

WILL ROGERS MEMORIAL COMMISSION

FOR THE PERIOD
JULY 1, 2006 THROUGH
DECEMBER 31, 2008

OPERATIONAL AUDIT



Oklahoma State Auditor
& Inspector

**Audit Report of the
Will Rogers Memorial Commission**

**For the Period
July 1, 2006 through December 31, 2008**

STATE AUDITOR AND INSPECTOR

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State Auditor

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July 14, 2009

TO THE WILL ROGERS MEMORIAL COMMISSION

Following is the audit report of the Will Rogers Memorial Commission for the period July 1, 2006 through December 31, 2008. The Office of the State Auditor and Inspector is committed to serving the public interest by providing independent oversight and by issuing reports that serve as a management tool to the State. Our goal is to ensure a government that is accountable to the people of the State of Oklahoma.

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

Sincerely,

A handwritten signature in blue ink that reads "Steve Burrage".

STEVE BURRAGE, CPA
STATE AUDITOR & INSPECTOR

Mission Statement

The mission of the Will Rogers Memorial Commission is to collect, preserve, and share the life, wisdom, and humor of Will Rogers for all generations.

Board Members

Jim Hartz Chairman
James K. Rogers Commissioner
Paul H. Johnson Commissioner
Stephen Pazzo Commissioner
Deacon Turner Commissioner
Cara Cowan Watts Commissioner
Steve Turnbo Commissioner

Key Staff

Steven Gragert (December 2006 through present) Executive Director
Steven Gragert (October 2006 through December 2006) Interim Executive Director
Michelle Lefebvre Carter (through October 2006) Executive Director
Neva Kegley (October 2006 through present) Associate Director
Steven Gragert (through October 2006) Associate Director
Greg Malak (through October 2006) Associate Director

**Will Rogers Memorial Commission
Operational Audit**

Background

The Will Rogers Memorial Commission (Agency) was created by the Oklahoma Legislature in 1937 to honor the famed Oklahoma cowboy humorist. The museum was constructed on land given to the state by Mrs. Rogers, who also contributed many museum exhibits depicting her husband’s career. The Agency manages a museum in Claremore and another at Rogers’ birthplace on Lake Oologah.

The Agency’s operations are governed by 53 O.S. §§ 41 through 47.8. Oversight is provided by a seven member commission (Commission). The governor shall appoint one member who shall be a surviving descendent of Will Rogers. If there are no surviving descendants of Will Rogers who choose to serve, then the member shall be appointed by the governor with the advice and consent of the senate. The lineal descendant of Will Rogers shall serve for a term of six years. The other six members of the Commission appointed by the governor shall be appointed for staggered terms of six years.

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

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

Sources:	2007	2008
State Appropriations	\$925,195	\$1,083,714
Merchandise Sales ¹	<u>63,345</u>	<u>26,027</u>
Total Sources	<u>\$988,540</u>	<u>\$1,109,741</u>
Uses:		
Personnel Services	\$586,603	\$609,001
Professional Services	5,240	36,575
Miscellaneous Administrative	114,346	105,854
Rent Expense	7,945	3,562
Maintenance & Repair Expense	146,662	245,835
Other	<u>40,035</u>	<u>50,382</u>
Total Uses	<u>\$900,831</u>	<u>\$1,051,209</u>

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

**Authority,
Purpose, and
Scope**

This audit was conducted in response to 74 O.S. § 212, which requires the State Auditor and Inspector’s Office to audit the books and accounts of state officers whose duty it is to collect, disburse or manage funds of the state and 53 O.S. § 47.5 which requires materials on exhibit and in storage to be audited.

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.

¹ This category represents donations to the Agency as well as Will Rogers Heritage, Inc. gift shop rental and gift shop sales tax. Management stated this code was likely selected by previous management/staff to represent these revenues and has not been changed. The Will Rogers Heritage, Inc. is discussed in more detail under objective 1 of this report.

The audit period covered was July 1, 2006 through December 31, 2008.

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

Conclusion

The Agency's internal controls do not provide reasonable assurance that revenues and inventory were accurately reported in the accounting records. However, they do provide reasonable assurance that expenditures were accurately reported.

The Agency appears to have complied with:

- 62 O.S. § 7.1.C.2.a - adequate safekeeping of receipts awaiting deposit;
- 62 O.S. § 7.1.E - monthly transfers from the agency's clearing account.

Methodology

To accomplish our objective, we performed the following:

- Documented internal controls related to the receipting, expenditure, and inventory processes;
- Tested controls which included:
 - Discussing with the business manager the process she follows when reviewing a monthly, detailed expenditure report from the PeopleSoft accounting system for unusual vendors;
 - Reviewing an example of monthly, detailed expenditure report from the PeopleSoft accounting system.
- Discussed with personnel and observed location where funds are retained prior to deposit to ensure they are adequately safeguarded as required by 62 O.S. § 7.1.C.2.a; and
- Discussed with personnel and reviewed a PeopleSoft deposit report for the period to ensure funds are transferred from the clearing account at least once per month as required by 62 O.S. § 7.1.E.

Observation

Inadequate Segregation of Duties Related to Receipts

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*² 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...".

The assistant director is responsible for:

- Receipting funds for the Agency;
- Preparing the deposit for the Agency;
- Preparing the reconciliation without the review of an independent employee; and

² 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.

Will Rogers Memorial Commission Operational Audit

- Serving as the treasurer for the Will Rogers Heritage, Inc.³ (Heritage). Her duties in this capacity include but are not limited to:
 - Issuing checks from Heritage funds for the payment of rent⁴ to the Agency. The checks require two signatures;
 - Calculating the required sales tax from the Heritage gift shop payable to the Oklahoma Tax Commission (OTC). The funds are deposited into the Agency's clearing account and transferred to OTC. According to the comptroller at the OTC, this is not necessary. The Heritage should pay OTC directly.

Management does not consider lack of segregation of duties a risk. Heritage funds could be commingled with Agency funds.

Because of the lack of segregation of duties at the Agency and the assistant director serving as the treasurer for both the Agency and the Heritage, theft of funds could occur and not be detected.

Recommendation

We recommend:

- All personnel with responsibilities associated with the Agency's funds should be independent of any duties related to the Heritage's funds;
- The Agency employee receipting funds be independent of the employee performing the reconciliation; and
- The Agency discontinues the practice of depositing Heritage sales tax into the Agency's clearing account.

Views of Responsible Officials

1) By a revision in the bylaws of Will Rogers Heritage, Inc., and approved by its Board of Trustees, May 22, 2009, the Assistant Director/Business Manager of the Will Rogers Memorial Commission no longer serves as Treasurer of Heritage. 2) The Agency and Heritage are in the process of revising their procedures for receipting and depositing of their respective funds so as to segregate thereafter such duties. Current procedure is for one staff member to enter all deposits in the CORE system and the Assistant Director/Business Manager to reconcile the account. 3) Will Rogers Heritage, Inc., mailed an application with fee on April 10, 2009, to establish a sales tax account in the name of Heritage, but no response from the OTC has been received to date. Heritage will continue to pursue the application. 4) Although the Office of State Auditor & Inspector stated that the system of receipting in place during the period of the audit could have led to commingling of Agency funds, it is significant to note that officials of the SA&I Office did not report evidence of such following their thorough examination of Agency records.

³ The Will Rogers Heritage, Inc. is a charitable organization created for the sole purpose of assisting the Will Rogers Memorial Commission. It is not part of the state agency.

⁴The Heritage pays the Commission \$775 a month to lease space for the Will Rogers gift shop. Proceeds from the gift shop are retained by the Heritage and are used to benefit the museums by covering such costs as operations, collections enhancement (i.e. acquisitions of items for the collection of the Museums), emergency needs, and marketing.

Observation

Poor Controls Related to the Agency's Inventory- Repeat Finding

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* 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.

Oklahoma Administrative Code (OAC) 580: 70-5-1 states in part, "An agency shall affix a unique identifier as an inventory tag to all tangible⁵ assets..."

The following was noted:

- The assistant director is responsible for:
 - Purchasing items as well as updating the inventory records;
 - Surplusing items no longer needed by completing the Department of Central Services (DCS) Form 001 as well as deleting items from the inventory listing without the review of another employee.
- Periodic physical counts of the Agency's inventory are not performed; and
- Multiple items in the Agency's inventory with a value of more than \$500 did not contain inventory tags.

Management does not consider lack of segregation of duties a risk and has not made an accurate and reliable inventory listing a priority. Deficiencies such as these may lead to misappropriations of assets.

Recommendation

We recommend:

- An employee without the ability to create purchase orders or make purchases be responsible for maintaining the Agency's inventory records;
- Someone other than the employee responsible for maintaining the inventory records begin performing a physical inventory count of the Agency's inventory. If discrepancies are noted, the executive director or his designee should investigate and resolve. The Agency should also retain documentation to support who performed the actual count, when the count was performed, and any discrepancies noted during the count;
- An employee without the authority to update inventory records be responsible for completing the DCS Form 001. A copy of the approved DCS Form 001 should be retained;
- The Agency attach an inventory tag to applicable items and record it on the inventory listing.

Views of Responsible Officials

1) Maintenance of the Agency's inventory records has been reassigned to an employee who neither creates nor makes purchases for the Agency. 2) Employees other than the employee who maintains the inventory records will be responsible for annual physical counts of the inventory of the Agency. 3) The Assistant Director/ Business Manager

⁵ The state purchasing director has set the tangible asset threshold at \$500.

completed and submitted DCS Form 001 for FY 2010. She does not maintain the inventory records under our revised procedures. 4) Bar-coded inventory tags have been ordered for applicable items. They will be attached and recorded, using appropriate procedures.

Observation

Agency Should Develop Policy Related to Ethical Behavior

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

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

Recommendation

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

Views of Responsible Officials

A Code of Ethics for all employees of the Will Rogers Memorial Commission has been written and will be submitted to our Commission for its approval in August at its next quarterly meeting. Each current member of the staff will be asked to sign and date, and the signed documents will be included in his/her personnel file. New employees will also be required to sign the code.

Additional Procedures Performed

Methodology

As a result of the control deficiencies identified under objective 1 of this report, the following procedures were performed:

- Reviewed all deposits over \$800 to determine if the nature of the receipt appeared reasonable. No exceptions were noted;
- Ensured a rent payment from the Heritage was deposited into the Agency's clearing account for each month of the period. No exceptions were noted;
- Agreed all 19 high-appeal (laptop computers, digital cameras, etc) assets from the inventory listing to the floor to ensure they existed;
- Interviewed management regarding the accrual of compensatory (comp) time and overtime;
- Reviewed payroll records for the audit period to determine the amount of overtime paid to employees; and
- Reviewed comp time records to determine the amount of comp time employees accrued and the remaining balances.

Observation

**Policy Related to the Accrual of Compensatory Time and Overtime Payments
Needed**

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

The Agency does not appear to have a formal process in place for documenting the reasons why working more than 40 hours in a week may be required. The lack of documentation does not allow for an independent person to readily determine the cause of the additional hours. For example, while reviewing payroll records, the following items were noted:

- The executive director (240 hours) and the assistant director (195 hours) have an unusual amount of comp time as of December 2008. When asked, management did not provide a specific reason as to why the workload at the Agency would require executive staff to work more than 40 hours⁶ in a week;
- A husband and wife live and work at the Agency's Birthplace museum. Combined, the two were paid over \$25,000 in overtime pay during the period. This amount is calculated at time and one-half (for example, five hours of work over 40 hours in a week is paid as seven and one-half hours). The majority of the time was incurred by the husband. Management states he works approximately nine additional hours per seven-day week (rather than a normal five day week) caring for livestock owned by the Heritage. Additional overtime incurred by the employees relate to the two annual festivals or unexpected situations that may arise. It should be noted there is no on-site, day-to-day supervision provided by management;
- The maintenance man at the Agency's main museum was paid \$9,700 in overtime during the period. Management attributes a considerable portion of this time to applying a preservative treatment to all of the exterior limestone walls of the Agency's museum after business hours, washing and resealing the several hundred square feet of outdoor patterned-concrete walkways after business hours, and waxing the floors in the museum after business hours. The work could not be performed during normal business hours due to safety concerns for the public.

The Agency does not have a policy addressing comp time or overtime pay nor does it require approval prior to accrual of the time.

The effect of these issues is:

- Annual and sick leave balances continue to grow for employees accruing comp time as their leave is not being used. The Agency's financial liability to these employees increases as a result because they are responsible for paying these employees for their annual leave should they leave the employment of the Agency; and
- Approximately \$35,000 in overtime payroll was spent.

⁶ It is possible a portion of the assistant director's comp time is attributable to the Heritage. We were unable to determine what percentage of this time is associated with the Agency or Heritage as she does not differentiate her time between the two entities.

Recommendation

We recommend:

- The Commission develop and implement a written policy related to the accrual of comp time and overtime hours. The policy should include but not be limited to:
 - Identifying which positions are eligible for accruing comp time or overtime pay and at what rate the comp time or overtime pay should be accrued. The Commission should consult the Office of Personnel Management for guidance;
 - Requiring employees to obtain written approval from the Commission and/or management prior to accruing time in excess of their normal working hours. The request should include date(s) and estimated amount of time, as well as justification for why the extra time is needed. In determining whether the request should be granted, consideration should include: 1) is the additional time truly necessary or could the work be accomplished during normal working hours; 2) how will the additional time worked benefit the Agency/state.

Views of Responsible Officials

We prepared a written policy regarding compensatory time, as well as overtime and other personnel matters, and presented it to the OSA&I staff during its onsite visit. The policy follows the recommendations of the Office of Personnel Management. The policy will be submitted to the Will Rogers Memorial Commission at its next quarterly meeting in August and, if approved, implemented immediately thereafter. 2) The Director and the Assistant Director/Business Manager have sought to have their accumulated compensatory time deleted. They are now submitting time sheets based on a maximum of 40 hours per week. 3) On May 22, the Board of Trustees of Will Rogers Heritage, Inc., gifted to the Will Rogers Memorial Commission, all cattle, other livestock, fowl, and other agricultural products owned by Heritage at the Birthplace Ranch. The Agency is now responsible for the cost of feed, veterinary services, and other related needs.

Auditor's Response

Regarding management's comments that a policy was presented to the auditors during our onsite visit, it is important to note this policy did not cover the period in question and management stated it was neither complete nor approved.

Observation

Inaccurate Records Related to Inventory

To protect against misappropriation of assets, the internal control system should provide accurate and reliable records.

The identity of two items (a DVD recorder - \$1,930 and a DVD burner - \$560) could not be verified because the serial number identified on the listing did not agree to the serial numbers on the items.

Management has not made an accurate and reliable inventory listing a priority. Poor record keeping could allow for misappropriation of assets to occur and not be detected in a timely manner.

Recommendation

We recommend the Agency review their inventory listing and ensure all items' pertinent data is properly documented and accurate. At a minimum, this should include acquisition date and price, description, asset tag number, and serial number.

Views of Responsible Officials

We agree that our internal control system should provide accurate and reliable records. The present management recognized there are many deficiencies and had already initiated steps to remedy them before the present audit began. Unfortunately, years of

poor record-keeping have created a serious situation of catch-up. A review of non-collection inventory has been initiated. A two-person team, separate from the employee who maintains the inventory records, will check existing inventory listings against assets in hand to verify their identity and data information. Each item's serial number will be verified against the serial number on record. Necessary corrections will be cited and then given to the maintainer of the inventory records to input into the official record. Asset tags are on order. Appropriate procedures will be followed to apply the tags and record identification numbers. A system of an annual inventory count will be implemented.

Objective 2 - Determine the Agency's inventory of materials on exhibit and in storage is accurate.

Conclusion The Agency's museum and birthplace inventory listings are incomplete and inaccurate.

Methodology To accomplish our objective, we performed the following:

- Reviewed 53 O.S. § 47.5 (material on exhibit and in storage subject to audit);
- Documented internal controls over the inventory process;
- From the Birthplace inventory listing, we tested a haphazard sample of six items from the list to the floor and six items from the floor to the list to ensure the descriptions agreed;
- From the Agency museum inventory listing, we tested a haphazard sample of 24 items from the list to the floor and 25 items from the floor to the list to ensure the descriptions agreed.

Observation **Poor Controls Related to the Museums' Inventories- Repeat Finding**

An effective internal control system provides for accurate and reliable records.

The following were noted:

- Periodic physical counts of the two museums' inventories is not performed⁷;
- Multiple items in the museums' inventories did not contain any form of a tracking mechanism (i.e. number, barcode, etc); and
- The museums' inventory listings are vague in nature.

The Agency has not made accurate and reliable inventory listings or conducting counts of the inventories a priority. Deficiencies such as these may lead to misappropriations of assets.

Recommendation We recommend:

- Someone other than the employee responsible for maintaining the inventory records begin performing a physical inventory count of the museums' inventories. If discrepancies are noted, the executive director or his designee should investigate and resolve. The Agency should also retain documentation to support who performed the actual count, when the count was performed, and any discrepancies noted during the count;

⁷ Testimonial evidence supports a count was conducted at the Birthplace location in the spring of 2007.

- The Agency develop a method of tracking of items in the collections. This could include a numbering or barcode system. Another example could include digitally photographing all items; and
- The Agency include a detailed description on their inventory listings of applicable items in their museums' collections. Additionally, the listing should also identify the location of the items and note if the items are the property of the Agency or on loan.

Views of Responsible Officials

As with the non-collection inventory, long-term deficiencies have existed in the maintenance of the inventory of the Agency's collection of art, artifacts, and archives. Digital records are incomplete and, through the years, appropriate accession identifiers have become lost or were never "attached" to their respective items. Items added to the collection in the past two years have been properly identified and recorded. Record-keeping has been enhanced by the creation of a highly descriptive digital database with photo images and specification as to the location of each item. A reorganization of our collection storage space has improved our accessibility to the collection and our ability to preserve it. Progress has been made in the past two years in correcting the inventory records and identification of older items, but considerable work remains. We are in the process of digitizing our entire collection and recording in a museum-specific digital database all objects, art, and archival documents and photographs. The curator maintains the inventory records, and trained interns, volunteers, and employees will perform the initial inventory and subsequent annual inventory counts at the Memorial Museum and the Birthplace Ranch. Records will be maintained noting discrepancies and identifying individuals who perform counts.

Additional Procedures Performed

As a result of identified risks, the following was noted:

Observation

Questions Related to Using Agency Funds to Pay Heritage Employees

An effective internal control system provides for proper accounting of funds. During a review of payroll records, it was noted five Heritage employees were paid \$155,580 through the Agency's payroll during the period. The Heritage is a charitable organization and is not a part of the state agency. The executive director stated he became aware of this situation in October 2006 and this practice was stopped in June 2008.

Recommendation

We recommend the Commission consult their legal counsel to determine the appropriate course of action regarding using Agency funds to pay Heritage employees.

Views of Responsible Officials

We will review with the Oklahoma Office of Attorney General the issue outlined above as based on state statutes, including SB 663 (2001); OSA&I audits past and present; and operational protocols promulgated and published jointly by the Agency and Will Rogers Heritage, Inc. Relevant to the discussion could be recent actions taken by Will Rogers Heritage that include the gifting to the Agency of all livestock and fowl at the Birthplace Ranch and the gifting to the Agency of all art, artifacts, and archives owned by Will Rogers Heritage, a collection that includes items whose appraised value or price at the time of original acquisition by Heritage total \$942,506.

Other Items Noted

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

Observation

Vehicle Logs and Policy Needed

A formal written vehicle policy is needed to inform agency employees of the proper use of vehicles, outline documentation requirements, and address the use of personal vehicles when a state vehicle is available. Mileage logs are necessary to document appropriate use of the vehicles and support fuel charges.

The Agency spent \$5,828 on fuel during the period. They do not have a policy addressing the use of the vehicles or one requiring detailed logs to be completed when the vehicles are in use. Management has not made the implementation of a vehicle policy a priority. Improper use of the vehicles could occur.

Recommendation

We recommend the Agency develop and implement policy addressing the proper use of state vehicles. The policy should specifically require vehicle logs to be completed and maintained by the driver any time an Agency vehicle is used. The logs should contain but not be limited to:

- Beginning and ending odometer readings;
- Driver of the vehicle; and
- Detailed purpose of the trip.

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

Views of Responsible Officials

The Agency issued a policy and procedure statement in February on the use of Agency vehicles and related issues. Since that time, mileage logs that document date, driver, odometer readings, and trip purpose have been placed in the Agency's three vehicles, two pickups at the Memorial Museum and one at the Birthplace Ranch, all dating from the 1990s.

The audit noted that the Agency spent \$5,828 on fuel for three trucks in the 30 months covered by the audit, which computes out to \$64.76 per vehicle, per month. The auditor stated that "Improper use of the vehicles could occur." The overall fuel costs outlined above suggest that abuse did not likely occur.



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