



OFFICE OF EDUCATIONAL QUALITY & ACCOUNTABILITY

Operational Audit

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

Cindy Byrd, CPA
State Auditor & Inspector

**Audit Report of the
Office of Educational Quality and Accountability**

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

January 29, 2019

TO THE OFFICE OF EDUCATIONAL QUALITY AND ACCOUNTABILITY

We present the audit report of the Office of Educational Quality and Accountability 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,



CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR



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Background

The Office of Educational Quality and Accountability (OEQA, the Agency) was established by the Legislature in 2013, having previously been organized as the Office of Accountability under the Education Oversight Board. Effective July 1, 2014, the Oklahoma Commission for Teacher Preparation’s programs and personnel became part of OEQA.

The Agency is responsible for many programs and tasks, among them:

- Administering the Oklahoma Educational Indicators Program, serving as a clearinghouse for statistical information from common education, career and technical education, higher education, and several other state agencies.
- Administering the Oklahoma School Performance Review Program, which comprehensively analyzes the performance of Oklahoma’s public school districts in all areas of operation.
- Ensuring quality teacher preparation by approving and accrediting new teacher education programs, reviewing and assessing existing teacher education programs, assessing teacher candidates for licensure and certification, and encouraging studies and research designed to improve teacher education.

The commission states that it is committed to developing and sustaining a well-prepared professional teacher workforce ensuring that all Oklahoma students have the opportunity to be academically successful.

Oversight is provided by seven commissioners (the Commission) appointed by the governor.

Commissioners as of January 25, 2019 are:

Secretary Michael Rogers.....	Secretary of Education, Chair
Ms. Amy Bixler.....	K-6 Teacher Member
Mr. Douglas Brown	Parent Member
Mr. Bruce Day.....	Business & Industry Member
Mr. Phredd Evans	7-12 Teacher Member
Dr. Bo Hannaford.....	Higher Education Member

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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	\$ 1,703,373	\$ 1,620,720
Licenses, Permits, Fees	162,260	221,100
Charge for Services	293,324	176,015
Other Revenues	70,159	4,858
Total Sources	\$ 2,229,116	\$ 2,022,693
Uses:		
Personnel Services	\$ 1,089,928	\$ 1,043,572
Professional Services	316,674	323,597
Travel	59,955	58,526
Administrative Expenses	377,381	374,032
Property, Furniture, Equipment	6,946	2,372
Assistance, Payments to Local Govn'ts	35,332	20,548
Total Uses	\$ 1,886,216	\$ 1,822,647

Source: Oklahoma PeopleSoft accounting system (unaudited, for informational purposes only)

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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. 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; unless otherwise noted, testwork procedures described in our methodology covered this period.

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the OEQA's operations. Further details regarding our methodology are included under our conclusion.

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.

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OBJECTIVE

Determine whether the Agency's internal controls provide reasonable assurance that revenues, miscellaneous and payroll expenditures were accurately reported in the accounting records.

Conclusion

The Agency's internal controls provide reasonable assurance that payroll was accurately reported in the accounting records. However, internal controls over revenues and miscellaneous expenditures could be improved.

Financial operations complied with the following statutes:

- 70 O.S. §§ 6-204.2 and .3, governing the Education Leadership Oklahoma program
- 70 O.S. § 6-191, governing the Teachers' Competency Examination Revolving Fund
- 74 O.S. § 3601.2, regulating the executive director's salary

Objective Methodology

To accomplish our objective, we performed the following:

- Evaluated processes and assessed significant internal controls related to revenues and miscellaneous expenditures; see results in related findings.
- Evaluated processes and assessed significant internal controls related to payroll expenditures and tested those controls, which included:
 - Testing payroll claims and supporting documentation for a random sample of six out of 24 months (25% of the population) to ensure they were independently reviewed and approved.
 - Testing a random sample of six pay rate changes from a population of 33 changes, including hires and terminations (16.7% of pay rate changes) to ensure the changes were properly documented and approved.
- Compared statewide accounting system HR records for all months of the full audit period to approved salary ranges established by the Office of Management and Enterprise Services, to ensure compliance with 74 O.S. § 3601.2A.
- Evaluated the Agency's process for administering the Education Leadership Oklahoma program, and tested payments from the associated Educational Leadership Oklahoma Revolving Fund (ELO Fund) for compliance with 70 O.S. § 6-204.2 and 70 O.S. § 6-204.3, which included:
 - Testing a random sample of 18 scholarship and assistance payments from a population of 71 payments per statewide accounting system records (25% of payments) to ensure

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- they were properly documented and made for the purposes allowed by statute.
- Reviewing payment and test-taking activity for 24 applicants whose full time span of activity was available in National Board¹ records (from application through three year testing window), and ensuring each applicant was certified within those three years, still within their active retake period, or receiving from the Agency regular notifications of the amount due for repayment.
 - Reviewing total audit period payments to each recipient per statewide accounting system records, to ensure payments to each individual did not exceed the total allowed by statute.
 - Reviewing relevant National Board and statewide accounting system reports to ensure the number of approved applicants was within the 100 allowed by statute per fiscal year.
 - Reviewing payroll expenditures from the ELO fund in statewide accounting records to ensure they were made to individuals responsible for fund activities, and in the appropriate proportions.
 - Selecting and testing a random sample of 18 of the remaining population of 238 miscellaneous expenditures from the ELO fund per statewide accounting system records, as well as five judgmentally selected payments of higher dollar value (totaling approximately 10% of payments and 53% of dollar value), to ensure they were made for the statutory purposes of the fund.
- Evaluated the Agency's processes for depositing funds to and making payments from the Teachers' Competency Examination Revolving Fund, and tested deposits and expenditures for compliance with 70 O.S. § 6-191, which included:
 - Ensuring quarterly deposits were made as expected per statewide accounting records, and these deposits agreed to letters and reports regarding the fees being remitted from Pearson Education.
 - Reviewing documentation of all 50 non-payroll expenditures from the fund per statewide accounting

¹ The Education Leadership Oklahoma program provides assistance for teachers seeking National Board certification, a voluntary process to strengthen educators' credentials. The National Board tracks testing activity and generates a completer report used by the Agency for their own tracking purposes. Due to changes in the National Board's electronic system, records for testing cycles before FY 14-15 are not formatted in a comparable format with successive years. As our procedures required a population of applicants who had completed their three-year testing windows under the program, we focused on those applicants approved during the FY 14-15 cycle. However, we did observe detailed records for all cycles in the Agency's internal records and additional years will be tested in future audits.

- system records to ensure they were properly documented and made for purposes allowed by statute.
- Reviewing payroll expenditures from the fund in statewide accounting records to ensure they were made to individuals responsible for fund activities, and in the appropriate proportions.

FINDINGS AND RECOMMENDATIONS

**More Detailed
Management
Review of
Revenue Activity
Recommended**

The Agency contracts with the Office of Management Enterprise Services – Agency Business Services division (ABS) for various accounting functions, including posting deposits to the statewide accounting system and compiling the monthly clearing account reconciliation. While the executive director signs off on the monthly reconciliation, he does not perform a detailed review of that document and related reports. While some detailed review is performed by the business manager, she is highly involved in the receipting and deposit process and therefore her review is not entirely independent.

Lack of detail in the executive director’s review may lead to errors or omissions not being detected in a timely manner, while decreasing the director’s awareness of agency activity and reducing oversight of ABS reconciliation processing.

OEQA receives the majority of its non-appropriated revenues through two revenue streams: a portion of testing fees remitted quarterly to the Agency by Pearson Education, and invoiced payments for services by the Agency to the Virtual Charter Schools Board. Ensuring these payments have been deposited as appropriate would bolster the effectiveness of the monthly financial review, making the review of these key revenues more formal and independent.

The United States Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government*² state, “Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets.”

In addition, the GAO *Standards* state, “Management designs control activities for appropriate coverage of objectives and risks in the operations. . . . Management designs entity-level control activities, transaction control activities, or both depending on the level of precision needed so that the entity meets its objectives and addresses related risks.”

² Although this publication 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.

Recommendation

We recommend the executive director review in detail the monthly reconciliation and supporting documentation, asking any necessary questions of ABS or internal staff, and ensure the Agency's two largest deposit streams are accounted for. The executive director may outsource portions of review to the business manager and director in charge of Teachers' Competency Examination Revolving Fund, provided he also reviews the necessary details to verify their conclusions.

Views of Responsible Officials

The Executive Director will review in detail the monthly reconciliation and supporting documentation by verifying the monthly deposit log against the *Official Depository State of Oklahoma* (Form 11) report. The Executive Director will then sign and date the monthly deposit log.

**Improvements
Needed in
Expenditure
Review**

The Agency business manager is responsible for purchasing and receiving duties, as well as forwarding invoices to ABS for payment in the statewide accounting system after the executive director has signed off on them. Agency management does not perform a regular line-item detailed expenditure review after payments have been made. This creates the opportunity for the business manager to forward an unauthorized invoice to ABS, or the business manager or ABS to make an error that is not detected.

The GAO *Standards* state, "Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event."

Recommendation

We recommend the executive director or another knowledgeable party independent of the payment process review a line-item detailed expenditure report (such as the 6-Digit Detail of Expenditure report from the statewide accounting system) to ensure all payments are authorized. This review could be performed monthly or on a random, unannounced basis, and in full or focusing on random line items. The report should be accessed directly by the reviewer, or provided to them in a reliable, unedited format. Evidence of this review should be retained with the date and signature of the reviewer included.

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Views of Responsible Officials

The Executive Director will review the 6-Digit Detail of Expenditure Report monthly and sign and date the report at the top of the page.

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