OKLAHOMA DEPARTMENT OF CAREER AND TECHNOLOGY EDUCATION

Operational Audit

For the period July 1, 2013 through June 30, 2018

Cindy Byrd, CPA

State Auditor & Inspector

Audit Report of the Oklahoma Department of Career and Technology Education

For the Period July 1, 2013 through June 30, 2018

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October 28, 2019

**TO THE BOARD OF THE OKLAHOMA DEPARTMENT
OF CAREER AND TECHNOLOGY EDUCATION**

We present the audit report of the Oklahoma Department of Career and Technology Education for the period July 1, 2013 through June 30, 2018. 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,

Cindy Byrd

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

Background

The Oklahoma Department of Career and Technology Education (Agency) provides leadership and resources to ensure standards of excellence throughout the statewide system. The system offers its programs and services throughout nearly 400 public school districts, twenty-nine technology centers with fifty-eight campus sites, thirteen skills centers located in correctional facilities, and thirty adult basic education sites.

Each technology center works closely with advisers from local industry to ensure that students learn the skills needed to be valued members of the workforce. The department partners with many other state and private agencies and organizations to develop services to advance Oklahoma's workforce and economic development.

Oversight is provided by nine board members appointed by the governor and confirmed by the State Senate.

Board members as of July 31, 2019 are:

Joy Hofmeister .... Chairperson
Brian Bobek .... Member
Estela Hernandez .... Member
Janet Smith .... Member
David Stewart .... Member
James R. Stallings .... Member
Michael Brown .... Member
Randy Gilbert. .... Member
Tim Burg.......... Member

The following table summarizes the Agency's sources and uses of funds for fiscal years 2017 and 2018 (July 1, 2016 through June 30, 2018).

Sources and Uses of Funds for FY 2017 and FY 2018

		2017		2018
Sources:				
Appropriations (Net)	$	120,352,805	$	111,600,656
Taxes	$	777	$	976
Licenses, Permits, Fees	$	641,564	$	687,266
Income from Money and Property	$	8,555	$	15,195
Grants, Refunds, Reimbursements	$	27,354,884	$	23,906,637
Sales and Services	$	2,868,300	$	2,665,066
Non-Revenue Receipts	$	597,229	$	412,981
Total Sources	**$**	**151,824,114**	**$**	**139,288,777**
Uses:				
Personnel Services	$	19,419,315	$	20,150,209
Professional Services	$	2,209,868	$	2,505,180
Travel	$	580,724	$	610,427
Administrative Expenses	$	3,813,807	$	3,392,662
Property, Furniture, Equipment	$	649,510	$	64,549
Assistance, Payments to Local Govn'ts	$	123,333,308	$	112,756,090
Transfers and Other Disbursements	$	557,034	$	405,643
Total Uses	**$**	**150,563,566**	**$**	**139,884,760**

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 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, 2013 through June 30, 2018.

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Oklahoma Department of Career and Technology Education operations. Further details regarding our methodology are included under each conclusion.

We utilized sampling of transactions to achieve our objectives. To ensure the samples were representative of the population and provided sufficient, appropriate evidence, the random sample methodology was used. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

OBJECTIVE	Determine whether the Agency's internal controls provide reasonable assurance that revenue, expenditures (both miscellaneous and payroll), and inventory were accurately reported in the accounting records.

Conclusion

The Agency's internal controls provided various levels of assurance during the audit period. The breakdown is as follows:

- Internal controls *do provide* reasonable assurance that miscellaneous expenditures were accurately reported in the accounting records for the entire audit period.
- Internal controls *do not provide* reasonable assurance that revenues were accurately reported for the period July 1, 2013 through October 31, 2016 due to the loss of key reports during an information system server transition as well as an agency wide transition to being paperless; no hard copy reports were available for review. However, internal controls *do provide* reasonable assurance that revenues for the period November 1, 2016 through June 30, 2018 were accurately reported in the accounting records.
- Internal controls *do not provide* reasonable assurance that inventories were accurately reported for fiscal year 2014 due to the loss of key asset personnel. However, internal controls *do provide* reasonable assurance that inventory for the period July 1, 2014 through June 30, 2018 were accurately reported in the accounting records.
- Internal controls *generally provide* reasonable assurance that payroll expenditures were accurately reported in the accounting records for the entire audit period.

Financial operations complied with the following statutes:

- 62 O.S § 34.56 (ASA Fund 730 revenues)
- 62 O.S. § 34.56 (ASA Fund 730 expenditures)
- 62 O.S. § 34.57(C) (Timely Deposits)
- 74 O.S § 3601.2 (Director's Salary)

Financial operations complied with the following laws and regulations in 4 of the 5 years of the audit period:

- 74 O.S. § 110.1 (inventory)
- 74 O.S. § 110.2 (inventory records)
- OAC 260:110-3-1 (inventory reporting)

Objective Methodology

To accomplish our objective, we performed the following:

- Evaluated processes and identified significant internal controls related to receipting and tested those controls, which included:
    - Reviewing the agency excel deposit books listing all deposits for each of the five fiscal years of the audit period (July 1, 2013 through June 30, 2018), comparing each fiscal year to the OST Treasurers Activity report for each matching fiscal year, and calculating the differences between the agency deposit books and the OST report. The $1,728.94, or 0.02% difference between agency records totaling $10,122,488.71 and the OST reports totaling $10,124,217.65, is due to timing differences of when the Agency internally records deposits and when the deposits finally appear on the OST reports. We consider this difference insignificant.
    - Reviewing a random sample of 150 audit period deposit records from the agency excel deposit book totaling $629,108.88, to ensure funds received are properly safeguarded prior to deposit and are deposited daily or when the funds reach $100 per 62 O.S. § 34.57©, and are posted to the statewide accounting system in a timely manner. Our sample represented 6% of the 2,556 deposit records in our population and 6% of the $10,122,488.71 audit period deposits total.
    - Selecting a random sample of 5 monthly aging reports from the period November 1, 2016 through June 30, 2018 (5 from each fiscal year), and then judgmentally selecting 2 past due accounts from each randomly selected monthly aging report to determine if (a) a past due statement was prepared, and (b) payment was subsequently received to ensure past due accounts are reviewed independently of the receipting process to mitigate other control weaknesses related to revenues. Our sample of ten aging reports represented 42% of the 24 months in the population, and 20 past due accounts totaling $45,261.09. We originally planned to select a random sample of 5 monthly aging reports from each fiscal of our audit period; however, due to the loss of the ability to run the aging reports for the period of July 1, 2013 through October 31, 2016 and the lack of hard copy reports, we were only able to review past due accounts from the monthly aging reports for period November 1, 2016 through June 30, 2018.
    - Reviewing a random sample of 5 OMES Form 11 reconciliations from each fiscal year (42% of the 60 months

in the population tested) to ensure the reconciliations agree to supporting documentation and were reviewed by someone independent of the preparer as evidenced by a signature.

- Evaluated compliance with 62 O.S. § 34.56 for conference account ASA Fund 730 revenues, which included:
  - o Evaluating the Agency's processes and identifying significant controls related to deposits of conference related revenues;
  - o Reviewing all department Fund 730 revenue records and account codes under which they were recorded to ensure they are for the purposes of the conference account only. For completeness we tied the agency internal deposit book Fund 730 totals to the funding table amounts**.** We consider the $143.25, or 0.02% difference for the entire audit period between the agency deposit book Fund 730 total of $944,986.75 and the $945,130.00 in the funding table insignificant.
  - o Reviewing a random sample of 30 deposit records for each of the five fiscal years (150 records) from Fund 730, totaling $53,113.40, to ensure they complied with 62 O.S. § 34.56. Our sample represented 7% of a population of 2,103 and 6% of the $944,986.75 agency deposit book Fund 730 total.
- Evaluated processes and identified significant internal controls related to miscellaneous expenditures and tested those controls, which included:
  - o Reviewing a random sample of 150 audit period expenditure claims totaling $7,723,912.91 and supporting documents to ensure audit period expenditures are properly and independently approved before payment as evidenced by the Finance Manager's signature on the voucher claims. Our sample represented 0.67% of the 22,447 claims in our population and 1.14% of the $674,879,796.30 audit period miscellaneous expenditures total.
  - o Reviewing 5 randomly selected monthly Access database reports and matching internal reports such as senior leader reports from each fiscal year (25 reports representing 42% of the 60 total months in the population tested) to ensure detailed expenditure reports were independently reviewed by the Finance Manager as evidenced by the Finance Manager's creation of the budget versus actual reports used internally to present and adjust each division's budgets.

- Evaluated compliance with 62 O.S. § 34.56 for ASA Fund 730 expenditures, which included:
    - Evaluating the Agency's processes and identifying significant controls related to expenditures from the conference account.
    - Reviewing the 6-Digit Detailed Expenditure report from the statewide accounting system for all Fund 730 expenditure records and account codes under which they were recorded to ensure they are for the purposes of the conference account only.
    - Reviewing 9 randomly selected Fund 730 claims from each fiscal year (45 claims totaling $33,934.85) to ensure they are for the purposes of the conference account only. Our sample represented 3% of the 1,657 claims in our population and 3% of the $1,035,096.83 audit period total Fund 730 expenditures.
- Evaluated processes and identified significant internal controls related to payroll, which included:
    - Reviewing 5 randomly selected payroll claims per fiscal year (25 claims representing 42% of 60 audit period payroll claims) to ensure they were properly approved and reflected in the payroll reports and that only authorized payroll/personnel changes were made. See related finding below.
    - Reviewing 5 randomly selected payroll transactions per fiscal year (25 transactions representing 2% of 1,336 audit period payroll transactions) to ensure they were properly documented and approved. See related finding below.
- Evaluated compliance with 74 O.S. § 3601.2(A) – Salaries of Chief Executive Officers, which included:
    - Reviewing all data on the *HR All Actions* report and comparing it to approved salary ranges established by the Office of Management and Enterprise Services.
- Evaluated processes and identified significant internal controls related to inventory, which included
    - Reviewing a random selection of 20 inventory additions (3.8% of the 526 total inventory additions in the audit period) and 20 inventory subtractions (0.6% of the 3,270 total inventory subtractions in the audit period) from the inventory records for the audit period and the underlying documentation to ensure there was proper separation of duties.
    - Reviewing 100% of all inventory count documentation for each fiscal year of the audit period to ensure a physical inventory count was performed annually by a party not maintaining the physical inventory and the count was

reconciled by a party independent of the inventory record keeping, asset tagging, and count processes. As part of this review, we also determined whether the Agency was in compliance with 74 O.S. §110.1, 74 O.S. § 110.2, and OAC 260:110-3-1 during the audit period. See related finding for fiscal year 2014 below.

- Reviewing a random selection of 8 assets (4 IT and 4 non-IT) from the inventory list for each fiscal year for which an inventory count was performed (32 assets representing 0.26% of the 6,176 IT assets in the population tested and 0.31% of the 5,124 non-IT assets in the population tested) to ensure items appearing on the inventory list were on the agency premises and were properly tagged.
- Reviewing 32 judgmentally selected assets on the agency premises (16 IT and 16 non-IT) to ensure items observed were properly documented and included on inventory reports.

FINDINGS AND RECOMMENDATIONS

The Agency did not have proper segregation of duties over revenues for a portion of the audit period

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* states, "Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling the related assets. No one individual should control all key aspects of a transaction or event." The *Standards* further state that "Management considers segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, designs alternative control activities to address the risk."

As it relates to reliable data, the *Standards* state, "Management obtains relevant data from reliable internal and external sources in a timely manner based on the identified information requirements. Reliable internal and external sources provide data that are reasonably free from error and bias and faithfully represent what they purport to represent. Management evaluates both internal and external sources of data for reliability."

For the time period of July 1, 2013 through October 31, 2016 the Oklahoma Department of Career and Technology Education was using the Oracle system for invoicing, tracking, and creating aging reports for account holders who owed the Agency for various educational services they provide. Upon the transition to PeopleSoft in November 2016, the Agency lost the ability to run aging reports for the first 40 months of the audit period and previous aging report documentation was not retained in hardcopy form. After the transition to PeopleSoft in November 2016, aging reports from November 1, 2016 through June 30, 2018 were available, and we were able to conclude through testwork performed the above controls were operating effectively.

However, due to the lack of evidence of a review of the aging reports for the time period between July 1, 2013 through October 31, 2016, we are unable to conclude that the mitigating control of the Accounts Receivable Specialist independent review of past due accounts was operating effectively during for these months. The mitigating control is a significant control for the purpose of reducing risk within the revenue process due to the following segregation of duties weaknesses:

The Administrative Assistant opens mail and records payments in the Access database alone; an employee in this position would have the opportunity to misappropriate payments and omit the payments from the Access database records to delay detection.

The Financial Operations Administrator records receipts in PeopleSoft and prepares the daily deposits. She also prepares the monthly reconciliation Form 11. This inappropriate segregation of duties creates the risk that that funds could be misappropriated and not detected.

The Senior Accountant performs a review of the bank deposit receipts and compares them to PeopleSoft records. However, this cannot be considered an independent review as the Senior Accountant serves as the backup to the Finance Operations Administrator and has access to modify deposit records in PeopleSoft. This inappropriate segregation of duties creates the risk that that funds could be misappropriated and not detected.

Recommendation

To mitigate the lack of segregation of duties between Finance staff (as described above), we recommend agency management continue to implement the control of the Accounts Receivable Specialist's independent review of past due accounts. Evidence of this review should be maintained.

Should management choose to separate the duties of the Finance staff, we recommend the following:

- A party not involved in the deposit process should independently reconcile deposit receipts to PeopleSoft deposit records and PeopleSoft aging reports to ensure all funds received were deposited. The person reconciling should in no way have the responsibility of receipting funds or preparing the deposit. Aging reports should be printed, reviewed, initialed after the review, and then scanned and saved to avoid the potential of lost data.
- Alternatively, management could implement a two-person payment receiving process in which the Administrative Assistant and someone not involved in the receipting and depositing process are present when mail is opened and payment is received. Both parties should sign a check received log documenting the date, amount, and payee.
- Management could further segregate the duties of the Financial Operations Administrator so someone who is posting deposits to PeopleSoft is not also preparing the deposit and preparing the monthly reconciliation.
- Further, the backup duties and responsibilities performed by the Senior Accountant could be segregated/removed to ensure her review and comparison of the bank deposit receipts to PeopleSoft records is independent.

Views of Responsible Officials

Agency will continue to implement current mitigating controls to ensure proper segregation of duties over revenues including the independent review of aging reports and will consider other segregation of duties if necessary.

Agency will continue reliance on state's PeopleSoft AR as system of record for aging reports and follow OMES disaster recovery procedures.

Agency concurs with the recommendation to remove back-up responsibilities from the Senior Accountant and will assign those responsibilities to the other Financial Operations Administrator within the Financial Services Division who is independent from the AR process.

The Agency does not have proper segregation of duties over payroll

The United States Government Accountability Office's *Standards for Internal Control in the Federal Government* (2014 Revision) states that in designing control activities to achieve objectives and respond to risks, "Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event." The GAO Standards further state that

"Management considers segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, designs alternative control activities to address the risk."

The Standards also state, "Management obtains relevant data from reliable internal and external sources in a timely manner based on the identified information requirements. Reliable internal and external sources provide data that are reasonably free from error and bias and faithfully represent what they purport to represent. Management evaluates both internal and external sources of data for reliability."

The Agency has not adequately segregated key duties related to payroll processes. The Payroll Specialist and the Human Resources Generalist have the following conflicting abilities and duties:

- Access and responsibility to make payroll/personnel changes in PeopleSoft HCM
- Access and responsibility to process payroll in PeopleSoft HCM

There is also no detailed and documented independent review of payroll and personnel changes after payroll is processed to verify that only authorized changes were made. This type of review if properly performed and documented could mitigate the risks associated with the lack of segregation of duties. The person reviewing and signing the payroll claim receives a spreadsheet of changes from HR/Payroll along with the claim; however, because it is not independently prepared, there is a risk that it may not include all changes entered. This process creates the risk for unauthorized payroll and personnel changes to be made without detection.

Recommendation

We recommend management segregate duties to ensure that employees responsible for processing payroll do not have the ability to make changes to payroll or personnel data in PeopleSoft HCM. We also recommend that agency management, independent from the payroll process, perform a detailed and documented review of payroll claims and supporting documentation, or an independently obtained detailed report of payroll changes from the PeopleSoft HCM system, to provide assurance that only authorized payroll changes are made.

Views of Responsible Officials

Agency concurs with finding and will take the following steps to ensure segregation of payroll duties:

- The Payroll Specialist will enter payroll/personnel changes in PeopleSoft HCM.
- All payrolls will be processed/confirmed by an HR Generalist other than the Payroll Specialist.
- HR Manager will approve all changes made to each payroll, including spreadsheets and supporting documentation. These changes will be made independent of the payroll process.
- The Time and Leave Specialist will audit and verify all employee time. Managers must approve these entries.
- HR Manager will serve as payroll backup in the Payroll Specialist's absence. Chief of Staff will approve these.
- Queries from PeopleSoft HCM will be created for each payroll processed that reflects changes that have been made in the system and by whom. The HR Manager will review and sign off on these.

Taking these steps will significantly minimize the potential for unauthorized changes.

The Agency did not Comply with the Annual Inventory Count Requirement for One Year of the Audit Period

The United States Government Accountability Office's Standards for Internal Control in the Federal Government (2014 Revision) states that in designing control activities to achieve objectives and respond to risks, "Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event." The GAO Standards further state that "Management considers segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, designs alternative control activities to address the risk."

The *Standards* also state that "Management must establish physical control to secure and safeguard vulnerable assets. . . Management periodically counts and compares such assets to control records." Furthermore, the *Standards* state that management should design "an internal control system to provide reasonable assurance regarding prevention or prompt detection and correction of unauthorized acquisition, use, or disposition of an entity's assets."

The *Standards* further state, "Management obtains relevant data from reliable internal and external sources in a timely manner based on the identified information requirements. Reliable internal and external sources provide data that are reasonably free from error and bias and faithfully represent what they purport to represent. Management evaluates both internal and external sources of data for reliability."

The Agency did not perform an annual inventory count and thus did not submit to the Office of Management and Enterprise Services – Division of Capital Assets Management (OMES-DCAM) the annual inventory report for fiscal year 2014. Therefore, the Agency did not comply with Oklahoma Administrative Code 260:110-3-1 and 74 O.S. § 110.1 and 74 O.S. § 110.2.

Based on conversations with management, the performance of the annual inventory count and report submission to OMES-DCAM for fiscal year 2014 was overlooked due to the transition of key agency asset personnel.

When an annual inventory count is not performed, the opportunity increases for an employee to misappropriate an inventory item and delay detection of the misappropriation until the following year's annual inventory count.

Recommendation

Management should ensure that a comprehensive annual physical inventory count is performed and documented by someone independent from purchasing assets, maintaining inventory items and inventory records, and disposing of surplus assets.

Views of Responsible Officials

Agency concurs with the finding and will ensure processes reflect the requirement of an annual physical inventory count performed by someone independent from the inventory process. Agency processes will also reflect the requirement for submission of an annual inventory report to OMES-DCAM.

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