
Secretary of State

State of Oregon

OREGON PARKS AND RECREATION DEPARTMENT

**Review of the Salem Office's
Over-the-Counter Sales Receipts**



Audits Division

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Over-the-Counter Sales Receipts**



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Auditing for a Better Oregon

The Honorable John Kitzhaber
Governor of Oregon
State Capitol Building
Salem, Oregon 97310

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At the request of the Oregon Parks and Recreation Department (department), we reviewed the records relating to a possible loss of public funds at the department's Salem office. The purpose of our review was to determine whether a loss of public funds had occurred and, if one had, the extent of the loss. This report contains the results of that review.

The department lost approximately \$200 in undeposited receipts of August 1996 and possibly lost additional funds between June 1994 and December 1995. The condition of the department's records and the inconsistent manner in which receipts were recorded made it difficult to determine whether funds were actually missing for the earlier period, but it appears that \$1,000 cash was not deposited. On April 8, 1997, the department placed the employee responsible for the undeposited receipts on administrative leave; she subsequently resigned during a predismisal hearing.

When the department became aware of the undeposited funds, it took immediate action to notify the Audits Division and the State Police. This report provides recommendations to assist the Salem office in improving its controls to reduce the risk of future losses.

OREGON AUDITS DIVISION

John N. Lattimer
Director

Fieldwork Completion Date:
June 18, 1997

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SUMMARY

PURPOSE

On March 27, 1997, Oregon Parks and Recreation Department (department) contacted the Audits Division regarding a possible misappropriation of cash receipts at the Salem office. The purpose of this review was to determine the validity and extent of the possible loss of cash receipts.

BACKGROUND

The department's Salem office receives revenue from various sources, including over-the-counter sales. These sales include annual and day-use parking passes for the state parks, Deschutes River boater passes, gift certificates, posters, park guides and assorted other publications.

The department's financial services division conducted a self-review of the Salem office as a result of an ongoing Audits Division audit of cash-handling practices in state agencies. Because the division's reviewers were unable to locate deposits for over-the-counter sales from September through December 1996, the department contacted the Audits Division and the State Police.

RESULTS IN BRIEF

Our review of the department's records confirmed that \$4,911 of cash and checks received between May 1996 and February 1997 had not been deposited as of March 31, 1997. On April 4, 1997, the employee primarily responsible for deposits during the audited period deposited \$4,663, which she identified as receipts for May 1996 through February 1997. The employee had not informed us or her supervisor that she was holding these undeposited receipts. We determined deposits were still short \$248. Furthermore, based on available records, another \$1,000 appears to not have been deposited of cash received between July 1994 and December 1995. The condition of the department's records and the inconsistent

manner in which receipts were recorded made it difficult to determine whether funds were actually missing for this period. Subsequent to verifying that funds had not been deposited for up to a period of 11 months, the department placed the employee on administrative leave. She later resigned during a predismisal hearing.

RECOMMENDATIONS

This report makes recommendations for the Salem office to increase segregation of duties relating to cash receipts and provide an independent review of the depositing function. Further recommendations are included for improving the Salem office's controls over cash handling. Specifically, we make recommendations for:

- improving cash register operations,
- securing receipts,
- transferring receipts for deposit,
- improving depositing procedures,
- recording receipts, and
- adequately documenting receipts.

AGENCY RESPONSE

The department generally agreed with our recommendations and outlined its planned improvements. Its responses are included in the body of this report.

INTRODUCTION

BACKGROUND

On March 27, 1997, Oregon Parks and Recreation Department (department) contacted the Oregon Audits Division and the Oregon State Police regarding a possible misappropriation of cash receipts at the Salem office. The department requested we audit the Salem office to determine the validity and extent of the possible loss of revenue.

The department has over 60 revenue-generating parks organized into nine regions throughout the state. The department has decentralized its accounting structure to allow field offices (parks) to manage their own cash-handling activities. The parks make their own deposits and record their revenue and expenditure transactions in the department's accounting records. The Salem office serves as a central receipting, recording and accounting location for certain financial transactions that relate to all parks.

Revenue received in the Salem office comes from various sources, including over-the-counter sales. Salem's counter sales are similar to those occurring at the parks, although at a smaller volume. Sales include annual and day-use parking passes for use at the state parks, Deschutes River boater passes, gift certificates, posters, park guides and assorted other publications. During the period of January 1996 through February 1997, over-the-counter sales at the Salem office averaged \$2,000 per month. Sales peaked in December 1996 when they exceeded \$11,000.

The department's financial services division conducted a self-review of the Salem office as a result of an ongoing Audits Division audit of cash-handling practices in state agencies, including some parks locations. The division's reviewers were unable to locate deposits for over-the-counter sales from September through December 1996; therefore, the department contacted the Audits Division and the State Police.

SCOPE AND METHODOLOGY

This review encompassed accounting for the department's cash receipts from over-the-counter sales during the period of January 1994 through March 1997. Our primary focus was on currency and checks collected at the Salem office from walk-in customers and mail orders. The department also accepts credit cards for payment of merchandise, transactions transmitted to the bank electronically. We reviewed selected credit card transactions recorded during the period of October 1994 through February 1997.

We focused on over-the-counter sales receipts because most other revenue receipts consisted of electronic transfers and large checks that were less susceptible to misappropriation. These items were largely routine transactions that were also processed by other employees who would notice if the funds were not recorded.

In performing the review, we examined accounting reports and other documents relating to deposits during the period of January 1994 through March 1997. We compared selected information to cash register receipt tapes to determine if cash received was deposited and credit card transactions were transmitted to and received by the bank. We also obtained and analyzed bank records for certain deposits to verify the cash/check composition. Further, we interviewed personnel on cash-handling and record-keeping procedures used during the period being reviewed.

AUDIT RESULTS

UNDEPOSITED RECEIPTS

On March 31, 1997, we conducted a cash count of the department's safe. The safe contained over-the-counter sales receipts for February 19 through March 31, 1997, totaling over \$1,900. However, cash receipts for February 1 through February 18, 1997, were not in the safe and had not been deposited. Our initial analysis of receipts and deposits for the period of January 1996 through February 1997 found \$4,911 had not been deposited. This confirmed the department's earlier discovery of undeposited cash receipts during the period of September through December 1996.

<u>Sales Period</u>	<u>Receipts</u>	<u>Deposit Date</u>	<u>Deposited Amount</u>	<u>Undeposited Receipts</u>
2/1-18/97	\$ 657	None	\$ 0	(\$657)
1/97	\$1,570	2/19/97	\$1,574	4
12/96	\$4,498	12/19/96	\$1,730	(\$2,768)
11/96	\$ 270	12/4/96	\$ 270	\$0
10/96	\$ 257	12/4/96	\$ 257	\$0
9/96	\$ 535	11/26/96	\$ 379	(\$156)
8/96	\$1,186	9/24/96	\$ 691	(\$495)
7/96	\$1,624	10/21/96	\$1,178	(\$446)
1/96 - 5/96	<u>\$5,987</u>	Various dates from 1/16 - 6/27/96	<u>\$5,594</u>	<u>(\$393)</u>
	<u>\$16,584</u>		<u>\$11,673</u>	<u>(\$4,911)</u>

One employee of the Salem office was primarily responsible for depositing over-the-counter receipts between January 1996 and April 8, 1997, encompassing the period of partial deposits described above. Prior to January 1996, numerous employees deposited receipts, including over-the-counter sales. On April 4, 1997, subsequent to our cash count and without informing us or her supervisor, the employee primarily responsible for over-the-counter receipts made several deposits totaling \$4,663. She identified these deposits as being for periods dating from May 1996 through February 18, 1997. While these deposits included some checks, \$2,172 was cash. On April 8, 1997, the department placed the employee on

administrative leave. She subsequently resigned during a predissmissal hearing.

April 4, 1997, Deposit Composition

<u>Sales Period</u>	<u>Cash</u>	<u>Checks</u>	<u>Total</u>
2/97	\$353	\$304	\$657
12/96	\$778	\$1,990	\$2,768
9/96	\$156	\$0	\$156
8/96	\$72	\$197	\$269
7/96	\$455	\$0	\$455
5/96	<u>\$358</u>	<u>\$0</u>	<u>\$358</u>
	<u>\$2,172</u>	<u>\$2,491</u>	<u>\$4,663</u>

We determined that deposits were still short \$248. This does not include the additional funds we estimated may be missing from June 1994 through December 1995. The department's records for January through May 1994 were incomplete and poorly organized; therefore, we could not be sure we had correctly identified all deposits for over-the-counter receipts in this period. The condition of the department's records and the inconsistent manner in which over-the-counter sales were recorded made it difficult to determine whether funds were actually missing for the period June 1994 through December 1995. However, based on available records, we estimated approximately \$1,000 that appeared to not have been deposited.

As recognized by the department from its internal review, its controls over cash-handling practices were not adequate to reduce the risk of undeposited receipts. Had two fundamental controls been in place, the situation may have been prevented or at least detected earlier:

1. **Adequate segregation of incompatible duties.** One employee was primarily responsible for preparing and making deposits, recording cash receipts, and following up on reconciling items. This allowed one person to control a cash transaction from beginning to end.
2. **Independent review.** A verification function was not in place to help ensure cash received was being completely and properly deposited and reflected in the

accounting records. In this case, another employee comparing cash register receipts to deposits would have identified the problem.

During the audit, the department began revising its procedures to prevent or detect sooner any recurrence.

We recommend that the department formalize its procedures to ensure:

- Responsibilities of this position are reassigned to provide adequate segregation of cash-handling duties.
- An independent comparison of cash receipts to deposits is provided.

AGENCY RESPONSE:

The statement: "This allowed one person to control a cash transaction from beginning to end," is not entirely accurate. Salem cash sales were generally recorded by two employees of Business Services through a cash register which provided daily, detail, and summary tapes of recorded transactions. Cash sales were collected at the close of business every day by the accounts payable or finance analyst positions. Total sales were compared to cash register tapes and individual receipts, and any shortages were noted on the day's sealed envelope. The envelope was locked in the safe until processed by the accounts receivable position. This is the point where OPRD's cash controls were inadequate.

We became aware of this inadequacy during a self-evaluation. To correct this control problem, we put an informal, internal control in place on April 18, 1997. This new control required the Budget Analyst or Finance Analyst to compare a completed deposit slip to cash register documentation before initialing approval of the deposit. Once this was completed, the deposit could be taken to the bank by the accounts receivable position.

In addition to our informal self-evaluation, the Budget Analyst reviewed our cash receipting process and prepared a two-page document entitled "Receipt Processing Findings and Recommendations." All recommendations contained in the document were acted on immediately. One improvement was to standardize revenue reports which require the preparer's name and an approval signature prior to being entered into TEAMS.

Procedures have been drafted and are being formalized to document our new cash handling procedures. These procedures will include the requirement of independent review and approval for deposits.

CASH-RECEIPTING PRACTICES

Cashiers in the Salem office use one cash register to record over-the-counter sales. There are several areas in the cash register operations and cash receipts handling where procedures can be improved.

1. Our review of cash register tapes showed several conditions in operating the cash register that could be improved:
 - As also identified by the department's internal review, we frequently saw differences between the transactions recorded on the cash register's control tape and the daily sales tape. Differences between the two tapes included mis-rings that were often corrected manually by cashiers writing on the daily sales tape rather than using the cash register's automated function. As a result, corrections did not show up on the control tape. For the period of January 1996 through February 1997, differences occurred on an average of three days per month. For each day, however, one to several transactions could cause the difference. We noted adjustments ranging from less than a dollar to \$70, although most were less than \$10.

The daily sales tape is a duplicate of the control tape; individual sales are recorded on both tapes. The control tape records from one to two-and-a-half months of transactions, depending on business volume. This tape, which remains in the register for the extended period, can later be used to verify daily sales receipts. The daily sales tape is available to provide the customer with a receipt. However, the Salem office's procedures are to tear off the tape of each sale and include it with the deposit documentation.

- The cash register was not always cleared daily and summary reports run. We saw occasions where, on the control tape, several days of transactions were not subtotaled. As a result, the potential control a cash register could provide was diminished.

One employee was assigned to clear the cash register on a daily basis. If she was not available because of scheduled or unscheduled absences, the cash register was not cleared and summary reports were not run.

- The control tape was frequently not replaced for one to three days. The control tape provides a means of independently verifying receipts from over-the-counter sales. When the tape is not complete, it is no longer an effective control.
- Cash register operators do not always enter their assigned identification numbers to record transactions on the cash register. In several instances, all operators used the primary cashier's number. Personal accountability is increased when each cashier is assigned an identification number and is required to use it when entering transactions in the cash register. In addition, the log in/log out procedures help prevent unauthorized transactions from being recorded.

The Salem office's receptionist desk manual provides instructions for operating the cash register since the receptionists perform the cashiering function. The manual includes procedures for each of the items mentioned above.

2. The corrections handwritten on retained daily sales tapes were not consistently initialed to indicate who made the correction; therefore, we were not able to determine if corrections were made by authorized persons. In addition, significant corrections did not reflect supervisory approval. For example, cashiers had to make handwritten corrections for sales of gift certificates during December 1996. The department discounted gift certificates to certain customers during December. Financial services personnel explained that because they were not notified promptly of the price reduction and the cash register reference manual could not be located, the price change was not programmed into the cash register until mid-month. For one transaction, a cashier entered \$333 of gift certificates and made the handwritten correction to show a discount of \$133 on the daily sales tapes. We did not see evidence that the correction was reviewed for

accuracy and appropriateness. Although in this case a credit card receipt supported the discounted amount of the sale, if the transaction had been conducted with cash, there would be no documentation to verify the customer was charged the correct amount.

Supervisory review of corrections helps to ensure that receipts are accurately recorded and to protect the cashier from unwarranted suspicion.

3. Checks were not restrictively endorsed upon receipt, and cash equivalents, such as gift certificates and rainchecks, often were not canceled. The Salem office's procedure was to endorse checks when preparing the deposit. Thus, with the delayed deposits, it could be a matter of months before the checks were restrictively endorsed. In the meantime, the checks are to be held in the Salem office's safe to which several employees have access. As a consequence, each of these employees would be under suspicion should unendorsed checks turn up missing. Checks which are restrictively endorsed immediately upon receipt are less susceptible to theft. The gift certificates and rainchecks we saw that had not been canceled remained negotiable and subject to re-use.
4. Procedures used to close the cash register at the end of the business day need to be improved to provide accountability for the day's receipts. We observed an employee who was not assigned cashiering duties close the cash register and run the summary reports. She also counted the cash from the register, deducted the amount designated for change-making, compared the remaining cash to the cash register summary reports and placed the cash in the safe.

Procedures that would provide additional assurance that cash received was properly accounted for and transferred include:

- Written verification that the responsible cashier and the employee assigned to close the cash register counted the cash, compared the cash to the summary reports and agreed on the results.
- Written total of the day's cash receipts, including cash/check composition, not just the overage or

shortage, placed with the cash and retained as part of the deposit documentation.

- Written verification by the employee preparing the deposit that the cash being deposited agrees with the amount recorded as received.

We recommend that the department:

- Ensure that cash register operators follow established procedures in correcting transactions, clearing the cash register and running summary reports in the assigned employee's absence, recognizing when the control tape needs changed, and using assigned, personal identification numbers for improved accountability.
- Establish a supervisory review threshold for correcting transactions, and require operators to initial all handwritten adjustments.
- Ensure that checks are restrictively endorsed immediately upon receipt, and cash equivalents, such as gift certificates, are canceled to prevent re-use.
- Develop verification procedures such as those described above to improve the accounting for daily receipts at the end of a business day.

AGENCY RESPONSE:

OPRD recognizes the need to provide cash register training as soon as possible to all employees involved in cash processing. Currently, we are arranging a training session for staff involved from Financial and Business Services and others in Salem who have cash register responsibilities. This training will include: programming of rates, recording transactions properly, correcting transactions accurately, assigning personal identification numbers to staff who operate the cash register, steps to follow when transactions have not been corrected by the register, replacing register tapes timely, and storing and archiving of tapes and other documentation.

In addition to staff training, we are drafting procedures to include all topics mentioned in the previous paragraph.

Since we want to encourage corrections to be made via the cash register and not by hand, OPRD will require all handwritten adjustments to be initialed by the operator and reviewed/approved by their supervisor. This requirement will be included in the agency's procedure for cash receipting.

Requiring restrictive endorsement was a change made early in April 1997, following our internal review. The Registration Reservation Administrative Procedures (RRAP) manual requires that checks be restrictively endorsed, but does not state that it should be done as soon as possible. Wording to that effect will be added to the next RRAP manual revision.

Also, gift certificates and other controlled items that are canceled should be "voided" in some manner to prevent re-use. This wording will be incorporated into the next RRAP revision.

In April 1997, we trained additional Financial Services staff on how to prepare Salem's cash register deposits. This included the matching of cash register tape totals to cash in the day's-end envelope. This will be incorporated into OPRD's formal policy on cash handling.

DEPOSITING AND RECORDING PRACTICES

During our review, we noted practices relating to depositing and recording receipts that need to be improved:

1. As similarly detected by the department's internal review, for the period reviewed, deposits of over-the-counter receipts were routinely delayed for several months after their receipt. As previously mentioned, some May 1996 receipts were not deposited until 11 months later. Also, undeposited receipts for specific periods of time were largely or entirely in cash. Cash is particularly susceptible to misappropriation because it is easily concealed and immediately negotiable. Checks which are not deposited promptly have a higher risk of being returned due to being staledated or the account having insufficient funds.

In addition, deposits frequently included two to four weeks of receipts and overlapped month-end cut-off dates. For a short period of time during September 1994, weekly deposits were made. However, these deposits were made by another employee who was assisting in processing backlogged deposits.

The department's procedures require deposits to be made at least weekly and at the close of business on the last calendar day of each month. Also, when receipts

accumulate to more than \$1,200 in less than a week, they are to be deposited.

2. The department's receipts were not deposited intact, i.e., including all moneys received since the previous deposit. As examples:

- July 1-22, 1996, receipts were deposited October 21, 1996,
- July 23-31, 1996, receipts were deposited April 4, 1997,
- August 1-22, 1996, receipts were deposited September 25, 1996.

When deposits are not made intact, including all undeposited receipts to date, errors can occur or receipts may be lost or misappropriated. Timely deposits made in sequence also allow for a more effective independent review.

3. Prenumbered deposit slips were not used in sequential order, as also discovered by the department. Using the examples from No. 2 above:

- July 1-22 receipts were deposited with slip #92639,
- July 23-31 receipts were deposited with slip #92667,
- August 1-22 receipts were deposited with slip #92642.

When prenumbered deposit slips are used out of sequence, tracking deposits becomes more difficult. This leaves cash receipts at risk for loss or misappropriation.

4. As the department is aware, a listing of mail receipts was not prepared. Incoming mail was opened in the mailroom and placed in mail slots of the addressees. Any moneys accompanying the correspondence were left in the envelopes for the addressees to transmit for deposit.

Without an initial listing of incoming receipts, the department has little assurance that all receipts are deposited.

5. Mail receipts allowed to remain unattended in the mailroom were not adequately secured. The mailroom in the Salem office is open for employees or other individuals in the building to freely enter and exit from two directions. Although entrance to the building is controlled manually and electronically, it is possible for unauthorized persons to enter the building and, therefore, the mailroom.

Promptly transmitting mail receipts for deposit would reduce the risk of loss or theft from the mailroom. The receipt can be photocopied to facilitate handling the accompanying correspondence.

6. As also disclosed by the department's internal review, revenues were not always recorded timely. Some deposits were not reflected in the accounting records as of April 1997. These included partial deposits that had been made as long ago as November 1996.

For example, during the period of May 1996 through February, 1997, 16 deposits of over-the-counter sales receipts were made. Eleven of these deposits were not recorded as of April 1997. Of the five deposits that were recorded, none were recorded timely. One deposit was recorded within a week of the last transaction date included in the deposit. However, this deposit, totaling \$1,519, also contained 14 prior days of transactions. The other four deposits were recorded two to 12 weeks after the last transaction date included in the deposit.

Recording revenue in a timely manner helps ensure that cash and cash-related transactions are properly accounted for and controlled.

7. Documentation for revenue transactions was not always adequate to determine whether (a) deposits included over-the-counter receipts, (b) deposits were complete, (c) deposits were made timely, and (d) receipts were recorded timely. For over-the-counter receipts, cash register tapes that could be used to verify the deposit amounts were not always filed with the deposit documentation. We had to seek verification from other sources, such as bank records and program monitors' reports, for deposit information and recording dates. While additional documentation

may be found at various locations within the Salem office, these documents are not routinely made part of the department's official records and retained in an accessible manner.

For example, the Salem office receives a portion of concession sales revenue from contractors who provide concessions at certain parks. These contractors are required to submit a report of their sales and calculate the state's percentage. The department's staff responsible for monitoring these contracts retain the concessionaires' reports in files at their desks. A copy should be included in the deposit documentation to support the deposited amount.

The department has written policies and procedures relating to cash administration. The Oregon Accounting Manual also offers guidance for each of the situations listed above. Employees at the field offices are required to follow the depositing procedures described in the department's manual which provides guidance tailored to the parks' activities. The employees of the Salem office, and specifically the employee responsible for depositing cash receipts, are also required to follow the department's procedures. However, as stated earlier in this report, because an independent review of this employee's work was not provided, department management did not ensure depositing procedures were followed. Therefore, **we recommend** that the department ensure that employees in the Salem office follow prescribed cash-handling policies and procedures; specifically, ensure that:

- Deposits are made promptly.
- Deposits are made in sequence and include all receipts since the prior deposit.
- Prenumbered deposit slips are used in sequence.
- A listing of mail receipts is prepared at the time mail is originally opened. The listing should be verified by the employee responsible for preparing deposits. A copy should be provided to the employee responsible for recording revenue to assure that all cash listed is accounted for and deposited.

- Mail receipts are promptly transmitted for deposit. A photocopy of the receipt should then be forwarded with the accompanying correspondence to the appropriate staff members for processing.
- Revenue is recorded timely.
- Adequate documentation is retained to support revenue transactions. Verification of payer, receipt date, amount, type and purpose of money received should be included. Copies of deposited checks are useful documentation, especially in cases where payment inquiries arise later.

AGENCY RESPONSE:

Salem's new policy and procedure will require staff to follow guidelines in the RRAP manual for making deposits to the bank: deposits are to be made timely, at least weekly and the last working day of the month, and/or within 24 hours when receipts total \$1200.

*Requiring deposits to be made in numerical sequence **and** to include all receipts since the prior deposit (in most cases) will be added to Salem's written policy and procedure as well as to be included in the RRAP to be revised in November 1997.*

After distributing the morning and afternoon mail each day, the Business Services staff person will deliver the accounts receivable's mail. The two employees will be present as the accounts receivable person runs a total of all checks received in the day's mail. The "mail person" will deliver calculator tape and checks to accounts payable for logging in the check log. The person who reviews the deposit will compare deposits with the check log. This process will be made a part of the agency's written cash receipting policy and procedure.

All Salem OPRD staff will be notified of the requirement to transmit checks promptly to Financial Services for deposit. In addition, this will be included in our written cash receipting policy and procedure.

Except for Salem's cash register sales, OPRD records the payer, receipt date, amount and purpose of money received for all incoming checks. Salem's cash register sales worksheet lists total amounts of cash, check, and credit card sales by date of sale. Also, revenue source/agency sources are listed for each day.

OTHER MATTERS

While performing this review, two additional items came to our attention.

1. The department currently does not have a minimum dollar threshold for accepting credit card payments. We saw frequent transactions of \$1, which are costly to process. Each credit card transaction is subject to a two percent handling fee (approximately), plus the staff time necessary to process and reconcile the transaction. The department may want to consider implementing a minimum dollar amount for credit card transactions.

AGENCY RESPONSE:

The Department has decided to give complementary park guides instead of charging \$1. Also, management will determine the minimum we will charge to credit cards. These two items will be made part of our written policy and procedure and in the November 1997 revision of the RRAP.

2. The cash register is located in such a way that customers cannot see the sales amounts being recorded. This is particularly significant since the Salem office retains the customer copy of the sales receipt. To help ensure that all cash collected is recorded on the register, it is a common business practice to place the cash register so that its display is visible to the customer.

AGENCY RESPONSE:

Within the next month, we will be moving the cash register so that amounts will be seen by our customers as recorded. Also, we are investigating the possibility of being able to print two receipts so that one can be given to the customer and one can be retained for deposit documentation.

REPORT DISTRIBUTION

This report is a public record and is intended for the information of the Oregon Parks and Recreation Department, the governor of the state of Oregon, and all other interested parties.

COMMENDATION

The courtesies and cooperation extended by the officials and employees of the Oregon Parks and Recreation Department were commendable and much appreciated.

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This report is intended to promote
the best possible management of public resources.



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