OKLAHOMA TOURISM AND RECREATION DEPARTMENT

FOR THE PERIOD
JANUARY 1, 2006 THROUGH
JUNE 30, 2010

OPERATIONAL AUDIT

Oklahoma State Auditor
& Inspector

Audit Report of the Oklahoma Tourism and Recreation Department

For the Period July 1, 2006 to June 30, 2010

This publication is printed and issued by the State Auditor and Inspector, as required by 74 O.S. § 2240.B.1. Pursuant to 74 O.S. § 3105, 18 copies have been prepared and distributed at a cost of $42.79. Copies have been deposited with the Publications Clearinghouse of the Oklahoma Department of Libraries.

STATE AUDITOR AND INSPECTOR

STEVE BURRAGE, CPA
State Auditor

MICHELLE R. DAY, ESQ.
Chief Deputy

2300 N. Lincoln Boulevard State Capitol, Room 100 Oklahoma City, OK 73105-4801 Phone (405) 521-3495 Fax (405) 521-3426 www.sai.ok.gov

November 10, 2010

TO THE OKLAHOMA TOURISM
AND RECREATION COMMISSION

This is the audit report of the Oklahoma Tourism and Recreation Department for the period July 1, 2006 to June 30, 2010. 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 Department's staff for the assistance and cooperation extended to our office during the course of our engagement.

Sincerely,

STEVE BURRAGE, CPA
STATE AUDITOR & INSPECTOR

Table of Contents

Background

The Oklahoma Tourism and Recreation Department (the Department) was created by the legislature in 1972. Their mission is to advance the exceptional quality of life in Oklahoma by preserving, managing, and promoting our natural assets and cultural amenities.

Oversight is provided by a commission (the Commission) including eight members appointed by the governor, each of whom serves a term of six years, and the lieutenant governor as an ex-officio voting member. Of the eight appointed members, one is selected from each congressional district in the state, and the remaining three are selected from the state at large.

Commission members are:

Jari Askins, Lt. Governor.. Chairperson
Melvin Moran .... Vice-Chair
Becky Switzer..Secretary
Tony Benson.. Member at Large
Jason Glidewell.. District 3 Member
Trae Gray.. District 2 Member
Amy Regan .... District 1 Member
Frank Sims.. Member at Large
T.L. Walker... Member at Large

The Department's operations are divided into five divisions:

Administration

This division coordinates the fiscal activities of the operating divisions, provides financial information, fiscal control, payroll processing, personnel, purchasing, and vendor payment services. It interprets policy and procedures promulgated by the Commission.

Oklahoma Today

This division produces a magazine that covers the people, places, history, and culture of Oklahoma in a way designed to inform and educate Oklahomans and non-Oklahomans alike.

State Parks Division

This division is responsible for operating state parks, lodges and golf courses under the jurisdiction and control of the Commission. Parks also contracts with firms to operate leased concessions such as marinas.

Travel Promotion

This division is responsible for the formulation of information, marketing plans and programs designed to attract tourists to the state. It is also responsible for the dissemination of information concerning the state's public and private attractions, lodges, parks and recreational facilities.

Oklahoma Film and Music Office

This division attracts film, television, video and music industries to Oklahoma for the promotion and growth of these industries within the state.

Table 1 summarizes the Department's sources and uses of funds for state fiscal years 2009 and 2010 (July 1, 2008 through June 30, 2010).

Table 1 - Sources and Uses of Funds for SFY 2010 and SFY 2009

	2010	2009
Sources:		
State Appropriations	$ 24,148,534	$ 28,004,368
Sales and Use Tax	18,212,728	20,282,007
Use of Recreational Equipment/Facilities	8,030,540	8,071,858
Housing Transient	6,499,470	6,982,628
Gross Production Tax - Oil	2,627,701	2,627,701
Federal Reimbursements	2,411,579	2,353,252
Advertising Services	1,474,738	1,494,345
Food and Beverage Sales	1,180,413	1,485,086
Merchandise Sales	1,178,911	1,355,772
Commissary and Concession Income	902,014	859,899
Oil, Gas and Other Minerals Royalties[1]	189,064	9,170,781
Other	2,769,420	2,737,552
	$ 69,625,112	$ 85,425,249
Uses:		
Personnel Services	$ 29,947,415	$ 30,550,548
Professional Services	9,067,223	6,805,181
Maintenance and Repair Expense	7,911,922	4,471,276
Miscellaneous Administrative	6,741,623	7,177,907
Buildings - Purchase, Construction and Renovation	6,461,723	4,477,191
Office Furniture and Equipment	2,723,019	2,472,957
Payments to Local Government/Non-Profit	2,659,839	2,702,775
Merchandise for Resale	1,483,979	2,154,112
Rent Expense	1,365,070	1,761,960
Specialized Supplies and Materials Expense	1,297,929	1,533,837
Bond Indebtedness and Expenses	672,854	1,559,508
Other	1,850,441	2,531,581
Total Uses	$ 72,183,037	$ 68,198,833

Source: Oklahoma PeopleSoft Accounting System (unaudited, for informational purposes only)

Purpose, Scope, and Sample Methodology

This audit was conducted in response to

- 74 O.S. § 2270, which requires the State Auditor's Office to audit any account of funds or expenditures from funds raised through bond issues;
- 74 O.S. § 2245.B.2, which requires the State Auditor's Office to determine which uncollectible accounts receivable possess the characteristics required by 74 O.S. § 2245.A; and
- 74 O.S. § 2240.B.1, which requires the State Auditor's Office to perform an audit of the Department.

[1] The Department has a three year lease agreement in which they receive royalties reported in the "Oil, Gas, and Other Mineral Royalties" category. The majority of the decrease from fiscal year 2009 to fiscal year 2010 is a result of the Department only receiving these royalties when the lease is renewed.

Each of the audit objectives have individual periods, based on when each of those begin and end, the audit period covered was July 1, 2006 to June 30, 2010.

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.

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.

Objective 1 - Determine whether the funds raised through the Oklahoma Tourism and Recreation Commission Revenue Bonds, Series 2002, were expended in accordance with the bond covenant for the period July 1, 2007 through June 30, 2010.

Conclusion

With respect of to the items tested, the funds raised through the Oklahoma Tourism and Recreation Commission Revenue Bonds, Series 2002, were expended in accordance with the bond covenant.

Methodology

To accomplish our objective, we performed the following:

- Reviewed the bond covenant and relevant state statutes;
- Obtained an understanding of how the Department records bond revenues and expenditures in the accounting records, and how payments of bond proceeds are processed; and
- Tested the expenditure claims for series 2002 bond revenues spent during the period (three claims totaling $1,671.48) to determine whether they were made in compliance with the bond covenant and certain state statutes, and whether they were properly approved and supported.

Objective 2 – Determine whether the accounts reported as "uncollectible accounts receivable" for the period July 1, 2006 through June 30, 2009 possess the characteristics specified in 74 O.S. § 2245.A.

Objective Background

In order to be declared uncollectible, 74 O.S. § 2245.A requires that an account must be at least one year old, certified by the Commission as uncollectible, and meet one of the following characteristics:

a. The debtor has been discharged from bankruptcy or is insolvent;
b. The debtor cannot be found or is deceased; or
c. A collection agency has indicated its inability to collect the debt.

The total we were originally provided as uncollectible was $17,205.23 ($12,556.95 for fiscal years 2007 and 2008 and $4,648.28 for fiscal year 2009) for 84 accounts. Payment had been received for six accounts on this list subsequent to the Commission's certification, totaling $594.34, so our procedures addressed 78 accounts totaling $16,610.89.

During our review of these 78 accounts receivable, we noted that 14 accounts were understated by a net total of $531.94 due to clerical errors such as returned checks and corresponding fees not being included in the Department's spreadsheets and accounts being less than one year old at the close of the audit period. Our review further revealed that 14 accounts totaling $6,736.21 did not appear to meet the criteria listed above for certification as uncollectible (see observation below).

Conclusion

Of the $17,205.23 reported as "uncollectible accounts receivable" by the Department, $10,406.62 possess the characteristics specified in 74 O.S. § 2245.A.

Methodology

To accomplish our objective, we performed the following:

- Obtained an understanding of the Department's process for determining an account is uncollectible;
- Reconciled the Department's spreadsheet of uncollectible accounts to the list of uncollectible accounts approved by the Commission; and
- Tested the documentation for all accounts deemed uncollectible by the Department (78 accounts totaling $16,610.89) to determine whether they complied with Department policies and procedures and possessed the characteristics specified in 74 O.S. § 2245.A.

Observation

Collection Efforts Not in Compliance with Department Policies

While we concluded that $10,406.62 of the reported accounts receivable possessed the characteristics specified in 74 O.S. § 2245.A, we reviewed all 78 unpaid account receivable files for compliance with Department policies and procedures. During this testwork we noted multiple instances in which the policies and procedures were not followed in attempting to collect accounts receivable, or in documenting those attempts. The 56 files for returned checks and 22 files for unpaid credit accounts totaled $16,855.25[2]. We noted the following:

Phone Calls

The Department's policy P-213, "Returned Checks," requires that phone calls be placed to writers of returned checks within 72 hours of receiving the check back from the bank. In 25 of 56 returned check cases, the documentation did not reflect that a phone call was placed to the check writer within the 72 hour period.

The Department's policy P-209, "Collection and Billing of Accounts Receivable," also requires that a phone call be placed to credit account holders 60 days after the initial billing. In 16 of 22 unpaid credit account cases, there was no documentation of any phone call having been made.

Mailings

The Department's policy P-213, "Returned Checks," requires that written notification be sent to writers of returned checks via certified mail if they cannot be reached by phone within 72 hours. In 20 of 56 returned check cases, the documentation did not reflect that a

[2] This amount represents the total value of all accounts listed on the Department's accounts receivable spreadsheet, minus the six accounts which had already been paid. This total differs slightly from the total listed in the Objective Background and Methodology sections due to discrepancies between the list of accounts approved by the Commission and the accounts listed on the spreadsheet provided to the State Auditor's Office. These discrepancies were considered in the adjustments performed to arrive at the total amount identified in our conclusion.

notice was sent via certified mail within a reasonable length of time (defined for our procedures as one week) of the 72-hour phone call period.

The Department's policy P-209, "Collection and Billing of Accounts Receivable," also requires that if the initial credit account billing is not paid within 30 days, a second billing be sent, and if the account is not paid within 60 days, a third billing be sent via certified mail (or regular mail for accounts under $25). In four of 22 unpaid credit account cases, the documentation did not reflect that a second notice was sent within a reasonable length of time (defined for our procedures as one week) of the 30-day mark. In 15 of the same 22 cases, the documentation did not reflect that a third notice was sent within a reasonable length of time (defined for our procedures as one week) of the 60-day mark.

Forwarding of Returned Check Accounts to the Local District Attorney (DA)

As not all facilities have a local DA who pursues bogus check cases, it is not a requirement that all returned check accounts be forwarded to a DA. However, Department policy P-213, "Returned Checks," does call for accounts to be forwarded to a local DA when possible. When the documentation did show evidence of an account having been forwarded to a DA, we verified that was done in a timely manner. For the purposes of our procedures, timely in this context was defined (with time needed for clerical duties and the postal system process in mind) as follows:

- The account was forwarded to the DA within three weeks of the certified mail being sent;
- If the file contained no documentation of certified mail, the account was forwarded within a month of the phone call being made; and
- If the file contained no record of a phone call or certified mail, the account was forwarded within a month of the check being returned.

In 16 of 56 returned check cases, the account was forwarded to the DA in an untimely manner as determined by these procedures.

Without adequate documentation, it is unclear whether these exceptions are the result of policies not being followed or collection actions simply not being recorded. If account collection policies are not being followed, accounts which would otherwise be collected may become uncollectible due to insufficient effort on the part of Department employees.

Recommendation

We recommend management ensure that parties responsible for collecting on accounts receivable in each billing unit[3] properly follow the Department's policies and procedures for account collection, and document their collection efforts by using contact logs and retaining all account-related documentation. Central office accounting staff should promptly and formally notify billing units when they are out of compliance with Department policies and procedures, and management may wish to identify and communicate consequences for non-compliance.

Management should also update its policies to include the following:

- More specific time limits on when collection tasks should be completed (for example, certified mailings regarding returned checks could be required not "after 72 hours" but "after 72 hours and within one week of the check being returned by the bank");

[3] "Billing unit" include facilities such as state parks, lodges, and golf courses, as well as divisions within the main office that receive funds, such as Oklahoma Today and Travel Promotion.

- A requirement that those facilities with local DAs who do not pursue returned checks actively seek a waiver from Department management for the step of the collection process in which accounts are forwarded to a DA;
- A requirement that facilities who do forward accounts to the local DA seek regular status updates about those accounts from the DA's office and share those updates with the Department's accounting office; and
- A reminder that account files should include clear documentation of certified mail sent, including the certified mail paperwork provided by the post office and evidence of the date on which the mail was sent and, if applicable, the date the signature card was returned. As previously mentioned, this requirement could be supported by the development of a standard log and instruction sheet for use by all billing units, including lines for phone calls placed and mail sent, and listing specific deadlines and lists of documentation that should be attached.

Central office accounting staff should take care not to include accounts that are not supported with appropriate documentation in their list of uncollectible accounts provided to the Commission.

Views of Responsible Officials

Management has made updating the Department's written policies and procedures a priority for FY2011. The respective division directors will be working with the Department's assistant attorney general to ensure that all policies and procedures are addressed. Written policies and procedures will include consequences for non-compliance. The written policies and procedures will also include requirements for notification of non-compliance to responsible parties.

Accounts receivable training will be implemented for all parties who are responsible for collecting on accounts receivable. Emphasis will be made on following the Department's written policies and procedures and proper documentation.

Additional reviews will be conducted to ensure that all accounts to be designated as uncollectible accounts receivable meet the statutory requirements, are properly documented in accordance with the Department's written policies and procedures and include all related collection fees.

Objective 3 – Determine whether the Department has addressed recommendations made in the previous audit report issued by the State Auditor's Office on November 13, 2007[4].

Conclusion

In our previous audit report, the State Auditor's Office made recommendations to improve the accounts payable process and the sufficiency of financial information provided to the Commission.

Specific actions taken by the Department to address recommendations in the prior report include the following:

- The Department is now providing a variety of financial reports to the Commission. However, the accuracy of certain reports may be questionable. We surveyed the Commissioners about their satisfaction with these reports and the five responses we received were positive.

- As recommended, the Department has considered staffing levels, discontinued use of its dual-entry system, and is currently investigating a direct billing process for use with recurring expenses. Management has also provided training

[4] This report should be read in conjunction with this conclusion and observations. It may be accessed at www.sai.ok.gov.

in the accounts payable process to relevant employees. However, it appears that the steps outlined in the training did not address all of our recommendations and, more importantly, are not being enforced in the accounts payable activities. The accounts payable procedures presented in the training have also not been formalized in written policies and procedures.

Methodology

To accomplish our objective, we performed the following:

- Reviewed the prior audit report released November 13, 2007;
- Discussed with management to determine what corrective actions had been taken as a result of the previous audit recommendations;
- Reviewed all Commission meeting minutes for fiscal year 2010, including financial reports provided therein;
- Documented the review process associated with the financial reports provided to the Commission;
- Interviewed five members of the Commission about their level of satisfaction with the financial reports being provided;
- Reviewed the Department's training sign-in sheets and training manual from January and February 2009 to determine whether appropriate staff attended accounts payable training sessions and what curriculum was included in these sessions;
- Documented the accounts payable process and the general training process for central office accounting staff who perform accounts payable duties;
- Analyzed Office of State Finance records of the expenditure claims paid during fiscal year 2010 to determine the timeliness of payments;
- Tested 70 expenditure claims (60 claims were chosen at random, subtotaling $297,435.24, and 10 which had the highest number of processing days in the population, subtotaling $26,568.21) from fiscal year 2010 that were recorded as having been paid more than 45 days after the invoice date per PeopleSoft records to determine whether the delays in payment were justified, and whether the accounts payable process outlined in the 2009 training was followed; and
- Tested 23 expenditure claims from fiscal year 2010 that were recorded as having been paid before or on the same day as the invoice date per PeopleSoft records (totaling $188,467.23) to determine whether the apparent lack of processing time was explained.

Observation

<u>Department Policies and Procedures Not Updated</u>

In the prior audit report, the State Auditor's Office recommended that the Department establish written policies and procedures regarding the accounts payable process, including:

- Date stamping invoices when received at the outlying facilities and at the central office in order to determine the date received at each location;
- Submitting invoices from outlying facilities to the central office in a timely manner and documenting any reasons for delay;
- Ensuring that purchase orders are set up prior to incurring the related expenses;
- Setting guidelines for the use of authority orders; and
- Instituting a resolution process for problems to ensure claims are processed in a timely manner and that appropriate division personnel are contacted when the payment of invoices is delayed.

According to the chief financial officer (CFO), the Department's updates to its written policies and procedures are still in the revision/development stage. However, management stated that written guidelines and expectations have been provided and discussed in quarterly manager meetings and were provided in a training manual and discussed in training sessions held in January and February 2009. We reviewed the training manual used in these sessions and noted that the first three bullet-points listed on the previous page were included in the accounts payable process outlined in the manual, but guidelines for the use of authority orders and a resolution process were not.

Written policies and procedures are necessary to inform employees about the Department's expectations and practices, to provide direction in the correct way of processing transactions, and to serve as reference material for new and existing employees. It appears management has not prioritized the updating of their policies and procedures for these purposes. As a result, employees may not fully understand the new accounts payable procedures and have no current reference materials.

Recommendation

We recommend the Department develop and implement written policies and procedures regarding the accounts payable process. When non-compliance with Department policy is noted, central office accounting staff should formally and promptly notify the location where the mistake was made and either correct the error or request that the original location correct the error. Management may also wish to develop and communicate consequences for non-compliance.

Views of Responsible Officials

Management has made updating the Department's written policies and procedures a priority for FY2011. The respective division directors will be working with the Department's assistant attorney general to ensure that all policies and procedures are addressed. Written policies and procedures will include consequences for non-compliance. The written policies and procedures will also include requirements for notification of non-compliance to responsible parties.

Accounts payable training will also be updated to include the written policies and procedures.

Observation

Accounts Payable Process Outlined in 2009 Training Not in Place

In order to improve the accounts payable process and ensure invoices are paid in a more timely manner, the Department's 2009 training materials included the following key steps in its new accounts payable process:

- Invoices should be signed and date-stamped at the facility where they're originally received;
- If the invoice is at its point of origin for over 15 days, the reason for delay should be documented on an extenuating circumstances form;
- The invoice should be date-stamped "received" at the central office;
- The invoice should be entered into the central office invoice tracking spreadsheet;
- A corresponding purchase order should be created before the expense is incurred; and
- The tracking spreadsheet should be updated with the paid warrant information.

During our review of 70 expenditure claims (totaling $324,003.45) that had been paid more than 45 days after the invoice date per PeopleSoft records, we tested to ensure each of these steps in the accounts payable process had been implemented. The following was noted:

Date Stamping

- In 13 of 70 cases, no date stamp appears to have been added at the facility where the invoice was originally received;
- In four of 70 cases, no date stamp appears to have been added at the central office;
- In 32 of 70 cases, there was no clear "date received" stamp; and
- In one of 70 cases, the invoice was signed and date-stamped but the placement of the received stamp made the date illegible.

Purchase Orders

- In 20 of 70 cases, the corresponding purchase order was created after the expense was incurred.

Extenuating Circumstances Forms

- In 19 of 29 cases (the other cases in our sample not being applicable because the invoice was not held at the point of origin for over 15 days), no extenuating circumstances form was provided to explain the delay in invoice delivery to the central office.

While steps to improve timely payment of invoices were included in Department training, they do not appear to have been fully implemented. The Department is paying approximately 90% of its expenditure claims in a timely manner. However, approximately 10% of expenditure claims are still not paid within 45 days as required by 62 O.S. § 34.71[5]. See Table 2 below:

Table 2 – Timeliness of Expenditure Processing		
	Paid Within 45 Days	**Paid After 45 days**
FY 2010 Invoices	14,971	1,652
% of Total	90.06%	9.94%

Note: The information used in our analysis was obtained from the PeopleSoft system and is unaudited.

Justification for payment delays is not typically documented. The accounts payable procedures discussed in this observation were designed to help improve the timeliness with which the Department pays its invoices. Failure to enforce the implementation of the procedures as designed makes it appear that timeliness is not a priority. The Department is not fully in compliance with 62 O.S. § 34.71 and could incur additional charges due to late payments.

Recommendation

We recommend management enforce the procedures set forth in its training materials and update its policies and procedures as discussed in the previous observation. Central office accounting staff should promptly and formally notify billing units when they are out of compliance with Department policies and procedures, and management may wish to identify and communicate consequences for non-compliance.

Views of Responsible Officials

Management has made updating the Department's written policies and procedures a priority for FY2011. The respective division directors will be working with the Department's assistant attorney general to ensure that all policies and procedures are

[5] 62 O.S. § 34.71 states: "The Director of the Office of State Finance shall establish a procedure to issue payment of a proper invoice for goods or services within no more than forty-five (45) days from the date on which the invoice was received in the office designated by the agency to which the goods or services were sold and delivered."

addressed. Written policies and procedures will include consequences for non-compliance. The written policies and procedures will also include requirements for notification of non-compliance to responsible parties and will address the procedures outlined in the training.

Continued Accounts payable training will also be updated to include the written policies and procedures. The Oklahoma City Accounts Payable staff will promptly and formally notify and document the parties responsible for the non-compliance.

Observation

Errors in Department Invoice Tracking Spreadsheet

An effective internal control system provides for accurate and reliable records. The following was noted during procedures performed on the Department's invoice tracking spreadsheet discussed in the previous observation:

- In two of 70 cases, the "Date Invoice Received in Facility" was marked on the Department tracking spreadsheet as "unknown" despite the fact that the invoice was date-stamped;
- In three of 70 cases, the invoice could not be located in the Department's tracking spreadsheet;
- In three of 70 cases, the invoice date listed on the spreadsheet was incorrect;
- In one of 70 cases, the posting date listed on the spreadsheet was incorrect;
- In two of 70 cases, the voucher number was listed on the spreadsheet twice, with different details on each line;
- In 11 of 70 cases, the spreadsheet listed a "Date Invoice Received in Facility" that was not supported by any date stamp or written date on the invoice; and
- In 40 of 70 cases, the invoice date on the spreadsheet was supported by the "Goods & Services Received" date or date and signature, but there was no clear indication that this represented the date the invoice was physically received.

While performing our procedures, we also noticed the following problems in the Department's tracking spreadsheet that related to invoices not included in our sample:

- The information for one expenditure claim included an incorrect warrant date;
- The information for one expenditure claim was included in each week of the Department's tracking spreadsheet from 06/25/09 through 09/29/09, each time with different claim information (vendor, dollar amount, etc.). The data entered in the first week was correct per PeopleSoft records.

Due to the large volume of invoices which must be entered into the tracking spreadsheet by one employee, clerical errors are occurring, and a detailed review is not performed to detect these errors. This spreadsheet is used to generate certain financial reports provided to the Commission. As a result, inaccurate information may be relied upon by management and the Commission.

Recommendation

We recommend an employee independent of the duty of entering invoice data into the tracking spreadsheet should review the spreadsheet for errors. Management might consider having the accounting staff members who pay expenditure claims verify the information included on the tracking spreadsheet as they enter their claims.

Views of Responsible Officials

Oklahoma City Accounts Payable staff will review the information on the tracking spreadsheet for each batch that is being entered into PeopleSoft for accuracy. Corrections, if necessary, will be written on the batch sheet and returned to the individual entering the information on the spreadsheet.

Objective 4 – Determine whether the Department's internal controls provide reasonable assurance that revenues were accurately reported in the accounting records for the period July 1, 2009 to June 30, 2010.

Conclusion

The Department's internal controls do not provide reasonable assurance that revenues[6] were accurately reported in the accounting records. Inadequate segregation of duties was noted in the Parks, Travel Promotion, and Oklahoma Today divisions. Controls over the Department's upload to PeopleSoft, transfers from clearing account, and the Department's policies and procedures could be improved.

Methodology

To accomplish our objective, we performed the following:

- Documented internal controls related to the revenue process for the Parks, Travel Promotion, and Oklahoma Today Divisions[7], which included discussion with Department personnel, questionnaires, and review of documents.

Observation

Inadequate Segregation of Duties – Parks

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*[8] states in part, "Key duties and responsibilities need to be… segregated among different people to reduce the risk of error or fraud…. No one individual should control all key aspects of a transaction…."

Segregation of duties questionnaires were sent to 47 locations[9] in order to determine the person who:

- Prepares the deposit was independent of the receipting function;
- Records the receipt/deposit information into the Department's internal revenue system was independent of the receipting function; and
- Prepares the deposit was independent of the person who records the receipt/deposit information into the Department's internal revenue system.

Forty-three of these locations did not have duties properly segregated.

Many staff felt the Department's revenue system comparison performed at the Department's main office would detect any errors. We did consider this; however, as previously noted, the person entering this information into the revenue system is also receipting and preparing deposits. In addition, from discussion with the accountant who performs this function, he is only reviewing the information to make sure the amount reported as receipted agrees to the amount reported as deposited. Should funds be removed prior to deposit, this comparison would not detect the error. As a result, we determined this did not mitigate the risk associated with the lack of segregation of duties.

Due to the staff size at many of the facilities, segregating the duties is not always feasible. The Department's policies and procedures do not appear to address the need for proper segregation of duties or mitigating controls if this cannot occur. In addition,

---

[6] For our purposes, we excluded any revenues the Department received electronically (wire transfers, transfers from other state agencies, appropriations) because the risk associated with these funds was determined to be low.

[7] In state fiscal year 2010, each division receipted revenues as follows: Parks, $17,653,200; Travel Promotion $2,036,011; and Oklahoma Today $1,286,980. These three divisions combined represent 96% of the Department's revenues (excluding funds received electronically).

[8] Even though this publication addressed controls in the federal government, this criterion can be treated as best practices. The theory of controls applies uniformly to federal or state government.

[9] Some facilities have a lodge, park, and golf course. Questionnaires were sent to each location and counted as separate locations.

management may have placed too much reliance on the revenue system comparison to detect possible errors.

Without proper segregation of duties or implementation of other mitigating controls, errors or irregularities could occur and may not be detected in a timely manner.

Recommendation

We recommend management evaluate the personnel at the various facilities and determine if the above noted duties can be properly segregated. If duties cannot be segregated, consideration should be given to implementing mitigating controls to assist in reducing the risk. These can be both at the facility and Department levels. The controls should be added to the Department's policies and procedures.

Views of Responsible Officials

Management has made updating the Department's written policies and procedures a priority for FY2011. The respective division directors will be working with the Department's assistant attorney general to ensure that all policies and procedures are addressed. Written policies and procedures will include consequences for non-compliance. The written policies and procedures will also include requirements for notification of non-compliance to responsible parties.

Each facility will be reviewed for proper segregation of duties with the park manager, regional manager and State Parks division director. Where possible, the duties will be properly segregated. If it is not possible to segregate the duties to achieve proper internal controls and reduce risk, mitigating controls will be established, implemented and documented.

Observation

Inadequate Segregation of Duties – Travel Promotion Division (First National Center)

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*[8] states in part, "Key duties and responsibilities need to be… segregated among different people to reduce the risk of error or fraud…. No one individual should control all key aspects of a transaction…."

Funds in this division are processed by a variety of different people depending on the type of revenue being received:

AOK Merchandise

- The travel development coordinator is responsible for invoicing and receipting funds;
- The executive secretary is responsible for preparing and making the deposit; however, no comparison is performed ensuring funds receipted were actually deposited.

Management felt that by having the deposit prepared by another employee and a third employee record the information into the revenue system, sufficient controls were in place.

Oklahoma Strong and the Bag programs[10]

The accounts receivable coordinator is responsible for:

- Receipting funds;
- Preparing the deposit;

[10] The Oklahoma Strong program coordinates different types of set-ups (booths, tables, or brochures only) at various travel shows throughout the United States. The Oklahoma Bag program is an advertising campaign where Oklahoma companies can sponsor a eco-friendly bag, which is handed out at the various trade shows.

- Making the deposit; and
- Recording receipts and deposits in the Department's internal revenue system.

Management felt that by having copies of the invoices, checks, and deposit slips provided to the accountant, sufficient controls were in place. However, because all the information is provided to the accountant from the accounts receivable coordinator, this does not mitigate the risk associated with the lack of segregation of duties.

Call Center – Fulfillment Program[11]

The accounts receivable coordinator is responsible for:

- Preparing the invoices;
- Receipting the funds;
- Preparing the deposit;
- Making the deposit; and
- Recording receipts and deposits into the Department's internal revenue system.

Management had not identified the risk of having all duties assigned to one employee.

The Department's policies and procedures do not appear to address the need for proper segregation of duties or mitigating controls if this cannot occur.

Without proper segregation of duties or implementation of other mitigating controls, errors or irregularities could occur and may not be detected in a timely manner.

Recommendation

We recommend management evaluate the personnel in this division and determine if duties can be properly segregated. If duties cannot be segregated, consideration should be given to implementing mitigating controls to assist in reducing the risk. An example of a mitigating control could include having a person independent of the deposit preparation process compare the processed deposit to the amount of funds receipted. Policies and procedures should be updated to reflect what duties should be segregated and mitigating controls that should be established in cases where duties cannot be segregated.

Views of Responsible Officials

Management has made updating the Department's written policies and procedures a priority for FY2011. The respective division directors will be working with the Department's assistant attorney general to ensure that all policies and procedures are addressed. Written policies and procedures will include consequences for non-compliance. The written policies and procedures will also include requirements for notification of non-compliance to responsible parties.

Each program area within the division will be reviewed for proper segregation of duties with the Travel Promotion division director. Where possible, the duties will be properly segregated. If it is not possible to segregate the duties to achieve proper internal controls and reduce risk, mitigating controls will be established, implemented and documented.

Observation

Inadequate Review of Deposits – Travel Promotion Division (First National Center)

An effective internal control system provides for accurate and reliable records through proper review procedures.

[11] The fulfillment program is an agreement the Department has with several visitor bureaus to make their visitor guides available to the public for free. The agreement requests the visitor bureaus reimburse the Department for the price of postage for each brochure sent.

For funds received as payment for the advertisements sold in the various guides published by the Department, the executive secretary does not perform a review of the checks received to the processed deposit slip to ensure the funds were deposited.

Without adequate review of deposits and supporting documentation errors or irregularities could occur and not be detected in a timely manner. The Department's policies and procedures do not appear to address the need for adequate review of processed deposit information to receipting documentation by an independent party.

Recommendation

We recommend the executive secretary review the processed deposit slip and the supporting documentation to ensure the accuracy of the deposit. The Department's policies and procedures should be updated to reflect new procedures.

Views of Responsible Officials

Management has made updating the Department's written policies and procedures a priority for FY2011. The respective division directors will be working with the Department's assistant attorney general to ensure that all policies and procedures are addressed. Written policies and procedures will include consequences for non-compliance. The written policies and procedures will also include requirements for notification of non-compliance to responsible parties.

Procedures will be established, implemented and documented to achieve proper internal controls and reduce risk to ensure the accuracy of all deposits and that all funds received have been deposited within the statutory requirements.

Observation

Inadequate Segregation of Duties – Travel Promotion Division (Tourist Information Centers)

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*[8] states in part, "Key duties and responsibilities need to be… segregated among different people to reduce the risk of error or fraud…. No one individual should control all key aspects of a transaction…."

Of the seven Tourist Information Centers (TICs) that receipt funds, a lack of segregation of duties was noted at all locations.

While all employees can record transactions in the Point-of-Sale (POS) system, one employee is also responsible for:

- Preparing the deposit;
- Making the deposit; and
- Entering the receipts/deposit information into the Department's internal revenue system.

We did consider the TIC director's review of financial information as a possible mitigating control. However, the information being reviewed all comes from the POS system used by the TICs in recording sales. The review does not consider what funds have actually been deposited compared to sales.

Due to the staff size at the TICs, segregating the duties is not always feasible.

Without proper segregation of duties or implementation of other mitigating controls, errors or irregularities could occur and may not be detected in a timely manner.

Recommendation

We recommend management evaluate the personnel at the various TICs and determine if duties can be properly segregated. If duties cannot be segregated, consideration should be given to implementing mitigating controls to assist in reducing the risk. Possible mitigating controls could include:

- A comparison of the deposit information per the Department's internal revenue system to the sales records in the POS system in the monthly review performed by the TIC director; or
- Centralizing the process of recording the receipts/deposit information into the Department's internal revenue system. This would require all locations to provide the close-out reports and copies of the processed deposit slips to the centralized location. Personnel at this location would review the close-out reports, processed deposit slips, and the bank deposit receipts to ensure they agree and for any unusual activity (large number/amount of voids, etc.).

Views of Responsible Officials

Management has made updating the Department's written policies and procedures a priority for FY2011. The respective division directors will be working with the Department's assistant attorney general to ensure that all policies and procedures are addressed. Written policies and procedures will include consequences for non-compliance. The written policies and procedures will also include requirements for notification of non-compliance to responsible parties.

Each Tourist Information Center will be reviewed for proper segregation of duties with the Tourist Information Center manager and the Travel Promotion division director. Where possible, the duties will be properly segregated. If it is not possible to segregate the duties to achieve proper internal controls and reduce risk, mitigating controls will be established, implemented and documented.

Observation

Inadequate Segregation of Duties and Lack of Deposit Review - Oklahoma Today Division

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*[8] states in part, "Key duties and responsibilities need to be… segregated among different people to reduce the risk of error or fraud…. No one individual should control all key aspects of a transaction…."

An effective internal control system provides for accurate and reliable records through proper review procedures.

For subscription payments received, the accountant is responsible for receipting the revenues (recording payments in the subscription system), preparing the deposit, and recording receipts/deposits in the Department's internal revenue system.

In addition, there is no independent review of the funds received for subscription and advertising payments to those deposited to ensure all funds received were deposited. The accountant verifies the total of the checks provided to her; however, a comparison of the funds deposited to the orders recorded in the system is not performed.

Due to limited staff in this division, segregation of duties may not be feasible. In addition, the Department's policies and procedures do not appear to address the need for proper segregation of duties or mitigating controls if this cannot occur.

Without proper segregation of duties or implementation of other mitigating controls, errors or irregularities could occur and may not be detected in a timely manner.

Recommendation

We recommend:

- Management evaluate the personnel in the Oklahoma Today division and determine if duties can be properly segregated. If duties cannot be segregated, consideration should be given to implementing mitigating controls to assist in reducing the risk;

- Management establish and implement procedures to review the processed deposits to funds receipted to ensure all funds received are deposited. For example, processed subscription deposits should be compared to the orders recorded in the system. The processed advertising deposit should be compared to the amount recorded on the "billing form"[12].

Views of Responsible Officials

Management has made updating the Department's written policies and procedures a priority for FY2011. The respective division directors will be working with the Department's assistant attorney general to ensure that all policies and procedures are addressed. Written policies and procedures will include consequences for non-compliance. The written policies and procedures will also include requirements for notification of non-compliance to responsible parties.

Each program area of the *Oklahoma Today* division will be reviewed for proper segregation of duties with the *Oklahoma Today* division director. Where possible, the duties will be properly segregated. If it is not possible to segregate the duties to achieve proper internal controls and reduce risk, mitigating controls will be established, implemented and documented.

In addition, procedures will be established, implemented and documented to achieve proper internal controls and reduce risk to ensure the accuracy of all deposits and that all funds are deposited within statutory requirements.

Observation

<u>PeopleSoft Upload Procedures Need to Be Improved</u>

An effective internal control system provides for accurate and reliable records through proper review procedures.

Each day the Department uploads the revenue information from their internal revenue system to PeopleSoft. Verification that the upload has completed correctly only includes a comparison of the number of transactions, the amount of the transactions are not verified. Without verification of the amounts, errors could occur and may not be detected in a timely manner.

The Department does perform a monthly reconciliation of their clearing account to the State Treasurer's Office (OST). This reconciliation ensures the amount in the Department's internal revenue system reconciles to OST's records. However, these records are independent of PeopleSoft; therefore, we determined this reconciliation could not be relied upon to detect errors that may occur with the upload.

Management has not created written procedures outlining what verifications should occur for the upload process.

Recommendation

We recommend management establish and implement procedures that verify the number and amount of the transactions identified in the Department's internal revenue system agree to the number and amount of transactions reported in PeopleSoft.

Views of Responsible Officials

Management has made updating the Department's written policies and procedures a priority for FY2011. The respective division directors will be working with the Department's assistant attorney general to ensure that all policies and procedures are addressed. Written policies and procedures will include consequences for non-compliance. The written policies and procedures will also include requirements for notification of non-compliance to responsible parties.

[12] The "billing form" is an excel document used to track accounts that have been billed for advertisements.

Written procedures will include the verifications required for the upload process to ensure that all transactions identified in the OTRD internal revenue system agree to the number and dollar amount of the transactions posted in PeopleSoft.

Observation

Policies and Procedures Need to Be Updated

An effective internal control system includes established written policies and procedures to inform employees about the Department's expectations and practices, to provide direction in the correct way of processing transactions, and to serve as reference material for new and continuing employees.

In addition to the lack of policies and procedures being established for segregation of duties that have been mentioned throughout the report, we also noted that the terminology and processes outlined in the Department's cash handling policies and procedures do not appear to be as specific and relevant as needed. For example, policies appear to be written more for Parks based on terminology used, systems listed in the policies are no longer used, and systems currently used are not discussed.

Failure to have current policies could hinder an employee's understanding of their duties and responsibilities. This also hinders management's ability to properly assess where risks could exist in the Department because personnel could be performing duties differently than what is outlined in the policy because they have not been updated.

Management does not appear to have made updating the policies and procedures a priority.

Recommendation

We recommend management review and update their policies and procedures to properly reflect the terminology and procedures currently being used. When updating the policies and procedures, management should consider the other recommendations discussed in this report as well.

Views of Responsible Officials

Management has made updating the Department's written policies and procedures a priority for FY2011. The respective division directors will be working with the Department's assistant attorney general to ensure that all policies and procedures are addressed. Written policies and procedures will include consequences for non-compliance. The written policies and procedures will also include requirements for notification of non-compliance to responsible parties.

The updated written policies and procedures will be posted to the OTRD employee portal and sessions will be conducted to review the policies and procedures with OTRD personnel.

Observation

Review of Clearing Account Transfers Needs Improvement

An effective internal control system provides for accurate and reliable records through proper review procedures.

During our review of the Departments' revenue sources, we noted two transfers had been made to the wrong division:

- November 11, 2009 – $9,900 was transferred to subaccount 73 (Travel Promotion – Public Relations) instead of 74 (Travel Promotion – Travel Development);
- April 6, 2010 - $42,228 was transferred to subaccount 72 (Travel Promotion – Administration) instead of 73 (Travel Promotion – Public Relations).

Each month a summary revenue report is generated from the Department's internal revenue system documenting the division and revenue code the funds are assigned to. However, the division codes used on this report do not correspond with that of PeopleSoft. The budget manager has to manually write the PeopleSoft code on the report so she is aware of where to transfer the funds. In the cases of our two exceptions, it appears the budget manager did write the code for one month but did not identify it on the other month.

Having the PeopleSoft code available on this report serves two purposes: it can reduce the chance of error on the budget manager's part; it is more time efficient. If the budget manager does not have to write the codes on the report, she can complete this process in a timelier manner allowing her more time for other responsibilities.

The budget manager does provide copies of the summary reports to various staff after the transfers have been made. However, considering the two errors discussed above, these reviews may not be sufficient to detect errors made when recording transactions in PeopleSoft. The Department has not created policies and procedures requiring an independent review of this process.

If funds are not transferred to the appropriate divisions, they are not available for those divisions to use for their intended purposes.

Recommendation

We recommend the report used by the budget manager in the transfer process be updated to include current PeopleSoft codes. In addition, an independent review should occur to ensure funds were transferred to the correct divisions, funds, and account codes.

Views of Responsible Officials

Management has made updating the Department's written policies and procedures a priority for FY2011. The respective division directors will be working with the Department's assistant attorney general to ensure that all policies and procedures are addressed. Written policies and procedures will include consequences for non-compliance. The written policies and procedures will also include requirements for notification of non-compliance to responsible parties.

The updated written policies and procedures will include an independent review of the revenue transfers. The independent review will be documented and maintained for audit purposes.

In addition, the internal systems will be updated so that the internal reports reflect the current PeopleSoft budget structure.

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

WWW.SAI.OK.GOV