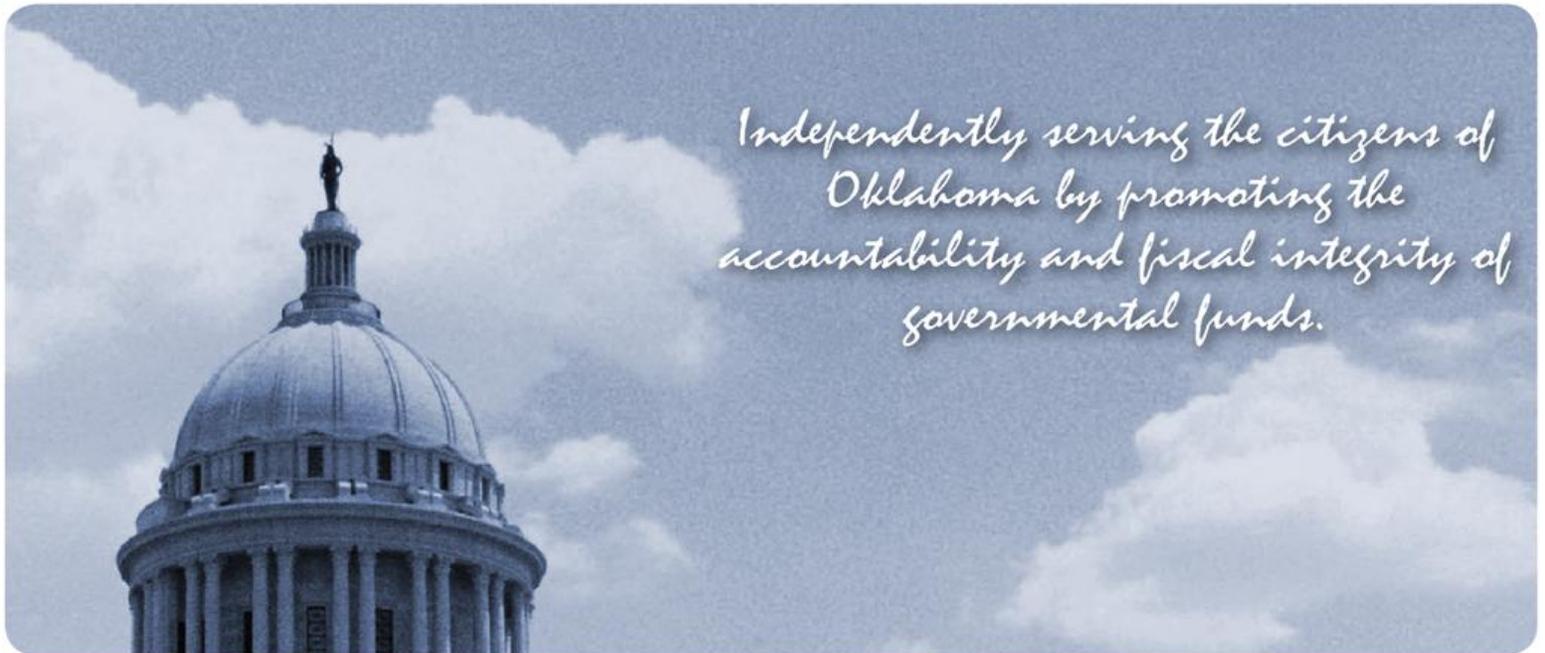


OPERATIONAL AUDIT

OKLAHOMA DEPARTMENT OF HUMAN SERVICES AGENCY SPECIAL ACCOUNTS

For the Period July 1, 2012 through June 30, 2014



*Independently serving the citizens of
Oklahoma by promoting the
accountability and fiscal integrity of
governmental funds.*



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

**Audit Report of the
Oklahoma Department of Human Services
Agency Special Accounts**

**For the Period
July 1, 2012 through June 30, 2014**



Oklahoma State Auditor & Inspector

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May 14, 2015

TO THE DIRECTOR OF THE OKLAHOMA DEPARTMENT OF HUMAN SERVICES:

This is the audit report of the Oklahoma Department of Human Services – Agency Special Accounts for the period of July 1, 2012 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".

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

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Background

The Oklahoma Department of Public Welfare was established in 1916 when the voters of Oklahoma approved a constitutional amendment providing for a Department of Public Welfare to carry out the functions prescribed in Article XXV of the Oklahoma Constitution: "...to provide by appropriate legislation for the relief of needy aged...and other needy persons who, on account of immature age, physical infirmity, disability, or other cause, are unable to care for themselves..." In 1980 the department's name was changed to the Oklahoma Department of Human Services (OKDHS).

The mission statement of OKDHS reads: "We improve the quality of life of vulnerable Oklahomans by increasing people's ability to lead safer, healthier, more independent and productive lives."

Prior to November 6, 2012, the OKDHS was under the governance of the Human Services Commission which was composed of nine members appointed by the Governor and selected on the basis of recognized interest in and knowledge of the problems of public welfare. The commission chairman was designated by the Governor. The commission formulated policies and adopted rules and regulations for the effective administration of the duties of the department. The commission appointed the director of the department. As of November 5, 2012, the Human Services Commission was made up of the following persons:

- Wes LaneChairperson
- Aneta Wilkinson Vice-Chairperson
- Myron PopeMember
- Pam Kanaly.....Member
- Brandon Clabes.....Member
- Karen WaddellMember
- Mike PeckMember
- Linda English Weeks.....Member
- Brad YarbroughMember

On November 6, 2012, the voters of Oklahoma approved State Question 765 which abolished the Commission for Human Services. The Director now reports directly to the Governor.

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 duties it is to collect, disburse, or manage funds of the state and all funds collected, disbursed, or managed by a state agency including, but not limited to, all special, revolving, depository, canteen, or other non-state funds.

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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 areas of operations related to the six OKDHS Agency Special Accounts (ASA's) for the period July 1, 2012 through June 30, 2014 as listed below:

- Fund 700 – Client Trust/Auxiliary Fund
- Fund 710 – Food Stamp Investigation Fund
- Fund 715 – Canteen Fund
- Fund 720 – Juvenile Allowance Fund
- Fund 725 – Agency Auxiliary Fund
- Fund 730 – Past-Due Supplemental Security Income Client Benefit Fund

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the OKDHS operations as it pertained to its ASA's. We also 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. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the 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.

OBJECTIVE I

Determine whether the Agency's internal controls provide reasonable assurance that revenue and expenditures were accurately reported in the accounting records and financial operations complied with significant laws and regulations.

Conclusion

The Agency's internal controls generally provide reasonable assurance that revenues and expenditures were accurately reported in the accounting records for Funds 700, 715, 720, and 730 except as noted in the *Findings and Recommendations* section below. The Agency's internal controls do not provide

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reasonable assurance that revenues and expenditures of Fund 710 and 725 were accurately reported in the accounting records.

Financial operations complied with 62 O.S. § 34.57 (depositing of receipts and adequate safekeeping of receipts awaiting deposit).

FINDINGS AND RECOMMENDATIONS

***Lack of
Independent
Reconciliation of
Trust Accounts***

A basic objective of generally accepted accounting principles is to provide accurate and reliable information. Furthermore, a key element of internal controls is the performance of a reconciliation of accounting records to another source.

In evaluating OKDHS' internal controls over Agency Special Accounts (ASA) receipts and expenditures, it was noted that there was no process in place to independently reconcile ASA receipts and expenditures per the AS/400 Trust Accounts System to either the OKDHS Cashbook or the OMES CORE System in a timely manner.

We noted that there was a process in place to reconcile the OKDHS Cashbook to CORE; however, the Trust Accounts System serves as the accounting records for the ASAs and therefore should be a part of the reconciliation process.

The lack of a timely independent reconciliation between the AS/400 Trust Accounts System and the OKDHS Cashbook and OMES CORE System could result in improper or inaccurate reporting of expenditures or receipts related to OKDHS ASA's.

Recommendation

We recommend OKDHS modify the existing reconciliation process to incorporate an additional comparison of the AS/400 Trust Accounts System to the OKDHS Cashbook and that this reconciliation be performed in a timely manner following the end of each month. Further, we recommend this reconciliation process incorporate a documented review and approval of the reconciliation and its supporting documentation by someone other than the preparer of the reconciliation.

Views of Responsible Officials

Concur. As of June 2014, the reconciliation process has been reviewed and revised to include the Trust Account system, OMES Core system and the AS400. The reconciliation process also includes review of the revenue processing

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manager. In addition, the reconciliation is up to date and variances have been reviewed and corrected.

*Ineffective Review
of Expenditures
(Food Stamp
Investigation
Fund and Agency
Auxiliary Fund)*

A basic objective of generally accepted accounting principles is to provide accurate and reliable information. Furthermore, an effective internal control system provides for the adequate review and approval of expenditure transactions.

For all OKDHS Agency Special Accounts (ASA), acceptable sources and uses of funds are detailed on an approved ASA Application (OMES Form 18A).

Additionally, per 67 O.S. § 216, “Except as otherwise provided by law, no state record shall be destroyed or otherwise disposed of unless it is determined by the Archives and Records Commission that the record has no further administrative, legal, fiscal, research or historical value.”

Of the five expenditure transactions from the Food Stamp Investigation Fund (Fund 710) from this audit period:

- the object code was not appropriate with respect to the nature of three transactions.
- the use of funds was not acceptable per the ASA application in force at the time of the expenditure for one transaction.

For a sample of 40 of the 418 expenditure transactions from the Agency Auxiliary Fund (Fund 725) from this audit period, we noted:

- the object code used was not appropriate with respect to the nature of five transactions.
- seven transactions were not sufficiently documented or OKDHS staff was unable to locate any supporting documentation.

It appears the review of these transactions prior to payment was inadequate. The lack of a proper review and adequate documentation of expenditure transactions could result in recording improper or inaccurate expenditures. Additionally, this lack of documentation for Agency Auxiliary Fund (Fund 725) transactions indicates OKDHS may not be in compliance with 67 O.S. § 216.

Recommendation

We recommend OKDHS ensure all claims are properly reviewed and approved prior to payment. This review should include ensuring the use of funds is proper in accordance with acceptable sources and uses of funds detailed on the appropriate approved ASA Applications (OMES Form 18A), as well as ensuring

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proper coding with respect to the nature of the transaction and the presence of proper supporting documentation. Further, we recommend OKDHS review the approved ASA applications and the OIG internal policy to ensure all acceptable types of activities are properly listed on both to ensure expenditures from this fund are for the intended purpose of this fund. Lastly, we recommend OKDHS ensure all records are retained in a manner compliant with statutory and administrative requirements.

Views of Responsible Officials

Concur. As of 10/14/14, the ASA application, as well as the OIG internal policy, has been reviewed to ensure all types of activities are properly listed on both. Additionally, the importance of record retention has been stressed to all staff dealing with Agency Special Accounts to ensure proper documentation is maintained.

***Internal Control
Over Agency
Auxiliary Fund
Not Operating
Effectively***

A basic objective of generally accepted accounting principles is to provide accurate and reliable information. Furthermore, an effective internal control system provides for the issuance of vouchers in a sequential order without gaps.

Four of the 267 vouchers issued from the Agency Auxiliary Fund (Fund 725) for the period of July 1, 2013 through September 30, 2013 were not issued in proper numerical sequence.

The process in place during this time was modified effective October 1, 2013. Therefore, we performed separate audit procedures on those vouchers issued subsequent to September 30, 2013.

It appears the internal control over the sequential issuance of vouchers from Fund 725, which was in place at the beginning of our audit period, was not operating effectively. The lack of an adequate process to ensure all vouchers are accounted for could result in improper or fraudulent expenditures from Fund 725.

Recommendation

We recommend OKDHS monitor the current process to ensure proper accounting of all outstanding Fund 725 voucher stock.

Views of Responsible Officials

Concur. As stated above, the process in place was modified effective October 1, 2013. The new process does not include an internal control based on numerical sequence of payment for vouchers issued. The revised process consists of a report showing gap's in the sequence which is reviewed by the trust account

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*Ineffective Review
of Receipts (Food
Stamp
Investigation
Fund and Agency
Auxiliary Fund)*

supervisor. The trust account supervisor then contacts the location to ensure the voucher has not been misplaced.

A basic objective of generally accepted accounting principles is to provide accurate and reliable information. Furthermore, an effective internal control system provides for the adequate review of receipt transactions.

For all OKDHS Agency Special Accounts (ASA), acceptable sources and uses of funds are detailed on an approved Agency Special Account Application (OMES Form 18A).

For all receipts recorded in the ASA accounts during the audit period we noted:

- three of the 40 receipt transactions recorded in the Food Stamp Investigation Fund (Fund 710) were coded to a source code that was not listed as an acceptable source of funds on the ASA Application in force at the time.
- one of 297 receipt transactions recorded in the Agency Auxiliary Fund (Fund 725) was coded to a source code that was not listed as an acceptable source of funds on the ASA Application in force at the time.

Additionally, for a sample of 10 of the 40 receipt transactions recorded to Fund 710 during the audit period, we noted the nature of all 10 transactions did not correspond with the recorded source code, suggesting the review of the transactions was inadequate.

It appears the internal control regarding the adequate review of receipts was not operating effectively. Inadequate review could result in inaccurate financial reporting due to improper coding.

Recommendation

We recommend OKDHS implement procedures to ensure all receipts of Fund 710 and Fund 725 are adequately reviewed.

Views of Responsible Officials

Concur. As of October 2014, the Trust Account system was updated to include all relevant object and source codes.



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