance of physical inventories and investigation of discrepancies are already segregated.

Auditor Response: We were unable to obtain documentation to support the controls noted by management.

With respect to the other procedures applied, there were no findings.

2. We compared the Oklahoma Department of Libraries' internal control over the safeguarding of capital assets with the following criteria:
   - Inventory records were maintained for capital assets costing $500 or more;
   - Packing slips were compared to the purchase order when capital assets were received;
   - Inventory records were adjusted promptly when capital assets were acquired, retired, sold, or transferred;
   - Obsolete or unusable assets were disposed of through the Department of Central Services' Surplus Property Division;
   - Physical inventories were performed;
   - Differences between physical inventory counts and inventory records were resolved.

A component objective of an effective internal control system is to provide adequate supporting documentation. During our observation of internal controls over capital assets, we noted no documentation was retained to support that a physical inventory was performed. Without adequate supporting documentation, errors and improprieties could occur and not be detected in a timely manner. We recommend the Department of Libraries retain documentation to support that a physical inventory was performed.

Management Response: The Accounting Technician performed the agency's most recent physical inventory during the time period August 2005 through February 2006. While partial reports of inventoried items were on file, as well as hand written notes indicating that items were scanned, a complete list of inventoried items was unavailable. Miscommunication between the Accounting Technician and the MIS staff resulted in the deletion of interim scanning reports before the compilation of a master list to cover the individual time period.

Written procedures have been revised and staff has been instructed in the appropriate actions to take to ensure the physical inventory is properly documented. The Business Manager will retain copies of all scanning reports.

With respect to other procedures applied, there were no findings.

3. We randomly selected 20 deposits and:
   - Compared the Treasurer's deposit date to agency deposit slip date to determine if dates were within one working day;
   - Examined receipts to determine if they were pre-numbered and issued in numerical order;
   - Agreed cash/check composition of deposits to the receipts issued;
   - Agreed the total receipts issued to the deposit slip;
   - Inspected agency receipts to determine whether receipts of $100 or more were deposited on the same banking day as received;
   - Inspected agency receipts to determine whether receipts of less than $100 were deposited on the next business day when accumulated receipts equaled $100 or after five business days, whichever occurred first;
   - Inspected agency receipts to determine whether receipts were safeguarded;
   - Compared the fund type to which the deposit was posted in CORE to the CAFR fund type listing for consistency;
   - Compared the nature of the deposit to the account code description to determine consistency.

   There were no findings as a result of applying the procedures.

4. We randomly selected 60 vouchers and:
   - Compared the voucher amount and payee to the invoice amount and payee;
   - Compared the voucher amount and payee to the CORE system;
   - Compared the fund type to which the disbursement was charged in CORE to the CAFR fund type listing for consistency;
   - Compared the nature of the purchase to the account code description to determine consistency.

   There were no findings as a result of applying the procedures

5. We identified four employees on the December 2006 payroll but not on the July 2005 payroll and randomly selected one. We observed the initial "Request for Personnel Action" (OPM-14) form to determine it was signed by the appointing authority.

   There were no findings as a result of applying the procedures.

6. We identified seven employees on the July 2005 payroll but not on the December 2006 payroll and randomly selected one and:
   - Observed the final "Request for Personnel Action" (OPM-14) or equivalent form to determine it was signed by the appointing authority;

- Observed the main payroll funding sheet for the month subsequent to termination to determine employee no longer appeared.

There were no findings as a result of applying the procedures.

7. We identified eleven (11) employees whose gross salary at December 2006 increased from July 2005 (excluding legislative pay raises) and randomly selected one and observed the "Request for Personnel Action" (OPM-14) to determine it had been signed by the appointing authority.

   There were no findings as a result of applying the procedures.

8. We selected six of the employees from the December 2006 payroll which represents 10% of the 64 employees listed and agreed the amount paid to the "Request for Personnel Action (OPM-14) form in effect for December 2006.

   There were no findings as a result of applying the procedures.

9. We selected 10 assets from the capital asset listing and:
   - Visually inspected each asset to ensure its existence and to ensure it was identified as property of the State of Oklahoma;
   - Compared the identification number on the listing to that shown on the asset.

   A component objective of an effective internal control system is to provide adequate reporting of capital assets. During our testwork of capital assets we noted one (1) item on the inventory listing did not have the correct serial number, and two (2) items on the inventory listing did not have the serial numbers listed. Without adequate reporting of inventory items, errors and improprieties could occur and not be detected in a timely manner. We recommend the Department of Libraries maintain an accurate inventory listing, including all inventory data.

   Management Response: The agency makes every effort to supply serial numbers for its equipment inventory. Occasionally, serial numbers are difficult to identify on some of these items.

   The equipment with the incorrect serial number listed is a color plotter. The original plotter was dropped during delivery and replaced, but the serial number was not changed on the original invoice to reflect this replacement. A note has been added to the inventory list indicating this change. Staff has been instructed to report this type of change to the Fiscal Office as soon as it occurs.

   The Accountant is currently researching inventory records to identify equipment that needs missing serial numbers recorded.

   With respect to other procedures applied, there were no findings.

10. We selected 10 assets from the floor and:
    - Traced to the listing;
    - Compared the identification number on the asset to that shown on the listing;
    - Inspected the asset to determine it is properly identified as property of the State of Oklahoma.

A component objective of an effective internal control system is to provide adequate reporting of capital assets. During our testwork of capital assets, we noted one (1) item was not included on the inventory listing. Without adequate reporting of inventory items, errors and improprieties could occur and not be detected in a timely manner. We recommend the Department of Libraries maintain an accurate inventory listing, including all inventory data.

Management Response: The Department of Central Services and the Office of State Finance require a final inventory report for the preceding fiscal year by August 15th of the following fiscal year (OAC 580:70-3-1). The inventory report dated 12/15/06 was a working copy used by the Accountant to determine whether or not all new items were added to the master inventory database.

These new items are compared to the six digit expenditure reports of the Office of State Finance to ensure that they have been properly identified and entered into the master inventory database.

The agency began printing invoice reports on a quarterly basis in December 2006. This action facilitates the process of recording inventory items in a more timely manner.

With respect to other procedures applied, there were no findings.

We were not engaged to, and did not; conduct an examination or a review, the objective of which would be the expression of an opinion or limited assurance on the cash, receipts, disbursements, and capital assets for the agency. Accordingly, we do not express such an opinion or limited assurance. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management of the Oklahoma Department of Libraries should not be used for any other purpose. This report is also 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.

JEFF A. McMAHAN
State Auditor and Inspector
May 1, 2007

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