



## Department of Natural Resources

### State Park Operations Audit

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**Audit Period: January through December 2012**

### Results Summary:

| Objective   | Conclusion                              |
|---|---|
| Revenue generated from state-operated overnight, retail, and dock-permitting operations | Well-Controlled with Improvement Needed |
| Revenue generated from third-party agreements   | Improvement Needed                      |

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## **Executive Summary**

### **Background**

The Ohio Department of Natural Resources (DNR) operates 75 parks in 60 counties through the Parks and Recreation Program to provide a quality recreational and educational program for Ohioans. Revenue from state park operations is generated from state land leases, dock licenses, concessions, campground fees, federal grants, and other earned revenues generated from the state park system. State parks annually generate over \$27 million in revenue.

OIA identified opportunities for DNR to strengthen internal controls and improve business operations. This audit conforms with the *International Standards for the Professional Practice of Internal Auditing*. A summary, along with detailed observations, have been provided. OIA would like to thank DNR staff and management for their cooperation and time in support of this audit. This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.

### **Scope and Objectives**

OIA staff was engaged to perform assurance work related to the revenue generated from state park operations. This work was completed between December 2012 and March 2013. The scope of this review included key processes for receiving revenue generated from state park operations. However, the scope excluded the processes for accurately and timely recording revenue generated from state park operations. These areas were included in the scope of the Auditor of State's Office audit for State Fiscal Years 2011 and 2012.

The objectives of the review included the following:

- Evaluate the design and effectiveness of controls over the process of receiving revenue generated from state-operated overnight, retail, and dock permitting operations.
- Evaluate the design and effectiveness of controls over the process of receiving revenue generated from third-party agreements.

### **Detailed Observations and Recommendations**

The Observations and Recommendations include only those risks which were deemed high or moderate. Low risk observations were discussed with individual agency management and are not part of this report. However, the low risk observations were considered as part of the audit objective conclusions.



## Observation 1 – Supervisory review over deposits

Management of the DNR State Parks Business Services Division has designed a compensating control to verify the accuracy of deposits into the state treasury for revenue received at parks in the form of cash and checks. This control was to be implemented to compensate for a lack of segregation between the duties of receiving and reconciling cash collection reports from parks, transferring funds from parks’ local banks to the holding account, transferring funds from the holding account to the state treasury, and recording direct journals into OAKS.

A test of six deposits revealed there was no evidence of the Deputy Chief’s review to verify the accuracy of the deposits into the state treasury. When functions cannot be separated, a detailed supervisory review of related activities should be performed as a compensating control activity.

Failing to conduct the supervisory review may increase the likelihood of inaccurate or incomplete deposits into the state treasury for cash and checks received at parks.

### Recommendation

Review every OAKS Payment Detail Report and supporting documentation to verify the accuracy and completeness of amounts transferred from the holding account to the state treasury. Also, since the Fiscal Specialist must make adjustments to reports that state amounts to transfer from parks’ banks to the holding account for items such as state sales taxes, cash drawer overages or shortages, and bank service charges, the supervisory review should also include verifying the accuracy of adjustments for a sample of parks each week.

### Management Response

Upon review of the Auditor of State’s Office audit of DNR for State Fiscal Years 2011 and 2012, the Division recognized a deficiency in segregation of duties over the revenue process. The Division committed to implement a compensating control in November 2012.

Upon review by OBM not all deposits were being verified. The Division discovered that a simple miscommunication occurred between the Deputy Chief of Business Services and the Fiscal Specialist 1 responsible for preparing the deposits. The Fiscal Specialist 1 understood the compensating control to be a spot verification and not a complete and thorough verification.

Therefore, on February 27, 2013 the Division began verifying all deposits independently from the Fiscal Specialist 1, as originally intended.

| Risk*    | Remediation Owner                 | Estimated Completion Date |
|----------|-----------------------------------|---------------------------|
| Moderate | Deputy Chief of Business Services | February 2013             |



## Observation 2 – Lack of sufficient monitoring and review

Per concession agreements, DNR receives a portion of the concessionaires' gross receipts. A system for monitoring concessions agreements should be in place to help ensure that payments received from concessionaires are based on accurate gross monthly revenues.

Few procedures are in place to validate gross receipts reported by concessionaires. A fiscal specialist maintains a list of payments received and is aware when they are late or have not sent an expected monthly payment; however, the specialist does not further analyze the reported revenue aside from recalculating payment percentages. Division management will contact concessionaires if reported gross receipts appear low; however, discussions are informal and not documented. DNR's External Audit Division had periodically reviewed concessionaires' records; however, these reviews have not occurred in eight years due to a reduced external audit staffing level. In 2012, DNR received approximately \$1.35 million in revenue from concessionaires.

Failure to independently validate concession revenues increases the likelihood that concessionaires may underreport gross monthly receipts without detection resulting in the Division collecting less revenue than the amount that is actually due.

### Recommendation

Develop and implement a system of monitoring concession agreements to ensure concessionaires accurately report monthly gross receipts. To maximize resources, management may consider the following:

- Conducting periodic trend analysis on revenue payments from concessionaires and reviewing the books and records of those that fall below established thresholds; and
- Requiring concessionaires submit documentation with the monthly receipt reports to support the reported monthly gross receipts amounts. This would require a change to the concession agreements.

### Management Response

The Division of Parks will implement a system of monitoring concession agreements to ensure that the payments received are based on accurate gross revenues. This will be accomplished by continuing the existing trend analysis to include both monthly and yearly revenue comparisons and maintaining a record of the monitored concession operations. For all reported revenue that falls above or below established thresholds, the Division will send a communication to the concession operator to request a formal response to the irregularity. This action will be implemented in April 2013.



In addition, the Division will implement periodic onsite spot audits of reported receipts to help eliminate the likelihood of underreported revenue by the concessionaire. This will be the primary responsibility of the Division Fiscal Officer 2; however, others from the Division fiscal section will participate as well as staff from the Office of External Audits. The Fiscal Officer 2 position is currently vacant; however, the Division is currently in the process of filling it. Therefore, this action will be implemented in June 2013.

As a long-term action item, the Division will work to incorporate a requirement into the concession agreements for the concessionaires to provide documentation of the reported monthly gross receipts with the monthly receipt reports. This action item is a long-term process and will take several years to fully implement since there are 43 concession agreements in place.

| Risk*    | Remediation Owner                 | Estimated Completion Date |
|----------|-----------------------------------|---------------------------|
| Moderate | Deputy Chief of Business Services | June 2013                 |



### Observation 3 – Lack of Segregation of Duties

Adequate internal controls establish segregation of duties to prevent asset misappropriation. Incompatible duties include: custody of assets; authorization or approval of transactions affecting those assets; and recording or reporting related to those transactions. Procedures should be designed to prevent employees from performing incompatible duties.

One employee within the State Parks Business Services division is responsible for receiving mail with payments for items such as commissions, royalties, and canal land leases; maintaining custody of the payments until processed; entering the payments into OAKS; and preparing payments for deposit into the state treasury. During the audit period of January through December 2012, more than 1,100 payments were received totaling approximately \$4.8 million.

Inadequate segregation of duties could result in undetected errors or misappropriation of assets.

#### Recommendation

To enhance controls over the check receipt process, consider implementing the following compensating controls:

- A lockbox system to receive customer payments or payments directed to the central fiscal office;
- Two employees receiving and opening payments, create a listing of payments and preparing the deposit; and
- Daily reconciliations of payments to bank deposits, including lockbox receipts. When these functions cannot be separated, a detailed supervisory review of related activities should be performed as a compensating control activity.

#### Management Response

The Division of Parks will implement a system of compensating controls by which all check payments received by the Division will be sent to a separate employee (not responsible for making the deposit) for documentation of key check payment elements. These include: Check Date, Amount, From, Reference and Post Mark Date. This spreadsheet will be maintained electronically so the employee who is responsible for making the deposit can go back into the electronic format and mark that the check payment has been deposited into the Treasury.

| Risk*    | Remediation Owner                 | Estimated Completion Date |
|----------|-----------------------------------|---------------------------|
| Moderate | Deputy Chief of Business Services | March 2013                |



Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist your department in achieving improvements in internal controls, compliance, and operational efficiencies.

\* Refer to Appendix A for classification of audit observations.



## Appendix A – Classification of Conclusions and Observations

### Classification of Audit Objective Conclusions

| Conclusion                                     | Description of Factors  |
|--|---|
| <b>Well-Controlled</b>                         | The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.   |
| <b>Well-Controlled with Improvement Needed</b> | The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.  |
| <b>Improvement Needed</b>                      | Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread. |
| <b>Major Improvement Needed</b>                | Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.                 |

### Classification of Audit Observations

| Rating          | Description of Factors   | Reporting Level   |
|-----------------|--|---|
| <b>Low</b>      | Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.   | Agency Management;<br>State Audit Committee<br>(Not reported) |
| <b>Moderate</b> | Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention. | Agency Management<br>and State Audit<br>Committee             |
| <b>High</b>     | Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.   | Agency Management<br>and State Audit<br>Committee             |