

**OKLAHOMA
BOARD OF
PRIVATE
VOCATIONAL
SCHOOLS**

**FOR THE PERIOD
JANUARY 1, 2007 THROUGH
DECEMBER 31, 2008**



OPERATIONAL AUDIT



Oklahoma State Auditor
& Inspector

**Audit Report of the
Oklahoma Board of
Private Vocational Schools**

**For the Period
January 1, 2007 to December 31, 2008**

STATE AUDITOR AND INSPECTOR

STEVE BURRAGE, CPA
State Auditor

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June 22, 2009

**TO THE OKLAHOMA BOARD OF
PRIVATE VOCATIONAL SCHOOLS**

Following is the audit report of the Oklahoma Board of Private Vocational Schools for the period January 1, 2007 through December 31, 2008. 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". The signature is written in a cursive style.

STEVE BURRAGE, CPA
STATE AUDITOR & INSPECTOR

Mission Statement

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

Board Members

Randy McLerran Chairman
Robert R. Birkenmaier Vice-Chairman
Brian L. Major Member
Sarah Sagan Member
Linda L. Andrews Member
Jack Moore. Member
Del Cockrell..... Member
Gina Wekke Member
Joe Robinson Member

Key Staff

Dennis ReaExecutive Director

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Background

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

The Agency’s operations are governed by 70 O.S. §§ 21-101 through 21-115.

Oversight is provided by a nine member board (Board). The Board consists of the director of the Oklahoma Department of Career and Technology Education, the chancellor of the Oklahoma State Regents for Higher Education, the state superintendent of public instruction or their designee, and six members appointed by the governor, subject to 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. The governor appoints one member for a term of six years, one member for a term of five years, one member for a term of four years, one member for a term of three years, one member for a term of two years, and one member for a term of one year.

The Agency pays for its operations primarily through license fees.

Table 1 summarizes the Agency’s sources and uses of funds for fiscal years 2007 and 2008.

Table 1-Sources and Uses of Funds for FY 2007 and FY 2008

Sources:	2007	2008
Solicitors Fees	\$18,900	\$19,300
Private School License	163,360	168,350
Other License, Permits & Fees	17,984	20,536
Total Sources	<u>\$200,244</u>	<u>\$208,186</u>
Uses:		
Personnel Services	\$139,661	\$164,615
Professional Services	3,541	785
Miscellaneous Administrative	5,908	4,741
Rent Expense	9,777	7,934
Other	4,577	1,290
Total Uses	<u>\$163,464</u>	<u>\$179,365</u>

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

**Authority,
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 January 1, 2007 through December 31, 2008.

Our samples were selected in such a way that whenever possible, they 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

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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 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 - To determine if the Agency's internal controls provide reasonable assurance that revenues and expenditures were accurately reported in the accounting records, and financial operations complied with 62 O.S. § 7.1.C.2.a and 62 O.S. § 7.1.E.1.

Conclusion

The Agency's internal controls provide reasonable assurance that expenditures were accurately reported in the accounting records. However, the Agency's internal controls do not provide reasonable assurance that revenues were accurately reported in the accounting records.

The Agency retains funds awaiting deposit in a locked safe, which complies with 62 O.S. § 7.1.C.2.a's requirement that funds be adequately safeguarded prior to deposit. However, the Agency only made five transfers from their clearing account in the twenty-four month audit period; this does not comply with monthly transfer requirement stated in 62 O.S. § 7.1.E.1.

Methodology

To accomplish our objective, we performed the following:

- Documented internal controls related to the receipting and expenditure processes which included discussions with Agency personnel, observation, and review of documents;
- Tested controls which included:
 - Reviewing a random sample of three months of payroll¹ and determining if payroll was approved, hours reported on the payroll funding sheet agree to the employees' timesheets, timesheets were signed by the employee, and timesheets were approved by the executive director;
 - Reviewing the OPM-14 form for all payroll changes noted on the PeopleSoft HR – All Actions report during the audit period to ensure the form was properly approved².

¹ Payroll expenses represent 86% of FY 2007 total expenditures and 94% of FY 2008 total expenditures. The next largest agency expenditures is rent, which represents 40% (FY 2007) to 50% (FY 2008) of the non-payroll related expenditures. As a result, we determine the agency's risk was in payroll expenditures; therefore, only those controls were tested.

² 70 O.S. § 21-102 stipulates the Board sets the executive director's salary. As a result, we ensured the increase in the executive director's salary was approved by the board and did not exceed the amount established in HB 1149 (state fiscal year 2008) and SB 1211 (state fiscal year 2009).

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- Discussed with personnel and observed location where funds are retained prior to deposit to ensure they are adequately safeguarded as required by 62 O.S. § 7.1.C.2.a;
- 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. § 7.1.E;

Observation

Inadequate Segregation of Duties Related to Revenue - Repeat Finding

To protect against fraud, errors, and professional misconduct, the internal control system should provide reasonable assurance assets are adequately safeguarded by properly segregating duties of employees.

For the period of January 2008 to May 2008, the administrative assistant³ was responsible for:

- Receipting monies;
- Preparing deposit;
- Issuing licenses.

For the period of June 2008 to December 2008, the executive director was responsible for performing the following duties, when the part-time administrative assistance was not on duty:

- Receipting monies;
- Preparing deposit;
- Issuing licenses.

In addition, the executive director's normal responsibilities include making the deposit and reconciling the clearing account.

Because the Agency is only authorized to have three full-time employees, segregation of duties can be challenging to achieve in a cost-effective manner. Management has attempted to mitigate the risk by using a receipt and license log; however, both logs are created by the administrative assistant. Because of the lapse of time between when funds are received and a license is issued or renewed (we noted licenses being issued anywhere from one month to twelve months from the date funds were receipted), a comparison of these logs may not be reasonable.

The Board does receive monthly financial information from the executive director; however, this information is often times prepared by the person who is responsible for several of the functions related to receipts.

As a result, we determined these logs do not mitigate the risk associated with the lack of segregation of duties, and funds could be received and not deposited.

Recommendation

Because of the staffing limitations, the Board's involvement and oversight of this Agency is vital to ensuring the public's funds are adequately safeguarded. As a result, we recommend the Board increase its monitoring responsibilities by occasionally requesting management provide them with the actual receipt book for the licensees listed on the "Staff Action report" and ensure the licensee's payment was supported by a receipt. The

³ During this period, the Agency had two part-time administrative assistants; however, they were scheduled so that only one worked each day. One administrative assistant worked Tuesday, Wednesday, and every other Monday, and the other employee worked Thursday, Friday, and every other Monday.

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Board should then trace the receipt to the bank deposit receipt and Office of State Treasurer's (OST) records. In some cases, it may not be reasonable to expect all transactions to be traced to the bank deposit receipt and OST records. In these instances, a reasonable number of licenses should be selected to trace to deposit information.

The Agency also receives funds not related to licenses. The Board should request additional financial information be provided to them by management. This could include historical information by month and/or year documenting the number of new licenses, renewals, and amounts received for other fees (catalogs, location changes, workshop fees, and license inquiry packets, etc.). The Board should review the information for reasonableness and for any unusual trends in the Agency's activities.

Views of Responsible Officials

The recommendation that the Board monitor fee collections and deposits will be presented to the Board at the July 2009 meeting with a staff recommendation that an ad hoc committee be established to review the information and make a report to the Board.

To comply with the recommendation that the Board monitor fee collections for unusual trends, staff will provide the Board with a copy of the monthly fee collections report we submit to the Office of State Finance, which shows fee collections by type of fee for the month and year to date.

Observation

Monthly Transfers from Clearing Account - Repeat Finding

62 O. S. § 7.1.E.1 states,

At least once a 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 distributed from the agency clearing account for any other purpose, except in refund of erroneous or excessive collections and credits.

PeopleSoft records indicate the Agency made five transfers in the 24 months included in our audit period. The Agency cannot expend funds received until they have been transferred into the revolving fund. As a result, by not transferring funds on monthly basis, the Agency does not have access to all available funds.

Recommendation

We recommend the Agency make transfers from the clearing account in accordance with 62 O. S. § 7.1.E.1.

View of Responsible Officials

Transfers will be made monthly from the clearing account to the Oklahoma Board of Private Vocational Schools Revolving Fund.

Additional Procedures Performed

Methodology

As a result of the control deficiencies identified under objective 1 of this report, the following procedures were performed:

- Selected a sample of four months in which licenses were approved by the Board. The licensees' payment was traced to the license log, application, receipt, and bank deposit receipt. No exceptions were noted as a result of this procedure.



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