



OKLAHOMA SCHOOL OF SCIENCE AND MATHEMATICS

Operational Audit

For the period July 1, 2014 through June 30, 2018

Cindy Byrd, CPA
State Auditor & Inspector

**Audit Report of the
Oklahoma School of Science and Mathematics**

**For the Period
July 1, 2014 through June 30, 2018**



Cindy Byrd, CPA | State Auditor & Inspector

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November 22, 2019

TO THE OKLAHOMA SCHOOL OF SCIENCE AND MATHEMATICS

We present the audit report of the Oklahoma School of Science and Mathematics for the period July 1, 2014 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,

A handwritten signature in blue ink that reads "Cindy Byrd". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR





Oklahoma School of Science and Mathematics – Operational Audit

Fiscal years 2015-2018

OBJECTIVE

Determine whether internal controls at the Oklahoma School of Science and Mathematics (OSSM) provided reasonable assurance that expenditures (both miscellaneous and payroll) and inventory were accurately reported in the accounting records.

During our planning process, concerns were brought to our attention regarding the agency's operations and control environment, and additional detailed procedures were developed to address those concerns.

WHAT WE FOUND

- **Harmful tone at the top of the agency, perpetuated primarily by the audit period Vice President of Administrative Services**

See page 5. Issues involving the VP were brought to the attention of those charged with governance during the engagement and he has since resigned.

- **Weaknesses in processes for independently approving payroll and other expenditures and tracking and safeguarding assets**

This included questionable timekeeping and pay raises for financial staff. Details begin on page 10.

- **Opportunities for improvement in oversight, communication, and development of formal policies and procedures**

See information throughout report.

ENGAGEMENT BACKGROUND

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.

We focused on the major financial-related areas of operations based on assessment of materiality and risk for the period July 1, 2014 through June 30, 2018.

WHAT WE RECOMMEND

We recommend those charged with governance:

- Evaluate and improve OSSM's control environment and internal communication.
- Develop policies and procedures to formalize and support those improvements.
- Improve financial internal control activities as outlined in the report, considering any structural changes that have occurred since the audit period.
- Consider topics for further consideration compiled on page 18.

Throughout our procedures and meetings, the president and board members were cooperative and clearly invested in OSSM's improvement. They have made steps and expressed further plans to improve the environment and processes at the agency, as further detailed in their responses.

Oklahoma School of Science and Mathematics

Operational Audit

Background

The Oklahoma School of Science and Mathematics (OSSM, or the Agency) was created through legislative action in 1983. It is designed as a two-year residential public high school for students academically gifted in mathematics and science. There are seven regional centers located throughout Oklahoma, as well as a virtual regional center program where teaching is delivered by an instructor via live interactive video. Its mission is to educate students who show promise of exceptional academic development through a program of instruction and discovery that challenges them far beyond the traditional high school model, imparting a superior foundation for careers in science, technology, engineering, and mathematics fields.

OSSM operates under three departments:

- Office of the President: the president and his executive secretary.
- Administrative Services: vice president of Administrative Services (referred to as the VP of Admin Services in the report), controller, dean of students, residence hall supervisor, director of public info and policy development, director of development, facilities manager, laborers, receptionist, and administrative assistants.
- Academic Services: director of academic services, faculty, library staff, student counselors, and admissions staff.

Oversight is provided by the 23-member board of trustees (the Board). Board of Trustees as of November 2019:

Dan Little	Chair
Dr. David Drennan	Vice Chair
Dr. John Armitage.....	Trustee
Lance Benham	Trustee
Dr. Kent Buchanan	Trustee
Jack Coffman	Trustee
Superintendent Tom Deighan.....	Trustee
Dr. Kelley Dowd	Trustee
Gary Ellis.....	Trustee
Dr. Michael Jordan.....	Trustee
Dr. Paul Kincade	Trustee
Dr. Lara Mashek.....	Trustee
Ron Mashore	Trustee
Geoffrey Simpson	Trustee
Sen. Gary Stanislawski	Trustee
Donna Windel	Trustee
Cody Yocom	Trustee
Dr. David Wrobel.....	Ex-Officio Member
Joy Hofmeister	Ex-Officio Member
Dr. Glen Johnson.....	Ex-Officio Member
Dr. Glen Krutz.....	Ex-Officio Member
Joseph Parker.....	Ex-Officio Member
Dr. Kalpana Misra.....	Ex-Officio Member

Oklahoma School of Science and Mathematics

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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	\$ 6,425,141	\$ 6,082,393
Private Grant & Donat. For Opns	255,059	309,996
Tuition Income-Not Highter Ed.	94,854	51,299
Reimb for Prop Eqpt & Rel Debt	42,199	180,768
Deposits by Attendees	20,346	13,782
Rent from Buildings	3,995	7,434
Identification Card Fee	2,955	2,210
Other Sources	208	1,336
Total Sources	\$ 6,844,757	\$ 6,649,218
Uses:		
Personnel Services	\$ 4,057,336	\$ 4,654,772
Administrative Expenses	1,493,189	1,433,455
Buildings-Purchase, Lease and Construction	593,088	195,169
Professional Services	264,160	296,834
Property, Furniture, Equipment	227,718	267,511
Travel	6,022	16,079
Refunds, Indemnities, Restitution	688	167
Total Uses	\$ 6,642,201	\$ 6,863,987

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

Oklahoma School of Science and Mathematics Operational Audit

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 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.

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, 2014 through June 30, 2018. Unless otherwise discussed in the report, detailed audit procedures focused on the period of July 1, 2016 through June 30, 2018, addressing the most current financial processes and providing the most relevant and timely recommendations for management.

Items of concern were brought to our attention during the audit that required us to notify those charged with governance prior to the completion of the audit. This information prompted those charged with governance to hire an investigator to review the concerns identified. Post-audit events transpired during fiscal year 2019 and, where applicable, are noted throughout the report.

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the OSSM operations. Further details regarding our methodology are included in the report and the appendix.

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. In addition to random sample selection, we also judgmentally selected a sample of inventory items. We identified specific attributes for testing each of the samples.

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.

Oklahoma School of Science and Mathematics

Operational Audit

OBJECTIVE	Determine whether the Agency's internal controls provide reasonable assurance that expenditures (both miscellaneous and payroll) and inventory were accurately reported in the accounting records, and that the president's salary complied with 74 O.S. § 3601.2.
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Conclusion

The Agency's internal controls did not provide reasonable assurance that miscellaneous expenditures, payroll expenditures, or inventory were accurately reported in the accounting records.

Financial operations did comply with 74 O.S. § 3601.2, which limits the President's salary.

Concerns regarding the Agency's operations and control environment were brought to our attention during the engagement. Where appropriate, they were weighed against applicable criteria and the details and related recommendations are included in our report.

For items of concern that were noted and potentially called for urgent follow-up actions, we determined it was necessary to present the information to those charged with governance prior to the completion of the audit.¹ After information was presented by our office, the VP of Admin Services was put on administrative leave and has subsequently resigned. During his leave, multiple individuals within the Agency came forward to the president expressing concerns about the VP. These concerns caused those charged with governance to hire an outside investigator to review the issues presented. Therefore, some pertinent information is excluded from this report due to the confidential or sensitive nature of the information and the investigation. This information was provided to the board of trustees and to legal counsel for OSSM.

A summary of the views of those charged with governance is presented in their words after each recommendation, with further details in their letter at Appendix B.

¹ According to Government Auditing Standards section 6.78, "For some matters, early communication to those charged with governance or management may be important because of their relative significance and the urgency for corrective follow-up actions." Information provided in this manner was not significant within the context of our audit objective and would not have altered our conclusion with respect to the objective if included in the report.

CONTROL ENVIRONMENT

Throughout our engagement, we had the opportunity to interact with numerous members of OSSM’s administrative and academic staff and other student support personnel at all levels of the agency.

Many concerns related to OSSM’s control environment were brought to our attention through on- and off-campus meetings, phone calls, employee surveys, and other correspondence. Most of these concerns focused on the power centered in the VP of Admin Services, and his behavior on campus and toward the rest of OSSM’s staff. We took careful steps to ensure any concerns presented here were validated with multiple individuals, across Agency divisions, and by our own procedures and experiences at OSSM.

This section of the report addresses how the harmful tone and acts of the VP of Admin Services impacted the Agency’s work environment and financial controls. Specific weaknesses in internal controls and compliance are addressed in the next report section.

**Importance of
the Control
Environment**

Management’s ethics, integrity, attitude, and operating style are the foundation of all other internal control components that help an entity achieve its objectives and minimize risk. According to government internal control standards produced by the federal Government Accountability Office (GAO standards)², the agency-wide control environment has a pervasive influence that affects all activities of the organization. The governing board, president, and entire management team must all contribute to creating a positive control environment or “tone at the top.” The governing board sets the proper tone for the control environment when it establishes and communicates a code of ethics, requires ethical and honest behavior from all employees, observes the same rules it expects others to follow, and requires appropriate conduct from everyone in the organization. Management’s philosophy and methods of employee direction and development also greatly influence this environment. Management demonstrates the importance of integrity and ethical values through their directives, attitudes, and behavior.

There is a considerable opportunity for improvement to the control environment at OSSM. During the audit period, the VP of Admin Services actively fostered a negative environment and set a poor example for staff and students, and rather than being reprimanded, he received multiple raises (see page 12). This appears to result in part from the Board

² Although this publication (GAO standards) addresses controls in the federal government, this criterion can be treated as best practices. The theory of controls applies uniformly to federal or state government

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of Trustees having been isolated from his everyday behavior and general staff input, as well as management's desire to avoid conflict.

Concentration of Power in VP of Admin Services

GAO standards for internal controls state that management should establish an organizational structure designed to achieve the entity's objectives. This entails assigning responsibility and delegating authority to key roles throughout the entity.

As the head of Finance, a division he shared with only one other employee whom he supervised, all requests and decisions related to purchasing and budgeting flowed through the VP of Admin Services. Employees in various divisions at OSSM felt if the VP didn't like them, they could not obtain the tools they need to do their jobs.

While the VP of Admin Services has a Finance background, he was also placed over the Dean of Students and the Residential Life area of OSSM's organizational chart and handled OSSM's human resources matters. In addition, he was appointed as OSSM's grievance manager, making it difficult for staff to report grievances that related directly to him. Overall, staff felt the VP of Admin Services had the final word in all financial and personnel decision making, bypassing the president's authority, and that he also did not appropriately delegate approvals or authority to other areas of expertise, such as Academics.

Multiple staff members further expressed concerns that they had been placed under intense and increasing surveillance (above and beyond what they considered reasonable for a secure campus environment) at the direction of the VP of Admin Services. This included video surveillance, protections on internet access that impeded staff job duties and student work, and key card access to buildings and offices controlled solely by the VP of Admin Services.

By allowing increasing control to be placed with the VP of Admin Services, those charged with governance did not assign responsibility and delegate authority to key roles throughout the entity as required by GAO standards. This added to the staff's perception that adequate checks and balances were not in place over the VP of Admin Services, permitting him to break rules and make biased decisions without reprisal.

VP of Admin Services: Personal Behavior

Smoking and Dress Code Violations

The VP of Admin Services regularly flouted OSSM's dress guidelines and smoked on campus despite clear regulations to the contrary. In addition to receiving reports of these behaviors from numerous employees, during our visits we observed the VP smoking on campus and wearing unprofessional attire³ that was inconsistent with the employee dress code.

³ During our visits, this attire included baseball caps, do-rags, jeans, flip-flops, and logo t-shirts.

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In addition to being generally unprofessional, this behavior did not adhere to state law or OSSM policies.

Per guidelines distributed to all employees upon hire, “Professional dress is always expected. However, Friday is casual day-appropriate jeans and casual clothes may be worn unless there is an event that day that requires more professional clothing.”

21 O.S. § 1247 states: “All educational facilities or portions thereof as defined in the Smoking in Public Places and Indoor Workplaces Act and all educational facilities as defined in the 24/7 Tobacco-free Schools Act shall be designated as non-smoking.” According to the OSSM’s Tobacco-Free Policy, the use of tobacco products is prohibited throughout all indoor and outdoor areas of property owned or under the control of Oklahoma School of Science and Mathematics.

According to the Oklahoma State Department of Health⁴, “Research shows that tobacco use affects academic performance,” “Schools must promote healthy lifestyles rather than enabling addictions,” and, “It is important that schools model respect for state laws.” It stands to reason that employees should extend this same level of respect to internal rules, especially those as straightforward as OSSM’s tobacco and dress code policies. The failure of the VP of Admin Services to conform to these expectations set a poor example for students and other staff, caused confusion as to what the rules truly are, and undermined his authority when he then enforced these policies with other staff.

Other Questionable Behavior

We received a variety of troubling reports regarding other aspects of the VP’s on-campus behavior, including offensive comments made toward other staff members. Additional details regarding these allegations have been provided to the board of trustees and the Agency’s legal counsel for further consideration.

Ineffective Communication and Oversight

The GAO standards emphasize that accurate and timely communication is essential within the organization, at all levels. The governing board should gather appropriate information to properly maintain oversight of the agency and deal with any issues that may arise:

- The oversight body should receive quality information that flows up the reporting lines from management and personnel. This upward communication is necessary for the effective oversight of internal control.
- Personnel should use separate reporting lines to go around upward reporting lines when these lines are compromised.

⁴ OSDH discusses “Reasons for Tobacco-Free School Environments” online at https://www.ok.gov/health/Wellness/Tobacco_Prevention/24_7_Tobacco-Free_Schools.html.

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OSSM employees repeatedly stated that communication within the agency and with the board is limited and there is little transparency when decisions are made. In part due to inadequate communication, oversight appears to have suffered. Some of the staff we met with reported having shared their concerns and negative experiences with the president, other authority figures at OSSM, and even with the board by letter. This reportedly resulted in no investigations or repercussions at the time.

Before the close of our procedures, we met with two board representatives and the president to clarify their roles and to share some pressing concerns. They were attentive and thoughtful about these matters and, as discussed under our conclusion, have reported already taking steps to address them.

Lack of Clear and Current Policies and Procedures

Many specific issues and weaknesses identified in our procedures and by OSSM staff related to purchasing, inventory, and timekeeping rules that are not clearly outlined in policies and procedures at the Agency. Without formal guidance, management's expectations and rules for employees are not clear. As favoritism and bias on the part of the Finance department were also common concerns, written policies would make it easier to ensure staff are treated equitably and in line with state rules. The need for improved policies and procedures are discussed again at the close of this report, after further context has been provided.

Impact on Mission

According to GAO standards, the oversight body and management reinforce the commitment to doing what is right, not just maintaining a minimum level of performance necessary to comply with applicable laws and regulations, so that these priorities are understood by all stakeholders, such as regulators, employees, and the public.

Services to students and faculty effectiveness are impacted by these administrative concerns. Some staff feel scheduling is unfair, and funds are concentrated on administrative needs and tending the school's grounds while classrooms lack current textbooks and equipment. Others worry the school is not keeping up with developments in technology and teaching methodology, and teacher qualifications may be diminishing.

Overall, faculty and other student-facing staff expressed the concern that in the current OSSM environment, the mission of the school has become lost and student recruitment and retention are down. While a detailed assessment of OSSM's adherence to its mission is outside the scope of this audit, we have included it in the list of topics for future consideration at the end of this audit report.

Recommendations

We recommend those charged with governance of OSSM:

- Recognize the risks associated with a negative control environment and work toward evaluating and addressing the condition to ensure OSSM's mission is accomplished in the most efficient and positive manner possible. In addition, they should be cognizant of the risk associated with ineffective communication within the Agency and work to establish a system of clear communication that relays information from the bottom of the organization to the top and vice versa.
- Ensure policies and procedures are developed internally to create an organizational structure that fosters trust and open communication in the agency. Policies should include the authority and responsibilities assigned to the board, senior management, and general management, including supervisors. Policies should be in place to include provisions for grievances that relate to the appointed grievance manager. Complaints reported by staff or students should always be taken seriously. Complaints should be formally documented and thoroughly investigated by an independent party. The Board should be made aware of significant complaints and how they are resolved.
- Ensure the current rules for proper dress and behavior on campus are set forth in the Agency's policies and enforced for all staff, no matter their position or title. In addition, state laws regarding tobacco use should be enforced.
- Consider delegating approval responsibilities to staff outside of the Finance office in appropriate situations. For example, the Vice President of Academic Services, who works more closely with faculty, could approve their purchases and timekeeping records or work with someone she assigns to do so.
- Take serious steps to evaluate the position of the VP of Admin Services, formally documenting any resulting changes to responsibilities and considering any impacts on internal controls.
- Consider future internal procedures or external engagements to examine the topics for further consideration compiled on page 18.

Further recommendations are provided in the next report section.

Views of Responsible Officials

OSSM has addressed most of the concerns about the control environment raised by OSAI. For a more detailed response, please see the attached response letter from OSSM.

INTERNAL CONTROLS AND POLICIES AND PROCEDURES
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**Unauthorized
Payments May
Occur Due to
Inadequate
Segregation of
Duties**

The controller is responsible for posting expenditures to the statewide accounting system, and the VP of Admin Services is responsible for first independently approving the invoices. We examined a random sample of 80 expenditure claims⁵ and noted two claims that did not reflect approval by the VP of Admin Services.

GAO standards state 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 should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling and related assets. No one individual should control all key aspects of a transaction or event." The GAO Standards further require 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.

Without adequate segregation of duties, the Controller could make an unauthorized or erroneous payment without detection. While the VP of Admin Services performs a post-payment expenditure review that could identify issues arising from this weakness, pre-payment reviews are still key to detecting errors and potentially unauthorized purchases in a timely manner.

In addition, due to the audit period control environment concerns discussed earlier in this report, reviews performed at any point in the process by the VP of Admin Services may not be entirely effective or reliable. Throughout our assessments of internal control activities, we evaluated the current process both as it is generally designed and in light of the current control environment and additional authority held by the VP of Admin Services.

Recommendation

We recommend a knowledgeable party independent of the posting process consistently review all expenditure invoices. Evidence of this review should be retained with the date and signature of the reviewer included.

Views of Responsible Officials

OSSM is improving its payment process. For a more detailed response, please see the attached response letter from OSSM.

⁵ 40 claims each from fiscal years 2017 and 2018, approximately 6% of the population of 1,347 expenditure claims

**Conflicting
Duties in
Payroll Process
Lead to Risk of
Unauthorized
Pay Rate
Changes or
Payroll Errors**

Conflicting duties within the Agency's payroll process put it at risk of unauthorized pay rate changes and errors or misstatements in payroll payments.

The controller and the VP of Admin Services stated that they switched off months running payroll; if one runs payroll, the other signs off on the payroll claim. We reviewed the payroll documentation for six months from fiscal year 2017 and six months from fiscal year 2018 and noted that in November 2016 and September 2017 (17% of tested months), the individual who had processed the payroll reports was the same individual who had signed the payroll claim document indicating their review. The payroll claim was not approved by the other party.

In addition, the Agency was not able to provide evidence of formal approvals for three of four pay rate changes we initially requested while verifying the payroll process. Further procedures related to pay rate changes are detailed below.

As discussed previously, the GAO standards emphasize the importance of properly segregated duties in financial processes. The standards also state in part, "an effective internal control system has in place policies and procedures that reduce the risk of errors, fraud, and professional misconduct within the organization. Key factors in this system are the environment established by management, and effective information and communication to achieve the agency's objectives."

Due to these payroll control deficiencies and a significant finding related to the control environment that involved financial personnel, we performed additional procedures related to the payroll process.

Payroll Increases

We reviewed supporting documentation for pay raises of approximately 10% and above (13 raises) that were given during our audit period. Per Agency process, these changes are to be approved by the President, the VP of Admin Services, and the controller. The controller is responsible for making the changes in the statewide accounting system based on the approved HCM-92 form⁶.

We noted the following:

- The Finance department was unable to provide the HCM-92 form for one employee.
- The VP of Admin Services and the controller received a total of approximately 25% in pay increases between July 1, 2017 and July 2, 2018. The HCM-92 form supporting the pay increase given on July 1, 2017 (a 10% raise for each of them) was not approved by

⁶ State form reflecting required approvals through cabinet secretary for changes to salaries and positions.

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the President and contained only the signatures of the controller and the VP of Admin Services. The chart below provides the salary adjustments given to the VP and the controller during the audit period:

	Monthly Salary prior to 07/01/17	Monthly Salary as of 07/02/18	Change	% Change
Controller	\$ 5,000	\$ 6,250	\$ 1,250	25%
VP of Admin Svcs	\$ 6,648	\$ 8,292	\$ 1,643	25%

Source: Statewide Accounting System, HR Actions data

The controller and the VP of Admin Services are responsible for running payroll, approving payroll claims, and making payroll changes. This creates the opportunity for either of them to make unauthorized payroll changes or make errors in the records without detection. When we discussed these pay increases with OSSM's president, he commented that he had discussed the matter with Finance staff and believed he had approved the raises. However, given the troubling dynamic outlined in the first section of this report, even if a signed form were present, these changes might still seem questionable given the size of the raise over a one-year period.

Finance Staff Timekeeping and Leave Usage

Multiple staff reported that the VP of Admin Services and the controller were frequently late or absent from work. According to the President, while not formalized, the expected office hours for the Finance department are 8:00AM to 5:00PM, and employees are expected to work 40 hours per week. The Agency does not have written policies for working hours. Due to a lack of reliable timekeeping records we were unable to determine if the VP of Admin Services and the controller met the 40-hour work week expectation.

Using key card records provided by Agency staff, we performed an analysis on four months during our audit period to determine the days the VP of Admin Services and the controller had, at minimum, used their key cards to access the office. There were 9 days the VP of Admin Services did not scan his access card, and 5 days the controller did not scan her card, that did not correspond to any leave being used in the Human Capital Management System (HCM, the state employee timekeeping system).

As the Agency does not have telecommuting permissions or procedures in place, even if Finance staff somehow made up the time in question or worked at an alternate location, their deviations from the daily and

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weekly work hour expectations create the appearance that the rules do not apply to them and set the tone that rules do not have to be followed.

The VP of Admin Services and the controller did not submit their timesheets for approval and were responsible for entering their time into the HCM System. The lack of outside monitoring of these individuals enhances the risk of time reported and leave used in the HCM System being misstated.

Faculty Service Hours

Members of faculty reported not receiving proper or equitable recognition of their volunteer service hours (hours worked outside the classroom, for example supervising student activities or recruiting). The agency does not have formal written policies outlining how service hours are earned and tracked. This has resulted in confusion among faculty as to what tasks count as service hours and forced some faculty to use their annual leave in place of service hours. Such a decision is made at the discretion of the VP of Admin Services.

Compensatory Time

Similarly, other staff reported that they were not receiving proper recognition of hours worked outside the normal work day. The rules for compensatory time for overtime hours (comp time) communicated to us during the audit conflict with written policies discovered later in the audit process. The written policies state in part "comp time is to be approved by the President or Vice President and should be used within 180 days." The rules enforced by financial personnel are that Employee's immediate supervisor approve comp time and the time is to be used within the month. Some staff reported not receiving credit for extra duties at all, again at the discretion of the VP of Admin Services.

Reduced Services

The Agency is not in compliance with HCM Rule 260:25-15-71, which states in part, "Employees who are considered responsible for basic minimum services and who are required to work when state services are temporarily reduced due to hazardous weather conditions shall be entitled to accrue administrative leave on a straight-time basis." The agency is a residential campus and all employees are considered essential and required to work when there is a reduction in services. However, employees have not accrued administrative leave for their hours worked. It is also unusual given our experience across state agencies that such a large amount of administrative staff would be considered "essential."

Recommendation

- We recommend management segregate duties to ensure that employees responsible for reviewing and approving payroll claims do not have the ability to make changes to payroll or personnel data in the statewide accounting system. We also recommend that the president periodically independently review payroll claims and supporting documentation to ensure payroll has been processed correctly and reviewed independently and provide assurance that only authorized payroll changes are made.
- Management should ensure policies for comp time and service hours are clearly documented and align with any applicable state rules and regulations. Staff should receive adequate review time and training when policy changes occur.
- The president and others charged with governance should reconsider whether it is necessary and appropriate for all staff to be deemed essential to the basic operations of the agency during a reduction in services. They should also determine which staff should be considered essential during hazardous weather conditions when there are students present on campus, and when students are not present. Policies and procedures should reflect such decisions and comply with Human Capital Management Rule 260:25-15-71, which states that employees should accrue administrative leave on a straight-time basis up to eight hours per day for hours worked in their regularly scheduled work periods during a reduction in services.
- We recommend that management ensure work hour guidelines are clear. In addition, an independent party should review finance department timekeeping records for accuracy and ensure that leave has been reported in the HCM System correctly.

Views of Responsible Officials

OSSM is diversifying payroll duties and addressing other areas of concern related to payroll highlighted by OSAI. For a more detailed response, please see the attached response letter from OSSM.

**Inventory at
Risk for Error
and Theft,
Records
Unreliable**

In addition to emphasizing the importance of properly segregating key duties to decrease risk as discussed previously, the GAO standards state that in order to safeguard vulnerable assets, "Such assets should be periodically counted and compared to control records."

Inadequate Segregation of Duties and No Independent Inventory Counts

The IT technician is responsible for the vast majority of duties related to IT inventory, including receiving items, tagging them, maintaining inventory records, and performing inventory counts. The controller is responsible for maintaining the non-IT Inventory records. Non-IT inventory counts are not performed.

Inventory records for both types of inventory are not independently reviewed. As a result, both the IT technician and the controller have the opportunity to misappropriate inventory items and could make errors or alterations in the records without detection. Furthermore, inventory listings may be inaccurate, lost or stolen items are less likely to be identified, and OSSM's records may be incomplete for risk management purposes.

Unreliable Inventory Records and General Lack of Documentation

One concern brought to us repeatedly by a wide variety of staff was that members of OSSM faculty and other staff do not have sufficient equipment to perform their jobs while others, specifically in the Finance department, have excellent equipment. Various reasons were given by staff/faculty:

- The VP of Admin Services controls purchasing and does not have realistic knowledge of the needs of the faculty/other staff
- Allegations of favoritism by Finance staff
- Delayed purchasing due to the Finance personnel being frequently late or absent

Because purchase requests are generally informal and related documentation is not retained, it was not possible for us to perform detailed procedures to identify trends in what purchases were approved or disapproved or the reasoning for those decisions.

In addition, the Agency's inventory data is contained in multiple reports, which are difficult to tie together and do not entirely reconcile. We met with IT staff regarding the quality and age of IT equipment and disparities between employees, and the issue was brushed off as one of perception.

In a final attempt to improve our understanding of inventory assignments, we judgmentally selected five employees in the central office and physically observed their computer equipment. We found the equipment in the inventory records, but three pieces of equipment were missing serial numbers and one item was missing its identification tag. This further confirmed the inventory records are unreliable and incomplete.

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Due to an overall lack of reliable documentation, it was not feasible to perform further procedures related to inventory and purchasing.

Recommendation

We recommend an exhaustive inventory count be performed to bring inventory records up to date and ensure they are accurate and complete. Going forward, management should ensure comprehensive physical inventory counts are performed and documented annually. The counts should be performed by someone independent from maintaining inventory records. In addition, another independent authority should review the results of each count, ensuring removed items have been authorized and significant purchases have been added. Documentation of the count and approval should be retained.

Management should develop policies and procedures to ensure regular inventory counts occur and are performed by the appropriate individuals, and that guidance for purchasing decisions is provided and appropriately independent parties are involved in the purchasing process.

Views of Responsible Officials

OSSM is committed to updating and maintaining its inventory records. For a more detailed response, please see the attached response letter from OSSM.

Inadequate Policies and Procedures

When we began our audit engagement and made standard inquiry about OSSM's policies and procedures, we were told the Agency follows state rules and has adopted state policies, with little further detail. Only at our final meeting were we given a packet of policies and guidance of varying ages that is provided to OSSM employees upon hire. These included the dress code and smoking prohibition discussed previously.

The preceding sections of this report outline many areas where OSSM would benefit from developing and implementing clear written policies and procedures. We identified a few additional areas of concern brought forward by multiple employees that could be clarified through policy:

- Mileage reimbursements and Agency vehicle use
- Equipment usage (including the dorm elevator and golf cart)
- Resident life handbook content and enforcement

To refer to the GAO standards a final time, "an effective internal control system has in place policies and procedures that reduce the risk of errors, fraud, and professional misconduct within the organization. Key factors in this system are the environment established by management, and

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effective information and communication to achieve the agency's objectives."

The absence of written policies and procedures not only limits the criteria available to us for auditing, but leaves staff unsure of how to address important issues and unable to hold management accountable. Clear policies are especially important at a unique entity such as OSSM where, for example, issues of faculty scheduling, recruiting, and events outside regular business hours must coexist with state personnel rules and reporting systems. They help staff understand the intentions and priorities of those charged with governance and give them the opportunity to meet management's expectations and to be treated equally with their coworkers.

Recommendation

Management should ensure essential policies and procedures are developed and regularly reviewed and updated. Refer to additional policy recommendations throughout the report.

Adequate time should be allowed for staff to review new policies and procedures, and training should be provided, if necessary, to ensure compliance with such policies and procedures.

Views of Responsible Officials

OSSM is updating or codifying its policies and procedures. For a more detailed response, please see the attached response letter from OSSM.

<h3>TOPICS FOR FUTURE CONSIDERATION</h3>

The following topics came to our attention during our procedures and, as they are outside the scope of this engagement, we recommend further study on each of them in the future:

- The Agency's effectiveness in meeting its mission.
- Qualifications, certifications, and equitable scheduling of faculty members.
- Appropriate reporting of any taxable dorm room and boarding benefits provided by OSSM.
- The relationship between OSSM and its Foundation, including funding activities and sharing employees between the entities.

APPENDIX A: Objective Methodology

To accomplish our objective, we performed the following:

- Identified significant internal controls related to miscellaneous expenditures and tested those controls; see results in the related finding. Procedures included:
 - Reviewing a random sample of 80 expenditure claims from a population of 1347 (6%) to ensure the claims were reviewed by someone independent of the posting process.
 - Reviewing a random sample of 12 months' warrant registers (50% of months in the population tested) to ensure they reflected review of expenditures by someone independent of the expenditure posting process.
- Identified significant internal controls related to payroll and tested one control; see results in the related finding. Procedures included:
 - Reviewing a random sample of 12 monthly payroll claims (50% of months in the population tested) to ensure claims and supporting documentation were independently reviewed and approved.
 - Analyzing and reviewing documentation related to substantial pay raises to ensure they appear appropriate and were properly approved. See details in finding.
 - Reviewing building access records, leave usage, and other timekeeping records for finance staff.
 - Examining agency policies and processes for handling service hours, comp time, and reduced services.
- Identified significant internal controls related to Inventory; see results in related findings.
 - Examined inventory records to the extent possible and inspected inventory items assigned to specific staff members during procedures related to broader concerns. See further discussion in Inventory finding.
- Reviewed HR Records from the State-wide Accounting System for all months during the audit period to ensure the director's salary complied with guidance set forth in 74 O.S. § 3601.2.
- Reviewed state laws and agency policies regarding professional dress and prohibition of smoking on campus; see details in related finding.
- Reviewed Merit Protection guidelines, auditing standards and the agency's internal organizational chart relating to the agency's appointed grievance manager.
- We also performed procedures as necessary to validate and assess the level or risk related to certain concerns brought to our

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attention during the engagement, including a review of agency documentation and statewide accounting system data, discussion with OSSM staff, and additional procedures as needed.

APPENDIX B: Detailed Responses from Those Charged with Governance of OSSM to Audit Recommendations

See attached letter beginning on next page.



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November 20, 2019

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MELISSA CAPPS, *Deputy Director*

OFFICE OF THE STATE AUDITOR AND INSPECTOR

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Oklahoma City, OK 73105

Re: Operational Audit for the Oklahoma School of Science and Mathematics

Dear Auditor Byrd & Director Capps:

Please accept the following as OSSM's responses to the operational audit performed during the 2019 fiscal year. The responses reflect the collective position of both OSSM's administration and governing body.

I. OSSM's Response to Findings Under "Control Environment"

Effective July 2, 2019, OSSM's longtime Vice President for Administrative Services Lynn Morgan retired from his position after a discussion with the President and Chairman of the Board about the draft audit report and findings of an investigative report requested by OSSM.

To the extent that the Audit Report alleges or alludes to the possibility that OSSM's administrative atmosphere impacted its mission, OSSM strongly and respectfully disagrees. OSSM also notes, as OSAI did itself, that a detailed assessment of OSSM's adherence to its mission is outside the scope of this audit. Notwithstanding, OSSM acknowledges its faculty's and student-facing staff's concerns about the administrative turmoil having a deleterious effect on OSSM's mission. Despite the behind-the-scenes unease, the Class of 2019 was offered nearly \$12 million dollars in scholarships from universities around the world. On average, each student was offered \$315,000. Students in the Class of 2019 were admitted to Harvard, Massachusetts Institute of Technology, Princeton University, Stanford University, and at Oklahoma's flagship universities where they received the highest amounts of scholarships offered. Notably, this year's incoming junior class of ninety-six (96) students is the *largest ever*, and it entered OSSM with the *second highest* average ACT score (29.0) *ever*. The Senior Class of 2020 entered with the *highest* average ACT score of 29.2. OSSM will diligently work to erase any perception that it has lost focus on the mission of its students and school.

Regarding the use of security cameras on campus, an outside investigator retained by OSSM found that the security cameras invade neither any faculty or staff member's privacy nor that of any student. All cameras are placed at entry and exit points of school buildings. Additionally, internet access is also restricted at OSSM to the extent necessary to protect minor students from accessing prohibited content and only during specific times of the day. OSSM's restrictions on internet access attempt to ensure an optimal learning environment for its students.

OSSM has recently launched a search for the position of HR Generalist and Executive Assistant. OSSM's hiring of a human resources professional will ensure that grievances can be brought forward and dealt with fairly and expeditiously. He or she will also be instrumental in assisting the Board, President, and OSSM administration with adopting personnel policies, especially the employee handbook discussed in Section V, and their implementation and enforcement.

In Section II, OSSM will discuss the steps it is taking to segregate the concentrated duties and responsibilities assigned to the former Vice President of Administrative Services, which OSAI focused on in its Report. Please see also Section V below for OSSM's comments on inadequate policies and procedures.

II. OSSM's Response to Findings Under "Unauthorized Payments May Occur Due to Inadequate Segregation of Duties"

Most importantly, the audit report reveals that no unauthorized payments were found, and only two of the audited sample of eighty (80) claims lacked approval from the Vice President of Administrative Services. Moreover, the audit for fiscal year 2013 and the audit for calendar year 2008 both found that OSSM's internal controls were sufficient.

Nevertheless, OSSM will be expanding its financial team to include two (2) other individuals, and the President will also receive the necessary training to become an approval signatory for purchases. Approval for academic-related purchases will be shared with the Vice President for Academic Services. The expansion of the financial team as well as the shared responsibility of OSSM's financial affairs will better protect OSSM's funds and provide greater context for determining its strategic goals. Additionally, OSSM's Board of Trustees' committees intend to meet more frequently to monitor and advise on the school's operations, including but not limited to personnel, finance, admissions, academics, and development.

III. OSSM's Response to Findings Under "Conflicting Duties in Payroll Process Lead to Risk of Unauthorized Pay Rate Changes or Payroll Errors"

OSSM does not dispute that some of the forms turned in for raises were not signed by President Wang. However, the raises in question were verbally approved by President Wang and were subsequently ratified by the cabinet secretary. Prior to his raise in 2017, the Vice President for Administrative Services had not received a raise since 2006. Prior to her raise in 2017, OSSM's Controller had not received a raise since coming to work for OSSM in 2006. Some amount of the raises, although minimal, is attributable to legislative pay raises in 2018 and 2019. Even more, the overall annual increase in pay of the Vice President for Administrative Services was 1.86% from 2006 to 2017. The Controller's overall annual increase was 2.26% per year compounded

annually. At no time were these individuals compensated above OMES ranges. See Section II above concerning the Board of Trustees' efforts to provide more oversight.

OSSM is evaluating the findings of the audit, and it is expediting its search for resources, including those with the Office of Management and Enterprise Services, to assist with a number of essential duties and roles. OSSM has also consulted with the Oklahoma Department of the Military for resources to adapt for use by OSSM, which includes the roll out of a monthly timesheet. A new comprehensive employee handbook, mentioned below in Paragraph V, will hopefully alleviate the audit's concerns regarding faculty service hours, compensatory time, and reduction of services.

IV. OSSM's Response to Findings Under "Inventory at Risk for Error and Theft, Records Unreliable"


OSSM is currently seeking to add to its team an individual with a background in accounting and/or inventory control to address the issues raised about maintaining current inventory records. This individual will also play an integral role in ensuring that accounting duties are segregated between more than two (2) individuals as outlined Section II above. OSSM intends that this person will annually verify its inventory, and he or she will seek the advice of counsel to formulate a comprehensive plan to manage and accurately record inventories under OSSM's possession and control. In addition to its main campus in Oklahoma City, OSSM oversees regional centers across the state, which possess additional property that OSSM will need to inventory. OSSM is committed to creating accurate, real-time records of its property inventory that will be verified annually.

V. OSSM's Response to Findings Under "Inadequate Policies and Procedures"

OSSM is currently working with its legal counsel to install required policies and procedures, including a comprehensive employee handbook. While many policies and procedures were never codified, they were routinely followed as longstanding institutional norms. Additionally, upon his appointment, OSSM President Frank Wang began the process of codifying some of the policies. Notwithstanding, the policies and procedures do require updates and revision.

Please feel free to contact OSSM if you have any questions.

Respectfully,


FRANK Y. H. WANG, PH.D.
President


DAN LITTLE
Chairman of the Board

cc: NIKI BATT, *Vice Deputy Attorney General*
THOMAS R. SCHNEIDER, *Assistant Attorney General*



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