



OKLAHOMA ARTS COUNCIL

Operational Audit

For the period July 1, 2015 through June 30, 2021

Cindy Byrd, CPA
State Auditor & Inspector

**Audit Report of the
Oklahoma Arts Council**

**For the Period
July 1, 2015 through June 30, 2021**



Cindy Byrd, CPA | State Auditor & Inspector

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March 7, 2022

TO THE OKLAHOMA ARTS COUNCIL

We present the audit report of the Oklahoma Arts Council for the period July 1, 2015 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 Oklahoma Arts Council is the official state agency for the support and development of the arts. In 1965, Governor Henry Bellmon created the Oklahoma Arts Council in response to a national movement to make the benefits of the arts available in communities across America. The creation of the Oklahoma Arts Council allowed the state to receive matching grants from the newly formed National Endowment for the Arts. Prior to 1965, Oklahomans who wanted to experience the arts were often forced to travel to large metropolitan centers or coastal regions. More than fifty years later, the system of public and private funding for the arts established through the National Endowment for the Arts and its state arts agency partners has made the benefits of the arts and arts education programming available in communities statewide. The Oklahoma Arts Council provides approximately 350 grants to nearly 200 organizations in communities statewide each year, organizes professional development opportunities for the state's arts and cultural industry, and manages the art collections at the Oklahoma State Capitol.

Appointed by the Governor and confirmed by the state Senate, the 15 members of the Oklahoma Arts Council are responsible for oversight of agency activities.

Board members as of January 2022 are:

| | |
|---------------------------|------------|
| Charles N. Moore Sr. | Chair |
| Tracie Chapman..... | Vice-Chair |
| Kristie Buergler | Secretary |
| Melinda Adwon | Member |
| Barbara Braught | Member |
| Deanna Cardenas..... | Member |
| Sangita Chatterjee | Member |
| Becky J. Frank | Member |
| Stephania Grober | Member |
| Fred Hall..... | Member |
| Ann Neal | Member |
| Darlene Parman..... | Member |
| Shelley Phillips..... | Member |
| Kim Rainbolt..... | Member |
| Jake Yunker..... | Member |

**Oklahoma Arts Council
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: | | |
| Appropriations | \$ 2,912,554 | \$ 5,893,027 |
| Projects, Grants and Donations | 1,267,248 | 3,450,310 |
| Reimbursements for Expenses | 552,508 | 425,500 |
| Other Revenues | 17,095 | - |
| Total Sources | \$ 4,749,405 | \$ 9,768,837 |
| Uses: | | |
| Assistance, Payments to Local Govn'ts | \$ 2,832,222 | \$ 5,085,941 |
| Personnel Services | 1,064,339 | 1,213,909 |
| Professional Services | 232,971 | 487,851 |
| Administrative Expenses | 66,772 | 54,262 |
| Property, Furniture, Equipment | 33,346 | 12,548 |
| Travel and Other Disbursements | 25,122 | 655 |
| Total Uses | \$ 4,254,772 | \$ 6,855,166 |

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 July 1, 2015 through June 30, 2021. To assess risk and develop our audit objectives, 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.
- Reviewing the Agency’s HR All Actions Report from the Statewide Accounting System to assess personnel changes that had a financial impact during the audit period.
- Gathering information relating to the Agency’s expenditure and inventory processes including Art inventory.

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

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>.

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.

OBJECTIVE I Determine whether the Agency’s non-payroll expenditures were independently reviewed and approved in line with Government Accountability Office (GAO) *Standards for Internal Control*.

Conclusion We determined the Agency’s non-payroll expenditures are 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.

FINDING AND RECOMMENDATION

Independent, Documented Review of Non-Payroll Expenditures Needed

The Deputy Director approves the Agency’s invoices and sends the invoices to the Office of Management and Enterprise Services, Agency Business Services (ABS) for payment.

According to management, the previous Finance Director conducted formal meetings where the Executive Director reviewed and formally approved line-item detailed expenditure reports. However, Agency management was unable to locate the reports as evidence. After the Finance Director’s departure in August 2018 and due in part to the recent decrease in in-person meetings, formal expenditure reviews and approvals did not continue.

The current Finance Director as well as the Executive Director reportedly review line-item detailed expenditure reports, but this review is not documented. Without a formal detailed review of expenditures, the 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 remediate identified internal control deficiencies on a timely basis.

Recommendation

The Finance Director or Executive Director should perform an independent, 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. When in-person meetings are not possible, reviews can be conducted and documented electronically, for example using e-mail and digital signatures.

Views of Responsible Officials

The Executive Director and the Finance Director have implemented a sign off on our review of monthly expense reports from OMES to have a written record. This process ensures that all expenses are authorized and aligned with the budget. We will continue this practice to align with GAO *Standards for Internal Control*.

Additional information provided by the agency in response to this recommendation is available in Appendix A.

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

Conclusion We determined that inventory counts are 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.

FINDING AND RECOMMENDATION

Formal and Independent Inventory Counts Needed to Ensure Records Are Reliable

IT and Non-IT Inventory

The Web Publications Director is responsible for maintaining inventory records and for performing inventory counts. However, the inventory counts are not reviewed or approved by management. There is no oversight by management to ensure that inventory records are complete or reliable. Without an independent review of inventory count results, the Web Publications Director could misstate inventory records without detection.

Art Inventory

The Agency is responsible for maintaining inventory of Capitol art, state art collections, and public art throughout the state of Oklahoma. The Director of Visual Arts and Capitol Collections and the Director of Art in Public Places are responsible for maintaining inventory records for this art. The Agency has not conducted an art inventory count since 2016. Without a reliable inventory count, records may not be accurate and art inventory could be lost or stolen without detection by management.

According to management, there are various factors that impacted their ability to perform an art inventory count, including the pandemic, low staffing, and Capitol renovations. The Agency plans to conduct an inventory count now that staffing levels have improved.

The GAO *Standards for Internal Control* state that “Management should design control activities to achieve objectives and respond to risks, and Management should remediate identified internal control deficiencies on a timely basis.” 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 for IT, Non-IT, and Art inventory, 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.

Views of Responsible Officials

The agency utilizes OMES Asset management for IT and Non-IT inventory. The Web/Publications Director currently takes the annual inventory of our IT items, but the agency will begin having two staff members participate in physically administering the annual inventory process. The inventory list currently on file is reviewed by agency management and then reviewed by OMES Asset management to surplus the items that are no longer in use, obsolete or broken to make the current list reflect the assets being used by staff. We will implement a digital record of the internal review by agency staff moving forward along with management sign off and approval.

We conducted a full inventory of the public art collection in 2016 following the program’s transfer to our agency from the Oklahoma Historical Society in 2015. We were scheduled to conduct a full inventory check in 2020 and then COVID impacted agency operations. It is on our priority list to conduct a complete inventory of the public art collection throughout calendar years 2022 and into 2023 if needed.

Additional information provided by the agency in response to this recommendation is available in Appendix A.

APPENDIX A: Additional Management Response Language

While the responses presented in the body of the report have been edited for relevance in line with auditing standards, additional information provided by management is presented below.

Regarding Expenditures (Objective I)

Once expenditures are reviewed, they are imported into our agency's internal budgeting database, FileMaker Pro. The agency's Executive Director, Deputy Director, Finance Director, Grants Director, and Web/Publications Director can see all agency expenditures. Agency program directors can see all grants and program expenditures under their respective department budget(s) in the database. An import of the 6-digit expenditures into the FileMaker database is conducted monthly. The FileMaker database is utilized by staff during regular meetings with their supervisors to discuss proposed expenditures.

The agency utilizes multiple steps for purchasing. A purchase request is submitted to the Finance Director and is forwarded to the Executive Director, Deputy Director or Assistant Director for purchase approval(s). If the request comes from one of those positions, then the requestor is removed from signing the approval and the approval is submitted to two directors not making the request. Once a purchase request is approved, it is forward by the finance office (Finance Director) to OMES ABS as they provide purchasing and payment(s) processing for the agency. Once the purchase order is created, the requestor is notified, and the product or service is ordered from the vendor. Upon receipt of the items ordered or performance of the service, the invoice is submitted to the finance office and sent to the Deputy Director for signature, then the invoice is submitted to OMES ABS for payment. Most payments are made to the vendor through the EFT payment process. Checks that are cut for payment are received at the Oklahoma Arts Council office and submitted to the Director of Finance to mail out. These steps allow for separation of duties and controls so that no individual is submitting a purchase request for items and making their own approvals. The checks and balances for signature approvals have two directors (non-requester) approving the purchase as well as the Finance Director looking at and forwarding the request to OMES ABS for the purchase order creation. Again, if the requestor is in administration, they do not sign the document for approvals, the other two Agency Directors would have to sign off the approval for the purchase request.

Check warrant registers are printed and reviewed by the Finance Director and checked against for the physical checks to be mailed and reviewed each day a warrant register is available. The register is signed as of the

day the checks arrive in the office and put in outgoing mail for OMES Central Services to postmark and mail typically the next business day.

Regarding Inventory (Objective II)

Since [the full inventory of the public art collection in 2016], we have conducted condition reporting on collection artwork on an as-needed basis, starting with the artworks embedded on exterior grounds or buildings, and moving towards conducting condition reporting and spot inventory checks for interior works which are more protected from weather and the elements. Maintenance has been conducted on the works of art that have had the highest need. Many works in the collection are very large scale and at lower risk of loss.

The Capitol Art Collection and State Art Collection were last inventoried in 2016 when collections were moved into a climate controlled and highly secured storage facility with extremely strict access controls. This collections storage and relocation happened in conjunction with the commencement of the Capitol renovation project. No artworks have been removed from the space since their placement in the secured facility. All artworks will be returned to the Capitol in 2022 as part of an eight phased project taking more than nine months as the restoration completes and all artwork is reinstalled. Another complete inventory of the Capitol Art Collection and State Art Collection will be taken prior to the removal of any artwork from the storage facility and as part of the multiple phase project as works are reinstalled in the Capitol. The inventory and installation project will be conducted by at least two staff members for the inventory to align with best practices. Inventory will be reinstalled by the agency's multiple visual and public art staff into the state Capitol building.

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