

OKLAHOMA HISTORICAL SOCIETY

JANUARY 1, 2006 THROUGH
DECEMBER 31, 2007

OPERATIONAL AUDIT



Oklahoma State Auditor
& Inspector

**Audit Report of the
Oklahoma Historical Society**

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



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Steve Burrage, CPA
State Auditor and Inspector

August 21, 2008

TO THE OKLAHOMA HISTORICAL SOCIETY BOARD OF DIRECTORS

Pursuant to 74 O.S. § 212, transmitted herewith is the audit report for the Oklahoma Historical Society 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,

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

Mission Statement

To preserve and perpetuate the history of Oklahoma and its people by collecting, interpreting and disseminating knowledge of Oklahoma and the southwest.

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STATE OF OKLAHOMA
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Steve Burrage, CPA
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TO THE OKLAHOMA HISTORICAL SOCIETY BOARD OF DIRECTORS

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

- The Society's internal controls provide reasonable assurance that revenues, expenditures, and inventory were accurately reported in the accounting records, and financial operations complied with applicable finance-related laws and regulations;
- The Society complied with certain laws and regulations;
- The Society's corrective actions for reportable conditions noted in prior year's report were implemented.

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

July 1, 2008

Background

The Oklahoma Historical Society was founded in 1893 by members of the Oklahoma Territory Press Association. In 1918, the Agency was relocated to the State Capitol, and in 1930 moved to the Wiley Post building. Over the years, the Society has developed numerous collections and programs, and now has 35 museums and historic sites statewide. In 2005 came the opening of the Oklahoma History Center, with world-class museum exhibits and a state of the art Research Center.

The Society's operations are governed by 53 O.S. § 1.1 through 5.1

Oversight is provided by a twenty-five member Board of Directors. Thirteen members of the Board are elected by the Oklahoma Historical Society members and twelve are appointed by the Governor of Oklahoma. The Agency pays for its operations primarily through state appropriations.

Table 1 summarizes the Society's sources and uses of funds for fiscal years 2006 and 2007.

Table 1-Sources and Uses of Funds for FY 2006 and FY 2007

Sources:	2006	2007
State Appropriations	\$13,097,123	\$14,474,305
Payroll Deductions In/Out	172	10
Income From Money and Property	143,719	208,741
Grants, Refunds & Reimbursements	1,335,232	3,289,722
Federal Grants	2,215,966	750,311
Sales and Services	672,766	1,396,593
Non-Revenue Receipts	150,796	0
Other	<u>2,328</u>	<u>1,946</u>
Total Sources	<u>\$17,618,102</u>	<u>\$20,121,628</u>
Uses:		
Personnel Services	\$8,542,120	\$8,697,251
Travel	129,196	131,778
Administrative	2,922,378	3,358,809
Property, Furniture and Equipment	6,866,443	4,178,587
General Assistance, Awards, etc.	784,306	912,870
Other	<u>1,216,670</u>	<u>753,327</u>
Total Uses	<u>\$20,461,113</u>	<u>\$18,032,622</u>

Source: Oklahoma CORE Accounting System.

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

Conclusion

The Society's internal controls generally provide reasonable assurance that revenues, expenditures and inventory were accurately reported in the accounting records, and financial operations complied with applicable finance-related laws and regulations. However, several areas, as noted below, need to be strengthened.

Methodology

To accomplish our objective, we performed the following:

- Reviewed 62 O.S. § 7.1 - Depositing requirements for agency clearing accounts and agency special accounts;
- Documented internal controls related to the revenue and expenditure processes;
- Tested controls which included:
 - Determining if receipts were stored in a secure location prior to deposit;
 - Determining if the person who prepared the deposit was independent of the receipting process;
 - Reviewing 25 deposits from the period to ensure the monies were deposited at the bank within one day of the deposit slip date;
 - Reviewing 25 deposits from the period to ensure the deposit was correctly posted into CORE within one day of being deposited at the bank;
 - Reviewing 25 deposits to ensure they were reviewed by a person independent of the preparer;
 - Determining the Society's banking statements were reconciled on a monthly basis;
 - Reviewing 3 OST banking statements to ensure the reconciliation was reviewed by someone other than the preparer, the reconciliations were mathematically accurate, traced and agreed to supporting documentation, and reconciling items appeared reasonable;
 - Determining the Society's clearing account was reconciled on a monthly basis;
 - Reviewing 3 OSF-Form 11 reconciliations to ensure the reconciliation was reviewed by someone other than the preparer, the reconciliations were mathematically accurate, traced and agreed to supporting documentation, and reconciling items appeared reasonable;
 - Reviewing 3 OSF-Form 11 reconciliations and the monthly transfers from the clearing account to ensure funds were transferred from the Society's clearing account to the Society's revolving fund(s) at least once per month;
 - Reviewing 40 expenditure claims to ensure they were properly authorized. This included ensuring the invoice supported the payment, the invoice was mathematically accurate, the correct account code was used, and the expenditure was reasonable for the agency's mission;
 - Reviewing 40 expenditure claims to ensure the packing slip or other receiving documentation was signed and dated to indicate the condition and quantity of the item(s) was verified.
- See Objective 3 for the procedures performed for Inventory.

Observations

The Society Should Develop Written Deposit/Receipt Policy and Procedures

An effective internal control system provides written policies and procedures for employees to follow for the deposit/receipting process.

The Society does not have written policies and procedures in place for the deposit/receipting process. Without written policies and procedures in place for the deposit/receipting process, errors and improprieties could occur and not be detected in a timely manner.

Recommendation: We recommend written policy and procedures be developed and implemented which, at a minimum, include:

- All monies collected shall be deposited in the agency clearing account or agency special account.

- Receipts of One Hundred Dollars or more shall be deposited on the same banking day as received.
- Receipts of less than One Hundred Dollars may be held until accumulated receipts equal One Hundred Dollars or for five business days, whichever occurs first, and shall then be deposited no later than the next business day.
- Receipts of less than One Hundred Dollars shall be adequately safeguarded.
- No disbursements shall be made from such receipts prior to this deposit.
- All checks received must be restrictively endorsed immediately upon receipt.
- At least once each month the Society shall transfer monies deposited in agency clearing accounts to the various funds or accounts, subdivisions of the state, or functions as may be provided by statute and no money shall ever be disbursed from the agency clearing account for any other purpose, except in refund of erroneous or excessive collections and credits.

Views of Responsible Officials: The OHS agrees and will establish policies and procedures regarding the receipt, deposit and safeguarding of all monies collected by the agency.

Daily Deposits are not Occurring Consistently

62 O.S. § 7.1 C states, “All such monies collected pursuant to this section shall be deposited as follows in the agency clearing account or agency special account established therefore: 1. Receipts of One Hundred Dollars (\$100.00) or more shall be deposited on the same banking day as received...”

On four of 25 deposits reviewed, the Office of State Treasury (OST) deposit date was more than one banking day from the deposit slip date. Deposits may not be in compliance with 62 O.S. § 7.1 C.

Recommendation: We recommend the outlying facilities fax or email deposit receipts to the central office on the same day the deposit is made. In addition, we recommend the central office deposit receipts of \$100 or more on the same banking day as received to ensure compliance with 62 O.S. § 7.1 C.

Views of Responsible Officials: The OHS will ensure that outlying facilities email deposit receipts to the central office on the same day the deposit is made. Also every effort will be made to ensure monies received at the central office are deposited on the same banking day as received.

Deposits Not Posted to CORE in a Timely Manner

An effective internal control system provides for prompt recording of accounting transactions.

Three of 25 deposits were not posted into CORE within one working day of the deposit slip date. In the CORE system, the cash is not available until the journal entry is made and added to the agency’s cash balance. Therefore, the available cash balance on the CORE reports could be misstated.

Recommendation: We recommend management ensure the deposit entries are posted to CORE within one day of deposit slip date.

Views of Responsible Officials: Deposits entered into the CORE system after 10:00am are not posted until the following day. This process is beyond agency control. However, the OHS will ensure that deposits are entered before 10:00am whenever it is possible to do so.

Deposits Lack Support Documentation

An effective internal control system provides for the adequate maintenance 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...”

Three of 25 deposits did not include the deposit slip in the support documentation.

Without evidence to support the deposit was made, errors and improprieties could occur and not be detected in a timely manner.

Recommendation: We recommend management ensure all deposit support documentation include the deposit slip.

Views of Responsible Officials: The three deposits mentioned lacking support documentation are remote bank transfers and will not have an accompanying receipt since the monies are never received at the central office. The statement from the State Treasurer’s Office provides proof of deposit.

Auditor Response: The deposit “Source” is DEP, which indicates an actual deposit was made at the bank, not a transfer. Therefore, the central office should have required the outlying facility to furnish a copy of the deposit slip to ensure adequate maintenance of supporting documentation.

Timely Transfers to the Revolving Funds Appear Inadequate

62 O.S. § 7.1 E. states in part, “At least once each month each state agency shall transfer monies deposited in agency clearing accounts to the various funds or accounts...”

Based on our review of the Oklahoma Historical Society’s monthly transfers from the clearing account and the Office of State Finance (OSF) Agency Clearing Account Reports, it appears the Society did not transfer funds from the clearing account to the revolving fund for eleven of the twenty-four months tested.

Without regular monthly transfers from the clearing account to the revolving fund, the Agency’s available cash balance may be misstated.

Recommendation: We recommend the Agency transfer funds from the clearing account to the revolving fund on a regular monthly basis.

Views of Responsible Officials: The OHS agrees that regular transfers should occur. The agency was behind on reconciling the agency clearing account and made the transfers after each month had been fully reconciled with the State Treasurer’s Office. This has already been corrected.

Objective 2 – Determine if the Society complied with certain laws and regulations.

Conclusion

The Society is not in compliance with 74 O.S. §85.39 A.1 and 74 O.S. §85.39 A.3 of the Central Purchasing Act, which requires each state agency to develop internal purchasing procedures and obtain approval of those procedures from the Director of the Department of Central Services. In addition, the Society is not in compliance with the Department of Central Service’s Purchase Card Procedures.

Methodology

To accomplish our objective, we performed the following:

- Reviewed 74 O.S. §85.39 A.1 and 74 O.S. §85.39 A.3;
- Interviewed management and reviewed the Agency's internal purchasing procedures;
- Reviewed the Department of Central Service's Purchase Card Procedures;
- Reviewed 10 purchase card transactions and tested compliance by determining:
 - A credit limit (dollar amount per cycle) had been established;
 - The dollar amount of the transaction did not exceed the single purchase limit of \$2,500;
 - The transaction was not a split purchase;
 - The transaction was not a prohibited purchase;
 - The transaction appeared to be supported by receipts and/or other supporting documentation and reconciled to the supporting monthly memos;
 - The transaction was limited to purchases made by only the employee whose name is embossed on the card;
 - The memo statements were approved (signed and dated) by the cardholder and by the Approving Official;
 - The receipts and /or other supporting documentation were signed and dated by the receiving employee (and annotated "Received" only if goods or services were received subsequent to the time of purchase);
 - The transaction did not include state sales tax;
 - The Society used merchant preference (Statewide contracts) before making a transaction;
 - Documents were retained in accordance with the Society's procedures;
 - The transaction was consistent with the nature of the Society's mission.

Observations

The Agency Lacks Approval of Internal Purchasing Procedures

74 O.S. §85.39 A.1. of the Central Purchasing Act states in part, "Each state agency shall develop internal purchasing procedures for acquisitions by the state agency. Following development, the state agency shall submit the procedures to the State Purchasing Director."

74 O.S. §85.39 A.3. of the Central Purchasing Act states in part, "The Director of the Department of Central Services shall...notify the state agency that the procedures are in compliance or indicate revisions necessary to bring the procedures into compliance."

The Agency does not have Department of Central Services approved internal purchasing procedures. According to management, they are working on incorporating the Department of Central Services recommendations into their new procedures and will submit them as soon as possible.

The Agency is not in compliance with 74 O.S. §85.39.

Recommendation: We recommend management review the current internal procedures, revise and submit to the Department of Central Services for approval as soon as possible.

Views of Responsible Officials: The OHS has submitted revised purchasing policies and procedures with all modifications suggested by DCS to senior approving officials at DCS for approval. The OHS has gone through this process twice and last sent revisions on May 2, 2008. On August 5, 2008 the OHS received final approval.

Compliance Issues with Department of Central Services (DCS) Purchase Card Procedures

Section 6.2.3 of DCS's Purchase Card Procedures states in part, "The P/Card...shall NOT be used for the following types of purchases...Automotive general maintenance, ancillary items, and emergency repairs pursuant to Statewide Contract (SW101) for Automated Fleet Fuel Management System..."

Section 6.4 of DCS's Purchase Card Procedures states in part, "...The receipt shall give an itemized and detailed description of the purchase and must include at a minimum: (1) vendor; (2) date of purchase; (3) description; (4) unit price and quantity; and (5) transaction total."

Section 6.4.3 of DCS's Purchase Card Procedures states in part, "If the merchant provides two receipts – one with the total amount and one itemized – the cardholder shall attach the itemized receipt to the total amount receipt."

Section 6.6.1 of DCS's Purchase Card Procedures states in part, "The receipt for purchase shall serve as the receiving document. The receipt must contain the cardholder's signature and date."

Section 6.6.2 of DCS's Purchase Card Procedures states in part, "...The receiving document shall be annotated "Received" and shall be signed and dated by the receiving employee..."

Based on procedures performed on 10 transactions, the following was noted:

- One transaction was for vehicle maintenance. In addition, the service order (receiving document) was not annotated "Received", nor signed and dated by the receiving employee;
- One transaction did not include the itemized receipt (only the "total amount" receipt was included for the purchase of shop supplies);
- Two transactions' receipts were not signed and dated by the cardholder;
- Three transactions' receiving documents were not annotated "Received", nor signed and dated by the receiving employee.

Recommendation: We recommend the Purchase Card holder and approving official attend Purchase Card training provided by the Department of Central Services to ensure they understand how to comply with these requirements.

Views of Responsible Officials: All OHS employees that have not attended p-card training in the last five years are being signed up for classes. Also, reminders have been sent out to all OHS employees with regard to proper receipt documentation. The p-card transaction for vehicle maintenance was an emergency situation whereby no Fuelman facility was in close proximity. In the future this will be documented more completely.

Auditor Response: Regarding the Purchase Card transaction for vehicle maintenance, the invoice was written on 07/18/2005 and the transaction/post date on the Cardholder Statement is 12/05/2005. It appears the invoice was not paid for nearly five months; therefore, the Agency had ample time to pay the invoice through the normal claims process instead of using the Purchase Card, which is prohibited for automotive general maintenance or emergency repairs.

Objective 3 – Determine if the Society's corrective actions for reportable conditions noted in prior year's report were implemented.

Conclusion

The prior engagement report issued by the State Auditor's Office on December 13, 2006 contained six findings. Corrective action on four of the six findings pertaining to deposits, disbursement and inventory has not been implemented.

Methodology

To accomplish our objective, we performed the following:

- See methodology for Objective 1;
- Interviewed management to determine if a physical inventory has been performed at least one time each calendar year since our last audit;
- Interviewed management to ensure assets are properly coded, tagged, or marked in such a manner that they may be readily identified as property of the State of Oklahoma;
- Interviewed management to ensure the asset listing is immediately updated when changes occur;
- Interviewed management to ensure accurate asset records are maintained.

Observations

NOTE: The Office of the State Auditor's report issued on December 13, 2006 should be read in conjunction with the observations noted below. The report may be accessed at www.sai.state.ok.us.

The Inventory List was Not Properly Maintained

OAC 580:70-1-4 (b) states, "To ensure accuracy of state inventory records, an agency shall develop internal procedures for reporting and maintaining information related to the acquisition, reallocation, relocation and disposition of tangible assets to an agency inventory control officer."

Oklahoma Historical Society's Procedure For Fixed Assets Inventory, Appendix XXV, (4) states, "The record of fixed assets will be retained by designated personnel in the Finance Division. Property Resources will route required information to Finance to keep the record up to date."

Based on information obtained from management, it appears the inventory list was not properly maintained during the time period of our audit. OHS has hired an outside company (Asset Verification Inc.) to conduct a complete, comprehensive and independent asset inventory for the History Center and all outlying field locations. However, the Agency is still waiting on the final product from the company.

Without the proper maintenance of physical inventory records, errors and improprieties could occur and not be detected in a timely manner.

Recommendation: Agency management should follow procedures to ensure physical inventory records are updated as soon as changes occur.

Views of Responsible Officials: The OHS hired an independent inventory management company in February 2008 to perform a complete and comprehensive inventory of all OHS owned facilities. All items with a value exceeding \$500 were bar-coded and pictures were taken of each asset. This inventory was completed in April 2008. A new inventory control officer was designated after the two previous employees in the Property Resources retired. Fixed asset forms are being used to account for all new acquisitions and vouchers and p-card statements are reviewed for items that need to be tracked.

Items Under \$500 that are Highly Susceptible to Theft or Loss are Not Included on the Inventory Listing

An effective internal control system includes the safeguarding of assets susceptible to theft or loss.

Based on information obtained from management, it appears inventory items under \$500 that are highly susceptible to theft or loss (laptops, digital cameras, DVD's or other similar items) have not been included on the inventory listing.

The Society does not have an effective internal control system in place which includes the safeguarding of assets susceptible to theft or loss.

Recommendation: We recommend inventory items under \$500 (laptops, digital cameras, DVD's or other similar items) that are highly susceptible to theft or loss be included on the inventory listing.

Views of Responsible Officials: The OHS agrees that items under \$500 that are highly susceptible to theft or loss should be inventoried and will establish guidelines and procedures to account for these items.

Other Items Noted

Personal Use of Agency Cell Phones is Being Permitted

Internal Revenue Service (IRS) Substantiation Requirements for Employee Cell Phones states, "To be able to exclude the use by an employee from taxable income from an employer-owned cell phone, the employer must have some method to require the employee to keep records that distinguish business from personal phone charges....The amount that represents personal use is included in the wages of the employee. This includes individual personal calls, as well as a pro rata share of monthly service charges...."

Oklahoma Historical Society's Policy on Use of Electronic Communications Systems, Appendix VI, (2) states, "The Agency recognizes that incidental and occasional personal use of its equipment (**with the exception of Agency cellular telephones**) and systems, including Internet access, is permitted; however, personal use is prohibited if it:..."

Based on information obtained from management, it appears cell phone bills are itemized by call placed or received and are reviewed for personal usage by the Agency. However, personal usage is allowed as long as the limit of monthly minutes is not exceeded. If the monthly minutes were to exceed the limit, the employee would be required to reimburse the Society for any personal calls that caused the overage.

The Society is not in compliance with the Internal Revenue Service (IRS) Substantiation Requirements for Employee Cell Phones or OHS Policy on Use of Electronic Communication Systems, Appendix VI, (2).

Recommendation: Society management should follow policy to ensure personal use of Society cell phones is not being permitted or the following procedures should be implemented: Itemized calls on the monthly statement should be highlighted by the employee as personal or business. The employee should timely reimburse the Society for the cost of any personal calls, and the employee should be charged a pro rata share of the monthly charge. The value of the business use portion of the phone is not taxable to the employee and the employee should retain any supporting evidence of the business calls. This information should be submitted to the Society, who must maintain these records to support the exclusion of the phone use from the employee's wages.

Views of Responsible Officials: The OHS will continue to itemize calls made on OHS owned cell phones. Any personal calls made while the employee is in their primary work location will be paid by the employee on a pro-rata basis. While on travel status, employees may use OHS owned cell phones for personal calls only when it is an emergency or involves a change in schedule. All other personal calls will be reimbursed on a pro-rata basis.



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