



Performance Audit
Oklahoma Tourism and
Recreation Department

July 1, 2005 through June 30, 2007



Office of the Oklahoma State Auditor and Inspector
Jeff A. McMahan, CFE

**OKLAHOMA TOURISM AND RECREATION
DEPARTMENT**

PERFORMANCE AUDIT

JULY 1, 2005 THROUGH JUNE 30, 2007

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STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Jeff A. McMahan
State Auditor and Inspector

November 13, 2007

**TO THE OKLAHOMA TOURISM AND RECREATION COMMISSION
AND HARDY WATKINS, EXECUTIVE DIRECTOR**

Transmitted herewith is the performance audit of the Oklahoma Tourism and Recreation Department. The procedures we performed were at the request of George Nigh, Interim Executive Director, in accordance with 74 O.S., § 213.2.

In addition to the procedures performed as part of our performance audit, we also certified the Department's uncollectible accounts receivable balance as of June 30, 2006 that were determined uncollectible according to the criteria defined by 74 O.S. § 2245. The results of our procedures related to the uncollectible accounts receivable balance was communicated to the Commission in our letter dated March 12, 2007.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during the course of the engagement.

The Office of the State Auditor and Inspector is committed to serving the public interest by providing independent oversight and issuing reports that serve as a management tool to the state to ensure a government which is accountable to the people of the State of Oklahoma.

Sincerely,

A handwritten signature in blue ink that reads "Jeff A. McMahan".

JEFF A. McMAHAN
State Auditor and Inspector

TABLE OF CONTENTS

	Page
Audit Summary	1
Background, Scope, and Objectives	2
Observations and Recommendations	
Objective 1 - Determine whether and how the accounts payable process can be streamlined.....	3
Objective 2 - Determine how to enhance information used by management and the Commission in decision-making and whether the timeliness of financial reports provided to the Commission can be improved.....	6
Objective 3 - Determine if funds raised through the 2002 Tourism bond issue are expended in accordance with the bond covenant for the period July1, 2005 through June 30, 2007	8



JEFF A. McMAHAN, CFE

**OFFICE OF THE STATE
AUDITOR & INSPECTOR**

Why the audit was performed

This performance audit was conducted at the request of George Nigh, Interim Executive Director, in accordance with 74 O.S., § 213.2.

The objectives of the audit were to:

- 1) Determine whether and how the accounts payable process can be streamlined.
- 2) Determine how to enhance information used by management and the Commission in decision-making and whether the timeliness of financial reports provided to the Commission can be improved.
- 3) Determine if funds raised through the 2002 Tourism bond issue are expended in accordance with the bond covenant for the period July 1, 2005 through June 30, 2007.



Oklahoma Tourism
and Recreation Department

Performance Audit Summary

Objective 1 – Accounts Payable Process:

As part of the request for this performance audit, the Tourism and Recreation Department (Department) had recognized and expressed concern over the timeliness of payment made to its vendors. We performed analysis that showed during our audit period approximately 6,200 payments made by the Department were 45 days or more after the due date. This comprised approximately 16% of the total payments made by the Department.

Based on procedures performed, we determined there were various reasons for the delay in payment. Most notably were use of two different accounting systems, a lack of communication between accounting staff and division personnel, staff shortages in many of the outlying divisions, especially in the accounts payable and purchasing divisions, a lack of written policies and procedures, and a lack of training for the accounting division.

In order to rectify the concerns noted, we recommend the Department consider using the statewide CORE system as the primary accounting system for processing accounts payable, evaluate current staff to ensure there are sufficient personnel to perform the accounts payable function, establish written policies and procedures over the accounts payable process, and provide training for claims processing personnel.

Objective 2 – Financial Information Provided to the Commission and Management:

The Department also expressed an interest in improving the financial information being provided to management and the Commission. Based on procedures performed, we noted the financial reports provided did not provide timely data. In addition, concerns were noted regarding the integrity of the data provided in the financial reports and the financial reports did not provide the level of detail needed by the Division Directors.

In order to provide financial information more timely, we recommend the Department consider using the CORE system as the primary system for processing Department transactions as this would eliminate the use of dual systems. We further recommend that internal audit or another qualified member of the staff periodically review the financial reports presented to the Commission to verify the accuracy of the information. We also recommend the Division Directors agree on a “standard” group of reports that could be generated through the CORE system by financial staff and provided to the Division Directors each month.

Objective 3 – Funds Raised Through Tourism Bond Issues:

Based on procedures performed, vouchers paid during the period July 1, 2005 through June 30, 2007 from the funds raised through the 2002 Tourism bond issue were expended in accordance with the bond covenant.

BACKGROUND

The Oklahoma Tourism and Recreation Department (OTRD) was created to promote the development and use of the state's lodges, parks, and recreational areas; to promote tourism through publicity and dissemination of information about the state's recreational facilities; and to assist the many municipalities, associations and organizations in promoting special and local events.

Commissioners

Jari Askins, Lt. Governor, Oklahoma City

Jerry Dow, Tulsa

Joe Harwood, Ketchum

Melvin Moran, Seminole

Jim Schlimpert, Stillwater

Becky Switzer, Norman

Frank Sims, Shawnee

T. L. Walker, Ponca City

Key Staff

Hardy Watkins, Executive Director

Sarah Mussett, Chief of Staff

Lisa McKim, Director of Administrative Services

SCOPE

This audit was conducted pursuant to 74 O.S., § 213.2 and was performed in accordance with *Government Auditing Standards*. The audit period is July 1, 2005 through June 30, 2007.

OBJECTIVES

Based on OTRD's request, the objectives of the audit were to:

- 1) Determine whether and how the accounts payable process can be streamlined.
- 2) Determine how to enhance information used by management and the Commission in decision-making and whether the timeliness of financial reports provided to the Commission can be improved.
- 3) Determine if funds raised through the 2002 Tourism bond issue are expended in accordance with the bond covenant for the period July 1, 2005 through June 30, 2007.

1. Determine whether and how the accounts payable process can be streamlined.

METHODOLOGY

We performed the following procedures:

- reviewed applicable policies and procedures;
- reviewed applicable state statutes;
- interviewed Oklahoma Tourism and Recreation Department (OTRD) accounting employees;
- interviewed OTRD Division Directors and management;
- observed the accounts payable process;
- tested a sample of accounts payable entries;
- analyzed the number of vouchers issued and not paid within 45 days.

OBSERVATIONS

Expenses are incurred at the various parks, resorts, and golf courses throughout the State and also at various divisions within the central office. Invoices received at these locations are to be date stamped, approved, and then submitted to the Accounts Payable division within the central office for payment. Invoices are again date stamped upon receipt by the Accounts Payable division. At the time of our review, invoices were entered into both the OTRD accounting system and the State's CORE accounting system. Invoices were entered into the OTRD accounting system so the Department could track expenditure information at a more detailed level than was available through the CORE system. The CORE accounting system serves as the official books and records of the State; therefore, it is used to make payments to vendors.

On the 10th of each month, spreadsheets are prepared by OTRD staff to determine the number of outstanding unpaid invoices. The spreadsheet includes the dollar amount, number of unpaid invoices over 45 days old, and the number of unpaid invoices at the point of origin more than 15 days. This spreadsheet was developed by current OTRD administration as a temporary tool to allow OTRD to track accounts payable at a certain point in time and to identify problem areas.

Title 62 O.S. §41.4a requires payments for good or services to be paid within 45 days of the date the invoice is received. From the tracking spreadsheets for the months of September 2006 through January 2007, we chose a sample of 44 invoices to determine whether:

1. The invoice was paid timely (within 45 days).
2. If the invoice was not paid timely, the reason for the delay was documented and reasonable.

During testwork, we noted the following:

- 24 of 44 invoices were not paid within 45 days. No reason was documented for the delay for any of the 24 invoices;

Of these 24:

- 12 were due to delays at the central office based on the date the invoice was received at the central office and the date the invoice was paid;
- 8 were due to delays at both the facility and the central office based on the date the invoice was received at the facility and the central office and the date the invoice was paid; and
- For 4 invoices, there was not a date stamp at the facility or the central office; therefore, we were unable to determine where the delay occurred.

In addition, we noted for five of the 44 invoices tested, the purchase order date was after the invoice date or date of receipt of goods and services. This causes a delay in payment because the accounting division is unable to process the invoice for payment without a purchase order. As a result, three of these five invoices were not paid within 45 days. In addition, this practice is in violation of Title 62 O.S. §41.16 which requires encumbrance documents to *be established before the purchase of goods or services*.

We also interviewed numerous OTRD personnel regarding the accounts payable process. The following concerns were common for most interviewees:

- There is a lack of communication between accounting staff and division personnel regarding the payment of invoices. When contacted by vendors for the status of an unpaid invoice, division personnel feel they should have already been notified of problems with invoices by accounting staff rather than having to track down the invoices to find out why they have not been paid;
- There are staff shortages in most of the outlying divisions and especially in the accounts payable and purchasing divisions;
- Invoices are not always date stamped when received at the outlying divisions or at the central office; therefore, it is difficult to determine how long the invoice has been outstanding;
- Purchase orders are not always set up prior to expense. The absence of a purchase order causes the payment to be rejected by the accounting division. The purchase order must then be established after-the-fact;
- Overuse of authority orders when a purchase order should be used. Similar to the failure to establish a purchase order, attempting to use an authority order when a purchase order should have been used causes the payment to be rejected by the accounting division. A purchase order must then be created.
- Lack of written policies and procedures and training for the accounting division;
- The accounts payable process is cumbersome. Errors are more likely because claims are entered in both the CORE system and OTRD's internal accounting system.

As noted above, concerns were expressed that there were three personnel assigned to process accounts payable vouchers. According to information obtained from the CORE system, during fiscal year 2007 there were approximately 18,500 vouchers processed. We obtained voucher payment information from the CORE system and performed an analysis of all vouchers issued during fiscal years 2006 and 2007. Based on the procedures performed, we determined that there appears to be a significant amount of vouchers taking over 45 days to process. See analysis below:

	<u>Number of Vouchers Issued</u>	<u>Vouchers not Processed Within 45 Days</u>	<u>Percentage to Total Vouchers Issued</u>
Fiscal Year 2006	19,794	3,030	15.3%
Fiscal Year 2007	18,526	3,189	17.2%

As noted, the information used in our analysis was obtained from the CORE system and it should be noted that the integrity of the data is subject to the reliability of input and possible clerical errors at the agency level.

RECOMMENDATION

We recommend the OTRD consider the following:

1. Establishing written policies and procedures over 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. This would allow for better tracking of invoices to determine areas where delays may be occurring.
- invoices are to be timely submitted from outlying facilities to the central office and any reasons for delay should be documented;
- purchase orders are to be set up prior to incurring the expense;
- guidelines for the use of authority orders;
- a resolution process for problems to ensure claims are processed timely and that appropriate division personnel are contacted when the payment of invoices is delayed.

Written procedures serve notice to all employees of the agency's expectations and practices; provide direction in the correct way of processing transactions; serve as reference material; and provide a training tool for new employees. Written procedures also provide a source of continuity and a basis for uniformity.

2. Determining common and recurring expenses (i.e., utilities, telephone charges, etc.) incurred by outlying facilities that could be directly billed to the central office. This would eliminate delays in invoices being forwarded from the facilities.
3. Using the CORE system as the primary system for processing accounts payable, thereby eliminating the use of dual systems. This would eliminate the need to enter claims twice, therefore reducing input errors.
4. Providing adequate training for processing claims to ensure personnel have sufficient knowledge of the processes and for resolving issues that might arise.
5. Evaluating current staff to ensure there are sufficient personnel to perform the accounts payable process.

**VIEWS OF RESPONSIBLE
OFFICIALS**

We concur with the recommendation and have implemented the following corrective action to address the exceptions noted and improve the accountability in the accounts payable process:

1. Written policies and procedures are currently being developed to include requiring date stamping invoices at both the facilities and central office, timeframe for submission of invoices from outlying facilities to the central office, documentation explaining reasons for delay in submission of invoices, requiring purchase orders to be established prior to incurring or obligating expenses, guidelines for the proper use of authority orders, a resolution process for problems and guidelines for communication between the facilities and the central office.
2. The Department is currently identifying common and recurring expenses incurred by the facilities which could be billed directly to the central office. Proper controls and processes will be in place to ensure that the Department is in compliance with state statutes and rules. In addition, the Department is exploring systems in place at other entities which would facilitate implementing the direct billing process.
3. The Department discontinued the dual entry process in April, 2007. The CORE system is the only system used for processing of accounts payable.
4. Accounts payable process guidelines have been disseminated to the facilities. On going training for the facilities is being developed and will begin in December. In addition, the

central office accounts payable staff have been and will continue to attend training to ensure staff have sufficient knowledge of the processes and for resolving issues.

5. Staffing levels are being evaluated to determine whether there are sufficient personnel to perform the accounts payable process.

2. Determine how to enhance information used by management and the Commission in decision-making and whether the timeliness of financial reports provided to the Commission can be improved.

METHODOLOGY

We performed the following procedures:

- interviewed OTRD accounting employees;
- interviewed OTRD Division Directors and management;
- interviewed the Chief Internal Auditor;
- sent surveys to the Commission members;
- interviewed Commission members;
- reviewed the financial reports included in the Commission meeting packet; and
- reviewed a reconciliation of OTRD's system to the State's CORE PeopleSoft accounting system.

OBSERVATION

Prior to October 2006, the following financial reports were included in the monthly Commission meeting packet:

- OTRD Funding and Expenditures Report
- OTRD Division of State Resorts Profit and Loss Summary
- Combined Golf Course – Statement of Operations – Current and Prior Month/Year Comparison
- Revenue Bond Projects (1994/2002 Issue) – Revenue and Budget Comparison
- OTRD Accounts Receivable Aging Report
- OTRD Park Improvement Funds
- OTRD Bond Program Status Report

After October 2006, a decision was made by OTRD management to no longer include these reports in the Commission packet because the information in the reports was often two to three months old. Before the reports were prepared, the Department's internal accounting system was first reconciled to the CORE accounting system. This reconciliation was at times taking up to two months to complete. As a result, the reports did not provide timely data. Based on our review of the reconciliation, it appears data entry errors and numerous reconciling items are the primary cause of the delay in completing the reconciliation.

We conducted a survey of the Commission members and interviewed each commissioner. Based on the surveys and discussions, the majority of the Commissioners:

- would like to have the above-noted financial reports included in the packet;
- felt the amount of financial information was appropriate;
- were overall satisfied with the financial information in the packet;
- felt the financial information in the packet met their needs;
- felt the information was timely;
- would like verbal presentation and discussion of the financial information during the Commission meeting;
- would like to receive the packet seven (7) to ten (10) days prior to the Commission meeting.

However, the commissioners were split on whether the financial information should be provided at each monthly commission meeting or quarterly. Some commissioners also had concerns regarding the integrity of the data presented in the financial reports.

Also, one commissioner stated they would like information regarding accounts payable, including outstanding bills (date of latest invoice to present), and one commissioner would like to see more advertising and marketing information.

We also interviewed six OTRD Division Directors and noted the following items:

- Approximately half of the directors interviewed had used the financial information previously included in the Commission meeting packet. These reports were used as a starting point and information was obtained from other sources to meet their needs. Since the information is no longer prepared, they must now produce their own financial information;
- The other half of the directors did not use the financial information for a variety of reasons:
 - The information was not timely and did not provide enough detail;
 - They track their division's expenses and prepare their own reports from the internal system ;
 - They did not feel the data in the financial reports was accurate because it did not match other reports (i.e. CORE reports).
- Directors also noted other information that they would like to receive:
 - A paid invoice report;
 - A report that shows encumbrances by fund;
 - A report that details their overhead expense;
 - A budget versus actual expenditures by sub-activity report;
 - Training on CORE so that staff could run their own reports;
 - Payroll and full time equivalent (FTE) information;
 - Revenue report by division.

RECOMMENDATION

We recommend the OTRD provide financial information in the Commission meeting packet as well as supplementing this information with discussion of the information during the Commission meeting. The information produced could be more timely if the CORE system was used as the primary system for processing OTRD transactions as this would eliminate the use of dual systems. It would not be necessary to enter claims twice, therefore reducing input errors. In addition, a daily audit of claims posted would allow the agency to timely correct data entry errors.

We further recommend that internal audit or another qualified member of the staff periodically review the financial reports presented to the Commission to verify the accuracy of the information.

In addition, we recommend the division directors agree on a "standard" group of reports that could be generated by the financial staff and provided to the division directors each month. Another option would be to provide certain staff in each division access and training on the CORE system to enable them to obtain needed information and generate their own reports. However, a consideration the Department should make regarding this option is training on the CORE system can be time consuming, especially if the Department experiences high turnover rates and new employees are having to be regularly trained on the CORE system.

**VIEWS OF RESPONSIBLE
OFFICIALS**

A standard set of financial reports will be developed, with input from the division directors, and disseminated routine. The reports will also be provided to and discussed with the Commission. In addition, training will be provided to select facility staff for 'view only' access to the CORE system.

The Department will also designate either the internal auditor or another qualified staff member to periodically review the financial reports to verify the accuracy of the information.

3. Determine if funds raised through the 2002 Tourism bond issue are expended in accordance with the bond covenant for the period July 1, 2005 through June 30, 2007.

METHODOLOGY

The following procedures were performed:

- Reviewed the OTRD purchasing procedures, the bond covenant, and statutes related to the bond issue.
- Tested vouchers for fiscal years 2006 and 2007 related to the bond issue to ensure the expenditures were in accordance with the bond covenant.

OBSERVATIONS

According to the Director of Administrative Services, the Series 2002 bond was authorized April 26, 2002 by the Commission Chairperson. The purpose of the bond was to refinance a prior bond in order to obtain a lower interest rate, and also to fund the costs of remodeling and construction at various State parks.

We obtained a copy of the expenditures related to Revenue Bond Series 2002 for the period July 1, 2005 through June 30, 2007. There were only seven vouchers processed during this time period. According to the Director of Conservation and Planning at OTRD, most of the Series 2002 bond money was spent prior to and immediately after the bond was refinanced in May 2002. We obtained supporting documents for the seven vouchers paid during the audit period and determined the expenditures were allowable according to the bond covenant and were properly approved. All seven of the paid vouchers were for architectural services related to various State park projects.

CONCLUSION

Based on procedures performed, vouchers paid during the period July 1, 2005 through June 30, 2007 from the funds raised through the 2002 Tourism bond issue were expended in accordance with the bond covenant.

Protecting Your Tax Dollars



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