



OKLAHOMA HISTORICAL SOCIETY

Operational Audit

January 1, 2017 through June 30, 2021

Cindy Byrd, CPA
State Auditor & Inspector

**Audit Report of the
Oklahoma Historical Society**

**For the Period
January 1, 2017 through June 30, 2021**



Cindy Byrd, CPA | State Auditor & Inspector

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February 3, 2022

TO THE OKLAHOMA HISTORICAL SOCIETY

We present the audit report of the Oklahoma Historical Society for the period January 1, 2017 through June 30, 2021. 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 "Cindy Byrd".

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR



Background

The mission of the Oklahoma Historical Society (OHS or the Agency) is to collect, preserve, and share the history and culture of the State of Oklahoma and its people. The OHS was founded on May 27, 1893, by members of the Territorial Press Association. In 1918 the OHS was relocated to the State Capitol, and in 1930 moved to the Wiley Post building. In 2005 came the opening of the Oklahoma History Center in Oklahoma City. Over the years the OHS has developed numerous collections, programs, research centers, museums, historic homes, and military sites across the state.

The OHS is governed by a twenty-five-member Board of Directors (the Board); thirteen are nominated by the OHS membership and twelve are appointed by the governor of Oklahoma.

Board members as of January 2022 are:

Deena Fisher	President
Karen Keith.....	Vice President
Duke Ligon	Treasurer
Harold Aldridge.....	Member
Jack Baker.....	Member
Randy Beutler	Member
Teresa Black Bradway	Member
Ford Drummond.....	Member
Cheryl Evans.....	Member
Ken Fergeson	Member
Billie Fogarty.....	Member
Ann Hargis.....	Member
Alan Loeffler.....	Member
Patricia Loughlin.....	Member
Terry Mabrey	Member
Jonita Mullins	Member
Lindsay Robertson.....	Member
Bill Settle.....	Member
Donna Sharpe	Member
Kenny Sivard	Member
Charles Tate	Member
Barbara Thompson.....	Member
James Waldo	Member
Weldon Watson.....	Member
Vacant	Member

**Oklahoma Historical Society
Operational Audit**

The following table summarizes the Agency's sources and uses of funds for fiscal years 2020 and 2021 (July 1, 2019 through June 30, 2021).

Sources and Uses of Funds for FY 2020 and FY 2021

	2020	2021
Sources:		
Net Appropriations	\$ 14,011,174	\$ 11,905,967
Grants, Refunds and Reimbursements	3,629,084	1,572,014
Taxes	1,538,534	1,634,299
Sales and Services	1,148,425	880,323
Income from Property and Fees	84,005	37,200
Total Sources	\$ 20,411,222	\$ 16,029,803
Uses:		
Personnel Services	\$ 9,592,946	\$ 9,540,742
Property, Furniture, Equipment and Related Debt	4,057,894	3,865,730
Administrative Expenses	2,304,237	2,343,015
Professional Services	802,402	769,507
Assistance and Payments to Local Govn'ts	652,423	1,009,033
Transfers and Other Disbursements	108,797	46,646
Travel Expenses	80,596	22,967
Total Uses	\$ 17,599,295	\$ 17,597,640

Source: Oklahoma statewide accounting system (unaudited, for informational purposes only)

**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 duty 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 January 1, 2017 through June 30, 2021. To assess risk and develop our audit objective, we held discussions with management, distributed surveys to the Agency's personnel, and performed data analysis and prior audit follow-up. These procedures included:

- Reviewing revenue, expenditure, and asset-related data from the Statewide Accounting System and gathering information from Agency personnel to assess the related financial processes and trends for any notable risks.
- Analyzing top vendors and expenditures by dollar amount and reviewing a selection of miscellaneous expenditures in detail.
- Reviewing the Agency's HR All Actions report from the Statewide Accounting System to assess changes that had a financial impact during the audit period
- Reviewing IT and Non-IT inventory listings and discussing the inventory count process with staff.
- Reviewing the Historical items inventory database, policies, and procedures, and discussing the count processes with staff.

Two objectives were developed as a result of the procedures performed, as discussed in the body of the report. No other significant risks or findings were identified.

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.

Internal Control Considerations

The Government Accountability Office (GAO) emphasizes the importance of internal controls at all levels of government entities. Their *Standards for Internal Control*¹ outline the five overarching components of internal control: the control environment, risk assessment, information and communication, monitoring, and detailed control activities. Any component considered significant to our audit objectives is assessed during our procedures and included as appropriate in this report.

The *Standards for Internal Control* underscore that an internal control system is effective only when the five components of internal control are operating together in an integrated manner. They also stress that documentation is a necessary part of an effective internal control system and is required to demonstrate its design, implementation, and operating effectiveness.

¹ *Standards for Internal Control in the Federal Government*, or the "Green Book," sets standards and the overall framework for an effective internal control system in federal agencies and is treated as best practices for other levels of government. Last update 2014, accessible online at <https://www.gao.gov/products/GAO-14-704G>.

OBJECTIVE I Determine whether the Agency's non-payroll expenditures were independently reviewed and approved in line with *GAO Standards for Internal Control*.

Conclusion We determined the Agency's non-payroll expenditures were not independently reviewed and approved in line with *GAO Standards for Internal Control*.

Objective Methodology To accomplish our objective, we performed the following:

- Documented our understanding of the expenditure processes through discussion with management and review of documentation.
- Evaluated those processes and identified and assessed significant internal controls related to our objective.

FINDINGS AND RECOMMENDATIONS

Independent, Documented Review of Non-Payroll Expenditures Needed

As the Agency's expenditure process is currently designed, the Deputy Director approves the Agency's invoices for overhead expenses and program directors approve invoices for their program areas. The Human Resources Management Specialist sends the invoices to the Office of Management and Enterprise Services, Agency Business Services (ABS) for payment. The Deputy Director prepares and presents financial information to the Executive Director and the Board, but this information does not include a line-item detailed expenditure report.

There is currently no final, independent review of expenditures. The Human Resources Management Specialist or Deputy Director could initiate an unauthorized expenditure, or ABS could make an error, without detection.

According to *GAO Standards for Internal Control*:

- Management may design a variety of transaction control activities for operational processes, which may include verifications, reconciliations, authorizations and approvals, physical control activities, and supervisory control activities.
- If segregation of duties is not practical within an operational process because of limited personnel or other factors, management designs alternative control activities to address the risk of fraud, waste, or abuse in the operational process.
- Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.

Recommendation

Given that the Executive Director is independent of processing expenditures and familiar with the Agency’s approved payments, we recommend he perform a line-item detailed review of expenditures after payment. This could be performed on a regular or random basis, and documentation of this review should be retained.

Views of Responsible Officials

The OHS will be sending the Peoplesoft 6-Digit Detail Expenditure report and a detailed expenditure report from the Works p-card system to the Agency’s Board of Director’s Officers for review on a quarterly basis. The board will review the reports and inquire about any transactions they want more information on.

OBJECTIVE II

Determine whether inventory counts were conducted by personnel independent of maintaining inventory records, in accordance with GAO Standards for Internal Control and the Statewide Accounting Manual.

Conclusion

We determined inventory counts were not conducted by personnel independent of maintaining inventory records, in accordance with GAO *Standards for Internal Control* and the *Statewide Accounting Manual*.

Objective Methodology

To accomplish our objective, we performed the following:

- Documented our understanding of the inventory processes through discussion with management and review of documentation.
- Evaluated those processes and identified and assessed significant internal controls related to our objective.

FINDINGS AND RECOMMENDATIONS

Formal and Independent Inventory Counts Are Needed to Ensure Records Are Reliable

The accounting technician is responsible for maintaining inventory records. When the accounting technician formally took over the role in 2018, he recreated the Agency’s inventory listing by using internal purchasing records. Using this method, he identified over \$47,000 of items that could not be located. Although a formal inventory count has not been conducted during the audit period², management believes they

² An informal, partial count was performed by a temporary employee listing items observed at Agency locations assumed to be worth \$250 or more, but it did not include a list-to-floor comparison and the results were still not approved by management.

will be able to resolve most missing items in a future inventory count. The rest will be written off.

There is no documented oversight by management to ensure that inventory records are complete and reliable. Without a complete inventory count of items included in the Agency's inventory listing and an independent review of inventory count results, missing items may not be identified, and the inventory records are likely inaccurate. In addition, the inventory listing is accessible to personnel in Finance who could modify inventory records without detection.

The GAO *Standards for Internal Control* state that "Management should design control activities to achieve objectives and respond to risks, and management should establish and operate monitoring activities to monitor the internal control system and evaluate the results." In addition, the standards suggest management periodically count and compare vulnerable assets to control records. The *State-Wide Accounting Manual* states that "individuals performing physical inventory counts should not be involved in maintaining inventory records."

Recommendation

We recommend management ensure a comprehensive physical inventory count is performed and documented to ensure the records are complete and accurate. The personnel responsible for performing the inventory counts should not have access to modify inventory records.

After this full inventory count has been performed, regular counts should be conducted as appropriate based on the Agency's assessment of the inventory risks. The results of each inventory count and any related adjustments should be reviewed and approved by management, and documentation of the review should be maintained.

In addition, the inventory listing should be restricted to read-only access for personnel not authorized to edit the inventory records.

Views of Responsible Officials

Future inventory counts will be conducted by temporary personnel or by a contracted company. Management will do periodic reviews of the inventory process and records to ensure accuracy. The inventory spreadsheet file will be locked down so that only the individual assigned to modify the spreadsheet has access to do so. All other individuals will have view only access.

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