

**OKLAHOMA ARTS COUNCIL
INTERNAL CONTROL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2003**

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STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

May 20, 2004

**TO THE HONORABLE BRAD HENRY
GOVERNOR OF THE STATE OF OKLAHOMA**

Transmitted herewith is the Oklahoma Arts Council Internal Control Report for the fiscal year ended June 30, 2003. By its nature, this report focuses on weaknesses in controls. This focus should not be understood to mean there are not also various strengths and accomplishments.

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

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 to ensure a government which is accountable to the people of the State of Oklahoma.

Sincerely,

A handwritten signature in black ink that reads "Jeff A. McMahan".

JEFF A. McMAHAN
State Auditor and Inspector

TABLE OF CONTENTS

	PAGE
Council Members and Administrative Staff	ii
Report of the State Auditor and Inspector	1
Comments and Recommendations.....	3

COUNCIL MEMBERS

<u>Name</u>		<u>Term Expires</u>
Patricia Evans, Chairperson	Chairperson	June 30, 2003
Will K. Jones	Vice Chair	June 30, 2004
Ann S. Alspaugh	Member	June 30, 2003
Billie Barnett	Member	June 30, 2004
Dr. Clarence Hedge	Member	June 30, 2003
Leanne Helmerich	Member	June 30, 2004
Albert Johnson	Member	June 30, 2003
Susan McCalmont	Member	June 30, 2004
Sandy Meyers	Member	June 30, 2003
Harvey Pratt	Member	June 30, 2004
Megan Pratt	Member	June 30, 2003
Ira Schlezinger	Member	June 30, 2004
Milann Siegfried	Member	June 30, 2003
Gayle Semtner	Member	June 30, 2004

**ADMINISTRATIVE
STAFF**

Betty Price,
Executive Director

Suzanne Tate
Deputy Director

Joe Turner,
Finance Director



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

TO THE OKLAHOMA ARTS COUNCIL

We have applied the procedures enumerated below to certain aspects of internal control for the period July 1, 2002 through June 30, 2003.

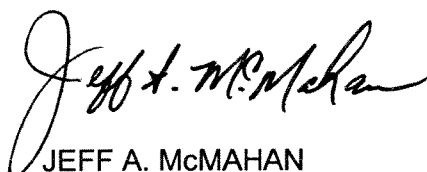
1. We reviewed management's internal controls over financial records and operations, and performed a walk-through of controls to determine whether they have been designed as represented by management. We reviewed controls in the following specific areas:
 - a. Cash receipting and depositing of funds.
 - b. Fixed Assets.
 - c. Recording of cash receipts, disbursement of funds, and reconciliation of funds.
 - d. Segregation of duties regarding authorization, recording, and custody.
2. We reviewed the Board's policies and procedures and tested compliance with such policies and procedures in the following specific areas:
 - a. Agency's compliance with policies and procedures regarding budgetary matters.
 - b. Agency's compliance with policies and procedures regarding personnel and payroll issues such as attendance record keeping, compensation increases, and annual evaluations.

The purpose of these procedures was to identify the internal controls designed or developed by the Oklahoma Arts Council, make recommendations in certain areas, and determine whether stated controls were operating as represented to us or if additional controls were necessary to reduce the risk of errors and irregularities.

Our procedures were more limited than would be necessary to express an opinion on any of the items referred to above or to express an opinion on the effectiveness of the Agency's internal control or any part thereof. Accordingly, we do not express such opinions. Alternatively, we have identified the procedures we performed and the findings resulting from those procedures. Had we performed additional procedures or made an audit of the effectiveness of the Agency's internal controls, other matters might have come to our attention that would have been reported to you.

Our findings resulting from the above procedures are included in the attached comments and recommendations section of this report.

Sincerely,

A handwritten signature in black ink, reading "Jeff A. McMAHAN". The signature is written in a cursive style with a large, looping initial "J".

JEFF A. McMAHAN
State Auditor and Inspector

April 30, 2004

COMMENTS AND RECOMMENDATIONS

Comment 2003-055-001

Criteria: A basic objective of stewardship of governmental resources is to provide proper accounting for funds.

Condition: Based on interview and observation, it appears the Council is not issuing receipts for cash or checks received.

Effect: Without receipting all money received, errors or irregularities could occur and not be detected in a timely manner.

Recommendation: We recommend the Council establish and implement policies and procedures to ensure that cash and checks received are properly receipted.

Management's Corrective Action Plan

Contact Person: Betty Price, Executive Director

Anticipated Completion Date: July 31, 2004

Corrective Action Planned: All cash or checks received by the agency will be first routed to the agency receptionist for receipt and documentation of forwarding to appropriate agency personnel for processing. Documentation will accompany all items forwarded and a permanent record of receipts will be maintained by the agency receptionist. Policies and procedures for receipt of cash and checks will be prepared and submitted to the agency Council for approval and implementation.

Comment 2003-055-002

Criteria: A basic objective of stewardship of governmental resources is to provide proper accounting for funds.

Condition: The monthly reconciliation of Cash/Revenue received is not reviewed or approved by someone other than the preparer.

Effect: Errors could occur and not be detected in a timely manner.

Recommendation: We recommend the Council establish and implement controls to provide proper review and approval of reconciliations of Cash/Revenue received.

Management's Corrective Action Plan

Contact Person: Betty Price, Executive Director

Anticipated Completion Date: July 31, 2004

Corrective Action Planned: Effective immediately, reconciliations currently prepared will be reviewed with the Deputy Director who will formally approve each report.

Implementation of the People Soft purchasing and financial modules on November 1, 2003 changed reporting and reconciliation procedures. These have not yet been formalized because of differences in the two systems. Both the previous ICS and current People Soft systems have been reconciled independently, however, there remain some unidentified differences between the two. With help from the Office of State Finance it is anticipated these differences will be cleared by the end of the FY2004 fiscal year.

New policies and procedures for cash and revenue review and reconciliation will be prepared and submitted to the agency Council for approval and implementation.

Comment 2003-055-003

Criteria: Effective internal controls include policies and procedures that establish and sustain adequate segregation of duties to reduce the opportunity for any person(s) to both perpetrate and conceal errors and irregularities in the normal course of business practices. Agency policies and procedures should be written and communicated to all current employees, as well as to any new hires.

Condition: The same person receives and endorses checks, prepares deposits and delivers deposits to the bank.

Effect: Errors could occur and not be detected in a timely manner.

Recommendation: We recommend the Council 1) provide for proper segregation of duties between job functions and duties described above and 2) document, develop and implement "Policies and Procedures" regarding deposits.

Management's Corrective Action Plan

Contact Person: Betty Price, Executive Director

Anticipated Completion Date: July 31, 2004

Corrective Action Planned: The required segregation of duties and policies and procedures will be completed in conjunction with the formalization and implementation required for receipt of cash or checks.

Comment 2003-055-004

Criteria: According to Title 74 O.S. 2001 § 110.1:

“Department of Central Services shall maintain a current inventory of all equipment owned by state departments, boards, commissions, institutions, or agencies of the state except equipment used in medical education and research costing less than Five Hundred Dollars (\$500.00).”

“The Department of Central Services inventory shall consist of machinery, implements, tools, furniture, livestock, vehicles and other apparatus that may be used repeatedly without material impairment of its physical condition and has a calculable period of service and a value of over Five Hundred Dollars (\$500.00).”

“The Department of Central Services shall cause all such articles to be properly coded, tagged, or marked in such a manner that they may be readily identified as property of the State of Oklahoma and that statistical records may be maintained thereof.”

Condition: The Council did not:

- Have detailed records for all fixed assets including description, serial number, date of purchase, quantity, cost or other value.
- Have identifier or tag stating assets were property of the State of Oklahoma.
- Assign custodial accountability for assets.
- Perform a physical inventory count.
- Investigate differences in the physical inventory count and fixed assets list for the fiscal year.

Effect: Inaccurate records and a possible loss of fixed assets could result from not having a complete master inventory list.

Recommendation: We recommend the Council maintain complete and accurate data/statistical records regarding fixed assets. The Inventory list should distinguish between state owned property and property not owned by the agency.

Management’s Corrective Action Plan

Contact Person: Betty Price, Executive Director

Anticipated Completion Date: February 2005. Various phases of completion at earlier dates.

Corrective Action Planned: Three separate records of assets of the Oklahoma Arts Council exist:

Listing dated March 24, 1998 including asset description, employee assigned, inventory tag number, serial number, purchase price and comments. The majorities of these assets are no longer in service and are in storage at the agency’s leased warehouse space. These items are in the process of being transferred to State Surplus. Prior to transfer each item will be identified on perpetual property records and deleted from current inventory. This project will be completed by September 30, 2004.

**OKLAHOMA ARTS COUNCIL
INTERNAL CONTROL REPORT
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Listing dated July 1, 2003 including item description, employee assigned, and location. These are assets currently in service. Using claims records; the listing will be updated to include date of acquisition, serial number and cost. The listing will be complete by June 30, 2004. A physical inventory will be conducted in August 2004 at which time property not owned by the agency will be identified. Other than small personal items belonging to staff, it is not believed such property is in custody of the agency. Differences in the physical and perpetual inventory records will be reconciled at the time of the physical count and property tags will be affixed.

Listing of Legislative Art pieces including print number, title, and location. These pieces are framed prints and posters on display at various state offices. Schedules of this property were developed by the agency Visual Arts Director. Beginning November 1, 2004, a physical count will be conducted, property tags will be affixed, and differences between physical and perpetual records will be reconciled. This project will be completed prior to start of the legislative session during February 2005.

Auditor Response: Based on management response during our walk through, we determined the fixed assets list was not complete at the time of our procedures, therefore we were unable to determine if all assets had custodial accountability, description and location.

Comment 2003-055-005

Criteria: Effective internal controls include procedures for adequate segregation of duties thereby reducing the opportunity for any person to both perpetrate and conceal errors and irregularities in the normal course of their duties.

Condition: The person that prepares and submits payroll also receives and distributes payroll warrants.

Effect: The concentration of accounting functions in a single position increases the risk that errors and irregularities may occur and not be detected in a timely manner.

Recommendation: We recommend the Board establish and implement Procedures to provide for proper segregation of duties to reduce the risk of errors and irregularities.

Management's Corrective Action Plan

Contact Person: Betty Price, Executive Director

Anticipated Completion Date: October 30, 2004

Corrective Action Planned: Effective May 1, 2004 receipt and distribution of payroll warrants will be segregated from preparation and submission of payroll.

The new People Soft personnel and payroll module is scheduled for implementation in FY 2005. Because this implementation is expected to create changes in current procedures, formal documentation will be delayed until that time. Revised procedures for recording employee time, preparing and maintaining personnel and payroll records and receiving and distributing payroll warrants will be prepared and submitted for approval to the agency Council.