

OPERATIONAL AUDIT

# OKLAHOMA EDUCATIONAL TELEVISION AUTHORITY

For the period July 1, 2014 through June 30, 2016



*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 Educational Television Authority**

**For the Period  
July 1, 2014 through June 30, 2016**

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# Oklahoma State Auditor & Inspector

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May 1, 2017

## TO GOVERNOR MARY FALLIN

This is the audit report of the Oklahoma Educational Television Authority for the period July 1, 2014 through June 30, 2016. 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". The signature is written in a cursive style with a long, sweeping underline.

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

# Oklahoma Educational Television Authority Operational Audit

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## Background

The Oklahoma Educational Television Authority (OETA) was established by the Legislature in 1953 to make educational television services available to all Oklahoma citizens on a coordinated statewide basis.

OETA (Agency) is licensed to the state of Oklahoma and operates as a public and private partnership. OETA is supported by both public and private funds. State funds provide for some of OETA's operational expenses including helping to fund OETA's extensive statewide network.

OETA's Mission is to provide educational content and services that inform, inspire and connect Oklahomans to ideas and information that enriches quality of life. This is done by consistently engaging Oklahomans with educational and public television programming, providing educational training and curriculum, outreach initiatives and online features that collectively encourage lifelong learning.

Oversight is provided by thirteen board members (Board) consisting of the President of the University of Oklahoma, the President of Oklahoma State University, the State Superintendent of Public Instruction, the Chancellor of the Oklahoma State Regents for Higher Education, the president of one of the state-supported four-year colleges, the president of one of the state-supported two-year colleges, and seven additional members to be appointed by the Governor. Each board member serves a term of seven years.

Board members as of April 2017 are:

Garrett King .....	Chair
Clarke Stroud.....	Vice-Chair
Joy Hofmeister.....	Secretary/Treasurer
Richard Beck, Dr. ....	Member
David Boren, Dr. ....	Member
Denise Castelli.....	Member
Burns Hargis.....	Member
Elaine Hobson .....	Member
Glen D. Johnson, Dr. ....	Member
Suzanne Lair .....	Member
Larry Rice, Dr. ....	Member
James W. Utterback, Dr.....	Member

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The following table summarizes the OETA's revenues and expenditures of funds for fiscal years 2015 and 2016 (July 1, 2014 through June 30, 2016).

	2015	2016
<b>Revenues:</b>		
Appropriations	\$ 3,987,612.65	\$ 3,153,845.93
Equipment Rent, Royalties & Recording Fees	328,965.94	255,068.89
Grants	838,994.09	874,460.80
<b>Total Revenues</b>	<b><u>\$ 5,155,572.68</u></b>	<b><u>\$ 4,283,375.62</u></b>
<b>Expenditures:</b>		
Personnel Services	\$ 3,595,444.02	\$ 3,183,010.13
Professional Services	40,390.21	50,782.60
Travel	18,575.32	23,431.07
Administrative Expenses	1,111,048.46	1,116,135.12
Office Furniture & Equipment	13,279.07	504,601.00
<b>Total Expenditures</b>	<b><u>\$ 4,778,737.08</u></b>	<b><u>\$ 4,877,959.92</u></b>

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

# Oklahoma Educational Television Authority Operational Audit

## Scope and Methodology

Our audit was conducted in response to Governor Fallin’s request in accordance with 74 O.S. § 212(C) and 213.2(B).

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, 2014 through June 30, 2016.

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of OETA’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 inventory were accurately reported in the accounting records.

## Conclusion

The Agency’s internal controls provide reasonable assurance that expenditures and payroll were accurately reported in the accounting records. However, the Agency’s internal controls do not provide reasonable assurance that inventory was accurately reported in the accounting records.

Financial operations did not comply with the following statute:

- 70 O.S. § 23-106.2(5) -- Executive Director - Duties and Powers. The OETA Executive Director is required to “submit to the Authority a report on the finances and administrative activities of the Oklahoma Educational Television Network at the end of each calendar month and each fiscal year . . . .”

**FINDINGS AND RECOMMENDATIONS**

**Inadequate Segregation of Duties over Inventory**

The United States Government Accountability Office's Standards for Internal Control in the Federal Government (2104 Revision)<sup>1</sup> states that in order to safeguard assets, "Such assets should be periodically counted and compared to control records." It further states that "Management must 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."

We identified the following conditions regarding inventory controls:

- Inventory duties are not properly segregated; the Associate Finance Officer has the ability to perform all inventory database functions and she oversees all duties related to the annual inventory count (creating the inventory lists, assigning inventory counts to sections, and updating the inventory database after the counts)
- Inventory Policies and Procedures are incomplete and not disseminated
- The agency did not properly document annual inventory counts during the audit period, therefore, we were unable verify that the counts were conducted.

It appears that management was not aware of the need for proper segregation of inventory duties or detailed documentation of inventory counts. The lack of adequate internal controls provides the opportunity for inventory to be misstated or misappropriated without detection.

**Recommendation**

We recommend management:

- Update Inventory Policies and Procedures, disseminate them, and ensure compliance with such; and
- Ensure that a comprehensive annual physical inventory count is performed and documented by someone independent of purchasing assets, maintaining inventory items and inventory records, and disposing of surplus assets.

**Views of Responsible Officials**

Inventories will be conducted by more than one employee, including one employee that is independent of the department that is being inventoried, for future inventory counts on an annual basis to ensure that no one individual has physical custody of and maintains inventory records.

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<sup>1</sup> 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.

## Oklahoma Educational Television Authority Operational Audit

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### **Failure to Provide Authority (Board) with Monthly Financial Reports**

OETA will update the Inventory (Asset) Policies and Procedures for distribution to employees. OETA will perform and independently document the annual physical inventory count, maintain inventory items and records as well as disposal of surplus inventory.

As per 70 O.S. § 23-106.2(5) the Oklahoma Educational Television Authority Executive Director shall submit to the Authority (Board) a report on the finances and administrative activities of the Oklahoma Educational Television Network at the end of each calendar month and each fiscal year.

Management provides monthly financial reports to the OETA Board during regular Board meetings. However, these meetings only occur five times per fiscal year and therefore, the Board is not receiving reports on the finances and administrative at the end of each calendar month.

It appears that management was unaware of this requirement and therefore, is not in compliance with 70 O.S. § 23-106.2(5).

#### **Recommendation**

To ensure compliance with 70 O.S. § 23-106.2(5), management should provide the Board with a report of financial and administrative activities on a monthly basis.

#### **Views of Responsible Officials**

OETA will submit a report to the Authority Board on the finances and administrative activities at the end of each calendar month.





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