

**ADMINISTRATIVE OFFICE OF THE
REGIONAL UNIVERSITY SYSTEM
OF OKLAHOMA**

A DEPARTMENT OF THE
REGIONAL UNIVERSITY SYSTEM
OF OKLAHOMA

ANNUAL FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
AS OF AND FOR THE YEAR ENDED
JUNE 30, 2018

ADMINISTRATIVE OFFICE OF
THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
A Department of the Regional University System of Oklahoma

June 30, 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Regents
Regional University System of Oklahoma
Administrative Office
Oklahoma City, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the Administrative Office (the "Office"), a department of the Regional University System of Oklahoma ("RUSO"), which is a component unit of the State of Oklahoma, as of and for the year ended June 30, 2018, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Office as of June 30, 2018, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the nited States of America.

Emphasis of Matter

As discussed in Note A, the financial statements of the Office are intended to present the financial position, the changes in financial position and cash flows of only that portion of RUSO that is attributable to the transactions of the Office. They do not purport to, and do not present fairly the financial position of RUSO as of June 30, 2018, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2018 on our consideration of the Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Office's internal control over financial reporting and compliance.

Arlidge & Associates, P.C.

November 28, 2018

STATEMENT OF NET POSITION

ADMINISTRATIVE OFFICE OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA A Department of the Regional University System of Oklahoma

June 30, 2018

ASSETS

CURRENT ASSETS

Cash	\$	332,495
Accounts receivable		<u>56,617</u>
TOTAL CURRENT ASSETS		389,112

NONCURRENT ASSETS

Capital assets, net of accumulated depreciation of \$94,716		<u>4,812</u>
TOTAL NONCURRENT ASSETS		<u>4,812</u>

TOTAL ASSETS \$ 393,924

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$	14,942
Accrued salaries		27,509
Accrued compensated absences		<u>21,631</u>
TOTAL CURRENT LIABILITIES		64,082

NONCURRENT LIABILITIES

Accrued compensated absences, net of current portion		<u>21,630</u>
TOTAL NONCURRENT LIABILITIES		<u>21,630</u>
TOTAL LIABILITIES	\$	<u>85,712</u>

NET POSITION

Net investment in capital assets		4,812
Unrestricted		<u>303,400</u>
TOTAL NET POSITION	\$	<u>308,212</u>

See notes to financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

ADMINISTRATIVE OFFICE OF THE
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
A Department of the Regional University System of Oklahoma

Year Ended June 30, 2018

OPERATING REVENUES

University assessments	\$ 787,435
OKHEEI Group Member assessments	75,672
Other	<u>4,847</u>
	867,954

OPERATING EXPENSES

Salaries and wages	435,531
Employee benefits	59,972
Payroll taxes	31,312
Retirement and other postemployment benefits	105,148
Travel	42,879
Office and equipment rent	44,375
Office supplies	7,082
Professional services	62,958
Depreciation	5,704
Other	<u>33,608</u>
	828,569

OPERATING INCOME - CHANGE IN NET POSITION 39,385

NET POSITION, BEGINNING OF YEAR 268,827

NET POSITION, END OF YEAR \$ 308,212

See notes to financial statements.

STATEMENT OF CASH FLOWS

ADMINISTRATIVE OFFICE OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA A Department of the Regional University System of Oklahoma

Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

University assessments and other	\$ 835,130
Compensation and employee benefits	(622,162)
Payments to vendors	<u>(197,129)</u>
Net increase from operating activities	15,839

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchases of capital assets	<u>(4,903)</u>
Net decrease from capital and related finance activities	(4,903)

NET INCREASE IN CASH FROM ACTIVITIES 10,936

CASH, BEGINNING OF YEAR 321,559

CASH, AT END OF YEAR \$ 332,495

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income	\$ 39,385
Depreciation expense	5,704
Change in assets and liabilities:	
Accounts receivable	(32,824)
Accounts payable	(6,778)
Accrued salaries	4,247
Compensated absences	<u>6,105</u>

NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES \$ 15,839

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

ADMINISTRATIVE OFFICE OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA A Department of the Regional University System of Oklahoma

June 30, 2018

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization: The Regional University System of Oklahoma ("RUSO" or the "System") is an agency of the State of Oklahoma created by the Oklahoma State Constitution. The Board of Regents (the "Board") has legislative powers and duties granted by Oklahoma Statutes to manage, supervise, and control operations of six regional state universities (the "Universities"), which are the University of Central Oklahoma, East Central University, Northwestern Oklahoma State University, Southwestern Oklahoma State University, Northeastern State University, Southeastern Oklahoma State University, and the Board's Administrative Office (the "Office"). The Board, through its Office, is a self-sustaining agency and operates on revenues from assessments to the six regional universities.

Reporting Entity: The Office is considered an organizational unit of RUSO for financial reporting purposes due to the significance of its legal, operational, and financial relationships with the Board of Regents as defined in Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards.

Financial Statement Presentation: The Office's financial statements are presented in accordance with the requirements of GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis--for State and Local Governments, and GASB Statement No. 35, Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities. Under GASB Statements No. 34 and 35, the Office is required to present a statement of net position classified between current and noncurrent assets and liabilities and deferred outflows and inflows of resources, a statement of revenues, expenses and changes in net position, with separate presentation for operating and nonoperating revenues and expenses, and a statement of cash flows using the direct method.

Basis of Accounting: For financial reporting purposes, the Office is considered a special-purpose government engaged only in business-type activities. Accordingly, the Office's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

Cash Equivalents: For purposes of the statement of cash flows, the Office considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At June 30, 2018, the Office had no investments that were considered cash equivalents.

NOTES TO FINANCIAL STATEMENTS--Continued

ADMINISTRATIVE OFFICE OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA A Department of the Regional University System of Oklahoma

June 30, 2018

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Accounts Receivable: Accounts receivable consists of assessment charges to the Universities. All accounts receivable are considered fully collectible. Therefore, no provision for uncollectible amounts has been recorded.

Capital Assets: Furniture and equipment is stated at cost at the date of acquisition when purchased by the Office or at estimated value when acquired by other than purchase. For furniture and equipment, the Office's capitalization policy includes all items with a unit cost of \$2,500 or more, and an estimated useful life greater than one year. For computer equipment, the Office's capitalization policy includes all items with a unit cost of \$500 or more and an estimated useful life greater than one year. Depreciation is provided on the straight-line method over the estimated useful life for the furniture and equipment, which is three to five years.

Compensated Absences: Compensated absences are accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the statement of net position, and as a component of salaries and related employee benefits in the statement of revenues, expenses and changes in net position.

Deferred Outflows of Resources: Deferred outflows are the consumption of net position by the Office that are applicable to a future reporting period. At June 30, 2018, the Office has no deferred outflows of resources.

Deferred Inflows of Resources: Deferred inflows are the acquisition of net position by the Office that are applicable to a future reporting period. At June 30, 2018, the Office has no deferred inflows of resources.

Net Position: The Office's net position is classified as follows:

Net investment in capital assets: This represents the Office's investment in capital assets, net of accumulated depreciation, reduced by outstanding debt obligations, if any, related to those capital assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position, if any.

Unrestricted net position: Unrestricted net position represents resources derived from University assessments and other resources. These resources are used for transactions relating to compensation, benefits and other operating expenses of the Office, and may be used at the discretion of the governing board to meet current expenses for any purpose.

Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

NOTES TO FINANCIAL STATEMENTS--Continued

ADMINISTRATIVE OFFICE OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA A Department of the Regional University System of Oklahoma

June 30, 2018

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Classification of Revenues: The Office has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as university assessments.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That use Proprietary Fund Accounting*, and GASB No. 34, such as state appropriations and investment income.

Tax Status: The Office, as an agency of the State of Oklahoma, is excluded from federal income taxes under Section 115 (1) of the Internal Revenue Code, as amended.

New Accounting Standards

- *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

GASB Statement No. 75 was issued in June 2015, and addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures.

For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. The application of this new accounting standard is effective for the Office's year ended June 30, 2018. However, the Office, as a department of the System, has determined this standard is applicable to the System but not to the individual departments of the System. Therefore, the accounting and reporting requirements of this standard has been adopted by the System, but not the Office.

NOTES TO FINANCIAL STATEMENTS--Continued

ADMINISTRATIVE OFFICE OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA A Department of the Regional University System of Oklahoma

June 30, 2018

NOTE B--DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Office's deposits may not be returned or the Office will not be able to recover collateral securities in the possession of an outside party. The Office deposits its funds with the Office of the State Treasurer (OST) and those funds are pooled with funds of other state agencies and, in accordance with statutory limitations, are placed in financial institutions or invested as the OST may determine, in the state's name. State statutes require the OST to ensure that all state funds are either insured by Federal Deposit Insurance, collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. government obligations. The OST's responsibilities include receiving and collateralizing the deposit of State funds, investing State funds in compliance with statutory requirements, and maintaining adequate liquidity to meet the cash flow needs of the State and all its funds and agencies. At June 30, 2018, the carrying amounts of all Office deposits with the OST were \$332,495. The difference between the bank balance of deposits and the related carrying amounts were generally not significant and are due to outstanding checks and deposits in transit.

NOTE C--CAPITAL ASSETS

A summary of the changes in capital assets for the year ended June 30, 2018 is as follows:

	Balance at June 30, 2017	Additions	Retirements	Balance at June 30, 2018
Furniture and equipment	\$ 100,327	\$ 4,903	\$ -	\$ 105,230
Less: accumulated depreciation	(94,714)	(5,704)	-	(100,418)
Furniture and equipment, net	<u>\$ 5,613</u>	<u>\$ (801)</u>	<u>\$ -</u>	<u>\$ 4,812</u>

NOTE D--LONG-TERM LIABILITIES

The following is a summary of long-term liability transactions of the Office for the year ended June 30, 2018:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Accrued compensated absences	<u>\$ 37,156</u>	<u>\$ 36,651</u>	<u>\$ (30,546)</u>	<u>\$ 43,261</u>	<u>\$ 21,631</u>

NOTES TO FINANCIAL STATEMENTS--Continued

ADMINISTRATIVE OFFICE OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA A Department of the Regional University System of Oklahoma

June 30, 2018

NOTE E--RETIREMENT PLANS

The Office's personnel are covered by various retirement plans. The plans available to Office personnel include the Oklahoma Teachers' Retirement System (OTRS), which is a State of Oklahoma public employees retirement system, the Supplemental Retirement Annuity (SRA), a single employer defined benefit pension plan available to employees hired prior to July 1, 1995, and a defined contribution 403(b) plan. Personnel may also be eligible to participate in the Other Post-Employment Insurance (OPEB) plan, as described further in Note F. The Office does not maintain the accounting records, hold the investments for, or administer these plans.

The accounting and financial reporting for OTRS, the SRA, and the OPEB plans are recorded at the reporting entity level in the financial statements of RUSO. That report may be obtained by writing to the Regional University System of Oklahoma, 3555 N.W. 58th Street, Suite 320, Oklahoma City, Oklahoma 73112, or by calling (405) 924-8817.

Oklahoma Teachers' Retirement System (OTRS)

Plan Description: The Office contributes to the Oklahoma Teachers' Retirement System (OTRS), a cost-sharing multiple-employer defined benefit pension plan sponsored by the State of Oklahoma. OTRS provides defined retirement benefits based on members' final compensation, age and term of service. In addition, the retirement program provides for benefits upon disability and to survivors upon the death of eligible members. The benefit provisions are established and may be amended by the legislature of the State of Oklahoma. Title 70 of the Oklahoma Statutes, Sections 17-101 through 116.9, as amended, assigns the authority for management and operations of the Plan to the Board of Trustees of OTRS. OTRS is not required to provide for a cost of living adjustment. OTRS issues a publicly available financial report that can be obtained at www.ok.gov/OTRS.

Funding Policy: The Office is required by state statute to contribute a fixed percentage of annual compensation on behalf of active members. The employer contribution rate, as determined by state statute, was 9.5% for 2018, 2017, and 2016, and was applied to annual compensation.

Employees' contributions are also determined by state statute. For all employees, the contribution rate was 7% of covered salaries and fringe benefits in 2018, 2017, and 2016. For compensation in excess of \$25,000, the employee's contributions are paid directly by the Office to the OTRS.

The Office's contributions to the OTRS for the years ended June 30, 2018, 2017, and 2016, were approximately \$83,400, \$92,000, and \$82,500, respectively, equal to the required contributions for each year. These contributions included the Office's statutory contribution and the share of the employee's contribution paid directly by the Office.

NOTES TO FINANCIAL STATEMENTS--Continued

ADMINISTRATIVE OFFICE OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA A Department of the Regional University System of Oklahoma

June 30, 2018

NOTE E--RETIREMENT PLANS--Continued

The State of Oklahoma is also required to contribute to the OTRS on behalf of the participating employers. For 2018, the State of Oklahoma contribution was 5% of state revenues from sales and use taxes and individual income taxes, to the OTRS on behalf of participating employers. These amounts and other system-wide related amounts are reported in the financial statements of RUSO and not at the individual department level.

Supplemental Retirement Annuity (SRA)

Plan Description: The Office's SRA plan is a single employer, defined benefit pension plan administered by the Office's Board of Regents. The SRA was established by the Office's Board of Regents to provide supplemental retirement and death benefits to Office employees who were hired prior to July 1, 1987, or to those eligible employees' beneficiaries. Effective December 1, 2002, the SRA was amended to provide supplemental retirement and death benefits to Office employees who were hired between July 1, 1987 and June 30, 1995.

Effective October 1, 2003, the SRA plan was changed to eliminate the TIAA offset in the benefit calculation. The authority to amend the SRA's benefit provisions rests with the Office's Board of Regents. The SRA is included in the financial report of the RUSO reporting entity, and does not issue separate, stand-alone financial statements.

Funding Policy: The authority to establish and amend eligible employees' and employer contribution obligations to the SRA rests with the Board. Eligible employees are not required to make contributions to the SRA. The Office is required to contribute to the SRA an actuarially determined amount on an annual basis. Under a policy adopted in December 2002, the Plan must achieve 80% funding of the pension benefit obligation by December 1, 2022.

The Office's contributions to the SRA for the years ended June 30, 2018, 2017, and 2016, were approximately \$14,000, \$14,000, and \$14,000, respectively.

Defined Contribution Plan

The Office also has a defined contribution 403(b) plan (DCP) available to full-time employees. The DCP is administered by the RUSO System, and the plan provisions are established and may be amended by the Board of Regents. Plan members may make voluntary contributions in accordance with IRS regulations. The Office has no contribution requirements, and no contributions were made during the years ended June 30, 2018, 2017, and 2016.

NOTES TO FINANCIAL STATEMENTS--Continued

ADMINISTRATIVE OFFICE OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA A Department of the Regional University System of Oklahoma

June 30, 2018

NOTE F--OTHER POST-EMPLOYMENT INSURANCE BENEFITS

Plan Description: The Office's postemployment healthcare plan is a single employer defined benefit plan administered by the Board. The plan provides medical and life insurance benefits to eligible retired employees until age 65.

A retiring employee must have been employed full-time by RUSO for not less than ten years immediately preceding the date of retirement; been a member of the OTRS during that time; and elected to receive a vested benefit under the provision of the OTRS.

As of June 30, 2018, there were 4 active participants in the plan. The retirement insurance program was adopted by the Board of Regents in 1985. In March of 2008, the Retiree Medical Trust for Regional University System of Oklahoma was established to hold assets and pay benefits on behalf of the Office's postemployment healthcare plan, and was administered by Bank of Oklahoma, N.A. Prior to the establishment of the trust, the insurance benefits were accounted for on a pay-as-you-go basis so that premiums were made from current operating funds.

The plan is included in the financial report of the RUSO reporting entity and does not issue separate, stand-alone financial statements.

Funding Policy: The contribution requirements of the Office are established and may be amended by the Board. The Office is required to contribute the actuarially determined employer contribution amount in accordance with the parameters of GASB Statement 75. The current amount is \$1,638 and represents 0.9% (percent) of covered payroll.

The Office's contributions to the plan for the years ended June 30, 2018, 2017, and 2016, were approximately \$7,215, \$3,943, and \$3,818, respectively.

NOTE G--RISK MANAGEMENT

The Office is exposed to various risks of loss from torts; thefts of, damage to, and destruction of assets; errors and omissions; employee injuries and illnesses; natural disasters, and employee health, life, and accident benefits. Commercial insurance coverage is purchased for claims arising from health, life and long-term disability. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Office, along with other state agencies and political subdivisions, participates in the State of Oklahoma Risk Management Program and the State Insurance Fund, public entity risk pools currently operating as a common risk management and insurance program for its members. The Office pays an annual premium to the pools for its torts, property, workers' compensation, and

NOTES TO FINANCIAL STATEMENTS--Continued

ADMINISTRATIVE OFFICE OF THE
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
A Department of the Regional University System of Oklahoma

June 30, 2018

NOTE G--RISK MANAGEMENT--Continued

liability insurance coverages. The Oklahoma Risk Management pool's governing agreement specifies the pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of specific stop-loss amounts.

NOTE H--COMMITMENTS AND CONTINGENCIES

The Office has operating leases for office space and copy equipment which expire through 2021. Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	
2019	\$ 38,160
2020	4,320
2021	<u>697</u>
Total minimum lease payments	<u>\$ 43,177</u>

Rental expenditures under all operating leases were approximately \$44,375 for 2018.

REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Regents
Regional University System of Oklahoma
Administrative Office
Oklahoma City, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Administrative Office (the "Office"), a department of the Regional University System of Oklahoma ("RUSO"), which is a component unit of the State of Oklahoma, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements, and have issued our report thereon dated November 28, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Office's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control. Accordingly, we do not express an opinion on the effectiveness of the Office's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Office's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Office's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Office's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Office's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Arledge & Associates, P.C.

November 28, 2018