

PERFORMANCE AUDIT

CLEVELAND COUNTY HEALTH DEPARTMENT

For the period July 1, 2013 through June 30, 2014



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

**Audit Report of the
Cleveland County Health Department
For the Period
July 1, 2013 through June 30, 2014**



Oklahoma State Auditor & Inspector

2300 N. Lincoln Blvd. • State Capitol, Room 100 • Oklahoma City, OK 73105 • Phone: 405.521.3495 • Fax: 405.521.3426

June 30, 2015

TO THE CLEVELAND COUNTY BOARD OF COUNTY COMMISSIONERS:

This is the audit report of the Cleveland County Health Department for the period July 1, 2013 through June 30, 2014. 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 "Gary A. Jones". The signature is fluid and cursive, with the first name "Gary" being the most prominent.

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

**Cleveland County Health Department
Performance Audit
July 1, 2013 through June 30, 2014**

Cleveland County Board of County Commissioners

(As of June 30, 2014)

Rod Cleveland District 1
Darry Stacy (Chair)..... District 2
Harold Haralson..... District 3

Cleveland County Board of Health

(As of June 30, 2014)

Capt. Todd Gibson..... Commissioner of Health Appointee
Pepper Martin, O.D..... Commissioner of Health Appointee
Michael Messerli (Chair)..... District Court Judge Appointee
Thomas Thurston, M.D. County Board of County Commissioners Appointee
Commissioner Darry Stacy..... County Board of County Commissioners Appointee

Oklahoma State Department of Health Key Personnel

(As of June 30, 2014)

Keith Reed, RN, MPH, CPH..... Cleveland County Health Department Administrator
Terry Cline, Ph.D..... State Commissioner of Health
Mark Davis, CPA. Chief Financial Officer
Jay Holland, CIA, CGAP, CICS..... Director of Internal Audit

**Cleveland County Health Department
Performance Audit
July 1, 2013 through June 30, 2014**

Background

At the request of the Cleveland County Board of County Commissioners (BOCC), and in accordance with 74 O.S. §212(I) and 74 O.S. §213.2(B), we performed a performance audit of the funding of the Cleveland County Health Department for the period July 1, 2013 through June 30, 2014. The BOCC is charged with financial oversight of county funds.

The Cleveland County Health Department offers a variety of services such as immunizations, family planning, maternity education, well-baby clinics, adolescent health clinics, hearing & speech services, child developmental services, environmental health, and the SoonerStart program. County health departments are “hybrid” organizations who answer administratively to the State Commissioner of Health (all employees are state employees) but also receive some oversight from the county board of health. They are funded with a mix of local tax funds (ad valorem), state funds, and federal program funds.

County Ad Valorem taxes are property taxes based on the assessed valuation of properties within a particular county and an approved millage rate. A millage rate is a tax rate that is applied to the assessed value of property and is expressed not as a regular percentage, but in tenths of a penny (2.5 mills = 2.5 tenths of a penny). Annually, the County Assessor assesses all property and submits the value of each property to the County Equalization Board and then to the State Board of Equalization for approval. After receiving the certified millage rates from the County Excise Board, the County Assessor prepares the tax roll, which shows the taxes due on each county property and forwards the roll to the County Treasurer for tax collection.

The Oklahoma Constitution, Article X §9A, states that a levy not to exceed 2.5 mills may be levied annually for the purpose of maintaining or aiding in maintaining a department of health with any county of the State. Article X§8A allows this maximum amount to be adjusted if the county approves an exemption of household goods of families and livestock employed in support of a family. As of the date of this report, Cleveland County has an ad valorem millage rate of 2.57 mills collected on behalf of the county health department.

The Cleveland County Health Department receives guidance from a five-member county board of health which includes:

- Two members appointed by the State Commissioner of Health;
- One member who must hold a School Administrator’s Certificate and is appointed by the District Court Judge;
- One member who is appointed by the Board of County Commissioners and must be an MD, DO, DDS, OD, or RN;

**Cleveland County Health Department
Performance Audit
July 1, 2013 through June 30, 2014**

- One member who is appointed by the Board of County Commissioners and may be a member of the Board of County Commissioners.

The county board of health is authorized, among other things, in 74 O.S. §202 to:

- Establish and maintain a county department of health;
- Prepare and submit to the county excise board, annually, an estimate of its needs, and needs for the operation of the county department of health;
- Advise with the State Commissioner of Health on matters pertaining to public health in the county.

Objectives

The objectives of our audit, based upon the request of the BOCC, were:

1. Determine whether the Oklahoma Constitution and State Statutes allow ad valorem tax revenues collected by a county to be used for personnel expenditures of the county health department.
2. If personnel expenditures are determined to be allowable expenditures of ad valorem tax revenues under the Oklahoma Constitution and State Statutes, determine whether specific personnel expenditures of ad valorem tax revenues were allowable and reasonable.
3. Determine who has the authority to budget or allocate expenditures from ad valorem tax revenues.

**Scope and
Methodology**

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 use of ad valorem tax revenue funds for Cleveland County Health Department personnel expenditures for the period July 1, 2013 through June 30, 2014. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, review and analysis of relevant constitutional and statutory language, and detailed analysis of specific personnel costs submitted to Cleveland County for reimbursement by the State Department of Health.

**Cleveland County Health Department
Performance Audit
July 1, 2013 through June 30, 2014**

Because of the inherent limitations of an audit, errors or fraud may occur and not be detected.

OBJECTIVE 1

Determine whether the Oklahoma Constitution and State Statutes allow ad valorem tax revenues collected by a county to be used for personnel expenditures of the county health department.

We interviewed relevant personnel for Cleveland County, the Cleveland County Health Department, and the Oklahoma State Department of Health. We also reviewed and analyzed relevant portions of the Oklahoma Constitution and State Statutes as well as potentially relevant opinions by the Oklahoma Attorney General.

Observation

Based on our analysis, it seems clear from the Oklahoma Constitution, Article X §9A, that county ad valorem taxes may be used for “maintaining or aiding in maintaining” a county department of health.

The Oklahoma Constitution, Article X §9(a), prohibits the levy of ad valorem taxes, or the use of ad valorem tax levy proceeds, for State purposes. Although having less legal authority than the Oklahoma Constitution, 63 O.S. §1-205(a) clearly authorizes the county board of health to “establish and maintain” a department of health, with the approval of the State Commissioner of Health, and states that the “maintenance and operation” of the department of health is a county function.

63 O.S. §1-205(a) includes the compensation of employees (who are state employees) “necessary for the operation” of the county health department as an expense for which the county may reimburse the state using ad valorem revenues. 63 O.S. §1-205(d) clearly stipulates that the State Commissioner of Health shall “employ and fix the duties of such other personnel as he deems necessary for the operation of the county department of health”.

In our initial meeting with the Cleveland County Commissioner and Assistant District Attorney, the recent Oklahoma Attorney General’s Opinion related to the use of county sales tax funds in Canadian County (2014 OKAG 15) was discussed as having possible similarities to the question regarding use of ad valorem funds in Cleveland County. Of particular note was the A.G.’s analysis of the word “operation” as it related to the context of a physical building.

**Cleveland County Health Department
Performance Audit
July 1, 2013 through June 30, 2014**

In light of the A.G.'s opinion regarding Canadian County, the argument could be made that the definition of "operations" only including functions directly related to the operation of the physical facility could be extended to the Cleveland County Health Department case. However, we believe there is a key distinction that precludes applying that definition to this case.

The Canadian County case is based on a sales tax resolution passed by the voters of Canadian County for the specific purpose of "construction, financing, and equipping of a juvenile detention facility and juvenile justice facilities". The terms "including design, construction, expenses, operations, equipment and furnishings" in the sales tax resolution is clearly stated as an inseparable component of the over-arching intent of "construction, financing, and equipping" rather than a separate ongoing obligation to fund the function for which the physical facility was constructed.

In the case of using ad valorem tax revenues for county health departments, constitutional language refers to "maintaining and aiding in maintaining" of a county health **department** (emphasis added) while state statutes elaborate further regarding the "establishment, maintenance, and operation" of a county health **department** (emphasis added). Both the constitution and state statutes reference a county health department, not just a physical facility.

Conclusion

In accordance with 74 O.S. §212.1, it is our opinion and advice to the Cleveland County Board of County Commissioners that county ad valorem tax revenues specifically levied for a county health department may be used for personnel expenditures of the county health department. However, the Commissioners may wish to seek a legal opinion from the State Attorney General on this issue.

OBJECTIVE 2

If personnel expenditures are determined to be allowable expenditures of ad valorem tax revenues under the Oklahoma Constitution and Oklahoma State Statutes, determine whether specific personnel expenditures of ad valorem tax revenues were allowable and reasonable.

We interviewed relevant personnel for Cleveland County, the Cleveland County Health Department, and the Oklahoma State Department of Health, reviewed and analyzed relevant portions of the Oklahoma Constitution and State Statutes, considered internal controls, and

**Cleveland County Health Department
Performance Audit
July 1, 2013 through June 30, 2014**

performed a detailed analysis of reimbursement requests for the period of July 1, 2013 through June 30, 2014.

Observation

Internal Controls

Based on our review of documentation and conversations with the Oklahoma State Department of Health (OSDH) CFO, OSDH Director of Internal Audit, Cleveland County Health Department Administrator, and Cleveland County Commissioner, we did not identify any significant relevant controls related to the reimbursement of personnel expenditures utilizing ad valorem tax revenues.

For example, there was no substantive monitoring or review of actual charges reimbursed by Cleveland County, the Cleveland County Board of Health, or the Cleveland County Administrator. We were told by multiple parties that the charges shown for specific employees on the invoice supporting documentation could not be specifically tied back to actual expenditure data and that payroll charges are calculated as the total annual approved amount (total ad valorem tax the county agrees to pay OSDH for payroll based on the estimate of needs approved by the county excise board) divided into twelve monthly payments. The supporting documentation is adjusted to fit that pre-determined monthly amount. A properly designed and implemented review control would have detected this issue.

However, it should be noted that questions related to how personnel reimbursement requests were being calculated was a significant part of the reason this audit was requested by the Cleveland County Commissioners.

Analysis of payroll costs submitted by OSDH for reimbursement

The OSDH and CCHD claim that actual payroll costs exceeded the amount of the reimbursement requests to Cleveland County in two ways:

1. the costs for employees included on invoice supporting documents varies but payroll in total is more than the amount of the reimbursement request
2. the invoice support does not include all employees who had actual costs attributable to the Cleveland County Health Department.

According to the OSDH CFO, employees record their time worked at various cost centers (such as the Cleveland County Health Department) on a timesheet every two weeks. This information is then entered into the

**Cleveland County Health Department
Performance Audit
July 1, 2013 through June 30, 2014**

OSDH Time and Effort system which is used to allocate costs for the agency.

The OSDH CFO provided a detailed reconciliation by employee of invoiced costs against costs “validated” in the OSDH Time and Effort system. Below is a summary of the information provided showing that for each month in FY 14, validated/certified personnel costs (identified as *CertifiedTime*) exceeded the amount billed to Cleveland County (identified as *Invoiced Cost*). The final column, *Central Office Support*, identifies the portion of payroll costs paid with state funds rather than ad valorem funds.

Certified Staff Effort for Cleveland County in FY2014			
Month	CertifiedTime	Invoiced Cost	Central Office Support
2013-07	\$ 437,235.24	\$ 250,000.00	\$ 187,235.24
2013-08	\$ 435,743.38	\$ 250,000.00	\$ 185,743.38
2013-09	\$ 446,617.20	\$ 250,000.00	\$ 196,617.20
2013-10	\$ 433,185.89	\$ 250,000.00	\$ 183,185.89
2013-11	\$ 644,553.35	\$ 250,000.00	\$ 394,553.35
2013-12	\$ 418,683.71	\$ 250,000.00	\$ 168,683.71
2014-01	\$ 428,130.84	\$ 291,666.66	\$ 136,464.18
2014-02	\$ 431,738.12	\$ 291,666.66	\$ 140,071.46
2014-03	\$ 427,205.52	\$ 291,666.66	\$ 135,538.86
2014-04	\$ 438,744.52	\$ 291,666.66	\$ 147,077.86
2014-05	\$ 670,179.81	\$ 291,666.66	\$ 378,513.15
2014-06	\$ 446,501.70	\$ 291,666.66	\$ 154,835.04
Total	\$ 5,658,519.28	\$ 3,249,999.96	\$ 2,408,519.32
	% of Total	57%	43%

The data provided shows a summed amount for each employee, by pay period, which cannot be directly tied to detailed information such as PeopleSoft HCM employee records and fringe benefit cost records.

We obtained all invoices and supporting documentation from Cleveland County for payroll cost reimbursement requests from OSDH for the period of July 1, 2013 through June 30, 2014 (FY 14). Knowing that invoices do not reflect actual, specific costs, we performed a high-level review of all twelve months and then judgmentally selected July 2013 to perform an in-depth analysis of calculated actual costs versus what was billed for reimbursement.

For the month tested (July 2013), it appears that the total amount billed for reimbursement (invoiced cost) exceeded the calculated “actual” total cost by \$30,279.08, or 14% for the employees listed on the supporting documentation as detail to the invoice. We were unable to tie billed costs to actual employee costs in underlying accounting records. Our inability

**Cleveland County Health Department
Performance Audit
July 1, 2013 through June 30, 2014**

to verify these actual specific costs agrees with what we were previously told by multiple parties. Based on our high-level review of the remaining 11 months billed in FY 14, this would appear to apply to all 12 months.

In addition, we noted and confirmed with OSDH, CCHD and Cleveland County that there is no written contract with a “schedule of fees and payments mutually agreed upon” as required by 63 O.S. §1-205(e).

Under the current process, the supporting documentation for the reimbursement request invoice is misleading and does not provide useful information for either the Cleveland County Board of Health or Cleveland County Commissioners (who ultimately approve the claim).

Recommendation We recommend that OSDH and the Cleveland County Board of Health enter into a written contract regarding the reimbursement of personnel costs for the Cleveland County Health Department. This contract should include a schedule of fees and payments and could include one of the following methods to support personnel costs billed for reimbursement:

1. On a monthly basis, utilize actual detailed personnel costs as supporting documentation for reimbursement invoices. OSDH could show all personnel costs for the month being billed and then show the amount being requested as reimbursement based on the amount in the approved estimate of needs divided by twelve months.
2. On an annual basis, specify the monthly amount that will be requested for personnel cost reimbursement based on historical annual personnel costs for the Cleveland County Health Department as well as the amount in the approved estimate of needs divided by twelve months.

Views of Responsible Officials:

No comments provided

OBJECTIVE 3

Determine who has the authority to budget or allocate expenditures from ad valorem tax revenues.

We interviewed relevant personnel for Cleveland County, the Cleveland County Health Department, and the Oklahoma State Department of

**Cleveland County Health Department
Performance Audit
July 1, 2013 through June 30, 2014**

Health. We also reviewed and analyzed relevant portions of the Oklahoma Constitution and State Statutes.

Observation

Based on our analysis, it seems clear that the Oklahoma State Constitution and Statutes mandate that the county excise board review and approve the estimate of needs and apportion the ad valorem funds (Oklahoma Constitution, Article X, Section 9(a); 68 O.S. §§3007 and 3015). 63 O.S. §1-202 specifies that the estimate of needs should be prepared and submitted to the county excise board by the county board of health. The State Commissioner of Health ultimately has the authority and responsibility to oversee those funds (63 O.S. §1-208) once they have been approved and apportioned.

Conclusion

In accordance with 74 O.S. §212.1, it is our opinion and advice to the Cleveland County Board of County Commissioners that the county board of health has the authority to budget county ad valorem tax revenues specifically levied for a county health department, within the limits of the constitutionally approved millage. This budget, or estimate of needs, is then subject to review and approval by the county excise board. Once approved, funds are to be accounted for, obligated, expended, and disbursed at the direction of the State Commissioner of Health. However, the Commissioners may wish to seek a legal opinion from the State Attorney General on this issue.



OFFICE OF THE STATE AUDITOR & INSPECTOR
2300 N. LINCOLN BOULEVARD, ROOM 100
OKLAHOMA CITY, OK 73105-4896

WWW.SAI.OK.GOV