

OPERATIONAL AUDIT

OKLAHOMA ARTS COUNCIL

For the period July 1, 2009 through June 30, 2015



*Independently serving the citizens of
Oklahoma by promoting the
accountability and fiscal integrity of
governmental funds.*



Oklahoma State
Auditor & Inspector
Gary A. Jones, CPA, CFE

**Audit Report of the
Oklahoma Arts Council**

**For the Period
July 1, 2009 through June 30, 2015**



Oklahoma State Auditor & Inspector

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December 22, 2015

TO THE OKLAHOMA STATE'S ARTS COUNCIL

This is the audit report of the Oklahoma Arts Council for the period July 1, 2009 through June 30, 2015. The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during our engagement.

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.

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones".

GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

Oklahoma Arts Council Operational Audit

Background

The Oklahoma Arts Council (Agency) was created by the Oklahoma Legislature in 1965 to encourage and stimulate all forms of artistic endeavors. The Agency receives appropriations from the state legislature and a state partnership grant from the National Endowment for the Arts to provide matching grants to Oklahoma non-profit arts organizations.

In 1971 the State Art Collection (SAC) was established to provide Oklahoma artists the opportunity to be recognized in a quality collection. In 1976 the four monumental murals in the State Capitol rotunda were dedicated as part of the Capitol Art Collection (CAC). In 1979, Governor George Nigh established the Governor's Gallery as the first temporary exhibition space in the state Capitol. In 1986, the East Gallery was established and later in the 1990s the North Gallery was added as another gallery space to display numerous works of art by Oklahoma artists.

The Capitol Preservation Commission (CPC) is responsible for the display of art objects in public areas of the State Capitol and Governor's mansion, and has designated the Oklahoma Art Council as the registrar and collections manager. As collections manager, the Agency is responsible for the care and maintenance of accessioned works and to work together with the CPC to add numerous works of art to the Capitol Art Collection. Pieces completed by master artists, the exquisite paintings, monumental murals and sculptures in the rotunda and public spaces of the Capitol, convey the story of Oklahoma to thousands of people who visit the Capitol each year.

Oversight is provided by fifteen Council members that are appointed by the governor and approved by the Senate. Members shall be individuals who have a real and active interest in the arts and an understanding of the value of these pursuits to our society. Each Council member serves a term of three (3) years, with a rotation of 5 new members per year. No person may be appointed to the Council for more than two consecutive terms.

Council members as of July 2015 were:

Holbrook Lawson	Chair
Nancy Leonard.....	Vice-Chair
Lona Barrick.....	Secretary
Cassandra Gaines.....	Member
Jane Jayroe Gamble.....	Member
Chandra Rickey	Member

Council members continued on next page.

**Oklahoma Arts Council
Operational Audit**

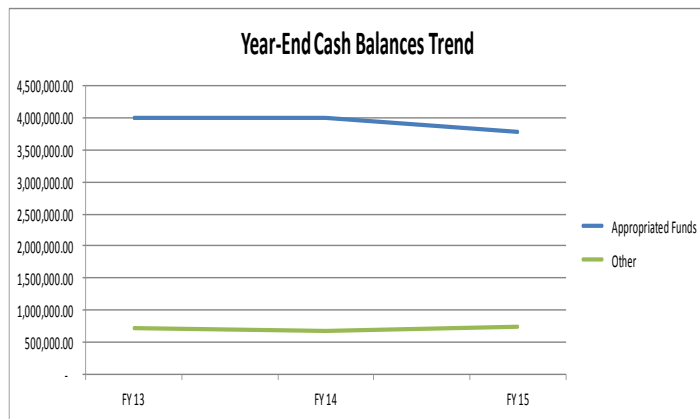
Nancy Pilkington..... Member
Hannah Robson.....Member
Lee Allan Smith.....Member
Phyllis Stough.....Member
Susan ColesMember
Tricia EverestMember
Ann Hargis.....Member
Regina TurrentineMember
J.P. Richard.....Member

Oklahoma Arts Council Operational Audit

The following information illustrates the Agency's budgeted-to-actual revenues and expenditures and year-end cash balances.¹

BUDGET TO ACTUAL COMPARISON						
REVENUES	FY 2014			FY 2015		
	Budgeted	Actual	Variance	Budgeted	Actual	Variance
General Appropriations	3,928,721	4,010,087	(81,366)	4,126,683	3,784,911	341,772
Reimbursement for General Expenses		421	(421)		62,032	(62,032)
Federal Grants-in-Aid	673,200	673,200	-	701,700	676,700	25,000
Federal Funds From Other State Agencies	8,000		8,000	4,000	10,000	(6,000)
Other			-			-
Total Revenues	4,609,921	4,683,708	(73,787)	4,832,383	4,533,643	298,740
EXPENDITURES						
Personnel Services	1,032,357	897,193	135,164	1,038,809	957,098	81,711
Professional Services	34,282	47,872	(13,590)	69,960	56,091	13,869
Travel Expenses	23,030	17,263	5,767	25,660	13,773	11,887
Administrative Expenses	107,780	97,554	10,226	104,759	95,347	9,412
Office Furniture and Equipment	5,446	5,028	418	25,462	12,768	12,694
Buildings - Purchase, Construction, Renovation			-			-
Social Services and Assistance Payments			-			-
Refunds, Indemnities, Restitution			-			-
Program Reimbursements, Litigation Costs			-			-
Payments to Local Govt. Subdivisions and Non-Profit Entities	3,407,026	3,587,993	(180,967)	3,567,733	3,355,766	211,967
Total Expenses	4,609,921	4,652,903	(42,982)	4,832,383	4,490,843	341,540
Expenditures Over (Under) Revenues		(30,806)			(42,800)	

Year-End Cash Balances: FY 13 - FY 15			
	FY 13	FY 14	FY 15
Appropriated Funds	4,010,087	4,010,087	3,784,911
Other	721,449	673,621	748,732
Total Available Cash	4,731,536	4,683,708	4,533,643



¹ This information was obtained from the Oklahoma PeopleSoft accounting system. It is for informational purposes only and has not been audited.

**Scope and
Methodology**

Our audit was conducted in response to 74 O.S. § 212, which requires the State Auditor and Inspector’s office to audit the books and accounts of all state agencies whose duties it is to collect, disburse, or manage funds of the state.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessment of materiality and risk for the period July 1, 2009 through June 30, 2015. Detailed audit procedures focused on the period of July 1, 2013 through June 30, 2015, addressing the most current financial processes and providing the most relevant and timely recommendations for management.

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the agency’s operations. We utilized sampling of transactions to achieve our objectives. To ensure the samples were representative of the population and provided sufficient, appropriate evidence, the random sample methodology was used. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

OBJECTIVE

Determine whether the Agency’s internal controls provide reasonable assurance that expenditures (both miscellaneous and payroll) and art inventory were accurately reported in the accounting records, and financial operations complied with significant laws and regulations.

Conclusion

The Agency’s internal controls provide reasonable assurance that payroll expenditures were accurately reported in the accounting records. However, Agency’s internal controls did not provide reasonable assurance that art inventory, miscellaneous expenditures or grant expenditures were accurately reported in the accounting records.

FINDINGS AND RECOMMENDATIONS

Inadequate Segregation of Duties over Art Inventory

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government (2014 Revision)*² states in part, "Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. No one individual should control all key aspects of a transaction." In addition, the GAO provides that management must establish physical control to secure and safeguard vulnerable assets; periodically count and compare such assets to control records; design an internal control system to provide reasonable assurance regarding prevention or prompt detection and correction of unauthorized acquisition, use, or disposition of an entity's assets.

The *Capital Preservation Commission Art Standard Committee Collections Management Guidelines* states in part, "OAC is responsible for registrar and collections management tasks such as acquiring, managing and maintaining documentation for all new acquisitions, loans and temporary exhibitions on the Capitol under the control of the Commission. In addition, OAC will manage the commissioning process on behalf of the Commission, organize and oversee the signage installation for all artwork, inform OMES-Risk Management in writing the value, title, physical location and any other pertinent information for insurance policy coverage, and maintain all hard copy records for both temporarily exhibited and permanent works in the Capitol which fall under the responsibility of the Commission and responsible for their care."

The agency has not adequately segregated key duties related to art inventory or conducted an annual inventory count. We identified the following conflicting conditions:

- The Art Director has the physical custody of items, maintains the art listing, modifies art records and conducts the annual inventory count.

In addition, for 60 randomly selected inventory items we noted the following:

- Three items were not displayed at the physical location documented in the inventory listing.
- Supporting records could not be located for one item.

² Although this publication addresses controls in the federal government, this criterion can be treated as best practices. The theory of controls applies uniformly to federal or state government.

Without proper segregation of duties and accurate and up-to-date inventory records, inventory could be misstated or misappropriated without timely detection by management.

Recommendation:

We recommend management segregate duties to ensure that no one individual has physical custody of and also maintains art inventory records. We also recommend management ensure a comprehensive annual physical art inventory count is performed and documented by someone independent of the physical custody and maintenance of art inventory records. Management should also ensure art items are appropriately safeguarded and art inventory records are accurately maintained.

Views of Responsible Officials

Inventories will be conducted by more than one employee for future inventory counts on an annual basis to ensure that no one individual has physical custody of and maintains art inventory records. Annual art inventory counts in recent years have been suspended and/or conducted in alternating years during the large budget cut fiscal years due to budget and staff constraints. However, the Council will complete art inventory counts on an annual basis starting this fiscal year and will ensure that the inventory listing is accurately and complete.

**Inadequate
Segregation
of Duties
over
Expenditures**

The GAO *Standards for Internal Control in the Federal Government* state, “Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.”

The *Standards* also state “Documentation is required for the effective design, implementation, and operating effectiveness of an entity’s internal control system.”

To protect against possible errors or irregularities in an entity’s financial records, an effective internal control system should provide for accurate and reliable records and adequate review of supporting documentation.

We could not determine if duties related to expenditures were properly segregated due to the agency's lack of supporting documentation. We noted the following condition:

- For miscellaneous expenditures, internal controls appeared to be properly designed. However, after further review, it appeared the controls were not properly implemented. For one claim, the finance manager approved the invoice for payment and no other documentation could be provided to determine who created the purchase order, if the claim amount was properly supported or if the goods were received. Therefore, by lacking supporting documents, we were unable to determine if duties were properly segregated.
- For both miscellaneous and grant expenditures, there was no documentary evidence that management is reviewing detailed expenditure data received from OMES-ABS.

In addition, for a sample of sixty grant expenditures, we noted the following:

- For eight claims we could not determine if receiving duties were properly segregated from the approval process because no signed warrant register was maintained to indicate who received the warrants.
- For another eight claims, the person receiving the checks was the same person approving the claim for payment.

Without adequate segregation of duties, Management's approval of purchases could be circumvented and fictitious payments could be processed and concealed. Management's failure to independently obtain expenditure data for review and document the process creates a risk that management could rely on information that has been manipulated to conceal fictitious payments. Also, lack of maintaining reliable, accurate and adequate supporting documents could result possible errors or irregularities in the agency's financial records.

Recommendation

We recommend management segregate duties to ensure that no one individual can initiate purchases, create purchase orders, post and process payments, and receive items that have been ordered. Management should also adequately segregate duties to ensure the same person receiving the checks does not approve claims for payment. Additionally, management independent of the expenditure process should perform a detailed review of all expenditures and retain evidence that an expenditure review was performed.

Management should develop a centralized storage to ensure all documentation is properly maintained and readily available for review.

Views of Responsible Officials

The agency will take the auditor's recommended course of action and the agency's management corrective action plan will be to work with the appropriate department director(s) and staff members within our agency that oversee and/or interface with the functions identified in the audit to segregate duties related to purchases, receiving checks and payment approval. In addition, as recommended by the auditor's office, agency management will perform a detailed review of all expenditures and retain evidence that an expenditure review was performed and ensure all other documentation is maintained and readily available for review.



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