

**OKLAHOMA
DEPARTMENT OF
CAREER
AND TECHNOLOGY
EDUCATION**

**FOR THE PERIOD
JULY 1, 2009 TO JUNE 30, 2010**



OPERATIONAL AUDIT



Oklahoma State Auditor
& Inspector

**Audit Report of the
Oklahoma Department of
Career and Technology Education**

**For the Period
July 1, 2009 to June 30, 2010**

STATE AUDITOR AND INSPECTOR

STEVE BURRAGE, CPA
State Auditor

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January 4, 2011

TO THE BOARD OF CAREER AND TECHNOLOGY EDUCATION

This is the audit report of the Oklahoma Department of Career and Technology Education for the period July 1, 2009 to June 30, 2010. 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,

A handwritten signature in blue ink that reads "Steve Burrage".

STEVE BURRAGE, CPA
STATE AUDITOR & INSPECTOR

Department of Career and Technology Education

Operational Audit

Agency Background

The Department of Career and Technology Education (Agency) provides leadership, resources, and assures standards of excellence for a comprehensive statewide system of career and technology education. The system offers programs and services in 29 technology center districts operating on 56 campuses, 398 comprehensive school districts, and 15 skill centers¹.

The Agency pays for its operations primarily through state appropriations and federal funds.

Oversight is provided by a nine-member board comprised of the state superintendent of public instruction who serves as the chairperson, two members of the State Board of Education, a representative from each congressional district, one member at large, and the state director of Career and Technology Education who serves as an ex-officio, non-voting member. The two members of the State Board of Education are selected by the governor, and the congressional district representatives and member at large are appointed by the governor, with the consent of the Senate. The appointed members serve a term of six years.

Board members are:

Sandy Garrett	Superintendent of Public Instruction and Chairperson of the Board
Phil Berkenbile, Ed.D.	State Director and ex-officio nonvoting member and executive officer of the Board
Betsy Mabry.	State Board of Education and Member
Sue Arnn	State Board of Education and Member
H.C. "Will" Williams	Member
Nevyle R. Cable	Member
Harold Anglin	Member
Marilyn Harrel	Member
Randy Gilbert	Member
Dale Nye	Member

Purpose, Scope, and Sample Methodology

This 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 state officers whose duty it is to collect, disburse or manage funds of the state.

The audit period covered was July 1, 2009 to June 30, 2010.

We selected our samples in such a way that whenever possible, the samples are representative of the populations and provide sufficient evidential matter. Sample methodologies can vary and are selected based on the audit objective and whether the total population of data was available. Random sampling is the preferred method; however, we may also use haphazard sampling (a methodology that produces a representative selection for non-statistical sampling), or judgmental selection when data limitation prevents the use of the other two methods. We identified specific attributes for testing each of the samples. When appropriate, we projected our results to that population.

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

¹ The skill centers are a program designed to train incarcerated adult and juvenile offenders with job skills that can help them find employment when they are no longer incarcerated.

Department of Career and Technology Education
Operational Audit

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. 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.

Objective 1 - Determine whether the materials (MAVCC², CIMC³, and Print Shop) and office supplies inventory were properly safeguarded and accounted for.

Conclusion With respect to the items tested, materials (MAVCC², CIMC³, and Print Shop) and offices supplies were properly safeguarded and accounted for.

Methodology To accomplish our objective, we performed the following:

- Obtained an understanding of the Agency’s inventory counting procedures;
- Physically inspected the location of the inventory to ensure it was properly safeguarded;
- Observed the Agency’s personnel performing their inventory count noting if the items were arranged to facilitate accurate counting, if care had been taken to include all inventory items, if items were clearly marked when counted to avoid omissions, and/or duplication of counts, if any items were moved during the count or not counted, and if any items appeared damaged or obsolete;
- Agreed 17 items from the CIMC inventory report, five items from the MAVCC inventory report, and eight items from the print shop inventory report to the floor to ensure the correct quantities were recorded (all items were haphazardly selected);
- Agreed 17 items from the CIMC floor, five items from the MAVCC floor, and eight items from the print shop floor to the applicable inventory reports to ensure the correct quantities were recorded;
- Agreed 10 items from the office supplies inventory report to the floor to ensure the correct quantity was recorded (items were haphazardly selected);
- Agreed 10 items from the office supplies floor to the inventory report to ensure the correct quantity was recorded; and
- Reviewed adjusting entries to inventory reports for variances noted during physical count procedures to ensure accounting records were properly modified.

There were no exceptions as a result of these procedures.

Objective 2 - To determine if the Agency’s internal controls provide reasonable assurance that inventory (equipment/furniture) was accurately reported in the accounting records.

Conclusion The Agency’s internal controls do not provide reasonable assurance that inventory (equipment/furniture) was accurately reported in the accounting records.

² MAVCC is an acronym for Multistate Academic and Vocational Curriculum Consortium. The Agency stores materials produced by MAVCC.

³ CIMC is an acronym for Curriculum and Instructional Materials Center. CIMC develops quality competency based instructional products and services for career and technology education.

Department of Career and Technology Education
Operational Audit

Methodology

To accomplish our objective, we performed the following:

- Determined the corrective status of two findings/recommendations from the prior year audit report⁴ which were considered significant to our objective;
- Reviewed the Agency’s fixed asset policy;
- Interviewed the service center manager regarding any changes in the inventory process from the prior period; and
- Interviewed four division directors regarding conducting physical inventory counts.

Observation

Inventory Process Not Consistent with Agency Policy-Repeat Finding⁵

Agency policy and procedure titled “in-house fixed asset guidelines” states,

“ANNUAL INVENTORY

The Division Head shall take, or cause to be taken, an annual inventory of all equipment for which he/she is accountable for.

- A. All divisions are required to conduct an annual physical count of assets using a fixed asset listing as a guide. Any differences between the listing and the actual inventory must be reported to the Service Center Manager on an in-house Inventory Adjustment Form...
- C. A physical inventory by the Service Center Manager of the Service Center staff may be conducted randomly throughout the year.”

We visited with four division heads covering approximately 16% of the Agency’s divisions to determine if they were aware of the policy and if they had conducted a physical count during the audit period. Three of the directors were aware of the policy; however, not all had conducted a count. Director “A” appeared to have conducted a count while director “B” had support for counts conducted on a portion of his divisions. Director “B’s” results were not communicated to the service center manager while director “A” communicated the results; however, it occurred via email rather than through the “in-house Inventory Adjustment Form”. The other two division heads had not performed an inventory count.

The Agency’s inventory policy appears to be ineffective either due to the way it is written and/or the lack of communication to employees regarding their responsibilities in this process. It places responsibility for conducting the counts on division heads who may not be aware of the policy or recognize the importance of ensuring the Agency’s inventory records are accurate and complete. Additionally, it does not specifically address what the employee conducting the count should be verifying (i.e. location, asset tag number, serial number, if applicable.) Misappropriation of assets could occur and not be detected in a timely manner.

Recommendation

We recommend a full 100% count of the Agency’s inventory be conducted as soon as possible. Further, consideration should be given to modifying the Agency’s policy and

⁴ This report should be read in conjunction with this objective. It can be viewed at www.sai.ok.gov.

⁵ Agency-wide counts of all equipment/furniture were conducted by service center staff in July 2007 and October 2008 but not during fiscal year 2010. The effectiveness of these counts is in question as the State Auditor and Inspector’s audit reports issued January 4, 2010 and November 6, 2008 identified deficiencies. These reports should be read in conjunction with this observation. They can be viewed at www.sai.ok.gov.

procedures manual. This could include, but not be limited to, centralizing the responsibility for the conducting the counts, specifying what should be verified during the counts (i.e. location, asset tag number, serial number, if applicable), and ensuring employees responsible for participating in the counts are independent of the purchasing and inventory recordkeeping functions. If management believes the responsibility for conducting the counts should remain with the division heads, we recommend including more specifics in the policy. For example, since “All divisions are required to conduct an annual physical count of assets using a fixed asset listing as a guide”, the policy should specify the date at which the service center manager will provide the division heads with the fixed asset listing, when the counts should be complete, and the deadline for submitting the adjustments noted to the service center manager.

Views of Responsible Officials

We concur with this finding. We are conducting a 100% Agency inventory and plan to have the results reconciled by December 31, 2010. We are also revising our Agency’s Fixed Assets guidelines to reflect the following:

- 1) Division managers will no longer be responsible for conducting the counts.
- 2) The Service Center Manager is responsible for ensuring that equipment information is properly entered into the system, and tagging equipment. The Service Center Manager will also complete inventory adjustments within 30 days of receiving the completed inventory adjustment records.
- 3) The agency will assign key personnel to conduct continuous division inventories throughout the year to result in a 100% inventory of agency equipment.
- 4) The Audit Manager will conduct quarterly audits of division’s inventories and report variances to management.

Objective 3 - To determine whether funds received from the Oklahoma Education Lottery Trust Fund were expended in accordance with 3A O.S. § 713 C. 2. a., b., c., and d⁶.

Conclusion With respect to the items tested, the expenditures were in compliance with 3A O.S. § 713 C. 2. a., b., c., and d⁶.

Methodology To accomplish our objective, we performed the following:

- Reviewed 3A O.S. § 713 C. 2. a., b., c., and d.;
- Documented internal controls related to the Oklahoma Lottery Trust Fund expenditure process which included discussions with Agency personnel, observation, and review of documents; and
- Tested a sample of ten claims⁷ (six randomly selected and 4 judgmentally selected based on dollar amount) totaling \$956,902.64 to ensure they complied with 3A O.S. § 713 C. 2. a., b., c., and d.

There were no exceptions as a result of these procedures.

⁶ 3A O.S. § 713 C. 2. a., b., c., and d. states the Agency may use funds appropriated to them from the Oklahoma Education Lottery Trust Fund for tuition grants, loans and scholarships, construction of educational facilities, capital outlay projects, and technology. The allowability requirements of this law are extremely vague and allow a great deal of flexibility in what is considered an allowable expenditure.

⁷ The total population is 64 claims totaling \$2,305,032.54.



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