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**REPORT NO. 02-612**

March 16, 2002

Ted Boyer, Executive Director  
Department of Commerce  
160 East 300 South  
Salt Lake City, UT 84111

Dear Mr. Boyer:

We have performed the procedures described below to certain aspects of the Department of Commerce's (Commerce) internal control and compliance for the period January 1, 2001 through November 30, 2001. The purpose of these procedures is to assist Commerce in evaluating its internal control and compliance. The procedures performed were as follows:

1. We reviewed the cash receipting, cash disbursing, recording, and reconciliation duties for adequacy of separation of duties for internal control purposes.
2. We reviewed the internal control over cash receipting procedures, including accounts receivable as applicable. We also tested samples of cash receipts transactions.
3. We reviewed internal control over Commerce's bank accounts, specifically procedures concerning bank reconciliations and non-sufficient funds checks. We also reviewed controls over and counted petty cash funds.
4. We tested a sample of cash disbursements for propriety, reasonableness, and compliance with certain internal and State purchasing policies.
5. We reviewed Commerce's compliance with certain laws and policies and procedures regarding personnel and payroll issues, such as nepotism, annual evaluations, compensation increases, bonuses, and incentive awards.
6. We reviewed the internal control over fixed assets at Commerce and tested the completeness and accuracy of the fixed assets listing through a sample of fixed assets.

7. We reviewed Commerce's services contract management including internal control and compliance with certain policies and procedures at Commerce.
8. We reviewed internal control and tested compliance with laws for a sample of Commerce's trust and agency and restricted funds.

Our procedures were more limited than would be necessary to express an audit opinion on compliance or on the effectiveness of Commerce's internal control or any part thereof. Accordingly, we do not express such opinions. Alternatively, we have identified the procedures we performed and the findings resulting from those procedures. Had we performed additional procedures or had we made an audit of the effectiveness of Commerce's internal control, other matters might have come to our attention that would have been reported to you.

Our findings resulting from the above procedures are included in the attached findings and recommendations section of this report. We feel that Findings 1 and 2 are significant weaknesses to Commerce. If these weaknesses are left uncorrected, an unacceptable amount of errors or misappropriations could occur without detection.

This report is intended solely for the information and use of Commerce and is not intended to be and should not be used by anyone other than this specified party.

By its nature, this report focuses on exceptions, weaknesses, and problems. This focus should not be understood to mean there are not also various strengths and accomplishments. We appreciate the courtesy and assistance extended to us by the personnel of Commerce during the course of the engagement, and we look forward to a continuing professional relationship. If you have any questions, please call Dean Eborn, Audit Director, at 538-1352.

Sincerely,

Auston G. Johnson, CPA  
Utah State Auditor

cc: Klare Bachman, Deputy Director  
Joyce McStotts, Budget and Accounting Officer

**DEPARTMENT OF COMMERCE**  
FOR THE PERIOD JANUARY 1, 2001 THROUGH NOVEMBER 30, 2001

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# **DEPARTMENT OF COMMERCE**

## **FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 1, 2001 THROUGH NOVEMBER 30, 2001**

### **1. INADEQUATE SEPARATION OF DUTIES (Significant Weakness)**

The Department of Commerce (Commerce) has the following separation of duties weaknesses:

- a. The Account Technician in Administration who reconciles the validated deposit slip to receipt records for all department divisions also has access to cash. Additionally, the receipt records that are reconciled to the validated deposit slip are not the initial records (hand receipts, mail logs, etc.) maintained by the divisions.
- b. The Executive Secretary in the Securities Division prepares billings/notices for fines and reviews expected receipts.
- c. An Account Technician in Administration handles non-sufficient funds (NSF) checks, prepares and sends billings, has access to cash, and reviews expected receipts for payment of NSF checks.

Inadequate separation of duties exists when the same individual has custody of assets, access to the accounting records, and collection responsibilities. Failure to adequately separate duties could allow misappropriations, errors, and fraud to occur without detection.

#### **Recommendation:**

**We recommend that Commerce establish adequate separation of duties for cash receipting functions. If separation of duties is not possible due to insufficient personnel (which should not really be a problem for a department this size), we recommend that compensating controls in the form of increased supervisory reviews be implemented. When separating these duties, Commerce should do the following:**

- a. **Assign an individual in Administration who does not have access to cash to perform a reconciliation of initial division receipt records (hand receipts, mail logs, drawer reports, division reports, etc.) to the validated deposit slips.**
- b. **Assign someone in the Securities Division to perform an independent review of expected cash receipts for fines.**
- c. **Assign an independent individual in Administration to perform a review of NSF checks. The review should include accounting for all copies of NSF checks as recorded on the bank statement and reviewing applicable customer accounts for subsequent payment. This review should be performed for the following divisions: Securities, Consumer Protection, Public Utilities, and Real Estate.**

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#### Commerce's Response:

- a. **Background:** *It is worth noting that almost all receipts referenced in Items 1 and 2 of the audit letter are in the form of fines or fees for professional licensing and business registrations. Thus, we believe an additional control exists in the form of the external payor, who does not receive Department services unless we have received payment. Concealment of any receipt would ultimately be detected when the customer's (payor's) license or registration was not processed or when the payor received notice from the Office of Debt Collection.*

*Cash drawers, logged division deposits and overall Department deposits are balanced daily with independent controls built into the process. After each cash drawer is balanced at the end of the day, funds and reports are turned over to a division supervisor or coordinator who reconciles receipts with the Department's licensing and payment software, known as Licensing Enforcement System, (LES) software. Supervisors are expected to sign off on the logs, and almost always do so. (This is addressed further in audit response 2c.) Reports are then provided to an Account Technician in Administration who again matches funds received with division reports and prepares bank deposit slips. A different Administration Accounting Technician, who does not have access to cash, reconciles the same reports and deposit slips to original records maintained by respective divisions and amounts entered in the State accounting database, (FINET).*

**Corrective Action:** *The Budget and Accounting Officer in the past has always reconciled FINET with bank statements. In addition, a different Accounting Technician in Administration now reconciles FINET reports to LES, or to logs for divisions not yet deployed in LES. The Technician also reconciles deposit slips to division reports.*

- b. **Background:** *The Securities Division Executive Secretary retired on December 11, 2001. Upon her retirement, the Division Director realized duties were not adequately separated. Accounts Receivable for the Division are not material in number, and their reconciliation is ultimately controlled by the payor, as previously mentioned. Also, additional controls are in place since the fines are initialed by other Division staff through formal legal proceedings and documents.*

**Corrective Action:** *Immediately after this discovery was made in December, an employee was assigned the task of billing and receipts reconciliation apart from the employee who prepares billings. Billings and receipts were reconciled back to the beginning of the fiscal year, (July 1, 2001). No cash payments had been received, and no discrepancies were found.*

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- c. **Background:** *NSF checks were historically handled within Administration due to lack of expertise or man-power at the Division level. Separation of duties recommended by auditors has been a long-standing problem within Administration due to a small staff.*

**Corrective Action:** *In accordance with audit recommendations, Division-level staff are now required to process NSF letters. Respective divisions are responsible for mailing NSF notices and receipt of payments. During bank reconciliation by Administration, the NSF check log is printed and each NSF check recorded on the bank statement is verified to ensure correct entry in FINET and that the corresponding receivable is established.*

#### Auditor's Concluding Remarks:

The above client response indicates that Commerce does not fully understand the significance of our recommendations regarding separation of duties over cash receipts. The response refers to the unique cash receipting structure and the virtual impossibility of concealment of fraud. This is just not accurate. Although Commerce can be commended for their efforts in establishing controls over cash receipting, they have overlooked some key controls. For example, as described in Finding Number 1 on Separation of Duties, there is not an independent reconciliation between the final FINET deposit figures, validated deposit slips, and initial receipt records (hand receipts, mail logs, division reports, etc.). Therefore, errors could occur and fraud could be concealed unless duties are properly separated as recommended.

## 2. **CASH RECEIPTING INTERNAL CONTROL WEAKNESSES** (Significant Weakness)

We noted the following cash receipting weaknesses at Commerce:

- a. Inadequate controls over receipts received by mail. The Division of Securities and the Division of Consumer Protection do not perform an independent reconciliation between the mail log and the validated deposit slip. In addition, the Division of Occupational and Professional Licensing, the Division of Corporations and Uniform Commercial Code, and the Division of Public Utilities do not maintain an initial record of cash receipts received through the mail. An initial record of mail receipts should be kept by either recording receipts on a log or by entering receipts directly onto the system. The person who initially receives the funds should create the record of mail receipts. Proper use of a mail log includes recording the receipts on a log and subsequently reconciling the log to the validated deposit to ensure that all receipts listed have been properly deposited. Someone independent of the cash receipting function should perform the reconciliation.
- b. Hand receipt control weaknesses. Of the 15 cash receipts tested at the Division of Public Utilities, one hand receipt was not issued for a walk-in transaction. Upon further inquiry,

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we found that a receipt is only written if the customer asks for one. We also observed that the Division of Public Utilities' hand-written receipts are not pre-numbered. According to the *State of Utah Accounting Policies and Procedures* (State Policy) FIACCT 07-01.10, all hand-written receipts should be pre-numbered.

- c. Incomplete and unapproved correction/deletion logs. Commerce has an unwritten policy that all entry corrections made to the cash receipting system should be tracked on a correction/deletion log that contains the supervisor's signature, indicating approval of the transaction. However, during our cash receipts sample testwork, we noted several correction/deletion logs that were not signed by the supervisor or were completely missing from daily receipt records.

The above weaknesses could allow the misappropriation of funds to occur without detection.

#### Recommendation:

**We recommend that Commerce:**

- a. **Establish controls over mail receipts for the above noted divisions by either recording mail receipts on a mail log or entering receipts directly onto the system immediately upon opening the mail. The mail log and/or system record of receipts should be reconciled to the validated deposit by a person independent of cash receipting functions.**
- b. **Ensure that the Division of Public Utilities issues a pre-numbered hand-written receipt to all walk-in customers in accordance with State policy, and that the receipt be retained and the receipt numbers be reviewed and accounted for.**
- c. **Complete and maintain a correction/deletion log containing proper supervisory approval for all entry corrections made to the cash receipting system.**

#### Commerce's Response:

- a. **Background:** *The Department as a whole receives hundreds of thousands of pieces of mail annually. Creating a mail log of each item received – or even each payment received – would be extremely labor intensive and cost-prohibitive. We simply do not have the resources required to devote to such a task.*

**Corrective Action:** *Audit recommendations allow for direct entry of receipts in LES in lieu of a mail log. Only the Divisions of Corporations and Occupational & Professional Licensing (DOPL) are currently deployed in LES at this time. These two Divisions receive the vast majority of the Department's mail volume. Corporations staff have entered*

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*receipts directly into LES upon mail opening since the system's inception approximately two years ago. DOPL will begin direct entry of payments next month, April 2002. We expect the Divisions of Real Estate, Consumer Protection, and Securities to be deployed in LES by July of this year. Until that time, staff in these divisions will ensure their mail logs are always verified by a supervisor or coordinator. Divisions with LES access will return a copy of the LES deposit report to the originator of the mail logs. The originator will verify all mail log funds shown as received have been properly deposited in LES. In addition, an Account Technician in Administration will verify that the LES deposit, the mail log and the deposit slip contain the correct amounts. The Division of Public Utilities does not lend itself to LES deployment. The mail log procedure described above has therefore been implemented in that Division for their very sporadic receipt of payments. The Committee of Consumer Services does not receive payments by mail or walk-ins.*

- b. Background:** *As stated earlier, cash drawers for all divisions are balanced daily to reconcile receipts with division reports verified by a supervisor or coordinator. An Accounting Technician in Administration again verifies funds received with reports before preparing the bank deposit. Thus, controls are in place for hand receipts. Again, please refer to the discussion of the Department's unique cash receipting structure and the virtual impossibility of concealment of an irregularity.*

**Corrective Action:** *The Division of Public Utilities has begun issuing pre-numbered receipts for payments by walk-in customers in place of the unnumbered receipts previously used.*

- c. Background:** *Correction/deletion logs have been in place for quite some time within the Department as an audit and tracking mechanism. We believe the small number of unsigned logs are attributable to human error. Even if a log is missing or unsigned, it is important to note that an Administration Accounting Technician reconciles the Treasurer Transmittal Report, which shows LES entries including corrections and deletions, to the bank deposit. Therefore, controls are in place to detect an unauthorized correction; however, the document evidencing such control in this instance was simply missing.*

**Corrective Action:** *Upon receipt of deposit reports from divisions, the Accounting Technician in Administration who completes bank deposit slips now verifies that ALL logs are obtained and signed. A different Accounting Technician in Administration, who performs reconciliation of division records to bank deposits, also verifies that logs are provided and properly signed.*

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#### 3. **FIXED ASSET CONTROL WEAKNESSES**

We noted the following errors during the performance of our fixed asset testwork:

- a. For two of ten items tested, the fixed asset identifying tag number on the item did not correspond to the tag number listed on Finet's Fixed Asset Listing. In addition, one of the ten items tested did not have a fixed asset identifying tag. State Policy FIACCT 09-08 requires that all fixed assets be properly tagged and recorded on the fixed asset listing.
- b. One of ten fixed assets tested was recorded in the wrong organization. State Policy FIACCT 09-08 states "it will be the responsibility of each agency to establish fixed asset records with the appropriate Fixed Asset Type, Fixed Asset Number, and Org."

Failure to properly identify and record assets could result in the loss or misuse of fixed assets and the misstatement of fixed assets on the State's financial statements.

#### **Recommendation:**

**We recommend that Commerce properly tag all fixed assets and accurately record the fixed asset information on the Finet Fixed Asset Listing in a timely manner, as required by State Finance policy.**

#### **Commerce's Response:**

**Background:** *For the past several years, the Department has had in place a procedure whereby an Accounting Technician has been assigned to verify all fixed assets at least every six months. The Technician was instructed to check for missing inventory tags as well as to reconcile the FINET listing to affixed tag numbers. Forms were also developed to track inventory when transferred from one division to another within the Department. The Accounting Technician to whom this task was assigned had recently verified his internally generated spreadsheet of assets over and under \$5000 but had not verified to the FINET listing. This shortcoming was documented in his recent performance evaluation to impress the importance of this finding.*

**Corrective Action:** *The inventory number tag has been corrected to correspond to the assigned FINET number for fixed asset A-0270, a Xerox copier. The second mismatched asset number involved A-2019, Hewlett Packard imaging equipment. This item is being surplused, and the asset number will be deleted from FINET. A Hewlett Packard NetServer, #722520, was found to be missing a tag. On investigation, it appears the asset's original tag fell off due to humidity in the small, closed area where it was housed. The asset listed in the wrong org, A-0269, involved a copier moved many years ago—prior to implementation of our current asset tracking*

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*program--from Administration to the Real Estate Division. This oversight has been corrected, and the Internal Auditor will spot check verifications in the future to prevent this problem.*

#### 4. **UNDOCUMENTED JUSTIFICATION FOR ADMINISTRATIVE SALARY CHANGES**

Four of 25 items tested did not have written justification for an Administrative Salary Increase. DHRM R477-7-4(11)(c) and (12)(b) state that justifications for administrative salary changes shall be in writing and approved by the Executive Director or Commission. This documentation is to be maintained in the individuals' employee files at the division level. Failure to adequately document justifications for administrative salary changes could result in improper salary increases or decreases and the misuse of State funds.

#### **Recommendation:**

**We recommend that Commerce maintain adequate documentation of the justification for administrative salary changes.**

#### **Commerce's Response:**

**Background:** *Neither the Deputy Director nor Executive Director is typically in a position to judge whether an employee outside their direct supervision should or should not receive an ASI. Only immediate supervisors and Division Directors can really make sound ASI recommendations regarding their employees. Thus, Administration permitted increases without requiring written justification as long as the request itself was in writing and the Division Director provided assurance that his or her budget was adequate to cover recommended increases. ASI requests did, however, have to pass through all supervisory levels of approval up to and including the Deputy Director. We have historically required that these requests include the employee's name, number of steps to be increased, and effective date of increase. Requests often, but not always, included justification for the increases. Supervisors sometimes simply provided verbal justification for increases at the division level. We were simply unaware of DHRM's requirement that written justification must be provided within the written request for ASIs.*

**Corrective Action:** *In spite of the inherent problem with judgment calls noted above, we recognize the benefit of documenting justification for ASIs, and have already corrected this finding. Our HR Analyst now simply denies any ASI requests that do not include justification. In addition, we provided State auditors with justification (after the fact) for test items at issue. It is worth noting that our past practice did at least provide a minimum of documentation for ASI tracking and prevented any chance of having a technician making fraudulent data entries.*

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#### 5. **RECEIPT OF GOODS AND SERVICES NOT ACKNOWLEDGED**

For 4 of 25 expenditure transactions tested, Commerce did not properly acknowledge the items received, in accordance with State Policy FIACCT 04-13. The acknowledgement should include the date the goods or services were received along with the name of the individual who received them. Additional information, such as identification of the carrier delivering the goods and any special condition of the receipt (including damages and under or over shipments), should be included to track vendor performance. Failure to properly acknowledge receipt of goods and services may result in making payments for undelivered or damaged goods and services.

#### **Recommendation:**

**We recommend that Commerce properly acknowledge the receipt of goods and services in compliance with State Policy.**

#### *Commerce's Response:*

***Background:** Past practice required that no invoices were paid unless approved with at least one signature—that of the Division Director or his designee. Invoices including returns or over/under shipments were passed on for payment with a note of explanation so amounts owed could be adjusted. Accounts Payable Accounting Technicians were instructed that the approval signature constituted acknowledgement of receipt of goods or services. This procedure worked well for us. Long-term accounting staff have no recollection of instances where we've paid for undelivered or damaged goods and services. If those situations were to occur, we would naturally pursue reimbursement.*

***Corrective Action:** As soon as the auditor brought this finding to our attention, we began requiring that the individual receiving goods or services sign and date invoices in addition to approval from the Division Director or his designee. Documentation is still required for any billing adjustments related to deficient good or services.*

#### 6. **INAPPROPRIATE CONTRACT PAYMENT**

Of five contract payments tested, one payment was for services provided prior to the contract's approval and effective date. State Policy FIACCT 04-02.00 states that a contract's start and end dates control when a contract is active and, therefore, when it can be used. Contract payments should be made only for services performed during the contract period and approval should be received before services are performed. Making payments for services performed prior to the contract's approval or effective date could result in inappropriate expenditures.

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### Recommendation:

**We recommend that Commerce ensure contract payments are made only for services performed or goods received during the contract's active period and after the contracts have been approved.**

### Commerce's Response:

***Background:** In the past four years, the number of applications to the Public Service Commission by the large utilities – particularly PacifiCorp – for significant rate increases has been very large. The PSC likes to deal with such petitions expeditiously and, in a full rate case, it is statutorily required to issue its order within 240 days of the utility's application, or the application is deemed approved as filed.*

*Both the Division of Public Utilities and the Committee of Consumer Services have the statutory duty to analyze these requests, and prepare recommendations and testimony for the PSC: the DPU as the PSC's public staff, and the CCS on behalf of the residential and small commercial customers of the utilities. But, while the DPU has almost forty people with whom to perform these functions, the CCS has less than ten, and relies heavily upon contracting with outside experts on a case-by-case basis.*

*The procedure to establish a competitive contract under State policies is very time consuming: it can take more than 90 days. Certain areas of technical expertise arise repeatedly, accounting aspects among them. Initially, the CCS issued RFPs and selected consultants on a competitive basis. That is how we first hired Larkin and Associates.*

*Using sole source contracts shortens the time required to put a contract in place, although it can still take more than 60 days. The CCS was so impressed by the competence and effectiveness of Larkin's work that, subsequently, it has repeatedly contracted with Larkin on a sole source basis, while insisting that it could only do so at the same rates with which Larkin first won competitive selection. As a result, Larkin has become very familiar with PacifiCorp's methods and records, and thus well placed to analyze and comment on that Company's accounting matters at short notice, and very efficiently from a time and cost perspective.*

*In the latter weeks of 2000, PacifiCorp initiated discussions with the DPU and the CCS regarding how it might go about securing a rate increase. CCS staff consulted Larkin's Donna DeRonne in the course of those discussions. At that point there was no contract in place, and neither the CCS nor Larkin knew whether, when, or what, PacifiCorp might file with the PSC. So, in providing advice at this stage, Larkin was taking a risk that neither a case nor a contract might be forthcoming, and they might not be paid for their assistance.*

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*On 12 January 2001, PacifiCorp filed an application with the PSC for a \$142.2M (20% approximately) rate increase and asked the PSC to approve the entire increase on an interim basis from the earliest possible date. The PSC scheduled a hearing regarding the interim increase for 30 January. CCS staff continued to consult Ms DeRonne in preparation for that hearing, although it was simply impossible to put a contract in place ahead of these work elements being done.*

*The CCS asked Larkin for a proposal to assist it throughout the rate case – including the interim proceeding – and, on 24 January, Larkin provided one. On 7 February, the CCS sought approval of a sole source contract with Larkin totaling \$97,370. The sole source application was approved on, and the effective date of the contract was set at, 15 February 2001, although it was mid-March before all the necessary signatures were obtained.*

*While it is recognized that this particular payment was made for services provided prior to the effective date of the contract, the CCS is fully confident that the payment was otherwise entirely appropriate. The professional advice that the CCS sought and received was critically necessary and fell entirely within the scope of the contract that was eventually established. Larkin's work throughout met or exceeded the expected levels of competence and professionalism; it significantly assisted the CCS in encouraging the PSC to restrict the interim increase to \$70M, and subsequently to limit the magnitude of the final rate increase to just \$40M.*

*At least two factors are thought to have contributed to the payment of this invoice. During the period from December 2000 to March 2001, staff were extremely busy working on this and a number of other cases, and establishing several other contracts. And, by the time the invoice in question was presented – for certification by the project manager that it was fair and reasonable, and then for approval by the CCS's Administrative Secretary for payment – the contract had been in place for several weeks.*

***Corrective Action:*** *Although length of time for Finance to complete the contracting process is sometimes very time-consuming, Committee staff could have alleviated the problem in this particular instance by beginning the paperwork earlier. Steps will be taken to ensure that the CCS complies with the State's policy in future. In particular, it is intended to establish separate, ongoing contracts with Larkin and certain other specialists so that staff can obtain advice and assistance on cases as they arise, and while case-specific contracts are being arranged.*

#### **7. PURCHASE CARD WEAKNESSES**

- a. Of approximately 220 purchase card statements we reviewed, two were not approved by anyone other than the cardholder. Per the State Purchase Card Policy and Procedures Manual, all purchase card statements should be properly reviewed and approved by

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authorized personnel to ensure all transactions are reasonable and proper. If charges are not properly reviewed, approved, and documented, unauthorized transactions may result and the risk of misappropriation without detection increases.

- b. During our cash receipting testwork in the Public Utilities Division, we noticed a purchase card transaction that was for personal use. The employee subsequently reimbursed the division; however, per the State Purchase Card Policy and Procedures Manual, Section 2.2, purchase cards are not to be used for personal use. Using purchase cards to purchase items for personal use is against state policy and allows an individual to avoid paying tax associated with purchases. In addition, using purchase cards for personal use items inflates the actual expenses of the Division and is considered misuse of State funds.

#### **Recommendation:**

**We recommend that Commerce:**

- a. **Ensure that purchase card statements are reviewed and approved by authorized personnel other than the cardholder for reasonableness and propriety of all transactions.**
- b. **Use purchase cards as outlined by the State Purchase Card Policies and Procedures Manual and not for personal use.**

#### **Commerce's Response:**

- a. **Background:** *Lack of approval by other than the cardholder of two out of the 220 card statements reviewed appears to be attributable solely to human error. As previously noted, our existing policy requires the signature of a Division Director or designee. We suspect the two statements in question were clipped to a cover invoice and were simply overlooked.*

**Corrective Action:** *Error percentage for this test is only .009 and involved small dollar amounts. Human error is difficult if not impossible to eliminate completely. However, this finding has been brought to the attention of our Accounts Payable Technician, and our policy has been re-emphasized.*

- b. **Background:** *The Purchase card transaction in question involved an employee buying coffee for employees in his Division. Since the Department does not sanction coffee purchases using State funds, the employee, at the time he placed the order, expected that coffee-drinking employees would reimburse the expense, which they did. Even so, he considered it to be a work-related expense since the coffee was consumed at the work site and he did not benefit exclusively from the purchase. As soon as the audit findings were shared with him, he vowed never to make this type of purchase again. Management has*

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*made it very clear that personal use of purchase cards is not permitted and that employees defying this policy are subject to disciplinary action including possible termination.*

***Corrective Action:** We will share this audit finding with other management staff to deter future misunderstandings regarding this particular use of the purchasing card.*

#### 8. **IMPROPER USE OF PETTY CASH FUNDS**

We noted the following improprieties regarding the use of petty cash funds at Commerce:

- a. While reviewing petty cash expenditures, we noted several purchases from the general petty cash fund that were for investigation purposes. Commerce is authorized to have a separate petty cash fund for investigation expenditures; however, it appears that the two petty cash funds were co-mingled. This discrepancy occurred due to lack of written policies that clarify the type of expenditures that should be made from the investigation fund. If petty cash funds are co-mingled, the risk of misappropriation increases and discrepancies in cash balances may go undetected.
- b. We reviewed 63 individual petty cash expenditures made from the general petty cash fund and noted 3 transactions, totaling \$50.00, that were for payment of registration fees and 1 transaction for \$25.00 that was for membership dues. According to State Policy FIACCT 05-23.01, petty cash funds may not be used for registration fees or memberships and dues. Failure to comply with State policy could result in improper petty cash expenditures.

#### **Recommendation:**

**We recommend that Commerce:**

- a. **Separate the general petty cash fund from the investigation petty cash fund and implement written policies to clarify the type of expenditures that can be made from the investigation petty cash fund.**
- b. **Comply with State policy and ensure that general petty cash funds are not used for registration fees or memberships and dues.**

#### **Commerce's Response:**

***Background:** Two Commerce petty cash funds were established years ago. The test case problem was caused by human error, when a purchase for investigations was funded out of the general petty cash fund. However, the expenditure was properly documented, and both funds are routinely reconciled to prevent misuse.*

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*Corrective Action: This error was corrected with a documented transfer between funds and re-training on the proper use of each fund.*