Secretary of State
AUDIT REPORT

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Oregon Tourism Commission and Oregon Economic and Community Development Department: Loss of Funds

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Summary

PURPOSE

The purpose of this audit was to provide reasonable assurance that a loss of funds at the Oregon Tourism Commission (commission) has been identified in its entirety. We also evaluated the effectiveness of the Oregon Economic and Community Development Department's (department) controls over cash in preventing a recurrence or other loss.

BACKGROUND

The department provides the commission with accounting staff and financial administrative support, including control and maintenance of the commission's bank account and accounting records. In October 2002, department officials reported a loss of the commission's funds allegedly caused by a department employee. Subsequently, the Oregon State Police conducted an investigation and identified an approximate $228,000 loss.

RESULTS IN BRIEF

We identified an additional $5,000 that appeared to have been misappropriated by the employee, bringing the total loss to approximately $233,000. We also identified areas where the department could improve its controls to prevent future losses and to better safeguard financial assets.

RECOMMENDATIONS

We recommend that the department's management improve its cash controls as described in the following report.

AGENCY'S RESPONSE

The Oregon Economic and Community Development Department generally agrees with the audit findings and recommendations.

Introduction

In October 2002 an official of the Oregon Economic and Community Development Department (department) reported to us an apparent loss of funds allegedly caused by an employee of the department. The missing funds belonged to the Oregon Tourism Commission (commission), to which the department's employee was assigned as the accountant.

A subsequent investigation by the Oregon State Police revealed that the employee allegedly misappropriated approximately $228,000 from the commission's bank account over a five-year period by writing checks to herself and forging the authorized signer's signature. In November 2002, the employee was arrested and charged with theft, forgery, and official misconduct.

At the department's request, the Audits Division began a review in December 2002 to ensure that the entire loss had been identified and to evaluate the department's cash controls.

Background

In 1995 the Oregon Legislative Assembly created the semi-independent Oregon Tourism Commission to serve as a marketing agency for Oregon's statewide visitor industry. The commission produces ad campaigns and publishes literature on campgrounds, hotels/motels and restaurants that are available around the state.

The legislature authorized the commission to establish a bank account outside of the state's financial system to conduct its operations. Moneys in the account include funds from private and nonprofit entities, public entities, including the State of Oregon, interest earned on moneys in the account, and revenues generated by the commission or tourism program activities.

The commission's 2001-03 legislatively adopted budget of $6.8 million consisted primarily of Lottery funds used to increase public and private partnerships to promote tourism.

The department's 2001-03 legislatively adopted budget was $473 million, 1.4 percent of which was the commission's budget.

The department provides the commission with accounting staff and financial administrative support, including control and maintenance of the commission's bank account and accounting records. Because the commission's bank account is outside of the Oregon State Treasury, it is not subject to the typical controls provided by Oregon's automated accounting system. As a result, the department is responsible for developing and implementing appropriate controls for safeguarding the commission's money.

The department's cash accounts, with the exception of its international accounts, operate within Oregon's automated accounting system.

Audit Results

Employee Loss

During our review of the loss, we identified approximately $5,000 more that the employee allegedly misappropriated from the commission's bank account, bringing the total loss to approximately $233,000. At least one factor contributing to the opportunity for this loss included the lack of separation of responsibilities within the accounting function for the commission's bank account. The employee was responsible for preparing checks for signature, recording the expenditures in the accounting records, and reconciling the bank statements. At one time, an independent review of the bank reconciliation occurred, but this control was apparently discontinued a few months before the employee allegedly began writing checks to herself.

Subsequent to the loss, the department reassigned the responsibility for preparing the bank reconciliation to another employee. This change, which will allow for an independent review of cleared checks and endorsements, will reduce the risk of a loss recurring in the same manner.

In addition to accounting responsibilities for the commission, the employee was responsible for preparing and recording contract and lease transactions and performing a backup function for payroll. The employee performed these duties for both the commission and the department. We examined these additional financial-related activities for potential losses. Nothing came to our attention that indicated losses had occurred in these other areas. We noted, however, other areas where controls needed to be strengthened to further reduce the risk of loss of the commission's moneys as well as the department's.

Responsibilities Need to Be Separated

The department has not adequately separated responsibilities for financial accounting functions.

When we reviewed cash controls at the department, we noted that only one employee opened the mail for both the commission and the department. This same employee prepared receipts for deposit, recorded the receipts in the receipt log and delivered the deposits to the bank. This employee also recorded receipts in the commission's accounting records.

In addition, three other accountants prepared deposits and recorded receipts in the department's accounting records. Two of these same accountants were also responsible for preparing expenditures and disbursements and for recording these transactions in the department's accounting records. All three accountants managed receivable accounts, and one of them reconciled the department's cash accounts.

State policy states that control activities should include segregation of duties for authorization, record keeping, and custody of the related assets to reduce the opportunities for any individual to be in the position to both perpetrate and conceal errors or fraud in the normal course of duties.[1] State policy also states that collections, deposit preparation, bank reconciliation, and recording of accounts receivable are to be segregated to the extent possible.[2] In addition, someone not otherwise responsible for handling cash or cash records should prepare the reconciliations, and management should review the reconciliations. Furthermore, employees handling disbursements should not have duties relating to cash receipts or the reconciliation of bank accounts.

Separation of duties is a primary control over assets. Without this control, or effective compensating controls, the department increases the risk of loss or theft of state assets.

We recommend that the department's management implement procedures to separate the duties for the cash receipting process. Management should consider having two employees open the mail, one of whom records the receipts in the receipt log. Access to the receipt log should be restricted. Once the log is completed for the day, a copy should be provided to another employee for comparison to deposit records.

We also recommend that the department's management separate the cash receipting and revenue functions from the expenditure and disbursement functions.

We further recommend that cash account reconciliations be prepared by employees who are not handling cash or cash records.

Agency's Response:

We are in general agreement with the audit findings and recommendations. The audit focused on two aspects. First, it reviewed our procedure for a partnership account of the Oregon Tourism Commission. Second, it reviewed our fiscal control of funds for all other state funds. While the loss of funds was specific to the Oregon Tourism Commission partnership account, which was outside the state's financial system and thus does not benefit from normal safeguards from the system, the audit recommendations are applicable to all fiscal operations.

Upon discovery of the loss, the department made immediate changes to assess and strengthen internal controls. We have a

[1] OAM 10.10.00.PR
[2] OAM 10.20.00.PR

corrective action plan to ensure a systematic approach to making these changes.

The department has modified its accounting procedure to strengthen controls. They include:

- *Strengthen control over mail and cash receipting. Two employees open mail. One is responsible for recording checks in the cash receipts log and the other verifies the daily receipts. The cash receipts log is password protected and electronically sent to a third employee who confirms the daily receipts to the bank deposit.*
- *Reassign duties to separate cash receipt and revenue accounting from expenditure accounting. Handling of checks and preparation of bank deposits is assigned to staff with no responsibility for revenue or expenditure transactions.*
- *Separate cash account reconciliations from cash receipt and cash handling. Monthly Treasury cash accounts and Tourism bank account reconciliations are reassigned from two staff to four staff that have no responsibility for handling cash, cash records or accounts receivable within the accounts they reconcile and retain independent review of the reconciliation. Bank accounts not within the State Treasury have an additional manager review.*

Checks Returned for Delivery Should Be Limited

The department had an excessive number of state checks returned to the agency for delivery to payees.

Oregon's state accounting system processes payments for agencies at a location managed by the Department of Administrative Services. Although the Department of Administrative Services mails checks for agencies, the checks can also be returned to agency personnel for delivery to payees. During the period July 1, 2001, through October 31, 2002, the department processed 4,294 checks. Of these, 1,597 (37 percent) were returned to the department for mailing or hand delivery to payees. Department management explained to us that there are times when it is necessary to have a check returned to the department for delivery, such as loan disbursements. These times, however, should be on an exception basis to provide reasonable assurance that checks are safeguarded against theft or loss.

We recommend that the department's management develop and implement a policy to govern the circumstances when checks could be returned to the agency for delivery, making it a priority to limit this occurrence and have the Department of Administrative Services deliver the majority of the checks.

Agency's Response:

We agree with the finding and recommendation. In addition to existing controls, the department recently implemented these guidelines:

- *Allow checks to be returned for transmittal only when a critical enclosure must be mailed with the check.*
- *Use electronic funds transfer through the banking system to the fullest extent possible for business finance loans.*

Timeliness of Deposits Needs to Be Improved

The department's deposits of cash receipts were not always made by the next business day in accordance with state law.

The state requires money to be deposited not later than one business day after collection or receipt.[3] We examined 50 receipts and found that 10 were not deposited by the next business day. One check for approximately $4,800 was deposited six days late. The other nine checks were deposited only one or two days late.

The longer it takes for the department to deposit receipts, the greater the risk that receipts will become lost, damaged or stolen.

We recommend that the department's management revise the cash receipt and deposit procedures and identify changes to make cash deposits by the next day in accordance with state law.

Agency's Response:

We agree with the finding and recommendation. The department has established stricter procedures for depositing funds within one working day after receipt through:

- *Reassign preparation of bank deposits to one staff to centralize the function and improve accountability.*
- *Store checks that may be in error or have a discrepancy in the safe pending resolution; resolve issues within one day.*

Access to the Safe Should Be Further Restricted

Seven of the eight fiscal employees knew the combination to the department's safe. Daily receipts, checks returned to the agency for delivery, and the commission's check stock were kept in the safe.

State policy indicates that the fundamental rules for attaining control over cash receipts include securing cash at all times.[4] Access to all unissued check stock should be limited.

Weak physical controls over check stock and receipted cash

[3] ORS 293.265(1)

[4] OAM 10.20.00.PR

increases the risk of loss or theft of financial assets.

We recommend that the department's management further restrict the number of employees who have access to the safe.

Agency's Response:
We agree with the finding and recommendation. The department has implemented the following controls:

- *Restrict access to two staff.*
- *Strengthen physical control over manual checks and independent verification of inventory over the check stock.*

Changes to the Delegated Signature Authority Should Be Documented

The department did not maintain adequate documentation of delegated signature authority for expenditures and disbursements.

The department's management delegates signature authority to team and program managers and a back up for each. Fiscal office management provided us with a May 31, 2001, list of delegated signature authority and indicated that this was the most recent listing. Using this list, we reviewed 95 payments to contract vendors and grant recipients. Of these 95 payments, we found 15 (15.8 percent) that were not authorized by the appropriate manager according to the list. Fiscal staff indicated that when the appropriate manager and backup are not available, they would delegate someone to sign and authorize the payment on their behalf. The changes were not documented and maintained as part of the transaction record.

State policy requires controls to be adequate to provide reasonable assurance that transactions are accurate, properly recorded and executed in accordance with management's authorizations.[5] The policy further requires transactions to be clearly documented, and the documentation be readily available for examination. Documentation of transactions should be complete and accurate, and should allow tracing of the transaction from before it occurs, while it is in process, through its completion.

Without evidence of proper signature authority, management cannot show clear lines of authority and responsibility, essential for good control.

We recommend that the department's management implement procedures to document and retain evidence of delegated signature authority.

Agency's Response:
We agree with the finding and recommendation. The department has created a new step to retain the email file of temporary delegation of authority as support documentation for expenditure authorization.

Invoice Authorization Should Be Documented

The department did not always maintain evidence of invoice authorization for the commission's billings.

We examined six of the commission's receipt transactions that had been invoiced and did not find authorization for the invoices. According to fiscal office staff, the authorizations were most likely in electronic format and not readily available.

State policy requires agency management to develop control activities that ensure all transactions are clearly documented and the documentation is readily available for examination.[6] Written evidence of all pertinent aspects of transactions should be prepared and maintained.

[5] OAM 10.10.00.PR
[6] OAM 10.10.00.PR

By not requiring invoice authorization to be maintained with receipt documentation, the department increases the risk of unauthorized invoicing. Coupled with the lack of segregation of duties in the cash receipting/recording process noted previously in the report, there is an increased risk of inappropriate activities.

We recommend that the department's management implement procedures to ensure that the authorizations for invoices are maintained with the receipt documentation.

Agency's Response:
We agree with the finding and recommendation. The department implemented procedures to retain source documentation for authorization to invoice. This includes:

- *Retain authorization to invoice with cash receipt documentation.*
- *Retain authorization to invoice with cash receipt documentation.*

Objectives, Scope and Methodology

The purpose of this audit was to follow up on a request from the department to review a loss of funds from the Tourism Commission's cash account and to review the department's cash controls. Specifically, the objectives of the audit were to determine if the:

1. Entire loss had been identified, and
2. Department's cash controls were effective for safeguarding its financial assets.

In performing this review, we examined documents relating to the loss of funds, reviewed additional payments to the employee involved and identified cash-related transactions processed by the employee. We considered whether transactions appeared valid by examining the supporting documentation and interviewing agency personnel.

In our evaluation of the department's cash controls, we interviewed agency personnel, reviewed applicable policies, rules, and laws, and reviewed related documentation. In addition, we performed tests of controls to assess their effectiveness.

We limited our review of cash controls to the department's Salem central office. We looked at transactions that were processed during the period July 1, 2001, through October 31, 2002.

We performed this audit in accordance with generally accepted government auditing standards.

This report, which is a public record, is intended to promote the best possible management of public resources. Copies may be obtained by mail at Oregon Audits Division, Public Service Building, Salem, Oregon 97310, by phone at 503-986-2255 and 800-336-8218 (hotline), or internet at Audits.Hotline@state.or.us *and* http://www.sos.state.or.us/audits/audithp.htm.

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The courtesies and cooperation extended by the officials and staff of the Oregon Tourism Commission and the Oregon Economic and Community Development Department were commendable and much appreciated.

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