OPERATIONAL AUDIT

Oklahoma Board of Private Vocational Schools

For the period January 1, 2009 through February 29, 2012

Oklahoma State
Auditor & Inspector
Gary A. Jones, CPA, CFE

Audit Report of the Oklahoma Board of Private Vocational Schools

For the Period January 1, 2009 to February 29, 2012

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Oklahoma State Auditor & Inspector

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November 8, 2012

TO THE OKLAHOMA BOARD OF
PRIVATE VOCATIONAL SCHOOLS

This is the audit report of the Oklahoma Board of Private Vocational Schools for the period January 1, 2009 to February 29, 2012. 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.

Sincerely,

GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

Background

The Oklahoma Board of Private Vocational Schools was established in 1970. The Board was authorized to set minimum standards for private vocational schools which include standards for courses of instruction and the qualifications of instructors, financial stability, advertising practices, and reasonable rules and regulations for the operation of private vocational schools.

The mission of the Board of Private Vocational Schools is to protect the people of Oklahoma by licensing, monitoring, and regulating the private vocational schools, and their representatives, that are offering or conducting training in Oklahoma.

The Board consists of nine members. Three ex officio members are the Chancellor for the Regents of Higher Education, the State Superintendent of Public Instruction and the Director of the Oklahoma Department of Career and Technology Education. The six remaining members are appointed by the Governor with the advice and consent of the Senate. Four of the appointed members must have been executives or managers of a private school for the three years previous to appointment. The other two appointees must have been executives or managers in business and industry other than private schools for the three years previous to appointment. Appointed members serve for a term of six years.

Board members are:

Dr. Glen D. Johnson .... Ex-Officio Member
Gina Wekke .... Chairperson (Ex-Officio Proxy)
Robert R. Birkenmaier..Co-Chair (School Member)
Dr. Phil Berkenbile .... Ex-Officio Member
Dr. Joe Robinson...(Ex-Officio Proxy)
Dr. Janet Barresi .... Ex-Officio Member
Sarah Sagran, CPA ....Business/Industry Member
Larry A. Bunting..Business/Industry Member
Linda L. Andrews. ....School Member
Michael A. Pugliese..School Member
Jeremy D. Gibson ....School Member

Table 1 summarizes the agency's sources and uses of funds for state fiscal years 2011 and 2010 (July 1, 2009 through June 30, 2011).

Table 1 - Sources and Uses of Funds for SFY 2011 and SFY 2010

	2011	2010
Sources:		
Interest on Investments	$2,930	$0
Federal Grants-In-Aid**	172,910	207,456
Total Sources	$175,840	$207,456
Uses:		
Personnel Services	$107,542	$147,636
Professional Services	2,263	4,005
Miscellaneous Administrative	3,485	5,372
General Operating Expenses	994	1,003
Rent Expense	9,326	8,527
Other	589	186
Total Uses	$124,199	$166,729

Source: Oklahoma CORE Accounting System (unaudited, for informational purposes only)

*** Revenues were improperly coded for the time periods noted. Please see Incorrect Revenue Accounting Code observation noted on page 8 of this report.*

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 all state agencies whose duty it is to collect, disburse or manage funds of the state.

The audit period covered was January 1, 2009 through February 29, 2012.

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 selected our samples in such a way that whenever possible, the samples are representative of the populations and provide sufficient evidential matter. 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 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: Determine if the Agency's internal controls provide reasonable assurance that revenues and payroll expenditures were accurately reported in the accounting records, and financial operations complied with 62 O.S. § 34.57.E.1, 70 O.S. § 21-102.B, 2008 O.S.L. 193 [SB 1211], and 2009 O.S.L. 297 [HB 1149].

Conclusion

The Agency's internal controls:

- Generally provide reasonable assurance that payroll expenditures were accurately reported in the accounting records; however, a few areas could be improved.
- Do not provide reasonable assurance that revenues were accurately reported in the accounting records.

Financial operations complied with the following statues:

- 70 O.S. § 21-102.B, 2008 O.S.L. 193 [SB 1211], and 2009 O.S.L. 297 [HB 1149] – Director salary set by Statute.

Financial operations did not comply with the following statues:

- 62 O.S. § 34.57.E.1. – Monthly clearing account transfers

Methodology

To accomplish our objective, we performed the following:

- Documented internal controls related to the receipting and payroll processes which included discussions with Agency personnel, observation, and review of documents.
- Tested controls which included:
  - Reviewing payroll documentation and timesheets from 10 judgmentally selected months to determine whether the payroll documents and timesheets were properly reviewed and approved.
  - Reviewing payroll changes to verify that there are adequate processes for new hires and promotions.
- Reviewed PeopleSoft deposits for the audit period to determine if transfers from the clearing account were occurring at least monthly as required by 62 O.S. § 34.57.E.1.
- Reviewed Director's salary for the audit period to determine if the Director was paid within the limitations set by 70 O.S. § 21-102.B, 2008 O.S.L. 193 [SB 1211], and 2009 O.S.L. 297 [HB 1149].

In addition to the above noted procedures, we performed the following procedures related to potential fraud risks to the agency:

- Compared the total revenues collected to the calculated minimum and maximum fee collection range to determine that revenues appear reasonable.
- Reviewed PeopleSoft non-payroll expenditure data to determine that expenditure transactions appear reasonable.
- Reviewed PeopleSoft payroll expenditure data to determine that payroll expenditure transactions appear reasonable.

Observation

Inadequate Segregation of Duties Related to Revenue – Repeat Finding

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*[1] states in part, "Key duties and responsibilities need to be…segregated among different people to reduce the risk of error or fraud…. No one individual should control all key aspects of a transaction…."

The Administrative Assistant is responsible for:

- Receipting monies
- Preparing deposits
- Occasionally delivering the deposits
- Issuing licenses

The Director is responsible for the following:

- Receipting monies
- Preparing deposits
- Delivering the deposits
- Posting deposits into the PeopleSoft accounting system
- Issuing licenses
- Reconciling the internal deposit records with the PeopleSoft accounting system

Because the Agency is small in size, segregation of duties can be challenging to achieve in a cost-effective manner. Management has attempted to mitigate the risk by segregating duties as much as possible. However, the Administrative Assistant does not work every day of the week; therefore, the Director maintains all receipting functions while the Assistant is away.

This lack of segregation of duties leaves the Agency vulnerable to fraud, errors, and professional misconduct. Licenses could be issued without receiving payment, or payment could be received without being appropriately recorded.

[1] Even though this publication addressed controls in the federal government, this criterion can be treated as best practices. The theory of controls applies uniformly to federal or state government.

Recommendation

The Agency should develop a process to verify that the pre-numbered licenses, licensing logs, receipt books, and PeopleSoft accounting records are all in agreement. This comparison should be performed by a party independent of the receipting and license-issuing processes, and record of this comparison should be retained.

We recommend that the Governing Board increase its oversight and monitoring responsibilities by involving itself in the comparison described in the previous paragraph.

Views of Responsible Officials

Following the May 2, 2012 Board Meeting, the OBPVS entered an Interagency Agreement for various accounting, purchasing, and budgeting services to be provided by Agency Business Services ("ABS"), then within the Office of State Finance ("OSF"). This agreement inserted an additional party into the Revenue Recognition phase of the Agency's operations. Specifically, as of June 1, 2012 no OBPVS employee has entry-authorization/access in the PeopleSoft System. Instead, the [Interim] Director, alone, has primarily read-only access within PeopleSoft with some, limited ability to generate pre-programmed (automated) reports.

On August 1, 2012, the Board appointed a Director with an MBA and CPA and work experience in audit and business. The Director will develop proposed reconciliation reporting to provide to the Board for its consideration no later than December 5, 2012, the date of the next regular meeting of the Board. The item will be properly posted in accordance with the State's Open Meeting Act to allow for Board discussion and/or action. At the present time, the Director envisions providing some sort of calendar-quarter Reconciliation Report to the Board for its routine approval just as the Agency's Cash Disbursements and Fee Collections are already reviewed and approved by the Board at each meeting.

In addition, at either the December 5, 2012 or January 2, 2013 Meeting (depending on the timing of the necessary information exchanges that are not within the control of the OBPVS), the Director will recommend to the Board going a step further to address the underlying issue of the OBPVS' inability to segregate cash-receipting, deposit, and revenue-recognition duties that is germane to any organization with only 2 to 3 employees. On October 23, 2012, the Director began working with J.P. Morgan/Chase Bank (the current depository) and the State Treasurer's Office (who contracts with an additional banking institution) to ascertain if use of a Lockbox will be approved by the State Treasurer. The Director offered both entities transaction volume data and asked to be provided with the fee(s). If approved by the State Treasurer, the Director will explain this methodology to the Board at one of its next two meetings. At that time, the Board will be asked to decide if use of a Lockbox will be approved based on the mechanism not being considered by the Board to be an unnecessarily cumbersome route for the OBPVS' clients to make payments.

At each Board Meeting following the signing of the original Engagement Letter (May, June, July, and October) the [Interim] Director advised Board Members of the progress of the Audit and reminded the Board that Governing Body involvement would likely need to be redefined and implemented. Universally, Board Members always expressed full support of the concept and willingness to establish a specific protocol(s). The Audit Findings transmitted to the Director were promptly transmitted to Board Leadership. The Board's current and immediate past Chairpersons then expressed a repeated willingness to have the Board participate in addressing the State Auditor's recommendations for Governing Board involvement in additional activities. Again, the Director has committed to draft an appropriate Reconciliation and Reporting procedure for Board consideration, discussion, and possible action on December 5, 2012.

Observation **Inadequate Safekeeping of Receipts**

62 O.S. §34.57.C.2A states, "Each state agency that has custody of receipts of less than One Hundred Dollars ($100.00) shall provide adequate safekeeping of such receipts."

When documenting internal controls over revenue, we found that the Agency failed to provide adequate safekeeping of receipts. Receipts are retained in an unlocked desk drawer while they wait to be deposited or transferred to the safe at the end of the day.

Receipts that are not secured are susceptible to loss, theft, and abuse.

Recommendation The Agency should either install a locking mechanism on the desk drawer where receipts are kept or secure the funds in the locked safe as soon as they are received.

Views of Responsible Officials The OBPVS Director wishes to advise the State Auditor that the following four safeguards have been consistently in place since at least November 21, 2011 (the date of her hire) when checks were not immediately placed in a locked drawer or the safe:

1. When mail is opened or a (rare) visitor presents a check in-person, the check is immediately stamped with a restrictive, "For Deposit Only," stamp that specifies the authorized Depository and its account number.
2. The Agency's office is never left unattended.
3. When OBPVS employees are out of the office, the office's door is always locked.
4. The office has a motion-activated doorbell in use at all times making it difficult for someone to enter the OBPVS' office space without notice by an employee(s).

Regardless of the identified safeguards in place, on October 22, 2012 the Director did implement the State Auditor's recommendation for prompt locking of the checks that will continue to be immediately restrictively-endorsed. That was both the first working day after the Auditor's Findings and Recommendations were received and the first day a payment of any type was received by the OBPVS. On October 26, 2012 when the Agency's Administrative Assistant returned from vacation, the Director also made her aware of the change of protocol and received her verbal agreement to follow the revised protocol. Receipts are being placed in either the safe or an alternate drawer in a file cabinet that has an existing, working lock.

Observation **Inadequate Internal Controls Related to Reconciliation**

An effective internal control system provides for a person independent of the receipting and funds disbursement processes to reconcile accounting records.

The Agency is performing procedures to reconcile PeopleSoft records, the Oklahoma State Treasurer's records, and the Agency's internal records. The Director is preparing the reconciliation, but the Director is also involved in the receipting and funds disbursement processes. There is no review and approval of the reconciliation by an independent person.

Reliance upon this reconciliation is diminished when it is not prepared or reviewed by a person independent of the receipting and funds disbursement processes. The lack of review leaves the reconciliation vulnerable to errors and/or fraud.

Recommendation The Agency should develop procedures in conjunction with already-existent procedures to add an independent review of the reconciliation that is prepared on a monthly basis. The procedure should include a method of identifying the reviewer and denoting the approval.

We recommend that the Governing Board increase its oversight and monitoring responsibilities by involving itself in the review and approval process as described in the previous paragraph.

Views of Responsible Officials Since June 2012 the Reconciliation of the State Treasurer, PeopleSoft, and Banking Records is performed monthly by ABS as part of the Interagency Agreement. Hence, the OBPVS' Director's review is now independent from the preparation of the Reconciliation. Additionally, the Director agrees to begin documenting the date of her review and approval of the Reconciliation.

At this time, *because independent review of the Reconciliation is taking place*, the Director suggests that it is not necessary to involve the Governing Body in that process unless the Director identifies an error or irregularity.

Observation **Incorrect Revenue Accounting Code**

A basic objective of Generally Accepted Accounting Principles is to provide accurate and reliable information.

The Agency incorrectly coded all revenue for the entire audit period as “Federal Grants-In-Aid”. The Agency did not receive federal grants or aids of any kind. Revenues were generated from school licensing fees, solicitor’s fees, and other miscellaneous fees.

Assigning the incorrect account code to revenue could lead users of the Agency’s financial information to make misinformed decisions regarding that financial information.

Recommendation The Agency should assign revenues to the account codes that accurately describe the source that the revenue was derived from. We recommend that the agency use the following account codes: 424228 – Private School Licenses and 428199 – Other Licenses, Permits & Fees.

Views of Responsible Officials *Throughout the audit period,* 100% of all receipts were taken to the same, single incorrect revenue account code. Hence the manually-prepared Fee Collection Report, by category, provided to the Board for its approval was accurate.

In September 2012 as part of the FY-14 Budget process, for purposes of making comparative data available, the current Director took steps to remedy and document the previous use of the incorrect revenue code. On October 27, 2012, the Director asked ABS to confirm the account code(s) it is currently using.

On October 28th, the Director and the ABS Chief Financial Officer took the following, mutually agreed, steps to ensure that the revenue account codes recommended by the State Auditor would be used:

1. Going forward (for the remainder of FY-13 and future years), the OBPVS will include the code(s) to be used in its Deposit Emails to ABS prior to ABS making the PeopleSoft entry for a Deposit.

2. In the next few weeks, the OBPVS will provide to ABS the data necessary for ABS to enter a Journal Entry in the PeopleSoft system to reclassify the FY-13 year-to-date balance in "Federal Grants-In-Aid" to one or more of the account codes recommended by the Auditors.

Observation **Lack of Controls Related to Payroll**

A basic objective of Generally Accepted Accounting Principles is to provide accurate and reliable information. Furthermore, an effective internal control system provides for adequate review and approval of expenditure related transactions.

We have found that internal controls over payroll have areas that could be improved upon. The director is to approve time worked by employees, amounts paid to employees, and amounts withheld from employees. We noted 2 instances where the Director's approval was not evident.

- For 1 of the 10 months selected for testing, the Director's signature did not appear on 1 of the 4 weekly timesheets for one employee.
- For 1 of the 10 months selected for testing, the documents used to verify amounts paid to and withheld from employees were not retained in the payroll file of one employee.

The lack of review and approval over sensitive payroll related issues could allow for an employee to receive payment for time not worked. Additionally, an employee could receive a salary amount that is in excess or is insufficient of the salary amount they have earned. Furthermore, reliance upon the Agency's internal control becomes diminished when pertinent documentation is not retained.

Recommendation

The Agency should develop procedures to ensure that the time worked by all employees is approved prior to the payroll being processed. We recommend that the Agency communicate this finding with the Office of Personnel Management, so that they are aware that they should not process any payroll for time that is unapproved. Furthermore, we recommend that the Agency develop retention policies to ensure that pertinent documentation is retained and made available for audits, inspections, and investigations.

Views of Responsible Officials

The identified isolated payroll errors occurred prior to the present Director's hire and appointment. As part of the OBPVS 5-Year Strategic Plan through FY-2018 completed on October 1, 2012, a Key Performance Measures approved by the Board is for the present Director to develop an appropriate *Policy and Procedure Manual(s).* The current Director commits to include payroll approval documentation and record retention in the *Manual(s)* drafts that will then be subject to Board discussion and approval.

On October 28, 2012, the Director electronically issued the Auditor's recommended written instruction (and requested confirmation of receipt and understanding) requiring a payroll signature-approval to be observed *prior to* processing of the payroll. The instruction was issued to the lead Human Resources Specialist assigned to the OBPVS Payroll Processing within the Human Capital Management Division of the Office of Management and Enterprise Services along with a request to forward the instructions to (back-up) colleagues. Subsequent to the May 2012 execution of the Interagency Agreement with ABS, the [Interim] Director issued explicit written authorization for the ABS Chief Financial Officer to approve payrolls in the absence of the OBPVS Director in order to avoid processing delays.

Observation **Monthly Transfers from the Clearing Account – Repeat Finding**

62 O.S. §34.57.E.1 Agency Clearing Accounts - Deposits - Transfers – Exemptions states, "Except as provided in paragraph 2 of this subsection, at least once each month each state agency shall transfer monies deposited in agency clearing accounts to the various funds or accounts, subdivisions of the state, or functions as may be provided by statute and no money shall ever be disbursed from the agency clearing account for any other purpose, except in refund of erroneous or excessive collections and credits".

PeopleSoft deposit records indicate the Agency has failed to execute monthly transfers of monies from the clearing account into the various funds of the Agency. We noted that transfers did not occur for 22 of the 38 months of the audit period.

The Agency is not allowed to spend funds contained within the clearing account. Thus, by not executing timely transfers, the Agency is preventing itself from accessing all available funding.

Recommendation The Agency should develop procedures to ensure that the transfers from the clearing account to the various funds of the Agency are occurring on a monthly basis.

Views of Responsible Officials

On October 28, 2012, the Director sent ABS' management a duplicate email inquiry asking to either complete development of a process through which the Director will issue monthly written direction (on/by a given working/calendar day of each month) for the transfer of accumulated funds out of the Clearing Account and into the OBPVS' single Revolving Fund, or to be advised that the Director will need to personally perform the transfer each month. On October 29, 2012 the ABS Chief Financial Officer responded that he was awaiting the return of the ABS Financial Manager to complete the requested finalization.

Regardless of who will perform the agreed monthly transfers (ABS or the OBPVS Director), beginning with the January 2, 2012 Board Meeting, the Director will make the prior month's Transfer Amount a part of either her regular Director's Report to the Board and/or incorporate that element into the Fee Collections Report the Board reviews for explicit approval. Lastly, the monthly Transfer Requirement will be documented in the to-be-completed Policy and Procedure Manual remarked on under Observation #4, above.

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