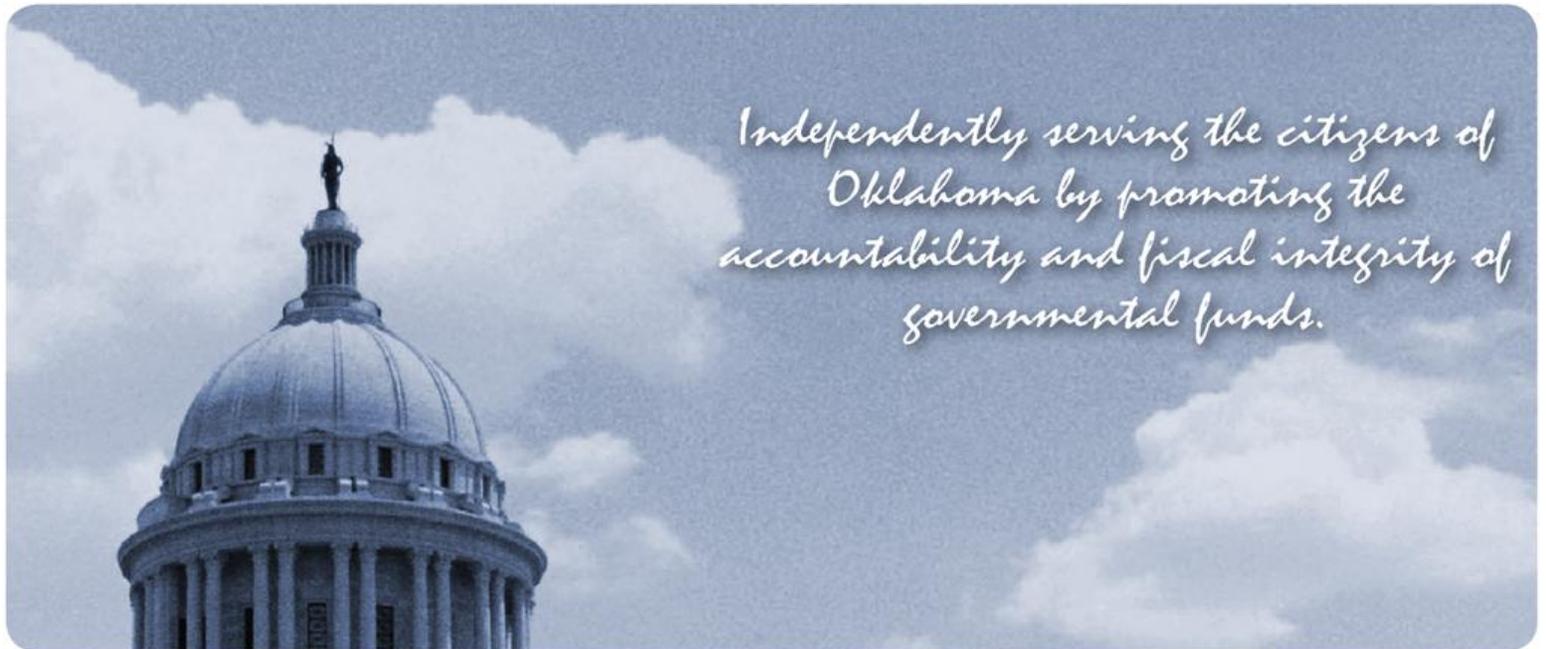


OPERATIONAL AUDIT

OKLAHOMA COMMISSION ON CHILDREN AND YOUTH

For the period January 1, 2010 through December 31, 2014



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

**Audit Report of the
Oklahoma Commission on Children and Youth
For the Period
January 1, 2010 through December 31, 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

April 2, 2015

TO THE OKLAHOMA COMMISSION ON CHILDREN AND YOUTH:

This is the audit report of the Oklahoma Commission on Children and Youth for the period January 1, 2010 through December 31, 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".

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

Oklahoma Commission on Children and Youth Operational Audit

Background

The mission of the Oklahoma Commission on Children and Youth is to improve services to children by: facilitating joint planning and coordination among public and private agencies; independent monitoring of the children and youth service system for compliance with established responsibilities; and entering into agreements to test models and demonstration programs for effective services.

Operations are governed by 10 O.S. § 600 through 601.13 and Title 135 of the Oklahoma Administrative Code. Oversight is provided by 16 commissioners:

Commission members as of December 31, 2014 are:

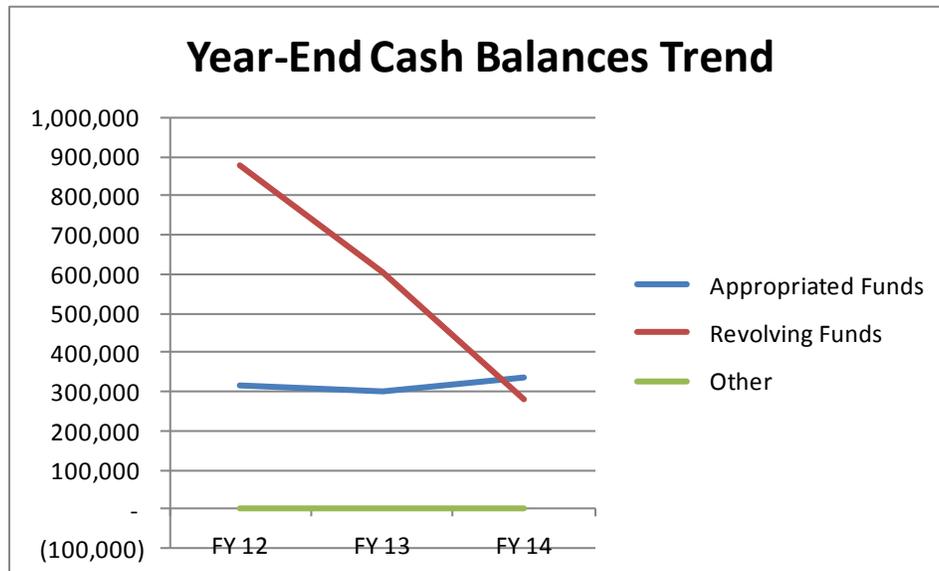
Thomas Alford Assoc. District Judge
Janet Baresi..... State Superintendent of Public Instruction
Jay Scott Brown (Chair)..... Representing the Post Adjudication Review
Dr. Sid D. Brown..... Appointee of the Governor
Darlene Callahan... Representing Court Appoint Special Advocates Assoc.
Jason T. Charles.....Representing OKCARE
Dr. Terry Cline..... Commissioner, Dept. of Health
Ken Couchman.....Representing Comm. Partnership Boards
Wanda Felty..... Appointee of the Speaker of the House of Rep.
Nico Gomez CEO, Oklahoma Health Care Authority
Ron Peters Appointee of the President Pro Tempore of the Senate
Ed Lake.....Director, Department of Human Services
Joe CordovaDirector, Department of Rehabilitation Services
Todd E. Pauley Representing the Oklahoma Bar Assoc.
James Saffle.....Representing Metropolitan Juvenile Bureaus
Terri White Commissioner, Dept. of Mental Health and
Substance Abuse Services.

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The following information illustrates the Agency's budgeted-to-actual revenues and expenditures and year-end cash balances.¹

| BUDGET TO ACTUAL COMPARISON | | | | | | |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| | FY 2013 | | | FY 2014 | | |
| | Budgeted | Actual | Variance | Budgeted | Actual | Variance |
| REVENUES | | | | | | |
| General Appropriations | 2,071,359 | 2,027,167 | (44,192) | 2,050,534 | 2,027,165 | (23,369) |
| Licenses, Permits, and Fees | | | - | - | - | - |
| Reimbursement for General Expenses | 1,302,115 | | (1,302,115) | | | |
| Federal Grants-in-Aid | | 423,494 | 423,494 | - | 455,450 | 455,450 |
| Federal Funds From Other State Agencies | | | - | 1,302,015 | | (1,302,015) |
| Other | | 450 | 450 | - | 9,304 | 9,304 |
| Total Revenues | 3,373,474 | 2,451,111 | (922,363) | 3,352,549 | 2,491,919 | (860,630) |
| EXPENDITURES | | | | | | |
| Personnel Services | 1,983,194 | 1,938,286 | (44,908) | 1,856,080 | 1,913,838 | 57,758 |
| Professional Services | 691,524 | 518,244 | (173,280) | 805,138 | 434,518 | (370,620) |
| Travel Expenses | 35,150 | 22,828 | (12,322) | 37,818 | 46,930 | 9,112 |
| Administrative Expenses | 187,196 | 155,997 | (31,199) | 246,141 | 205,240 | (40,901) |
| Office Furniture and Equipment | 42,749 | 7,722 | (35,027) | 14,620 | 34,256 | 19,636 |
| Buildings - Purchase, Construction, Renovation | | | - | | 1,511 | 1,511 |
| Social Services and Assistance Payments | - | - | - | 182,232 | | (182,232) |
| Refunds, Indemnities, Restitution | - | 14,167 | 14,167 | - | 14,085 | 14,085 |
| Program Reimbursements, Litigation Costs | 433,661 | 84,069 | (349,592) | 210,016 | 131,468 | (78,548) |
| Payments to Local Govt. Subdivisions and Non-Profit Entities | | | - | 504 | | (504) |
| Total Expenses | 3,373,474 | 2,741,313 | (632,161) | 3,352,549 | 2,781,847 | (570,702) |
| Expenditures Over (Under) Revenues | | 290,202 | | | 289,927 | |

| Year-End Cash Balances: FY 12 - FY 14 | | | |
|---------------------------------------|------------------|----------------|----------------|
| | FY 12 | FY 13 | FY 14 |
| Appropriated Funds | 315,447 | 302,332 | 335,819 |
| Revolving Funds | 879,142 | 602,054 | 278,639 |
| Other | 166 | (370) | 166 |
| Total Available Cash | 1,194,754 | 904,016 | 614,625 |



¹ This information was obtained from the Oklahoma PeopleSoft accounting system. It is for informational purposes only and has not been audited. See summary of management's explanation of variances on page 3 of this report.

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Summary of agency responses to budgeted-to-actual variances²

Revenues

- Variances in budgeted-to-actual appropriations were due to the fact that the agency requested a funding increase but instead received a budget cut.
- Discrepancies regarding which account codes were budgeted versus which were used (i.e. *Reimbursements for General Expenses, Federal Grants-in-Aid, and Federal Funds from Other State Agencies*) were due in part to communication issues with OMES-ABS.
- Variances in revenue projections (i.e. *Reimbursements for General Expenses, Federal Grants-in-Aid, and Federal Funds from Other State Agencies*) are also due to the nature of contract revenue which is estimated.

Expenditures

- Variances in personnel services were due to several factors including employee turnover and payout of annual leave for employees leaving the agency.
- Discrepancies regarding which account codes were budgeted versus which were used (i.e. *Refunds, Indemnities, and Restitution; Professional Services*) were due in part to communication issues with OMES-ABS.
- The agency had an un-anticipated lawsuit settlement in FY 2014 which was not budgeted for but was expensed to *Refunds, Indemnities and Restitution*.
- The agency “over-projects” professional services and program reimbursements budgeted amounts to compensate for new programs and projects assigned to OCCY by the legislature.
- The agency budgets for the full amount allowed on all contracts (*Program Reimbursements, Litigation Costs*); however, contractees do not always claim the full amount budgeted for them.

² This information is a summary of responses obtained from the Oklahoma Commission on Children and Youth. It is for informational purposes only and has not been audited. See budgeted-to-actual analysis on page 2 of this report.

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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 January 1, 2010 through December 31, 2014. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Oklahoma Commission on Children and Youth.

Sample methodologies can vary and are selected based on the audit objective and whether the total population of data was available. Random sampling is the preferred method; however, we may also use haphazard sampling (a methodology that produces a representative selection for non-statistical sampling), or judgmental selection when data limitation prevents the use of the other two methods. We selected our samples in such a way that whenever possible, the samples are representative of the populations and provide sufficient evidential matter. We identified specific attributes for testing each of the samples. When appropriate, we projected our results to that population.

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 expenditures (miscellaneous and payroll) and inventory were accurately reported in the accounting records.

Conclusion

The Agency's internal controls provide reasonable assurance that miscellaneous and payroll expenditures were accurately reported in the accounting records. However, the Agency's internal controls do not provide reasonable assurance that inventory was accurately reported in the financial records.

FINDINGS AND RECOMMENDATIONS

Inadequate Segregation of Duties over Inventory - Repeat Observation

The United States Government Accountability Office's *Standards for Internal Control in the Federal Government (2014 Revision)*³ provides that 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. In addition, the Standards also provide that in order to safeguard vulnerable assets, such assets should be periodically counted and compared to control records.

The agency has not adequately segregated key duties related to inventory. The following conflicting conditions were identified:

- The CPO has the ability to initiate purchases, authority to approve surplus property transactions, and responsibility for maintaining and modifying inventory records.
- The employee who has been assigned responsibility for performing the annual physical inventory count has access to modify inventory records.

The lack of adequate internal controls provides the opportunity for inventory to be misstated or misappropriated without detection.

Recommendation

We recommend management segregate duties to ensure that employees responsible for maintaining inventory records do not have authority to approve surplus property transactions. We also recommend that management ensure that the employee responsible for performing the

³ 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.

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annual physical inventory count does not have access to modify inventory records.

Views of Responsible Officials:

The Oklahoma Commission on Children and Youth is in agreement with the State Auditor's findings and has taken immediate action to correct the issues identified during the auditing process by:

1. Removing the CPO's authority to approve surplus transactions by issuing a new Form CP-001 to the Central Purchasing Division effective March 26, 2015.
2. Contacting the Information Services Division (ISD) of OMES to have the access to the inventory records immediately removed from the employee responsible for performing the annual physical inventory count effective March 25, 2015.

The Oklahoma Commission on Children and Youth (OCCY) is committed to providing the highest quality of services to our consumers, the children and youth of Oklahoma. We would like to thank the State Auditor and Inspector's Office for their assistance in helping OCCY improve our overall processes.



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

WWW.SAI.OK.GOV