

AUDIT TEAM

Jim Williamson, CPA, CIA, City Auditor
Matt Weller, CPA, Assistant City Auditor
Janet McWilliams, CPA, Audit Manager

**OKLAHOMA CITY ZOOLOGICAL TRUST
INVESTIGATION REPORT**

MAY 21, 2013

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May 21, 2013

Trustees of the Oklahoma City Zoological Trust:

At the request of Oklahoma City Zoological Trust (Trust) management, the Office of the City Auditor has investigated alleged improper expenditures discovered by Trust management. Our investigation substantiated the allegation. Many of the improper expenditures summarized below were reported to us by Trust management.

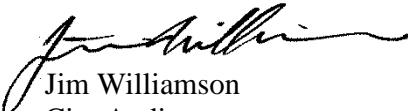
The following improper expenditures were substantiated during our investigation:

<u>Description and Report Reference</u>	<u>Amount</u>
Purchasing card cash advances – Comment 1	\$ 3,892
Non-business purchases – Comment 2	493
Gift cards – Comment 3	2,000
Travel expenses – Comment 7	2,672
Gift shop merchandise – Comment 9	137
Office equipment – Comment 12	<u>857</u>
Total	<u>\$10,051</u>

Our investigation also revealed certain control weaknesses, which are addressed in the attached report and include the following:

- Management should assess whether purchasing cards have been issued to only those employees reasonably requiring such cards to carry out their job duties. Recommendation 4.
- Procedures should be established to ensure Trust bank accounts are reconciled on a monthly basis. Recommendation 10.
- The Trust’s employee handbook should be expanded to address reporting suspected unethical behavior and disclosing situations or activities that could result in the appearance of a conflict of interest or other improper act. Recommendation 15.

The content and emphasis of items in this report have been discussed in detail with appropriate representatives from management. These discussions were held to assure a complete understanding of the recommendations and observations arising from our work, which included advising management to contact law enforcement regarding apparent criminal acts identified during our investigation. Management’s responses are attached to this report in their entirety.


 Jim Williamson
 City Auditor


 Janet McWilliams
 Audit Manager

OKLAHOMA CITY ZOOLOGICAL TRUST INVESTIGATION REPORT

SCOPE, BACKGROUND AND METHODOLOGY

At the request of Oklahoma City Zoological Trust (Trust) management, the Office of the City Auditor has investigated alleged improper expenditures discovered by Trust management. Our investigation substantiated the allegation and revealed certain related operational weaknesses. Many of the improper expenditures detailed in this report were reported to us by Trust management.

The Trust is a public trust of the State of Oklahoma with the City of Oklahoma City as beneficiary. The Trust is the governing authority of the Oklahoma City Zoological Park. As specified in the trust indenture, nine Trustee positions oversee the activities of the park. The Mayor, a City Councilmember and the City Manager serve as Trustees by position. The remaining six Trustees are appointed by the Mayor and confirmed by the City Council.

Procedures performed during our investigation included interviewing Trust personnel; reviewing purchasing, travel, accounts payable, purchasing card and employee discount policies and procedures; and examining supporting documents for selected transactions in these areas. We also reviewed policies and procedures relating to cash receipts, accounting and payroll.

Our work focused on investigating the allegation referenced above and did not include performing an audit of Trust operations. Therefore, we have no opinion regarding the adequacy of internal controls in the above mentioned areas.

RESULTS OF WORK PERFORMED

Recommendations included in this report are intended to provide constructive suggestions for addressing certain operational matters noted during our investigation. Each recommendation is immediately followed by *management's response*, which is also attached to this report in its entirety.

Purchasing Card Expenditures

Trust purchasing card statements for the period August 14, 2012 through December 23, 2012¹ totaled \$509,485, which includes \$214,308 of transactions on the Chief Financial Officer's (CFO) purchasing card statements.

Comment (1)

CFO purchasing card statements included nine cash advance transactions and related finance charges totaling \$3,892. The use and/or purpose for these advances are unknown. Based upon discussions with management, the Trust's informal policy prohibits cash advances and such ability

¹ This encompasses the period during which the CFO was utilizing a Trust purchasing card.

was restricted with the previous purchasing card administrator. However, while changing banks, cash advance capabilities were inadvertently allowed with the new purchasing card administrator. Cash advance capabilities create unnecessary risk for misuse of purchasing cards and require unwarranted procedures to ensure accountability.

Recommendation (1)

Cash advance capabilities should be restricted on purchasing cards and the informal prohibition regarding cash advances should be included in the Purchasing Card Policy.

Management Response (1)

Agree with recommendation. Cash advance capability has already been disabled with the current credit card company. Cash advances will be restricted as per the new Purchasing Card agreement effective July 1, 2013. The high amount of charges on the CFO's purchasing card was a result of the vacancy in the Food & Beverage Manager position.

Comment (2)

CFO purchasing card statements contain five undocumented charges totaling \$493 that appear to be for personal purchases. CFO purchasing card transactions are not reviewed by executive management. Without suitable review, improper expenditures could go undetected and/or reported.

Recommendation (2)

Documentation supporting CFO purchasing card transactions should be reviewed and approved by a member of executive management (e.g., Director, Finance Manager, etc.).

Management Response (2)

Agree with recommendation. Executive Director/CEO or designee will review and approve purchasing card transactions by CFO effective immediately. Normally the Finance Manager reviews all purchasing card transactions, but this position was vacant during this time.

Comment (3)

Reward points earned on Trust purchasing card transactions were redeemed for gift cards by the CFO. We identified eight gift cards totaling \$2,000 that had not been redeemed through the Trust revenue system. Three of these cards totaling \$1,500 appear to have been redeemed for personal purchases. Disposition of the remaining five cards totaling \$500 is unknown. Purchasing card incentives in the form of reward points exchanged for cards/goods/services create unnecessary risk of misuse and require unwarranted procedures to ensure accountability.

Recommendation (3)

A purchasing card offering a rebate option on purchases should be used for the Trust purchasing card program.

Management Response (3)

Agree with recommendation. New purchasing card agreement with rebate option with Elavon thru BancFirst is already executed and will be in use by July 1, 2013, along with updated Purchasing Card Policy.

Comment (4)

Purchasing cards have been issued to 44 (30%) of the Trust's 147 employees. Purchases for 26 employee cardholders average less than \$500 per month, accounting for approximately 5% of total purchasing card expenditures. Unnecessary risk of misuse is created when an employee possesses a purchasing card that is not essential to carrying out assigned job duties.

Recommendation (4)

Management should assess whether purchasing cards have been issued to only those employees reasonably requiring such cards to carry out their job duties. While not included in the scope of our review, to further reduce risks related to purchasing cards, management should also review credit and transaction limits established for each cardholder to ensure these limits are as low as reasonable given each employee's respective responsibilities.

Management Response (4)

Agree with recommendation. Effective July 1, 2013 only a limited number of purchasing cards will be issued after assessing purchasing needs and responsibilities of each department, with consideration given to credit and transaction limits.

Comment (5)

Purchasing card program policies adopted by the Trust on March 21, 2012 have not been distributed to individual cardholders. Risk of misunderstanding and/or misuse is increased if purchasing card policies are not effectively communicated.

Recommendation (5)

Procedures ensuring employees acknowledge receipt and understanding of purchasing card policies should be implemented for all current and future cardholders.

Management Response (5)

Agree with recommendation. Staff acknowledgement of receipt of purchasing card policies is on file with their signatures and will be obtained from future cardholders.

Comment (6)

Comprehensive purchasing policies and procedures as referenced in the purchasing card policy document have not been developed. Purchasing guidelines addressing bidding, purchasing cards, and approval requirements exist. However, these guidelines do not address important policy areas such as internal control standards, payment processing, emergency purchases, types of purchases and general business expenses. Without adequate guidance, risk of inappropriate and/or abusive purchasing is increased.

Recommendation (6)

Comprehensive purchasing policies and procedures should be developed and distributed to employees with purchasing responsibilities. Employees should be asked to acknowledge receipt and understanding of these policies.

Management Response (6)

Agree with recommendation. Comprehensive purchasing policies and procedures are being developed, and will be distributed to all employees with purchasing responsibilities by November 15, 2013. A signed acknowledgement of receipt and understanding of these policies will be obtained.

Travel Expenditures

Travel related expenses processed via Trust purchasing cards during the period August 14, 2012 through December 23, 2012 totaled \$43,179, including \$17,140 of expenses on the CFO's purchasing card.

Comment (7)

CFO purchasing card statements included \$1,164 of meal and alcohol expenses for both Trust and non-Trust employees. The Trust employees also received per diem meal allowances for the days on which these meals were purchased.

The CFO also authorized \$1,058 of expenditures for unreimbursed conference fees and airfare relating to a guest traveling with the CFO.

Additionally, two Travel Expense Authorization forms for travel advances to the CFO totaling \$550 were not approved by executive management and the CFO did not submit travel expense reports accounting for \$450 of these advances. Travel Expense Authorization forms stipulate that employees should submit travel expense reports within five business days after returning from travel.

Recommendation (7)

CFO Travel Expense Authorization forms and travel expense reports should be reviewed and approved by a member of executive management (e.g., Director, Finance Manager, etc.) prior to and after return from travel, respectively.

Additionally, procedures should be established to ensure employees submit travel expense reports timely after return.

Management Response (7)

Agree with recommendation. Executive Director/CEO or designee will review and approve travel expense reports of CFO and will require timely submission of travel expense reports as per policy, effective immediately.

Comment (8)

Formal policies governing business travel have not been developed. Risk of misunderstanding and/or abuse is increased without written travel policies.

Recommendation (8)

Formal travel policies governing business travel should be developed. These policies should address authorization to travel, describe appropriate expenses, and establish reporting and approval requirements.

Management Response (8)

Agree with recommendation. Detailed policies and procedures are being developed for travel expenses and will be in use by November 15, 2013.

Employee Discounts

Comment (9)

Based upon discussions with Trust personnel, the CFO removed gift shop merchandise valued at \$137 without paying and periodically obtained complimentary Trust concession items for herself and non-Trust employees.

The Trust employee discount policy allows a 40% discount off regular price of gift shop merchandise and concessions for Trust employees and volunteers. Additionally, management advised that Food and Beverage department employees are also allowed by informal policy one complimentary meal during each full shift.

Recommendation (9)

The Trust employee discount policy should completely reflect desired benefits/practices and all employees should comply with established policy.

Management Response (9)

Agree with recommendation. Informal policy of one complimentary meal for food and beverage staff who has worked a shift will be added to the Trust employee discount policy by November 15, 2013. Food and Beverage Staff will be informed of the employee discount policy, required to comply with it, and report any violation.

Accounting Practices

Comment (10)

As of March 22, 2013, the last reconciliation of Trust bank accounts was performed as of June 30, 2012. Bank accounts should be reconciled timely to ensure cash balances and records are correct, and to detect fraudulent activity.

Recommendation (10)

Procedures should be established to ensure Trust bank accounts are reconciled on a monthly basis.

Management Response (10)

Agree with recommendation. Trust bank account reconciliations were not completed in a timely manner due to staff turnover. The Finance Manager position was vacant for most of the last half of 2012. Bank reconciliations have been brought up to date, with no irregularities found. Bank accounts will be reconciled every month, effective immediately.

Comment (11)

12 of 67 (18%) checks examined during our investigation and ranging from \$502 to \$14,000 were processed without authorization in accordance with the Trust's purchasing guidelines. Appropriate authorization is important to ensuring expenditures are for business related purposes.

Recommendation (11)

Check requests should be processed in accordance with established policy.

Management Response (11)

Agree with recommendation. Effective immediately, Trust's purchasing guidelines for authorization will be strictly followed when checks are issued.

Comment (12)

The CFO's purchasing card statement for the period ended October 18, 2012 included charges for a laptop computer and accessories totaling \$857. The whereabouts of these items is unknown. Inventory records for assets with costs below the Trust's \$7,500 capitalization level are not maintained.

Recommendation (12)

To enhance accountability for Trust assets, inventory records for assets below the capitalization level and vulnerable to loss (e.g., personal computers, laptops, office equipment, smartphones, etc.) should be maintained.

Management Response (12)

Agree with recommendation. Inventory of assets vulnerable to loss will be maintained and tracked, effective November 15, 2013.

Comment (13)

During our investigation we noted a lack of documented financial accounting policies and procedures. In their management letter relating to the financial audit for fiscal year 2012, the Trust's external auditors suggested that a formal accounting policies and procedure manual be developed and distributed to employees. A well-structured accounting policies and procedures manual can be very helpful in ensuring proper procedures and related internal controls are in place and consistently followed.

Recommendation (13)

We concur with the external auditor's suggestion that a written accounting policies and procedures manual be developed and distributed to employees.

Management Response (13)

Agree with recommendation. Written accounting policies and procedures are under development and will be distributed to employees by November 15, 2013.

Comment (14)

In accordance with the Trust Indenture, payroll expenditures and operating expenditures via check are included on the monthly Trust meeting agenda. However, expenditures via electronic transfer (e.g., payments to the purchasing card sponsor bank) are not included on the agenda.

Recommendation (14)

To comply with provisions of the Trust Indenture, all expenditures regardless of form should be presented to the Trustees.

Management Response (14)

Agree with recommendation. All expenditures will be included in the Trust meeting packet for approval, effective immediately.

Ethics

Comment (15)

Based upon discussions with Trust personnel, the CFO accompanied a department head on a trip to visit a contract vendor's facility. Costs for this trip were paid by the vendor. When requesting approval for this trip, the CFO did not inform the Director that costs for the trip were being paid by the vendor.

A number of employees interviewed during our investigation indicated they were aware of and uneasy about the propriety of several issues included in this report. However, these employees did not report their concerns to executive management until they collectively decided the body of evidence was overwhelming.

The Trust's employee handbook does not clearly establish responsibilities for reporting unethical behavior. Conducting Trust business in an ethical manner, in fact and appearance, is important in maintaining citizen confidence and employee morale.

Recommendation (15)

The Trust's employee handbook should establish employee responsibilities and provide direction for reporting suspected unethical behavior. Additionally, the employee handbook should address disclosing to supervisors situations or activities that could result in the appearance of a conflict of interest or other improper act.

Management Response (15)

Agree with recommendation. Policies on unethical behavior and appearance of conflict of interest and its reporting will be developed and distributed to employees by November 15, 2013. These policies will be included in the employee handbook.

MEMO



To: Jim Williamson, City Auditor
From: Dwight Scott, Executive Director/CEO DS.
Date: May 10, 2013
Re: Zoo Audit – Management Response

Following are management's responses to recommendations outlined in the investigative audit requested by the Zoological Trust.

1. Agree with recommendation. The cash advance capability has already been disabled with the current credit card company and will be restricted with the new purchasing card as per agreement already signed. Cash advances will be restricted as per the Purchasing Card Policy. The high amount of charges on the CFO's purchasing card was a result of the vacancy in the Food & Beverage Manager position.
2. Agree with recommendation. Executive Director/CEO or designee will review and approve purchasing card transactions by CFO. Normally the Finance Manager reviews all purchasing card transactions, but this position was vacant during this time.
3. Agree with recommendation. New purchasing card offering rebate option will be issued soon. New purchasing card agreement with Elavon thru BancFirst is already executed.
4. Agree with recommendation. Only a limited number of purchasing cards will be issued after assessing purchasing needs and responsibilities of each department, with consideration given to credit and transaction limits
5. Agree with recommendation. Staff acknowledgement of receipt of purchasing card policies is on file with their signatures and will be obtained from future cardholders.
6. Agree with recommendation. Comprehensive purchasing policies and procedures are being developed, and will be distributed to all employees with purchasing responsibilities. A signed acknowledgement of receipt and understanding of these policies will be obtained.
7. Agree with recommendation. Executive Director/CEO or designee will review and approve travel expense reports of CFO and will require timely submission of travel expense reports as per policy.

Zoo Audit – Management Response (page 2 of 2)

8. Agree with recommendation. Detailed policies and procedures are being developed for travel expenses
9. Agree with recommendation. Informal policy of one complimentary meal for food and beverage staff who has worked a shift will be added to the Trust employee discount policy. Food and Beverage Staff will be informed of the employee discount policy, required to comply with it, and report any violation
10. Agree with recommendation. Trust bank account reconciliations were not completed in a timely manner due to staff turnover. The Finance Manager position was vacant for most of the last half of 2012. Bank reconciliations have been brought up to date, with no irregularities found. Bank accounts will be reconciled every month.
11. Agree with recommendation. Trust's purchasing guidelines for authorization will be strictly followed when checks are issued.
12. Agree with recommendation. Inventory of assets vulnerable to loss will be maintained and tracked.
13. Agree with recommendation. Written accounting policies and procedures are under development and will be distributed to employees upon completion.
14. Agree with recommendation. All expenditures will be included in the Trust meeting packet for approval.
15. Agree with recommendation. Policies on unethical behavior and appearance of conflict of interest and its reporting will be developed and distributed to employees. These policies will be included in the employee handbook.