**State of Wisconsin \ LEGISLATIVE AUDIT BUREAU**

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Senator Gary R. George and
Representative Joseph K. Leibham, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator George and Representative Leibham:

We have completed work at the Department of Tourism to meet our audit requirements under s. 13.94, Wis. Stats. The primary focus of our audit was to review the Department's fiscal operations and administrative activities to ensure these activities are effectively managed, well controlled, and in compliance with statutory requirements.

The Department is responsible for promoting the State of Wisconsin, fulfilling tourists' requests for information, assisting local communities in their promotional activities, and establishing a positive image for the state. It also provides centralized administrative services to four attached boards. The Department's operations are funded with a combination of general purpose revenue (GPR) and program revenue (PR) from Indian gaming. In fiscal year (FY) 2000-01, the Department spent $15.9 million to carry out its tourism activities, of which $11.6 million was funded with GPR and $4.3 million was funded with PR.

Overall, we found the Department has appropriate fiscal policies and procedures in place. However, we noted several areas in which fiscal management could be improved to ensure that financial transactions are properly recorded and reported, payments to grant recipients follow contract guidelines, fixed-asset inventory records are properly recorded and maintained, and the Department's information systems are properly secured. The Department agrees with the recommended improvements and has identified its plans to implement our recommendations.

We appreciate the courtesy and cooperation extended to us by the Department's staff during our audit.

Sincerely,

Janice Mueller

Janice Mueller
State Auditor

JM/DA/bm

cc. Senator Judith Robson
Senator Brian Burke
Senator Joanne Huelsman
Senator Mary Lazich
Representative Samantha Starzyk
Representative John Gard
Representative David Cullen
Representative Barbara Gronemus

Secretary Moose Speros
Department of Tourism

## Department of Tourism's Financial Management Practices

The Department of Tourism is responsible for promoting the State of Wisconsin, fulfilling tourists' requests for information, assisting local communities in their promotional activities, and establishing a positive image for the state. It also provides centralized administrative services to four attached boards. The Department's operations are funded with a combination of general purpose revenue (GPR) and program revenue (PR) from Indian gaming. In fiscal year (FY) 2000-01, the Department spent $15.9 million to carry out its tourism activities, of which $11.6 million was funded with GPR and $4.3 million was funded with PR.

We have completed a fiscal audit of the Department as part of our responsibilities under s. 13.94, Wis. Stats. The primary focus of our audit was to review the Department's fiscal operations and administrative activities to ensure these activities are effectively managed, well controlled, and in compliance with statutory requirements. We have included a number of recommendations to improve the Department's financial management.

### Accounting Responsibilities

As a relatively small agency, the Department's ability to implement sound fiscal practices in its accounting function, such as providing separation of duties, oversight, and back-up, can be difficult. In addition, the Department's one accounting position has experienced turnover during the past few years, which is a further challenge in maintaining sound and consistent controls. However, changes can be made to better ensure that fiscal activities are properly accounted for and supported.

First, the Department's accountant needs to ensure documentation is maintained to support accounting transactions and activities. Such documentation not only aids in explaining current accounting transactions, it will also serve as a guide to ensure consistent accounting treatment in the future. During our review of the accounting function, we found that documentation was sometimes not available to support accounting entries and that reports or documentation did not clearly show how amounts had been derived. One particular concern is the lack of documentation to support the Department's compilation of financial information for inclusion in the State's annual financial report. Although the Department of Administration (DOA) has overall responsibility for the State's fiscal matters and its annual financial report, each agency is individually responsible for ensuring that correct information is entered into the State's accounting system and submitted to DOA for the annual report. In accounting entries and information submitted for the State's fiscal year (FY) 1999-2000 financial report that we reviewed, the Department's accountant did not have sufficient documentation to support or could not adequately explain consistently how financial entries or information for the financial report were derived.

Second, the Department's accountant needs to seek additional guidance from DOA when unsure as to how to proceed with state accounting activities or the reasons for adjustments DOA makes to the Department's submissions for the State's annual financial report. During our review of the Department's submissions for FY 1999-2000, we found that DOA had made significant adjustments to the submissions, but the Department's accountant could not explain why the adjustments were necessary. Understanding the adjustments is important to ensure the adjustments are correct and to improve the accuracy and completeness of future submissions.

Third, the Department's accountant needs to develop written procedures for all routine accounting activities, to serve as a guide for others who may need to perform or oversee these activities. Written procedures are especially critical in the case of turnover. While the Department has begun developing written procedures that cover some broad aspects of the accounting function, more detail is needed to allow another person to quickly understand the purpose and steps needed to carry out the activity.

Finally, additional steps are needed to ensure there is adequate supervision and back-up in the accounting area. Currently, the human resources officer oversees the accountant, and a budget analyst serves as back-up for the accountant. These staff have been relatively unfamiliar with the accountant's activities and, therefore, have had difficulty ensuring the accounting activities are being adequately performed, especially when the accountant position is vacant.

For example, we found that a year-end transaction to eliminate carried-over spending authority for prior-year purchase orders that were subsequently cancelled was not processed for FY 1999-2000. Agencies must process a transaction on the State's accounting system, WiSMART, to lapse carried-over spending authority from prior-years' purchase orders when the corresponding purchase order is cancelled. However, we determined that the required entry had not been made in WiSMART for FY 1999-2000. This mistake occurred while the current accountant was new to the position, and it appears that the supervisor and analyst were not aware that this transaction was necessary to ensure this entry was completed. After discovery of this omitted entry by our audit, the Department processed the appropriate entry to eliminate the spending authority related to cancelled purchase orders for both FY 1999-2000 and FY 2000-01, which together totaled $270,000.

Development of detailed written procedures will assist the accountant's supervisor and back-up. However, other steps may be needed to provide sufficient understanding of accounting activities, such as cross-training activities in which the supervisor and back-up actually assist in or complete the accounting activities. In addition, the supervisor may find it beneficial to establish a regular reporting process in which the accountant explains and reports on the status of accounting activities. Development and use of checklists that delineate routine activities, such as month-end and year-end activities can also serve as useful tools to ensure required activities are completed.

Therefore, to ensure that accounting responsibilities are completed properly, *we recommend the Department of Tourism:*

- *maintain documentation for accounting-related duties, such as submissions for the State's annual financial report, to provide the necessary support and guidance to future accountants;*

- *seek guidance from the DOA in understanding entries and financial information, such as information required for the State's annual financial report submissions, and follow up on subsequent DOA revisions to ensure that future submissions are improved;*

- *develop written procedures related to preparation of financial reports and other accounting-related functions, to ensure that adequate direction can be given to new staff; and*

- *provide appropriate supervisory review and back-up of the accounting function by cross-training to attain an understanding of the accounting responsibilities and establishing a periodic reporting process on the status of accounting responsibilities, such as through the use of checklists.*

Agency Response: The Department of Tourism supports the recommendation for accountability and consistency for our accounting functions by providing supporting documentation to ensure accurate records, tracking, and reports. In addition, we support guidance and training by DOA or any other applicable training for the accountant, the budget analyst (as back-up), and the supervisor, especially since all three staff members are new to these positions within the last fiscal year. We support the recommendation identifying additional oversight for accounting reports and documentation. We will identify a plan with an associated time line to address the following items. The plan will be developed in September 2001 and will include a specific timeline to follow through with training and written procedures, with completion by July 1, 2002. Back-up, written documentation, and supervision will continue indefinitely. The plan will:

- ensure documentation is maintained to support accounting transactions and activities. To ensure that this documentation is maintained, we will:

    - identify and review all reports generated on a weekly, monthly, and yearly basis;

    - document and attach detailed information to reports or specific transactions to account for all transactions;

    - provide supervisory review of all reports generated on a monthly basis, for accuracy;

    - provide supervisory review of supporting documentation on a quarterly basis; and

    - provide additional oversight in reviewing reports as well as in reviewing documentation to support the reports, in particular the CAFR.

- ensure that the Department's accountant (back-up and supervisor, as necessary) seeks additional guidance from DOA whenever necessary. We will:

    - review, identify, and implement additional formal training, with emphasis on WiSMART training provided by DOA;

    - review, identify, and implement additional informal training, such as one-on-one training from DOA staff;

  - review, identify, and implement additional training from other sources (such as GAAP training); and

  - have the accountant review the *State Accounting Manual* to ensure adequate knowledge of the State's rules and regulations.

- develop detailed written procedures of all routine accounting activities to serve as a guide for others to perform or oversee the accounting duties. We will:

  - identify processes and develop goals for the accountant to document written procedures in a timely fashion;

  - develop and use checklists for non-routine activities (also entering reminders in "Outlook"); and

  - monitor and evaluate the accuracy of these procedures.

We will also provide an opportunity for cross-training within the Bureau of Administrative Services. The detailed written procedures that will be established will reinforce the training provided.

The supervisor will continue to be involved in the supervision of the accounting program. Weekly updates are in place regarding accounting activities, but more emphasis will be added to the project management of the above activities, along with providing monthly reports and documentation to support submitted reports to DOA.

## Joint Effort Marketing Grant Program

Through authority granted in s. 41.17, Wis. Stats., the Department administers the Joint Effort Marketing (JEM) grant program, which assists in promoting local tourism activities by funding radio and television advertisements, banners, brochures, and other promotional items. A local match is required, and the program's goal is to enable the activity to become self-sufficient. The JEM program is designed to provide 75 percent of a local entity's promotional budget in the first year of funding, 50 percent in the second, and 25 percent in the final year of funding. Local tourism entities provide the remaining funding, including all costs after the third year.

The approval process requires an application that describes the project, establishes promotional and operational budgets, and verifies that the applicant is a nonprofit organization. The Department then reviews the application through a committee that ensures technical requirements are met and the project's scope is consistent with the JEM grant program objectives. After review and approval by the committee, the application is forwarded to the JEM grant subcommittee of the Governor's Council on Tourism for final approval. Once the application is approved by the Council, a contract is signed between the Department and the organization specifying the grant amount, the budget, and the requirement of a final report to receive the full awarded grant amount.

Beginning with FY 1999-2000, s. 41.17(5), Wis. Stats., directs Tourism to expend a minimum of $1.13 million in JEM grants each fiscal year. For FY 1999-2000, Tourism awarded $1.14 million in JEM funds to 67 approved applicants.

The Department developed a JEM grant handbook, based on administrative code, that lists the policies and procedures to be followed throughout the JEM grant process. The JEM program will only reimburse marketing costs related to the promotion of the event or program included in the approved marketing plan and budget. Ten percent of the award is withheld until the final report is submitted. The final report may be used to evaluate the recipient's match and whether the program is attaining self-sufficiency. In addition, the recipient must submit all invoices related to promotional and operational costs before or with the final report, to verify that the match requirement has been met. The JEM Grant Coordinator is responsible for withholding the 10 percent until the final report is submitted.

For the period we reviewed, the Department did not have adequate controls in place to ensure the final report was received before the final 10 percent of the grant amount was disbursed. In 4 of the 15 cases we reviewed, all or part of the final 10 percent of the grant amount had been reimbursed before the receipt of the final report. In one of these cases, the final report was never received. The Department has had turnover in the JEM Coordinator position over the past several years, and all of the instances in which the 10 percent withholding requirement was not followed relate to a previous coordinator. Recently, the Department began tracking payments more closely with the use of an Access database. However, due to the limited time that the database has been in place, we were unable to assess whether the Department is now adequately evaluating the completion of JEM grants and appropriately withholding 10 percent of the grant amount until a final report is received.

Therefore, to ensure that JEM grant programs are meeting their required match and attaining self-sufficiency, *we recommend the Department of Tourism analyze and monitor its current procedures for tracking payments to ensure that 10 percent of the Joint Effort Marketing grant amount is withheld until a final report is received, in order to verify the match requirement and track the self-sufficiency of the program*.

> Agency Response: The Department of Tourism supports the recommendation to analyze and monitor the current procedures for tracking payments to ensure that 10 percent of the JEM grant amount is withheld until a final report is received, in order to verify the match requirement and track the self-sufficiency of the program.
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> As noted, the JEM Coordinator position has experienced high turnover. Internal procedures dictate that 10 percent of each JEM award be withheld until a final report on the project is submitted. The current coordinator is familiar with the guidelines and the necessity of withholding 10 percent of the JEM award until a final report on the project is submitted. The audit acknowledged additional need for controls to be put in place. The new coordinator has been reviewing and closely monitoring the program and procedures with each award issued. The Access system will be revised, if possible, to accommodate a reminder for final reports. The coordinator will use a "tickler" system to provide oversight of the program regarding the final reporting requirement. In addition, if a final report is not received, the applicant organization is ineligible for future grants.

In addition, the JEM program has recently developed a new process under which applicant organizations will not receive the full grant they request. This process was developed because of the large number of qualified JEM applicants and the need to distribute funds across the state. If an applicant organization requests between $0 and $10,000, the largest amount of JEM funds it can be awarded is automatically reduced by 5 percent; between $10,000 and $20,000, it is reduced by 10 percent; between $20,000 and $30,000, it is reduced by 20 percent; and between $30,000 and $40,000, it is reduced by 30 percent. We believe these grant reductions will result in a smaller number of applicant organizations realizing remaining JEM funds at the end of their projects. Efficiencies will likely be realized, and it is hoped that over-projections will be reduced. (Applicant organizations that are chosen as grant recipients will still have 10 percent of the award amount withheld until the final report is submitted.)

We will review the JEM program in approximately six months to identify or refine any internal procedures. Finally, we will continue using the Access database for tracking JEM grant applications. Because this system is fairly new, we will continue to refine it in upcoming months to ensure it is working as an adequate tracking mechanism.

## Fixed-Asset Inventory

Agencies need to maintain accurate and current fixed-asset inventory records in order to adequately safeguard the State's assets and to accurately report fixed assets for financial reporting and risk management purposes. The *State Accounting Manual* requires that assets with a purchase amount of $5,000 or more be capitalized for financial reporting and that all items with a purchase amount of greater than $1,000 be inventoried. In addition, the *State Accounting Manual* requires each state agency to complete a physical inventory of fixed assets at least annually. The Department owns fixed assets typical for the general operation of a state agency, such as office furniture, computer equipment, and miscellaneous office equipment. During our audit, we identified several concerns involving the records and control over the Department's fixed assets.

First, the Department does not maintain complete or current inventory records. The Department's inventory records are based on an inventory list maintained for risk management. Although the risk management inventory list is appropriate for its intended purpose, it is not sufficient for financial reporting purposes or for safeguarding assets. It does not include supporting detail for individual items, is not updated throughout the year, and is not adjusted for disposals. To establish and maintain an inventory listing, agencies may utilize WiSMART's Fixed Asset Module, which tracks all the necessary information for financial reporting. Alternatively, an agency can choose to maintain its inventory listing internally, such as with the use of spreadsheets. The inventory records, at a minimum, should include for each fixed asset:

- an identification number;
- description;
- location;

- purchase amount; and

- depreciation schedule.

In addition, the Department is not properly recording and reporting fixed assets as there are no procedures for receiving and recording them. With the exception of computers, the Department does not tag fixed assets with unique identification numbers that correspond to an inventory listing. The Information Technology Division tags all desktop computers and recently began tagging new laptops in order to track them.

Second, the Department has not been properly recording the purchase of fixed assets on WiSMART. During the last four years, the Department has recorded fixed-asset purchases with non-capital object code series, rather than with the appropriate capital object codes. The Department indicated that it coded purchases to the non-capital object codes because it did not have spending authority in the allotment line that allowed expenditures for items coded to the capital object codes. Instead of miscoding its fixed-asset purchases, the Department could have entered a transaction into WiSMART that would have allowed it to move the spending authority into the appropriate allotment line, with approval by DOA's Budget Office. The Department is now in the process of moving such spending authority to enable it to use the appropriate object code series.

Third, the Department has limited documentation supporting the amount of fixed assets reported for the State's annual financial report. Because the Department does not have detailed or current inventory records, the Department has been estimating its fixed-asset balance. However, the Department has limited support or documentation for its estimate and does not reconcile its calculation of fixed assets with information on WiSMART. Because purchase and disposal information has not been appropriately recorded on WiSMART, reconciliations have not occurred; however, as the Department appropriately codes this information on WiSMART, reconciliations should be completed. Consequently, we question the accuracy of the net fixed-asset balance the Department reports for financial reporting purposes, which was $181,697 as of June 30, 2001.

Finally, the Department does not have adequate procedures to track its assets and ensure they have not been lost or stolen. The Department is not conducting annual physical inventories of its assets, as required by the *State Accounting Manual.* The last physical inventory conducted by the Department was during FY 1996-97.

Many of the noted concerns appear to be a result of the low priority given to maintaining an up-to-date inventory system and completing timely physical inventories. In addition, it appears the Department may be uncertain of which assets need to be monitored and controlled. Therefore, as part of its efforts to improve its inventory system, *we recommend the Department of Tourism:*

- *identify the acquisitions that should be inventoried and recorded in inventory records to be in compliance with the* State Accounting Manual;

- *complete written procedures for receiving, recording, and taking the physical inventories of fixed assets, including the tagging of items when received;*

- *record capital acquisitions in the capital object code series on WiSMART;*

- *include all capital asset acquisitions and disposals in a detailed inventory listing to support the amount submitted for financial reporting purposes; and*

- *perform annual inventory counts of fixed assets*.

  Agency Response: The Department of Tourism is in the process of planning for the inventory process that will include an internal spreadsheet and a tagging system, in compliance with the *State Accounting Manual*. We will use a spreadsheet to also capture and track capital assets. In addition, we will conduct a physical inventory for verification purposes. We are projecting that we will have the inventory process completed within six months. We will develop a system to identify the new purchases for tagging and updating the inventory systems on an ongoing basis. Procedures will be written to document this process and will be beneficial in the case of staff turnover and to provide back-up.

  In addition, the Department of Tourism will use the appropriate object code series to enter information into the WiSMART system for fixed assets. In the future, this will provide additional documentation and a way to reconcile fixed assets. The capital asset acquisitions and disposals will be included in the detailed inventory spreadsheet to support the amount submitted for financial reporting.

## Security over Information Systems

The Department maintains its own Local Area Network (LAN) using five servers, including one server that houses an integrated database of tourism events, tourism associations, and customers. Currently, the Department does not support a financial reporting system but relies on the State's central accounting system. During our audit, we performed a limited review of the Department's procedures and internal controls over its systems and found that, overall, controls appeared adequate. However, we identified two areas of concern: password parameters, and documentation for disaster recovery and business resumption.

### Password Parameters

In order to sign onto the LAN, a user enters an assigned log-on identification (ID) and then a password to verify the log-on ID is being used by the authorized user. A parameter on each log-on ID record specifies the maximum days between password changes. For example, if the parameter is set to 60 days, then the system will require users to change their passwords every 60 days. Changing passwords decreases the likelihood that an unauthorized user can guess a password and inappropriately gain access to the system. Maintaining this parameter is the responsibility of the data security officer for the agency's LAN.

Industry standards for password parameters state that passwords should be changed every 60 days for most users, and every 30 days for technical support staff. The more stringent requirement for technical support staff helps to minimize the higher risk associated with those log-on IDs having access to sensitive data through access to files, programs, and other high-level privileges. The State's Security Committee, which guides the development of security policies and procedures for the State's mainframe, has adopted these standards for the State's mainframe and suggests similar standards for all agency LANs.

During our review of the Department's LAN, we found that no password standards exist. In fact, not all users were required to change passwords. Therefore, *we recommend the Department of Tourism implement password standards that require password changes every 30 days for technical staff and every 60 days for all other users*.

> Agency Response: The Department of Tourism will develop password standards, including required password changes, based on the recommendation from the LAB audit.

**Disaster Recovery and Business Resumption**

A disaster recovery plan is a comprehensive framework formulated to give direction in the event of an emergency affecting computerized systems. Business resumption planning involves the coordination of efforts to establish a working office to continue its designated function for the State. Both disaster recovery and business resumption are critical for the continuance of any operation. The Department of Administration's Division of Technology Management has established the minimum standards for the State, which include a plan for recovery of both work areas and technical components, testing of recovery, and regular backup and restore procedures. Although the Department completes regular backups of its LAN to protect against the loss of data, there is little emphasis on protecting other facets of the Department's functions or on identifying necessary steps to resume operations if a disaster should occur.

A formal plan is needed to ensure that the necessary steps involved in the resumption of business are considered, assigned, and communicated. Written plans also protect against the loss of knowledge that occurs with turnover of key employees who are most familiar with the Department's operations. Written plans should include, at a minimum, the equipment, software, forms, and workspace that would be necessary to continue critical functions of the Department. In addition, the plans should assign the responsibility for informing employees and the media of alternative arrangements in the event of a disaster. Therefore, *we recommend the Department of Tourism assign responsibility for a disaster recovery and business resumption coordinator to lead the development of a formal plan that, at a minimum, assesses:*

- *equipment and software needs, including personal computers, servers, and related software;*
- *minimum workspace needs for its employees;*
- *forms and other documentation necessary to continue operations; and*

- *the need to inform the public and agency employees through media sources regarding alternative locations available to serve the public.*

*Further, we recommend the Department develop and assign to staff specific recovery tasks for each need identified from this assessment.*

Agency Response: The Department of Tourism acknowledges the need to develop a formal plan for disaster recovery and business resumption. This plan will be developed within the next six months. The Director of Administrative Services will coordinate and lead the development of a formal plan with assistance and input from the Department's management team that will address:

- equipment and software needs, including personal computers, servers, and related software;
- minimum workspace needs for employees;
- forms and other documentation necessary to continue operations; and
- the need to inform the public and agency employees through media sources regarding alternative locations available to serve the public.

Staff will be identified for recovery tasks that are mentioned.

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