

OKLAHOMA ARTS COUNCIL

JANUARY 1, 2006 THROUGH
DECEMBER 31, 2007

OPERATIONAL AUDIT



Oklahoma State Auditor
& Inspector

**Audit Report of the
Oklahoma Arts Council**

**For the Period
January 1, 2006 through December 31, 2007**



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Oklahoma Office of the
State Auditor and Inspector

June 19, 2008

TO THE OKLAHOMA ARTS COUNCIL

Pursuant to 74 O.S. § 212 and 53 O.S. § 167, transmitted herewith is the audit report for the Oklahoma Arts Council for the period January 1, 2006 through December 31, 2007. The Office of the State Auditor and Inspector is committed to serving the public interest by providing independent oversight and by issuing reports that serve as a management tool to the State. Our goal is to ensure a government that is accountable to the people of the State of Oklahoma.

We wish to take this opportunity to express our appreciation to the agency's staff for the assistance and cooperation extended to our office during the course of our engagement.

Sincerely,

A handwritten signature in blue ink that reads "Michelle R. Day".

Michelle R. Day, Esq.
Deputy State Auditor and Inspector

Mission Statement

The Oklahoma Arts Council's mission is to lead, cultivate, and support a thriving arts environment, which is essential to life, education, and economic vitality for all Oklahomans.

Board Members

Jim Tolbert III	Chairman
Sharon King Davis	Member
Saundra Evans	Member
Martha Griffin	Member
Dr. Jan Ralls Henry	Member
Myra Block Kaiser	Member
Dr. Simon Levit	Member
Susan McCalmont	Member
Brenda McDaniel	Member
Leona Mitchell	Member
Jeannette Sias	Member
Kym Koch Thompson	Member
William von Glahn	Member
Mary Jane Wade	Member
Wanda Westheimer	Member

Key Staff

Suzanne Tate	Executive Director
Kim Baker	Deputy Director
Jose Posa	Finance Director



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

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State Auditor and Inspector

TO THE OKLAHOMA ARTS COUNCIL

We have audited the Oklahoma Arts Council for the period January 1, 2006 through December 31, 2007. The objectives of this audit were to determine if:

- The Council's internal controls provide reasonable assurance that revenues, expenditures, and capital assets were accurately reported in the accounting records, and financial operations complied with applicable finance-related laws and regulations;
- The Council complied with 53 O.S. §171;
- The Council implemented recommendations made from prior year's engagements.

As part of our audit we obtained an understanding of internal controls significant to the audit objectives and considered whether the specific controls have been properly designed and placed in operation. We also performed tests of certain controls to obtain evidence regarding the effectiveness of the design and operation of the controls. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We also obtained an understanding of the laws and regulations significant to the audit objectives and assessed the risk that illegal acts, including fraud, violation of contracts, grant agreements, or other legal provisions could occur. Based on this risk assessment, we designed and performed procedures to provide reasonable assurance of detecting significant instances of noncompliance with the laws and regulations. However, providing an opinion on compliance with these laws and regulations was not an objective of our audit and accordingly, we do not express such an opinion.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances.

This report is a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.

Michelle R. Day, Esq.
Deputy State Auditor and Inspector

May 19, 2008

Objective 1 – Determine if the Council’s internal controls provide reasonable assurance that revenues, expenditures, and capital assets were accurately reported in the accounting records, and financial operations complied with applicable finance-related laws and regulations.

Conclusion

The Council’s internal controls related to receipts, expenditures, and capital assets are generally effective; however, several areas, as noted below, need to be strengthened.

Methodology

To accomplish our objective, we performed the following:

- Documented internal controls relating to the receipting, expenditure, and capital assets process;
- Tested controls which included:
 - Reviewing 15 deposits to ensure the amount recorded in the receipt log or the amount on the Office of the State Treasurer notification letter agreed to CORE;
 - Reviewing 15 deposits to ensure they were made in accordance with 62 O.S. § 7.1.c;
 - Reviewing 15 deposits to ensure they were accurately recorded to CORE as to account, amount, and period;
 - Reviewing three Budget to Actual comparisons to ensure they were performed in a timely manner and the preparer and reviewer are independent of each other;
 - Reviewing 25 expenditure claims to ensure the purchase requisition and purchase order were properly approved;
 - Reviewing 25 expenditure claims to ensure the purchase order agreed to the packing slip in quantity and price. This also included ensuring the packing slip was signed and dated;
 - Reviewing 25 expenditure claims to ensure the invoice and voucher were properly approved. This included ensuring the invoice matched the packing slip, the voucher amount and vendor agreed to the invoice, the transaction was properly recorded to CORE, and the nature of the purchase was consistent with the account code description;
 - Reviewing 15 assets from the inventory listing to verify their existence on the floor, ensuring they were identified as property of the State, and ensuring the inventory tag number on the asset agreed to the listing;
 - Reviewing 15 assets from the floor to verify they were identified on the inventory listing, ensuring they were identified as property of the State, and ensuring the inventory tag number on the asset agreed to the listing;
 - Determining if an annual, physical inventory was performed;
 - Reviewing items surplus during the period, ensuring an approved DCS form 001 supported the removal.

Observations

REVENUES

Deposits

62 O.S. § 7.1c states, “All such monies collected pursuant to this section shall be deposited as follows in the agency clearing account or agency special account established therefor:

1. Receipts of One Hundred Dollars (\$100.00) or more shall be deposited on the same banking day as received.
2. Receipts of less than One Hundred Dollars (\$100.00) may be held until accumulated receipts equal One Hundred Dollars (\$100.00) or for five (5) business days, whichever occurs first, and shall then be deposited no later than the next business day.”

An effective internal control system provides for accountability of funds.

Of the 15 deposits tested, we noted the following:

- One deposit made was not in accordance with 62 O.S. § 7.1.c. A check for \$43,771 was not deposited until three days later.
- One check received was not recorded in the receipt log, and another check was incorrectly recorded in the receipt log as to the amount of the check.

Effect: Without proper accountability of funds, fraud or error could occur and not be detected in a timely manner.

Recommendation: We recommend the Council implement procedures requiring all funds be deposited within one business day of being received. In addition, we recommend all cash and/or checks received be accurately logged at the time of receipt.

View of Responsible Officials: We concur with this finding. The Council will make every effort to ensure that warrants are accurately logged and verified by the Office Manager and Finance Director prior to deposits. Receipt book will be initialed to indicate accuracy of the deposit. All checks received after June 2006 were deposited on the day they were received.

Budget to Actual Comparisons

An effective internal control system provides for adequate review of accounting records.

Of the three Budget to Actual comparisons, the following items were noted:

- One comparison was not approved by the Deputy Director;
- Two comparisons were not dated by the Deputy Director. As a result, it could not be determined if the comparisons were reviewed and approved timely.

Effect: Without an adequate review of accounting records, improprieties could occur and not be detected in a timely manner.

Recommendation: We recommend all comparisons be signed and dated indicating approval.

View of Responsible Officials: The Finance Director will ensure that the Budget to Actual comparisons are signed and dated upon review and approval of the Executive Director.

Lack of Segregation of Duties Related to the Receipting Process

An effective internal control system provides for appropriate segregation of duties.

The Finance Director is responsible for preparing deposit slips, posting the deposit to CORE, taking the deposit to the bank, and preparing the reconciliations.

Effect: Without appropriate segregation of duties, improprieties could occur and not be detected in a timely manner.

Recommendation: We recommend the Council implement procedures separating the duties of the person responsible for preparing the deposit slip, posting the deposit to CORE, taking the deposit to the bank, and performing the reconciliations.

View of Responsible Officials: The Council will re-implement the procedures as submitted below:

The Office Manager or back-up will:

- Receipt all checks received and will include both time and date.
- Receipts that are voided will be retained.
- Checks received will be stamped with “Deposit Only”.
- Complete the deposit slip.
- Forward checks with deposit slip to the Finance Director.

The Finance Director or back up will:

- Balance all deposits to the receipt book and initial to indicate accuracy.
- Process Journal or deposit entry into PeopleSoft system.
- Provide a copy of the PeopleSoft Deposit to the Office Manager.
- Hand carry the deposit to the Treasurer’s Office or to the Bank

EXPENDITURES

Review of Expenditure Claims Prior to Approval

An effective internal control system provides an adequate review of supporting documentation.

Of the 25 expenditures tested, one transaction was coded incorrectly. The transaction was for a motor pool rental, but it was charged to ERP System Services.

Effect: Without an adequate review of supporting documentation, unauthorized or inappropriate payments could occur.

Recommendation: We recommend management exercise diligence in reviewing expenditure claims to ensure the correct account code is used.

View of Responsible Officials: All vouchers will be verified by the Office Manager and the Finance Director ensuring correct account code is used, prior to the approval by the Executive Director. The agency has implemented a monthly review of expenditures to ensure accuracy and consistency of vouchers submitted to Office of State Finance. Correcting or Journal entries will be created to correct vouchers submitted, if any.

Inadequate Supporting Documentation

An effective internal control system provides an adequate review of supporting documentation.

21 O.S. § 590 A. states in part, “ Every state governmental entity shall, for a period of two (2) years, maintain accurate and complete records... reflecting all financial and business transactions, which records shall include support documentation for each transaction. No such records shall be disposed of for three (3) years thereafter...”

Of the 25 expenditures tested, we noted two claims did not have any supporting documentation. The claim jacket for each claim was only provided.

Effect: Without an adequate review of supporting documentation, unauthorized or inappropriate payments could occur.

Recommendation: We recommend the Council retain adequate supporting documentation for each claim.

View of Responsible Officials: The Council is diligent of keeping all required documentation attached to the designated vouchers. The audited vouchers were misplaced during the time the previous Finance Director was about to retire. Vouchers were later reprinted for file records but the documentations were not accessible.

Approvals

An effective internal control system provides an adequate review and approval of all vouchers.

Of the 25 expenditures tested, one voucher was not properly approved and one invoice was not properly approved for payment.

Effect: Without an adequate review and approval of all vouchers and invoices, unauthorized or inappropriate payments could occur.

Recommendation: We recommend the appropriate level of management review and formally approve invoices prior to sending them to OSF.

View of Responsible Officials: The previous Finance Director used a specially made post-it note attached to the invoice signifying an approval for payment. The Council has changed its practice by using an “Approved for Payment” stamp for approval and processing of invoices.

INVENTORY

Inventory Control

OAC 580: 70-5-1 (a) and (b) state in part, “(a) An agency shall affix a unique identifier as an inventory tag to all tangible assets. (b) The inventory tag shall be affixed in a location to ensure accessibility by an inventory control officer...”

An effective internal control system provides for adequate supporting documentation.

Of the 15 assets tested, the following was noted:

- One asset was not properly identified as property of the State of Oklahoma;
- One item selected from the inventory list could not be located. The Finance Director indicated the asset was sent to surplus; however, there was no supporting documentation to verify the transfer.

Effect: Without adequate controls, misappropriation of assets could occur and not be detected in a timely manner.

Recommendation: We recommend the Agency ensure all tangible assets have an inventory tag affixed to them identifying them as property of the State. Additionally, as equipment is retired from service through the normal surplus process or due to malfunction, appropriate documentation should be maintained.

View of Responsible Officials: The surplus transaction of this audited item occurred during the tenure of the previous Finance Director. Pertinent surplus and acquisition document of the asset cannot be located. All items acquired and surplused starting July 2006 to present were all tagged and documented.

Lack of Segregation of Duties Related to the Inventory Process

An effective internal control system provides for appropriate segregation of duties.

The Finance Director is responsible for asset custody and record keeping. Further, he performed the annual physical inventory count for 2007.

Effect: Without appropriate segregation of duties, improprieties could occur and not be detected in a timely manner.

Recommendation: We recommend a physical count be conducted by an employee independent of the asset custody and record keeping process.

View of Responsible Officials: The latest annual physical inventory was performed by the Finance Director intended to reconcile physical assets to the Inventory list. The Council has designated the Deputy Director to perform the annual physical inventory at the end of every Fiscal year.

Objective 2 – Determine if the Council complied with 53 O.S. § 171.

Conclusion

It appears the Council is in compliance with 53 O.S. § 171, *Dispensation of Funds – Contracts for Goods and Services*.

Methodology

To accomplish our objective, we performed the following:

- Reviewed 53 O.S. § 171 and performed procedures to ensure funds were not being used for the benefit or support of any sect, church, denomination or system of religion, priest, preacher, minister, or other religious teacher or dignitary, or sectarian institution.

Objective 3 – Determine if recommendations from prior engagements were implemented.

Conclusion

The Office of the State Auditor's report issued June 21, 2006, included five findings which were considered significant to this engagement. Corrective action on two of the five findings has not been implemented or has been partially implemented and has been noted under Objective 1.

Further, the Department of Central Services' report issued October 5, 2006, included six findings which were considered significant to this engagement. Corrective action on one finding has not been implemented or has been partially implemented.

Methodology

To accomplish our objective, we performed the following:

- Documented internal controls related to the receipting and inventory process and tested those controls to determine if:
 - an annual, physical inventory count was performed (performed under Objective 1);

- capital assets were properly identified as property of the State (performed under Objective 1);
- deposits were made in accordance with 62 O.S. § 7.1.c (performed under Objective 1);
- a formal, monthly reconciliation was performed (performed under Objective 1);
- Reviewed three months of memo statements and transaction logs, ensuring the following:
 - the transaction log includes all of the cardholder's transactions for the month;
 - the memo statements included the signature of the approving official indicating concurrence with the reconciled statement;
 - cardholders were performing reconciliations between the memo statement and the transaction log.
- Reviewed 15 purchase card transactions, ensuring the transaction was supported by a receipt and a receiving document which was signed, dated, and annotated "Received."
- Reviewed the formal letter appointing the Finance Director as the Purchase Card Administrator to the Department of Central Services;
- Reviewed the Purchase Card Employee Agreement Forms, ensuring a form has been completed and signed by the approving official;
- Reviewed the internal purchasing procedures, ensuring they have been revised to include purchase card procedures and they have been approved by the Department of Central Services;
- Observed purchase card information to ensure information is secured in the Purchase Card Administrator's office;
- Determined whether the approving official completed required purchase card training.

Observations

Receiving

Oklahoma Purchase Card Procedures § 6.7.1, Goods or services received at the time of purchase states, "The receipt for purchase also serves as the receiving document. The receiving document should be annotated "Received" and signed and dated by the receiving employee. The combination purchase receipt/receiving document shall be attached to the transaction log."

Oklahoma Purchase Card Procedures § 6.7.2, Goods or services received subsequent to the time of purchase states, "The document accompanying the goods or services (such as packing slip or service order) serves at the receiving document and is processed as described in 6.7.1 above."

Of the 15 purchase card transactions tested, 7 transactions were not supported by a receiving document that was signed, dated, and annotated "Received."

Effect: Without signing, dating, and annotating "Received" on the receiving document, there is no way to verify that the goods and/or services were actually received.

Recommendation: We recommend the Council communicate to all cardholders the importance of collecting and maintaining receiving documentation and ensure that receiving employees sign, date, and annotate "received" on the receiving document.

View of Responsible Officials: We concur with the recommendation. The P-card Administrator will make every effort to ensure that all receiving documentations are properly signed, dated and annotated "received".



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